

MACEDONIA ECONOMY REPORT

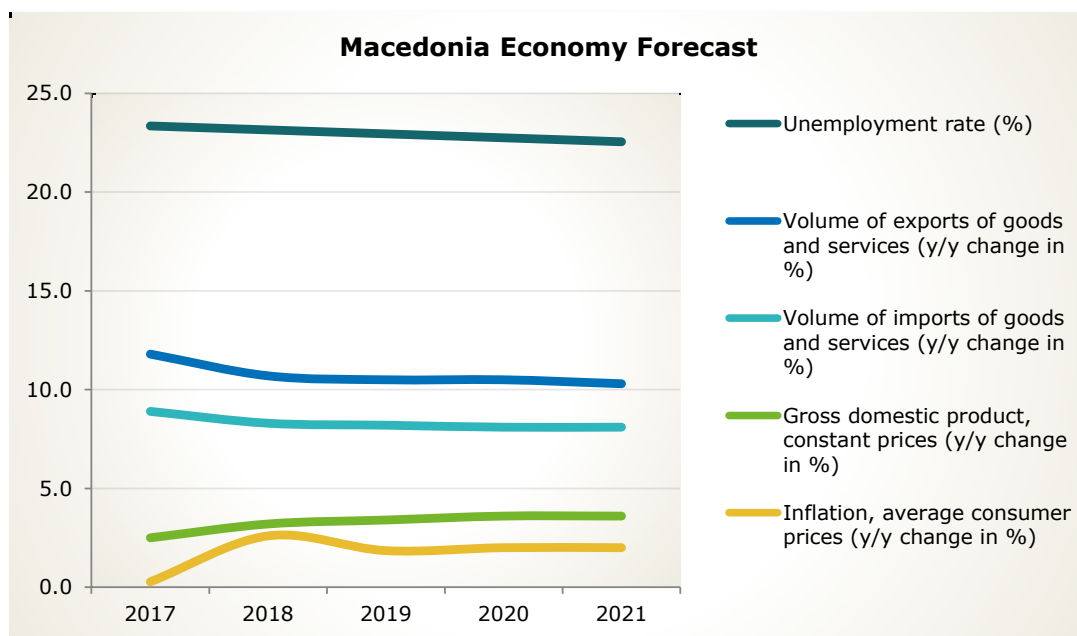
Q3 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
GDP Growth	0.2% y/y
Industrial output	-0.1% y/y
Industrial sales	6.7% y/y
Wholesale	12.8% y/y
Retail sales	-3.2% y/y
Average annual inflation	1.1%
Unemployment rate	22.1%
Number of building permits	-20.6% y/y
Money supply growth	6.4% y/y
Household loans	10.0% y/y
MBI10 blue-chip index	13.6% q/q
Gross external debt	EUR 7.710 bln
Current account surplus	EUR 174.9 mln
Net FDI outflow	EUR 57.8 mln
Foreign trade deficit	EUR 395.8 mln
Number of foreign tourist overnights	30.8% y/y

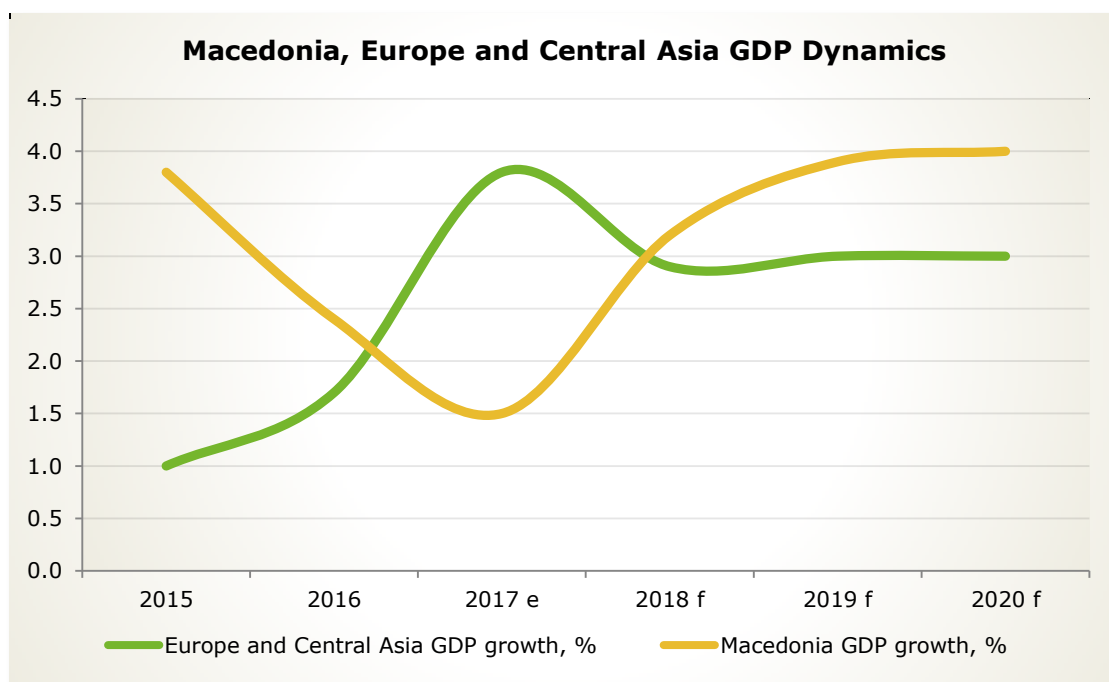


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

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 the 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, January 2018

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% of GDP in 2017-2019, driven by high consumption and investment demand. The fiscal deficit is expected to remain at a sizeable 3.0% of GDP in 2017 but then to decline gradually to 2.2% 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

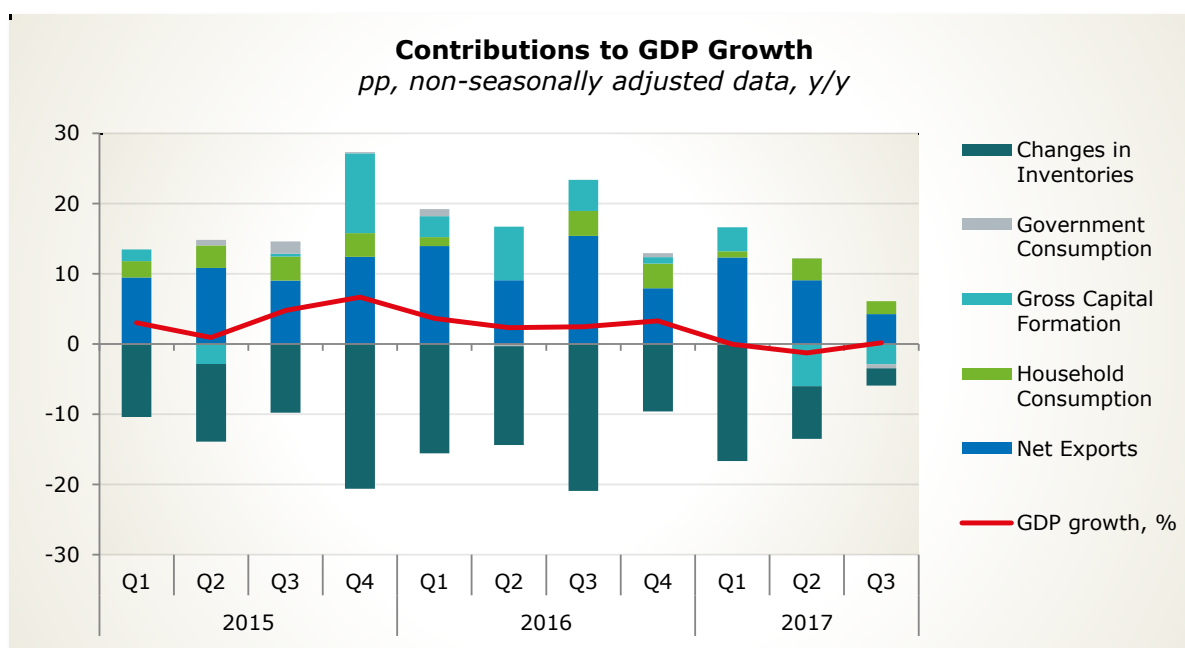
The primary source of downside risk is the fiscal situation, represented by high fiscal deficit, rising public debt, deteriorating public financial management, arrears accumulation and the pension system deficit, which could threaten stability and undermine growth prospects in the medium term.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP up y/y in Q3 2017

