

## **MACEDONIA ECONOMY REPORT**

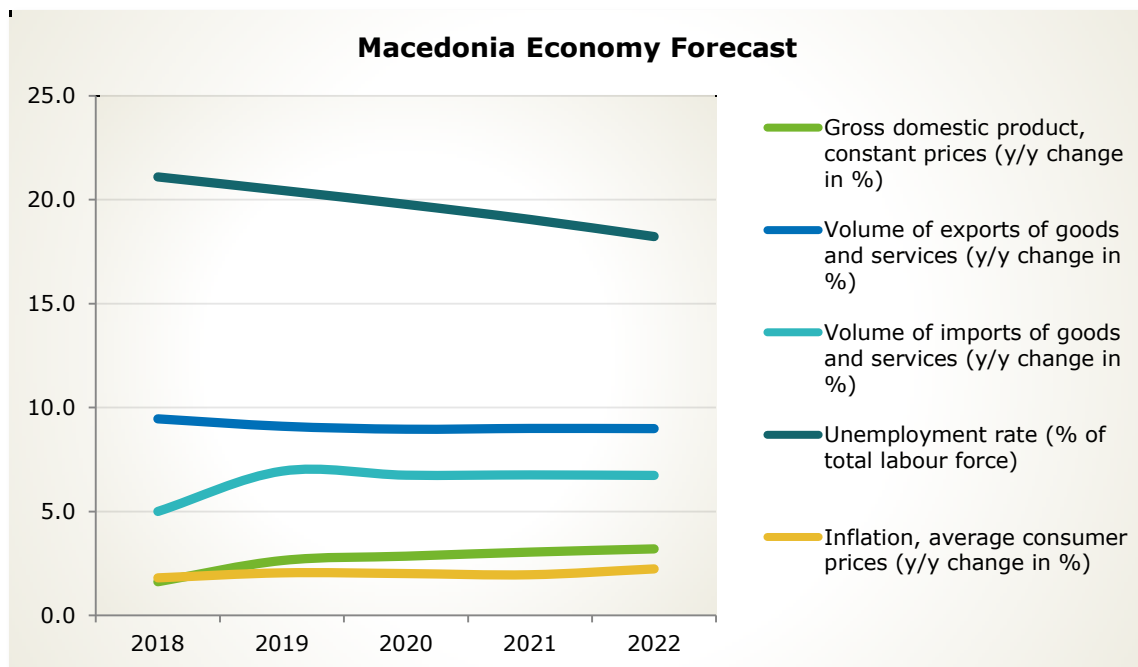
### Q3 2018

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
<b>GDP Growth</b>	3.0% y/y
<b>Industrial output</b>	5.0% y/y
<b>Industrial sales</b>	15.4% y/y
<b>Wholesale</b>	7.6% y/y
<b>Retail sales</b>	6.8% y/y
<b>Average annual inflation</b>	1.5%
<b>Unemployment rate</b>	20.8%
<b>Number of building permits</b>	-9.8% y/y
<b>Money supply growth</b>	11.7% y/y
<b>Household loans</b>	10.5% y/y
<b>MBI10 blue-chip index</b>	13.2% q/q
<b>Gross external debt</b>	EUR 8.400 bln
<b>Current account surplus</b>	EUR 202.2 mln
<b>Net FDI outflow</b>	EUR 4.019 mln
<b>Foreign trade deficit</b>	EUR 381.9 mln
<b>Number of foreign tourist overnights</b>	11.8% y/y