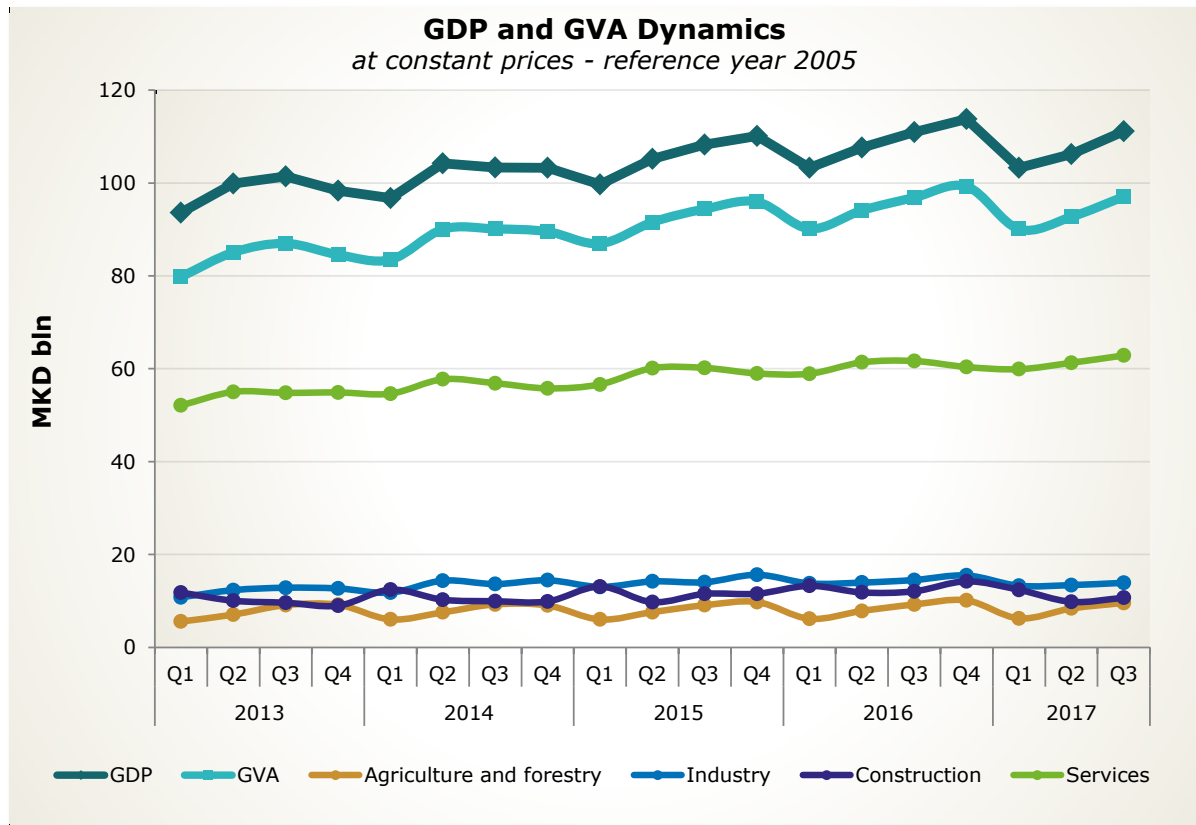
During the third quarter of 2017, the country's GDP increased by 0.2% y/y to MKD 111.1 bln according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).



Source: SeeNews calculations; SSORM

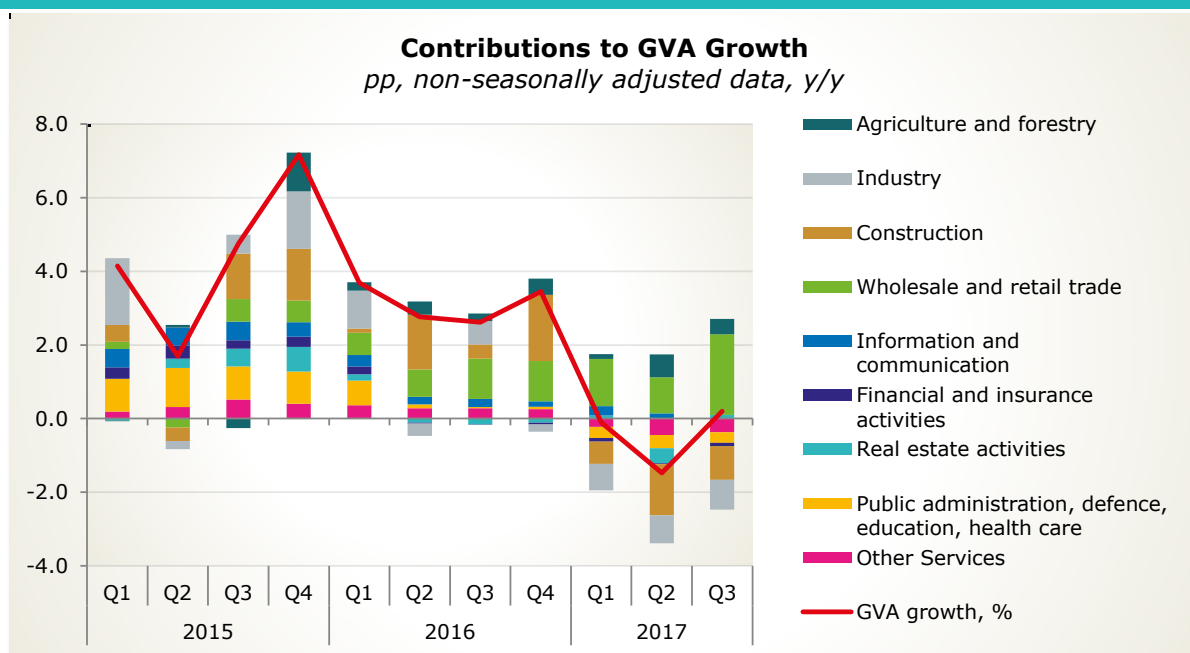
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

Final consumption, which accounted for 87.1% of the GDP, increased in value terms by 1.6% y/y to MKD 96.7 bln in Q3 2017, while gross capital formation went down by 9.4%. Both exports and imports grew - by 5.5% and 2.1%, respectively.



Source: SSORM

The gross value added (GVA) generated by the national economy increased in value by 0.2% y/y in Q3 2017 and totalled MKD 97.0 bln. The agricultural sector registered an increase of 3.8% and its share in the GVA inched up to 9.9% from 9.5% in Q3 2016. The industrial sector decreased by 4.1%, and its share in the GVA structure fell to 14.3% from 15.0% a year earlier. The construction industry plunged by 11.6% y/y, thus slicing an 11.0% share, a decrease in comparison to the 12.5% share in Q3 2016. The services sector recorded a 1.9% increase, slicing a 64.8% share in the GVA.



Source: SeeNews Calculations; SSORM

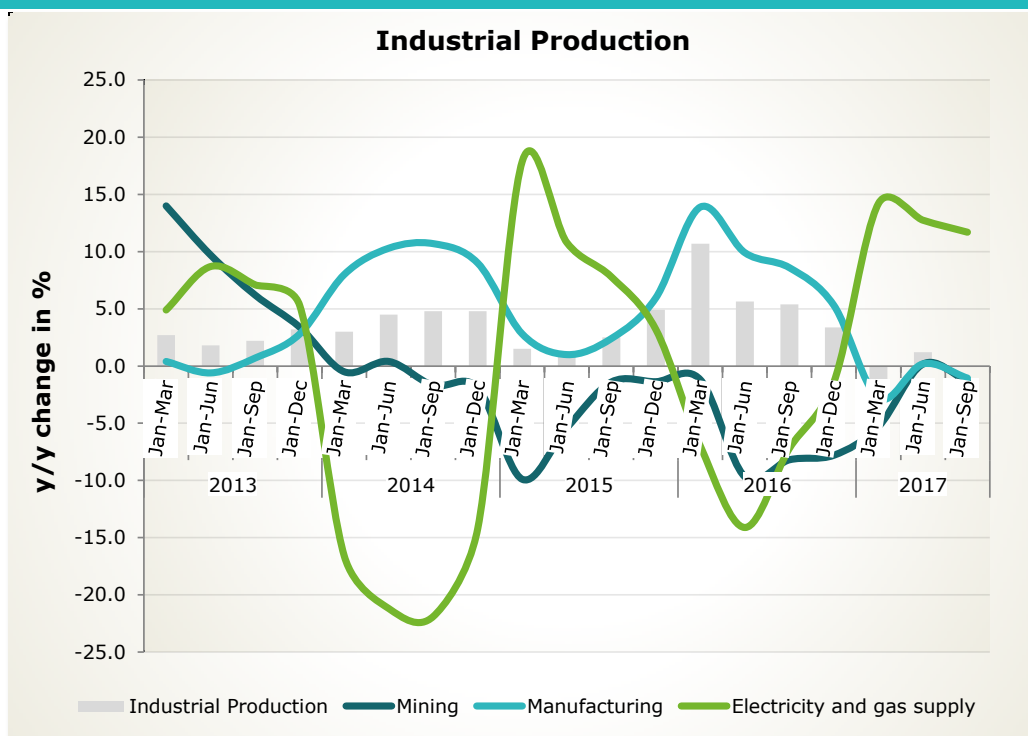
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output fell by 0.1% y/y in January – September 2017

Industrial output went down by 0.1% on the year in Q3 2017, according to SSORM. The output of the manufacturing sector inched down by 1.1% y/y. The production in the mining sector also decreased by 1.3%, while the output of electricity and gas supply expanded by 11.7% y/y.

The best performance in the manufacturing sector was reported by manufacture of other non-metallic mineral products – up by 13.2% y/y, manufacture of computer, electronic and optical products with 12.8% y/y and manufacture of basic pharmaceutical product and pharmaceutical preparations with 11.1%.

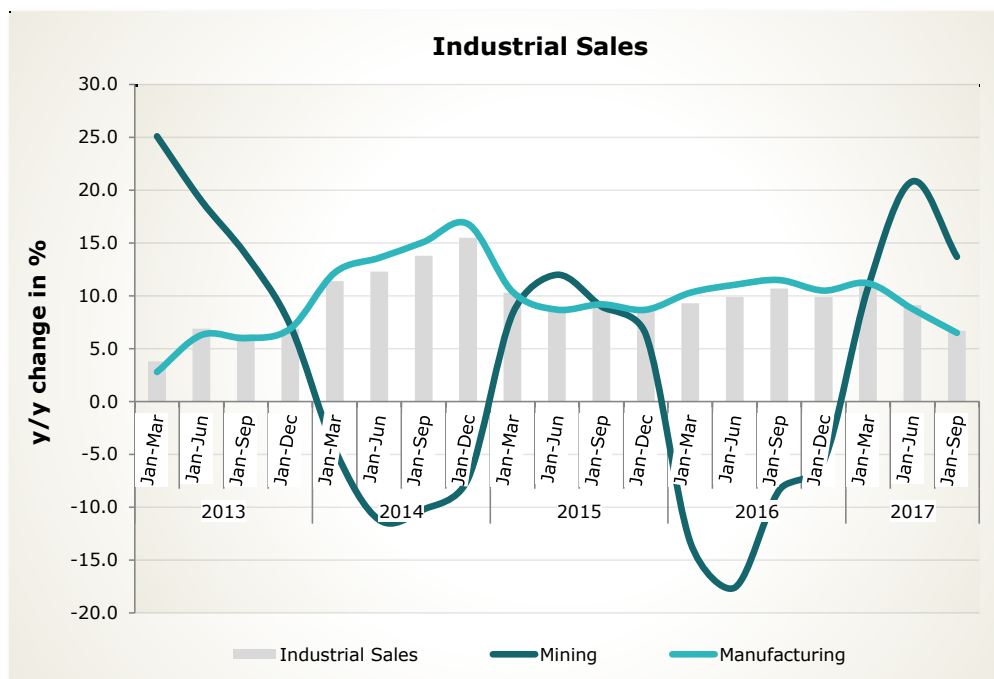


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 6.7% y/y in January - September 2017

Industrial sales rose by 6.7% y/y in the first nine months 2017, according to SSORM data. Sales in the manufacturing sector grew by 6.5%, while sales in the mining sector went up by 13.7% y/y.



Source: SSORM

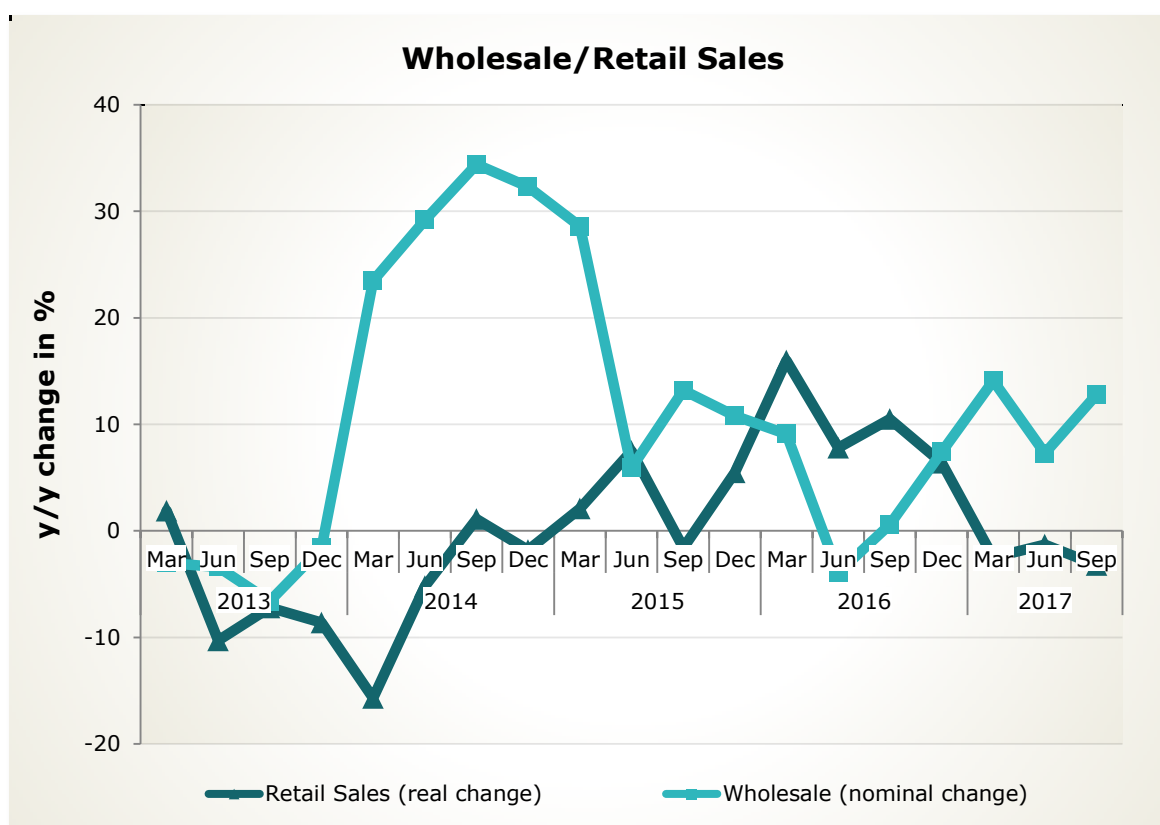
2.4. WHOLESALE/RETAIL

Retail sales narrowed by 3.2% y/y in September 2017

Retail trade, except of motor vehicles and motorcycles, decreased by real 3.2% y/y in September 2017, according to SSORM.