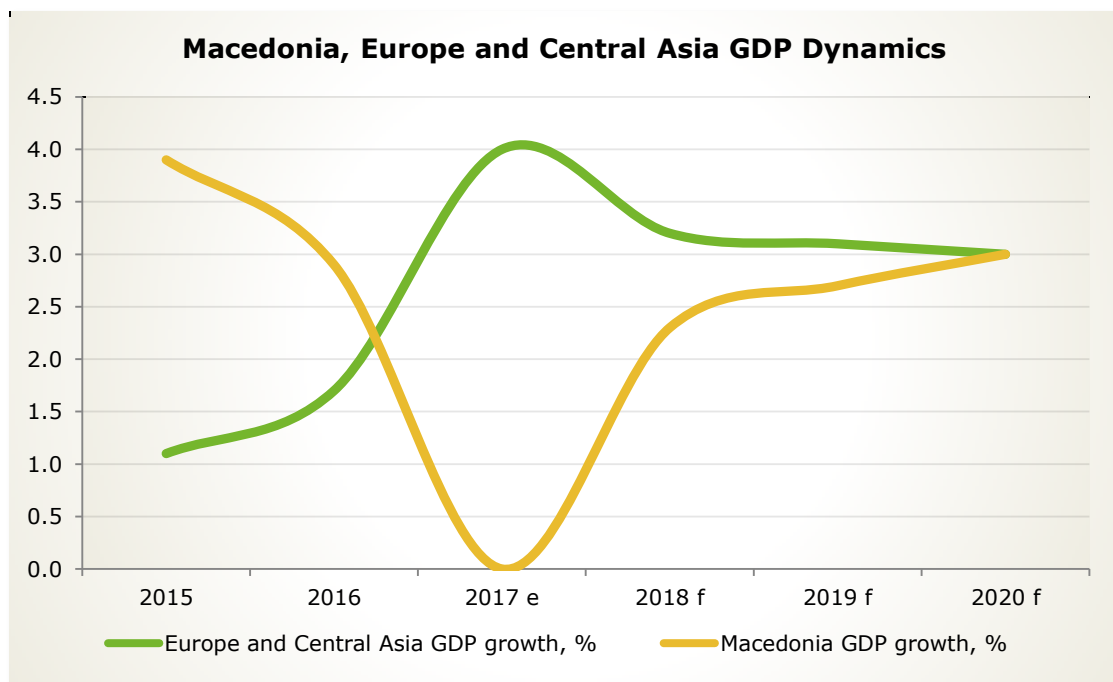
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2018

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. 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

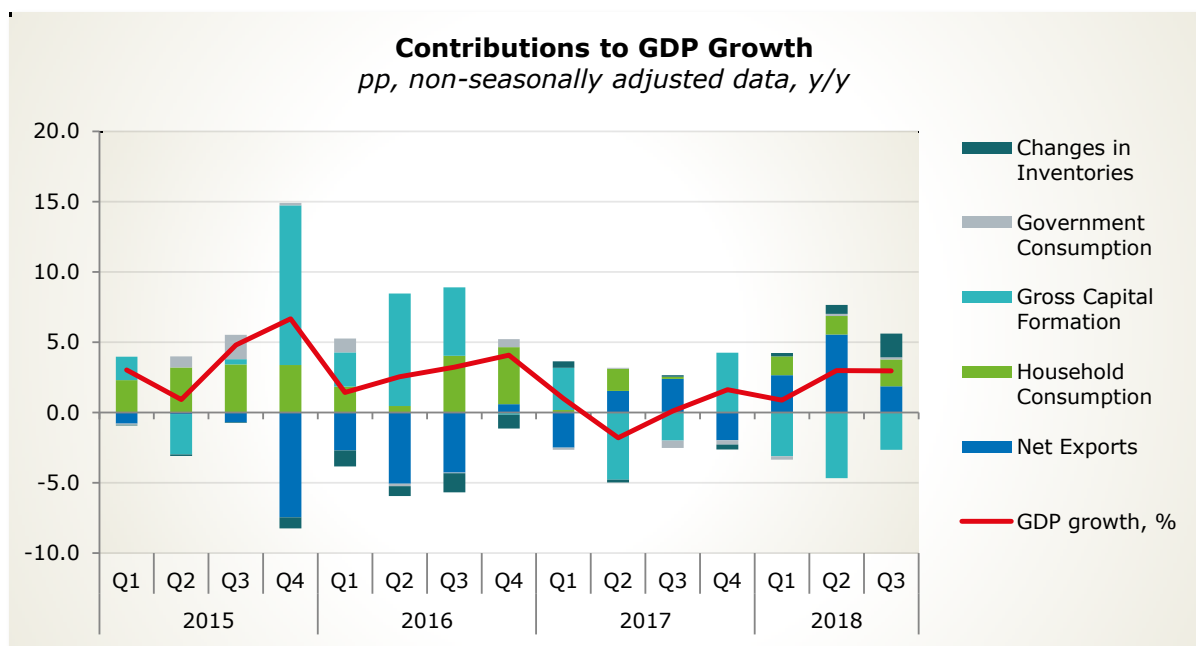
According to the World Bank estimates from June 2018, GDP growth is likely to come in at 2.3% in 2018 after the stalemate in 2017. This will be lower than the projected growth for Europe and Central Asia, of 3.2% in 2018.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP up 3.0% y/y in Q3 2018