Retail sales of food, beverages and tobacco plunged by 7.7% y/y while retail trade of automotive fuel went up by 7.9% y/y. Retail sale of non-food products (except fuel) also decreased, by 3.0% y/y.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by nominal 12.8% y/y in September 2017.



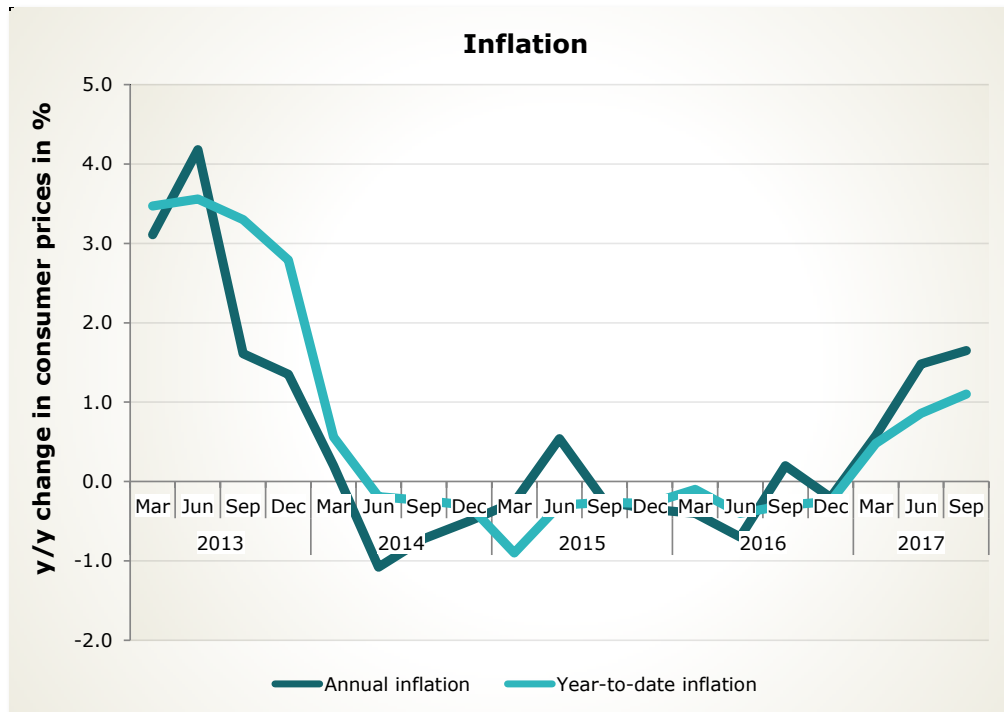
Source: SSORM

2.5. INFLATION

Macedonia registered growing annual average inflation in January - September 2017

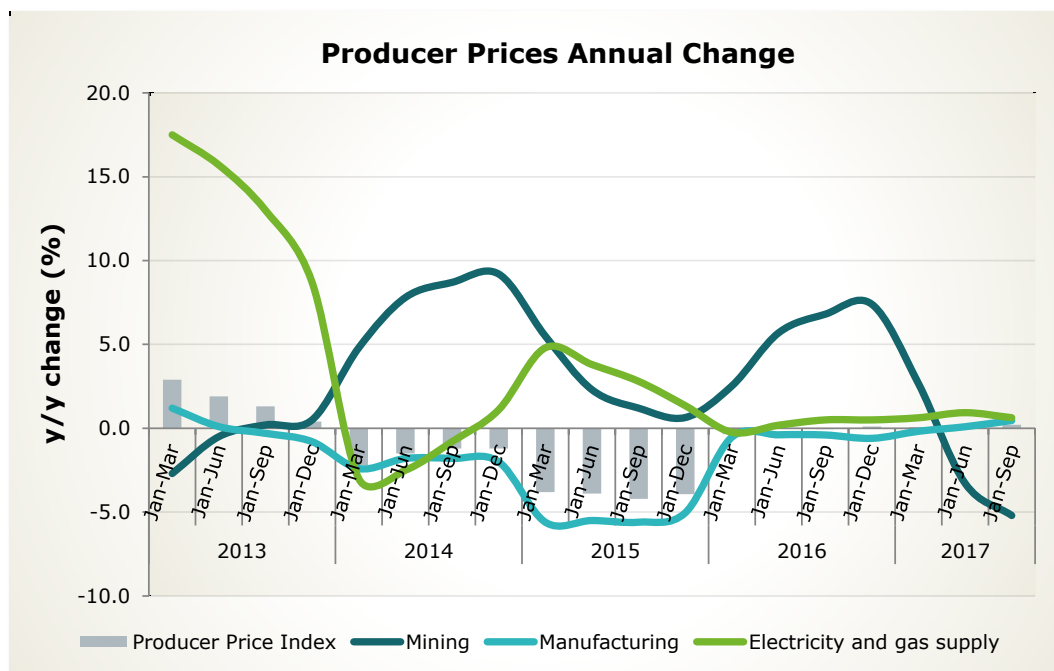
Macedonia registered average annual inflation of 1.1% in January - September 2017, up from 0.9% y/y in January - June 2017, according to SSORM.

Communication services saw average prices growing by 8.2% y/y, while prices of alcoholic beverages and tobacco went up by 6.1%. 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 notched up by 0.2% in the period January - September 2017 with prices of the manufacturing, and electricity and gas supply industries increasing by 0.5%, and 0.6%, respectively, while prices in the mining sector fell by 5.2% y/y.



Source: SSORM

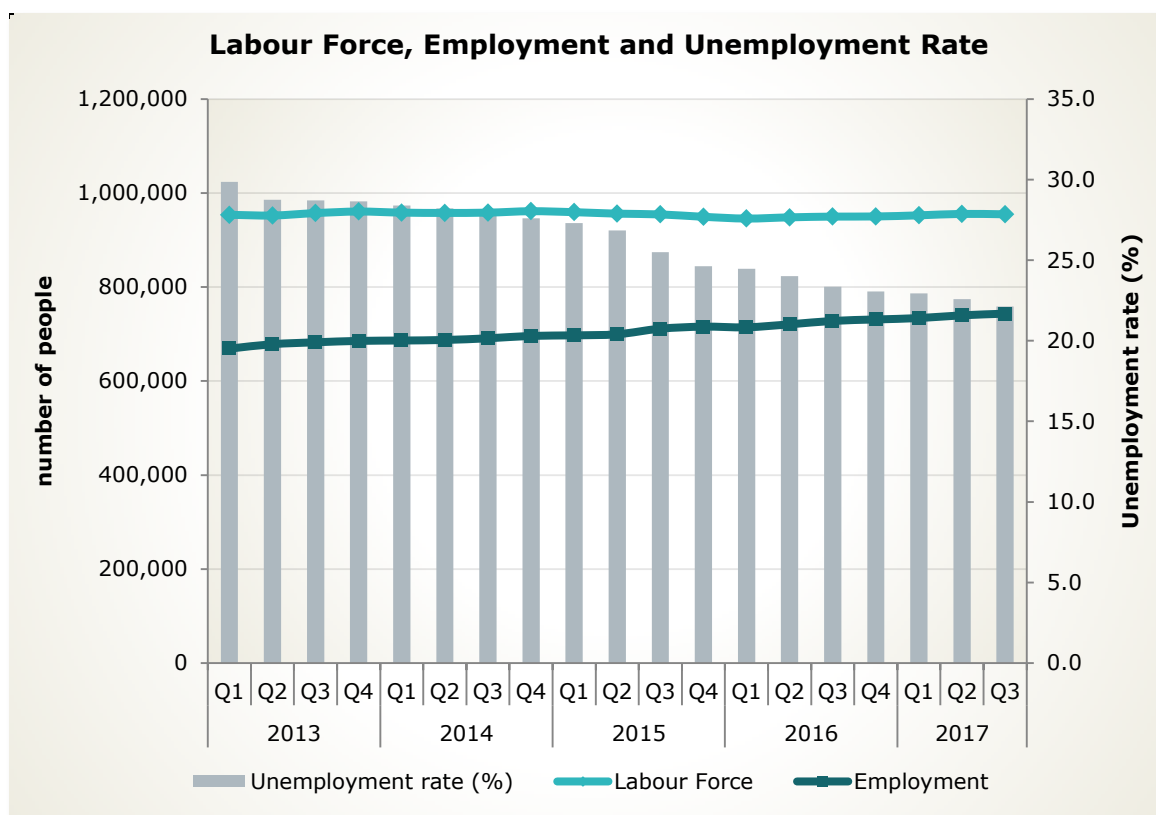
3. LABOUR MARKET

Unemployment rate down to 22.1%, wages grew 3.0% y/y in Q3 2017

Unemployment in Macedonia narrowed to 22.1% of the total labour force in Q3 2017 from 23.4% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 743,451 in Q3 2017, up by 2.1% y/y.

Youth (population aged 15-24) unemployment rate went up by 3.4 pp y/y and remained high at 49.8%.



Source: State Statistical Office

According to data of SSORM, the average monthly net salary in Q3 2017 went up by 3.0% in annual terms to MKD 22,938.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 20.6% y/y in Q3 2017

The number of building permits issued in Macedonia in Q3 2017 fell by 20.6% and totalled 419, according to SSORM. The buildings construction works value amounted to MKD 5.968 bln, down from MKD 9.521 bln a year earlier.

The number of planned dwellings diminished to 1,434 from 1,996 in Q3 2016. The total built-up area of the housing units, covered by the permits, fell by 26.8% y/y, to 119,951 sq m in Q3 2017 from 163,822 sq m in Q3 2016.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR increased to MKD 61.529 in Q3 2017 from MKD 61.521 in Q3 2016, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	Q3 2017	Q2 2017	Q3 2016
EUR	61.529	61.643	61.521
USD	51.644	56.129	55.094
GBP	68.697	71.717	72.466
CHF	54.617	56.927	56.502

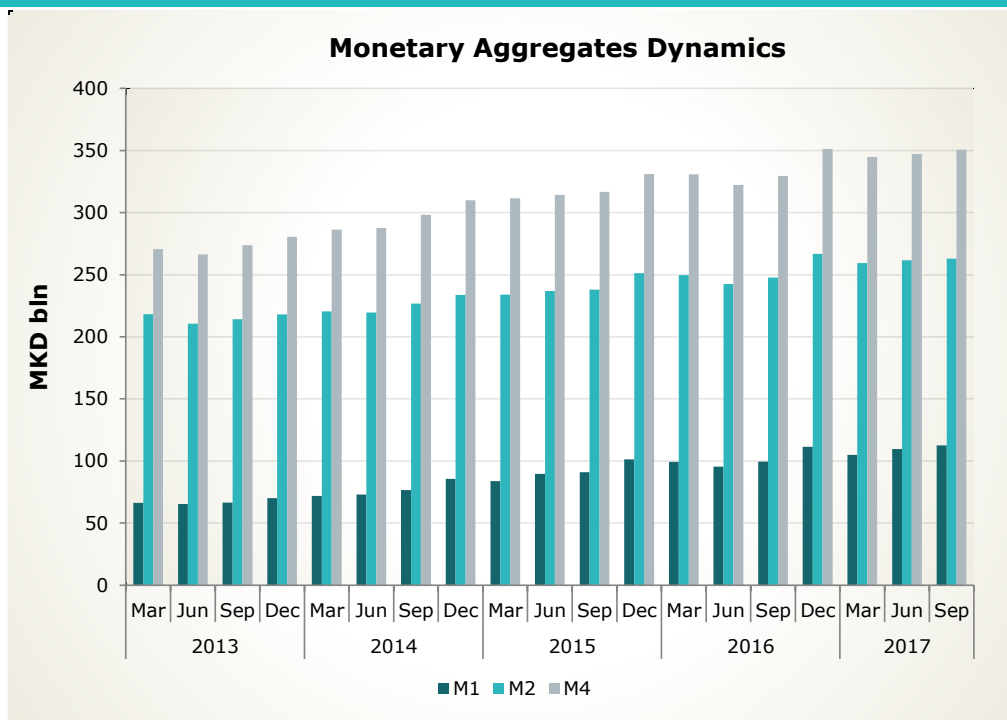
5.2. MONETARY AGGREGATES

Money supply growth was 6.4% y/y at end-September 2017

Broad money (monetary aggregate M4) increased by 6.4% y/y and reached MKD 350.5 bln at the end of September 2017, according to data provided by NBRM.

The M2 money supply also grew, by 6.2% y/y, to MKD 262.8 bln.

Money aggregate M1, or narrow money, expanded by 13.2% to MKD 112.7 bln.

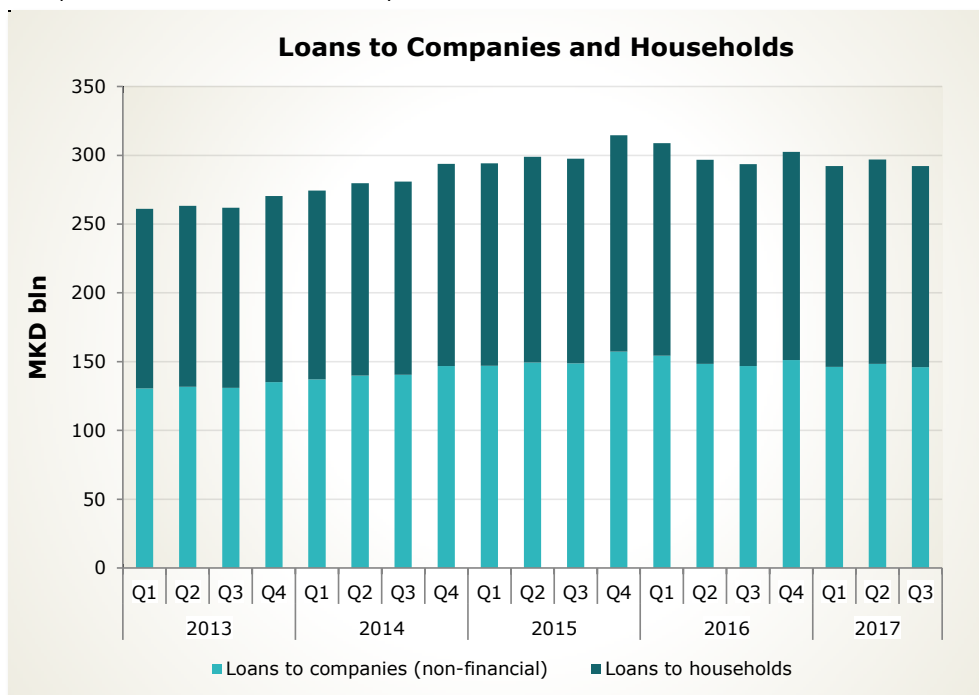


Source: NBRM

5.3. BANKING AND INSURANCE

Household loans increased by 10.0% y/y in Q3 2017

Loans to the non-government sector totalled MKD 285.5 bln in Q3 2017, up by 4.3% y/y, according to NBRM. Household loans jumped by 10.0% to MKD 136.2 bln. Loans to non-financial corporations inched down by 0.4% to MKD 146.1 bln.