During the third quarter of 2018, the country's GDP increased by 3.0% y/y to MKD 115.2 bln according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

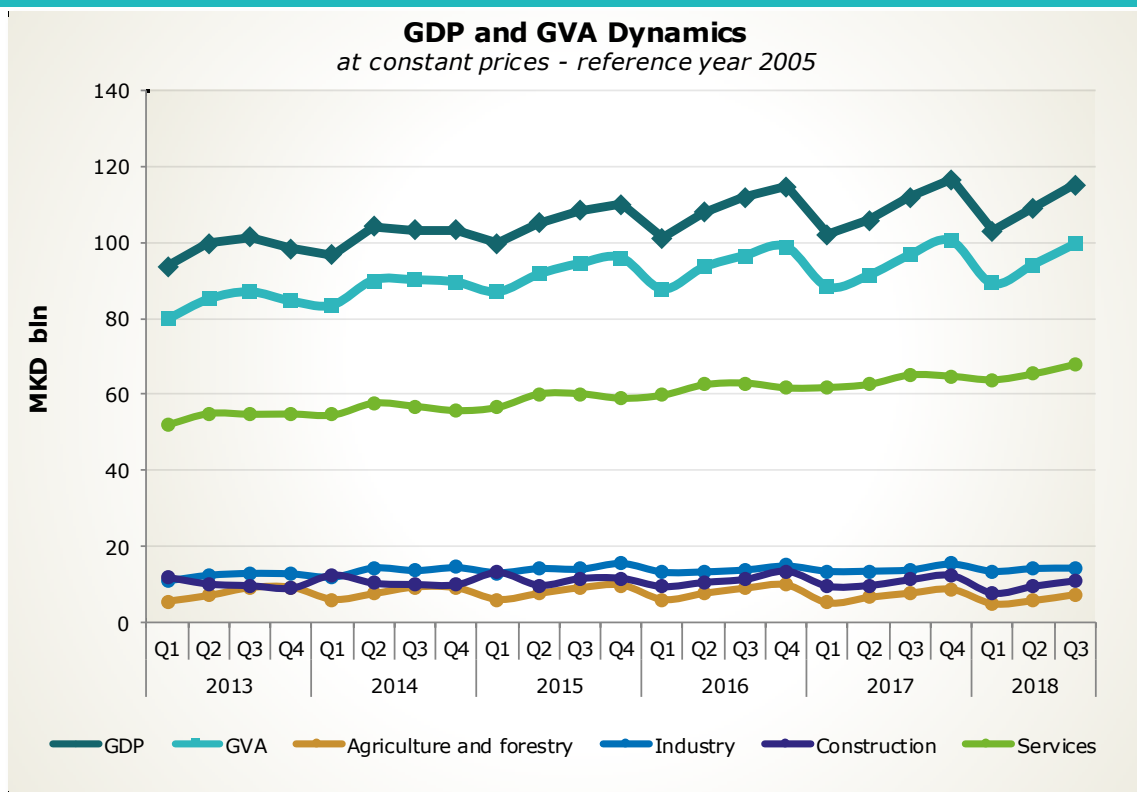


Source: SeeNews calculations; SSORM

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.