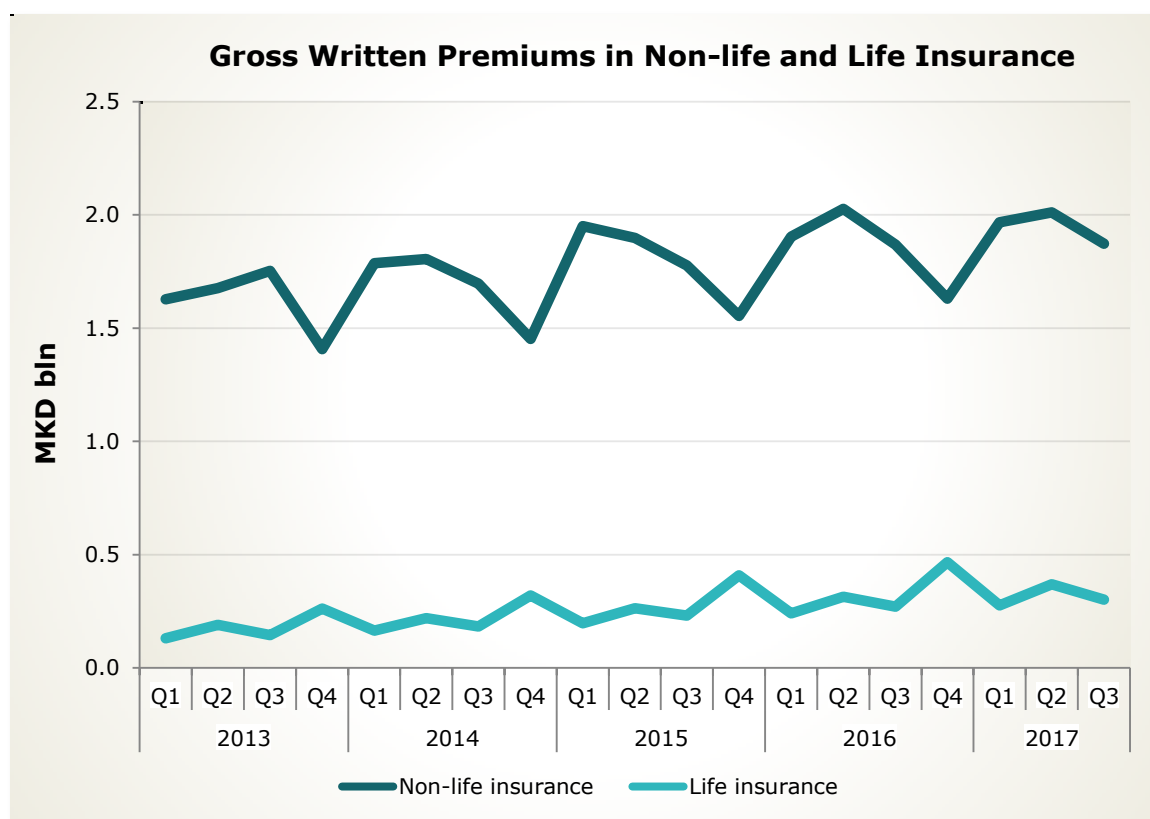


Source: NBRM

Insurance premium income went up by 1.6% y/y in Q3 2017

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.175 bln, up by 1.6% y/y, in Q3 2017, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 1.873 bln, or by 0.2% more than in the corresponding quarter of the previous year, while the life insurance market grew by 11.4% y/y to MKD 302.0 mln.



Source: ASO

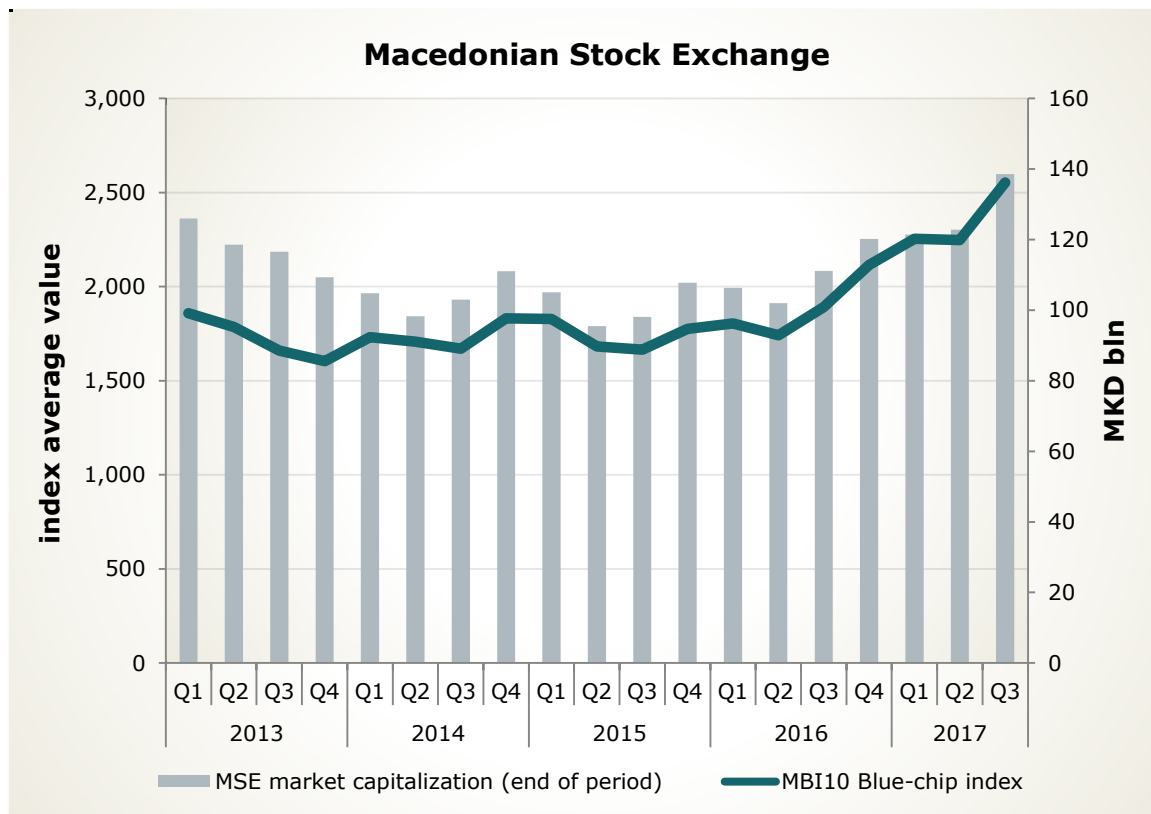
6. CAPITAL MARKETS

Blue-chip MBI10 grew by 13.6% q/q in Q3 2017

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 13.6% q/q to 2,552 points in Q3 2017.