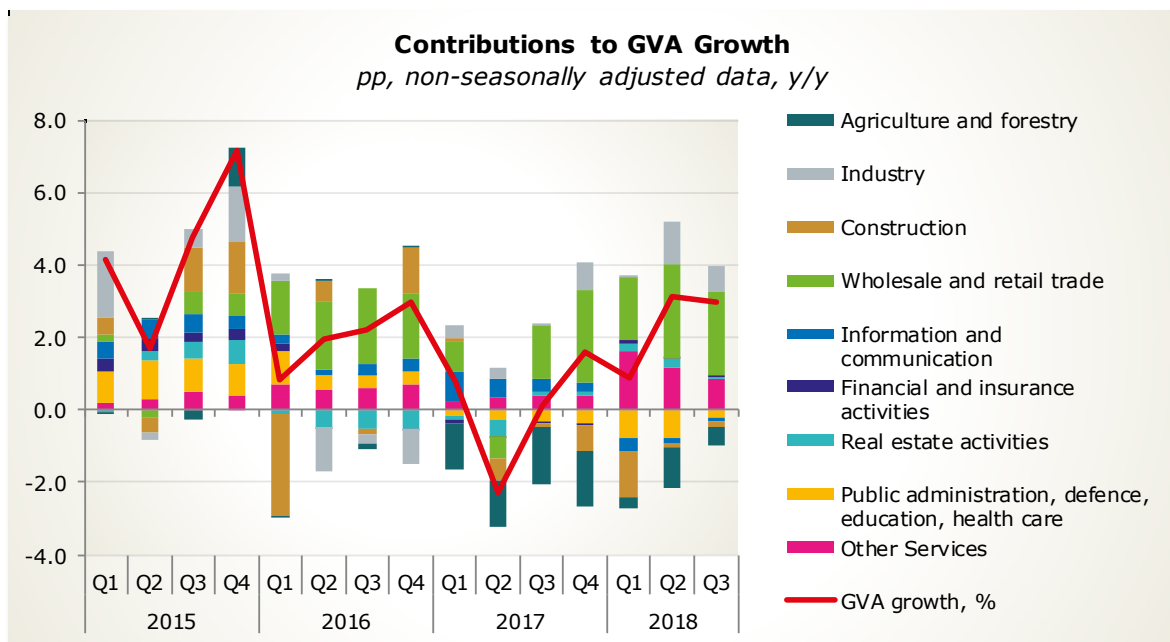
Final consumption, which accounted for 84.9% of the GDP, increased in value terms by 4.1% y/y to MKD 97.8 bln in Q3 2018, while gross capital formation went down by 8.5%. Both exports and imports grew - by 12.0% and 7.5%, respectively.

The largest contributors to the overall GDP expansion in Q3 2018 were net exports and household consumption, adding 1.9 pp each to the GDP growth in Q3 2018. In the same time gross capital formation subtracted 2.7 pp from the GDP growth.



Source: SSORM

The gross value added (GVA) generated by the national economy increased in value by 3.0% y/y in Q3 2018 and totalled MKD 99.5 bln. The agricultural sector registered a decrease of 4.8%. The gross value added of the industrial sector went up by 3.6% while construction fell by 2.6% y/y. The services sector recorded a 4.2% rise, slicing a 68.2% share in the GVA, compared to 67.4% in the corresponding quarter of the previous year.



Source: SeeNews Calculations; SSORM

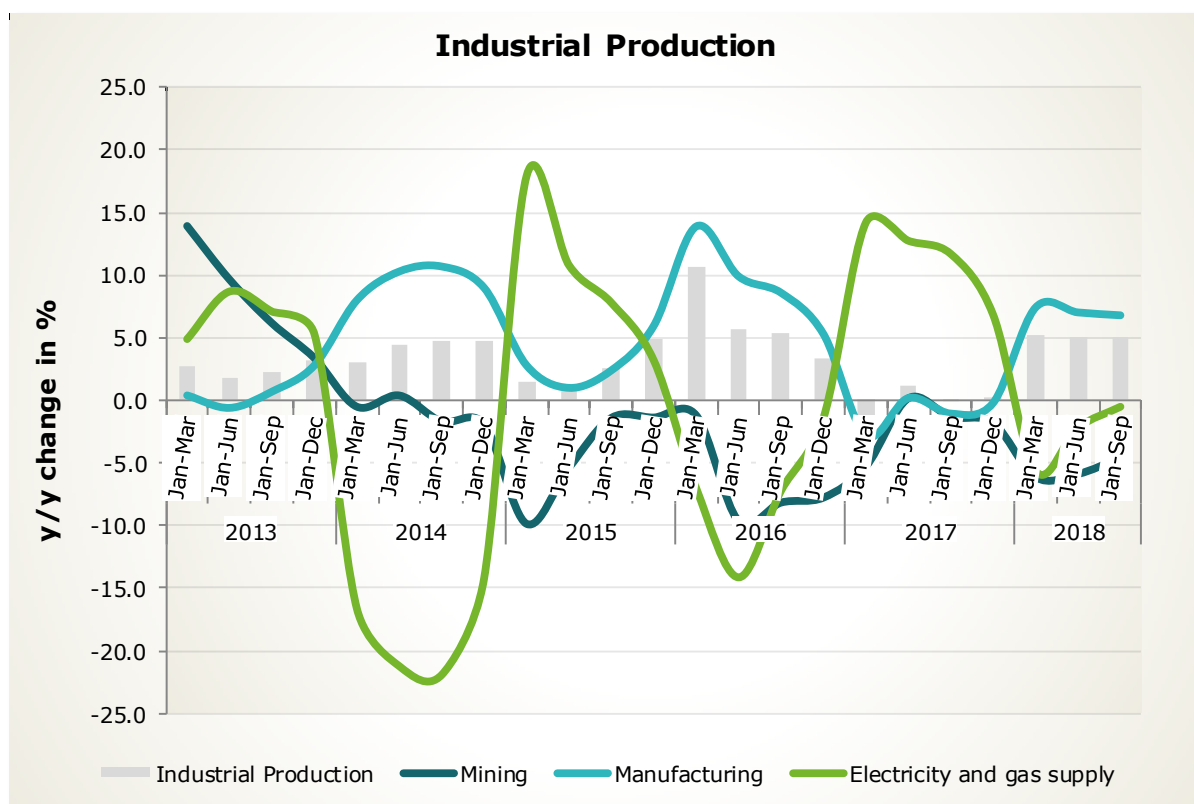
Note: Non-additive data due to direct chain linking of GDP and its components.