The total turnover on the MSE reached MKD 1.167 bln in Q3 2017 versus MKD 1.009 bln in the previous quarter.

The market capitalisation of MSE in the period grew to MKD 138.6 bln from MKD 122.8 bln in Q2 2017.



Source: MSE

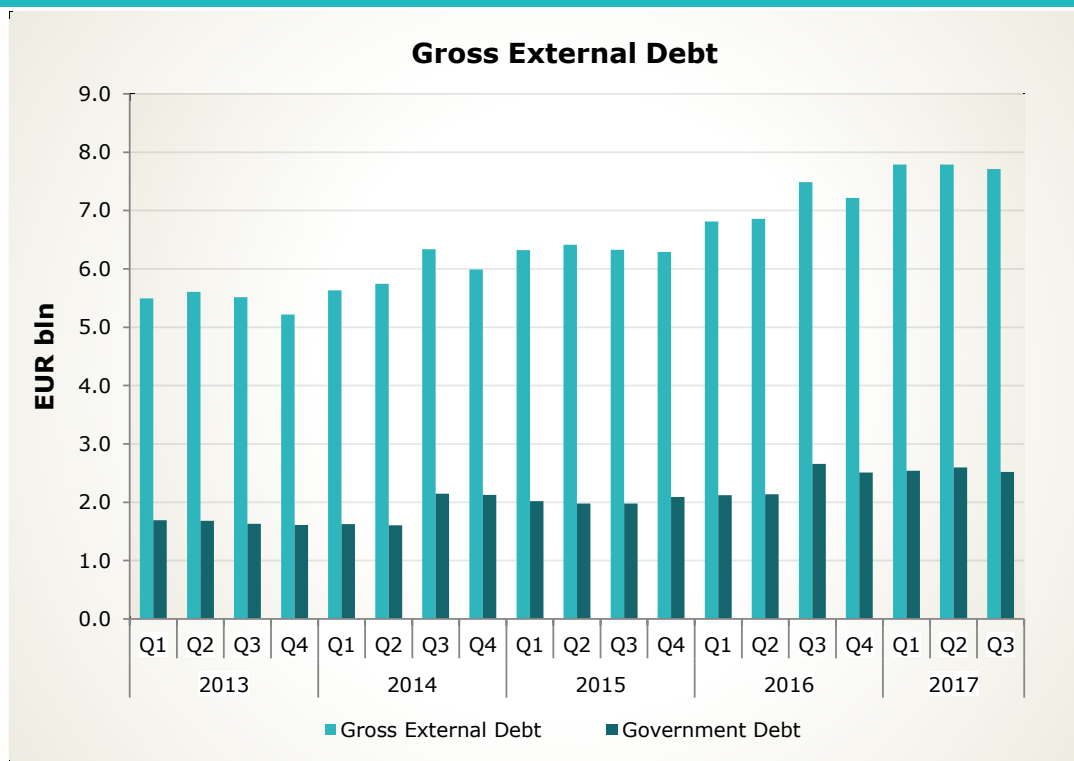
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up y/y to EUR 7.710 bln in Q3 2017

The gross external debt totalled EUR 7.710 bln in Q3 2017, which was 75.5% of the projected full-year GDP, according to NBRM. The debt increased by 3.0% compared to Q3 2016. In comparison to Q2 2017, the gross external debt decreased by EUR 77.0 mln.

As of Q3 2017, long-term liabilities amounted to EUR 5.608 bln, or 72.7% of the total debt, and short-term liabilities totalled EUR 2.103 bln, equal to 27.3% of the total debt.



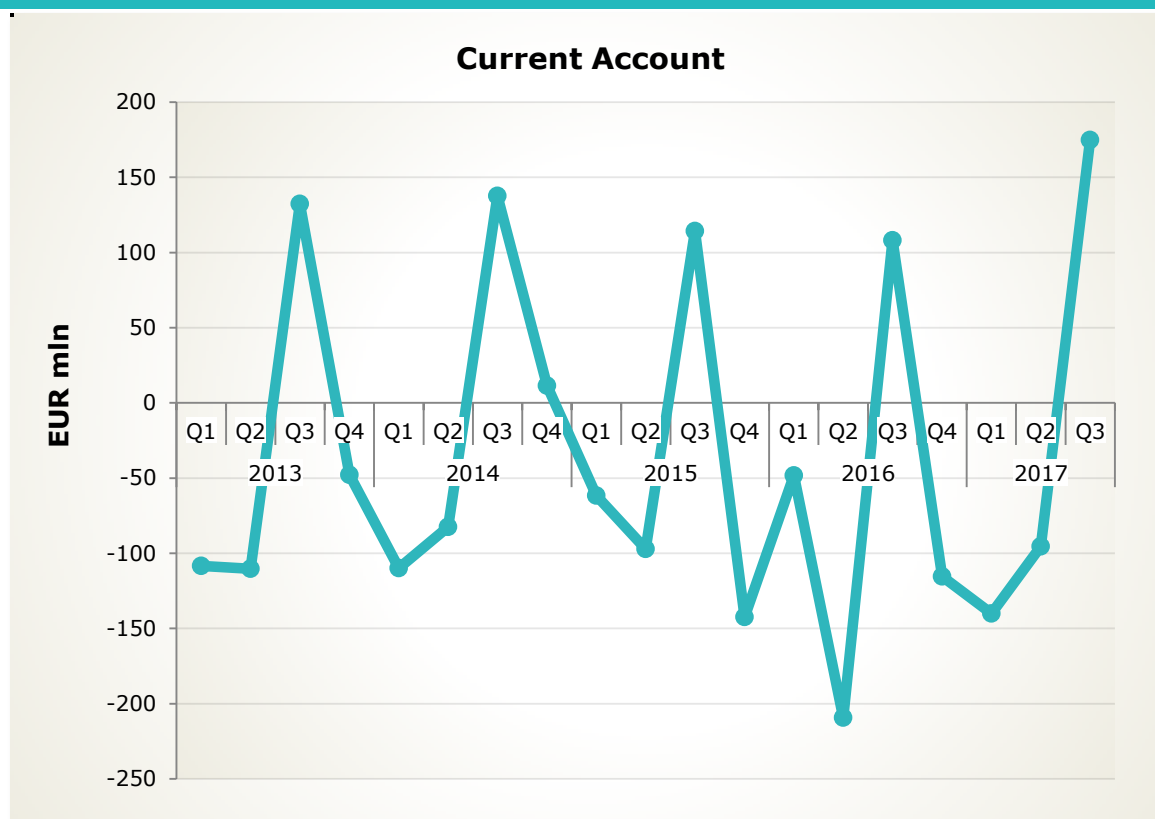
Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account surplus soared almost twofold y/y to EUR 174.9 mln in Q3 2017

The current account deficit climbed to EUR 174.9 mln in Q3 2017 from EUR 108.1 mln in Q3 2016, according to central bank statistics data.

Secondary income rose by 4.7% y/y to EUR 509.2 mln in Q3 2017.



Source: NBRM

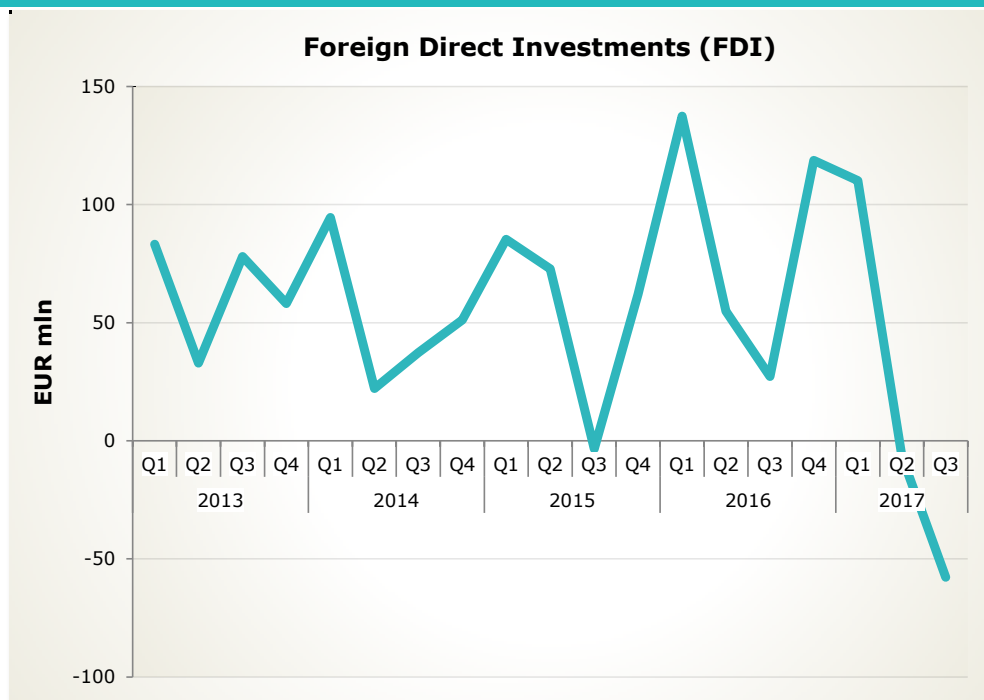
7.3. FDI

Net FDI outflow at EUR 57.8 mln in Q3 2017

The net FDI outflow in Macedonia reached EUR 57.8 mln in third quarter of 2017 compared to an inflow EUR 27.3 mln a year earlier, according to NBRM.

For Q3 2017 the leaders in terms of FDI in Macedonia were Germany, Kosovo and Luxembourg with investments of EUR 11.7 mln, EUR 3.0 mln and EUR 2.6 mln, respectively.

A breakdown by industries showed that manufacturing attracted the largest share of the total investments, or EUR 19.7 mln, more than half of which was in the motor vehicles, trailers and semitrailers sector. Financial activities and mining and quarrying followed with 4.7% of the total FDIs in the quarter each.



Source: NBRM

7.4. FOREIGN TRADE

Foreign trade deficit up by 1.1% y/y in Q3 2017

The trade deficit stood at EUR 395.8 mln in Q3 2017, compared to EUR 391.4 mln a year earlier, according to NBRM. Exports increased by 8.8% y/y to EUR 1.250 bln, while imports went up by 6.9% y/y to EUR 1.646 bln.



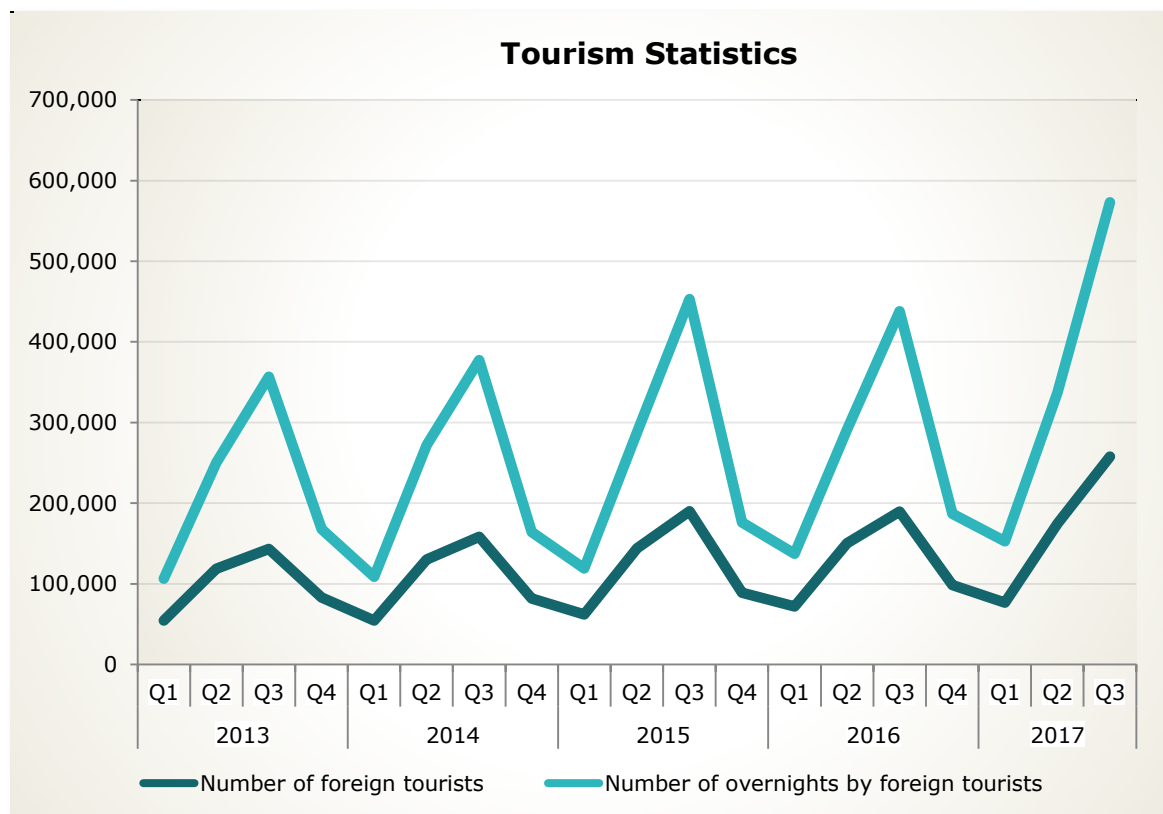
Source: NBRM

7.5. TOURSIM

Number of foreign tourist overnights grew by 30.8% y/y in Q3 2017

Tourist overnights of foreigners increased by an annual 30.8% to 573,004 in Q3 2017, according to SSORM. Foreign tourist overnights accounted for 36.0% of the total tourist overnights in the country, up from 30.9% in the year-ago quarter.

The number of foreign citizens who visited the country was also on the rise, by 36.1%, to 257,870.



Source: SSORM

8. MAJOR DEVELOPMENTS

S&P affirms Macedonia at BB-/B, outlook stable

Sept 17, 2017

Standard & Poor's said it affirmed Macedonia's long-term and short-term foreign and local currency sovereign credit ratings at BB-/B with a stable outlook.

[Read the full story here](#)

Macedonia to sell MKD 1.7 bln of govt paper on Sept 5

Sept 1, 2017

Macedonia will offer MKD 1.7 bln worth of government securities with different maturities at an auction on September 5, according to notices posted on the website of the country's central bank, NBRM.

[Read the full story here](#)

Bulgaria, Macedonia agree to step up cooperation in energy, transport

Aug 2, 2017

EU candidate Macedonia and Bulgaria signed in August a friendship treaty that paves the way for closer cooperation in energy and transport between the two Balkan neighbours.

[Read the full story here](#)

Bulgarian govt endorses draft MoU with Macedonia to build new gas link

July 27, 2017

Bulgaria's government said in July it approved a draft Memorandum of Understanding (MoU) with Macedonia to build a new gas link between the two countries.

[Read the full story here](#)

EBRD mulls providing EUR 5.0 mln to fund infrastructure projects in Macedonia

July 7, 2017

The European Bank for Reconstruction and Development (EBRD) said it is considering providing up to EUR 5.0 mln to back municipal infrastructure projects in Macedonia.

[Read the full story here](#)

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