## 2.2. INDUSTRIAL OUTPUT

### Industrial output advanced by 5.0% y/y in January - September 2018

Industrial output went up by 5.0% on the year in Q3 2018, according to SSORM. The output of the manufacturing sector rose by 6.8% y/y. Production in the mining sector decreased by 4.6%, while the output of electricity and gas supply notched down by 0.5% y/y.

The best performance in the manufacturing sector was reported in the segment manufacture of fabricated metal products, except machinery and equipment, which surged by 27.6% y/y, as well as manufacture of textiles and manufacture of chemicals, and chemical products, both with 10.6% annual rise.

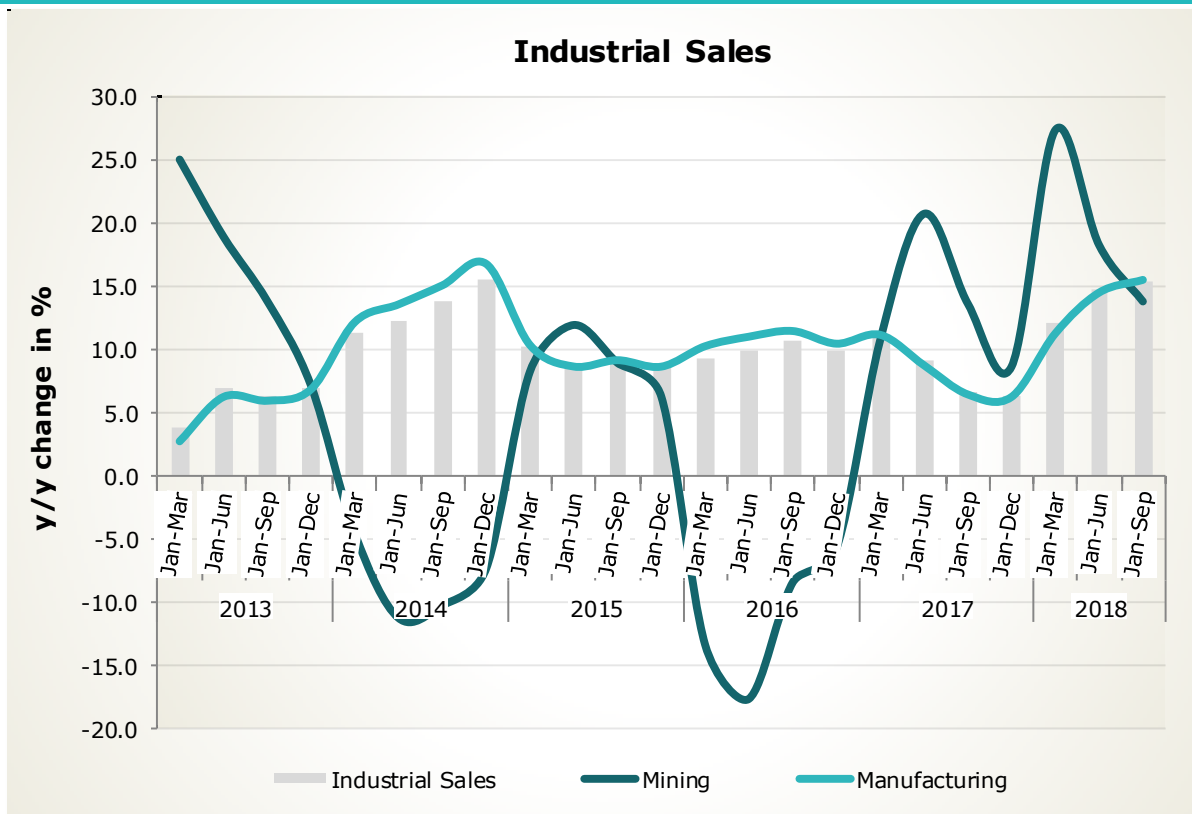


Source: SSORM

## 2.3. INDUSTRIAL SALES

### Industrial sales went up by 15.4% y/y in January - September 2018

Industrial sales rose by 15.4% y/y in the first nine months of 2018, according to SSORM data. Sales in manufacturing grew by 15.5%, while sales in the mining sector went up by 13.9% y/y.



Source: SSORM

## 2.4. WHOLESALE/RETAIL

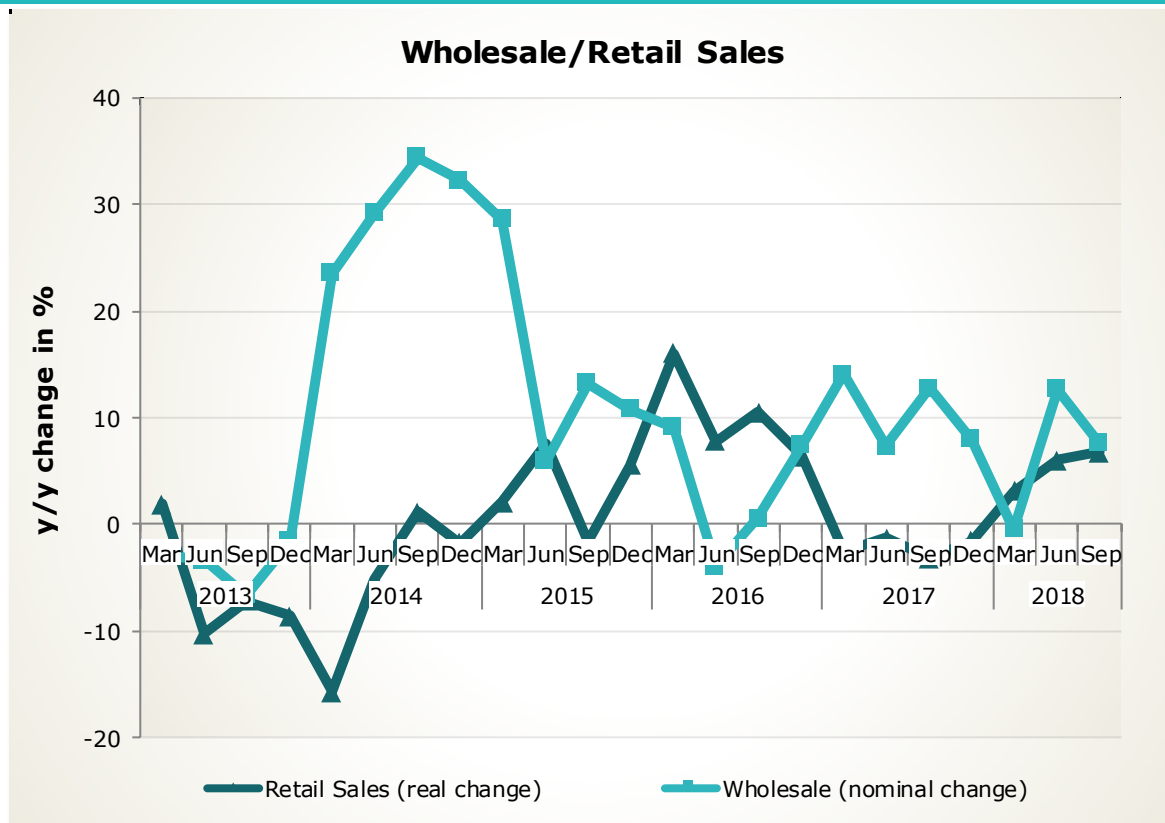
### Retail sales expanded by 6.8% y/y in September 2018

Retail trade, except of motor vehicles and motorcycles, increased by real 6.8% y/y in September 2018, according to SSORM.

Retail sale of food, beverages and tobacco grew by 8.6% and retail trade (except automotive fuel) advanced by 7.8% y/y in September 2018.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by 7.6% y/y in September 2018.





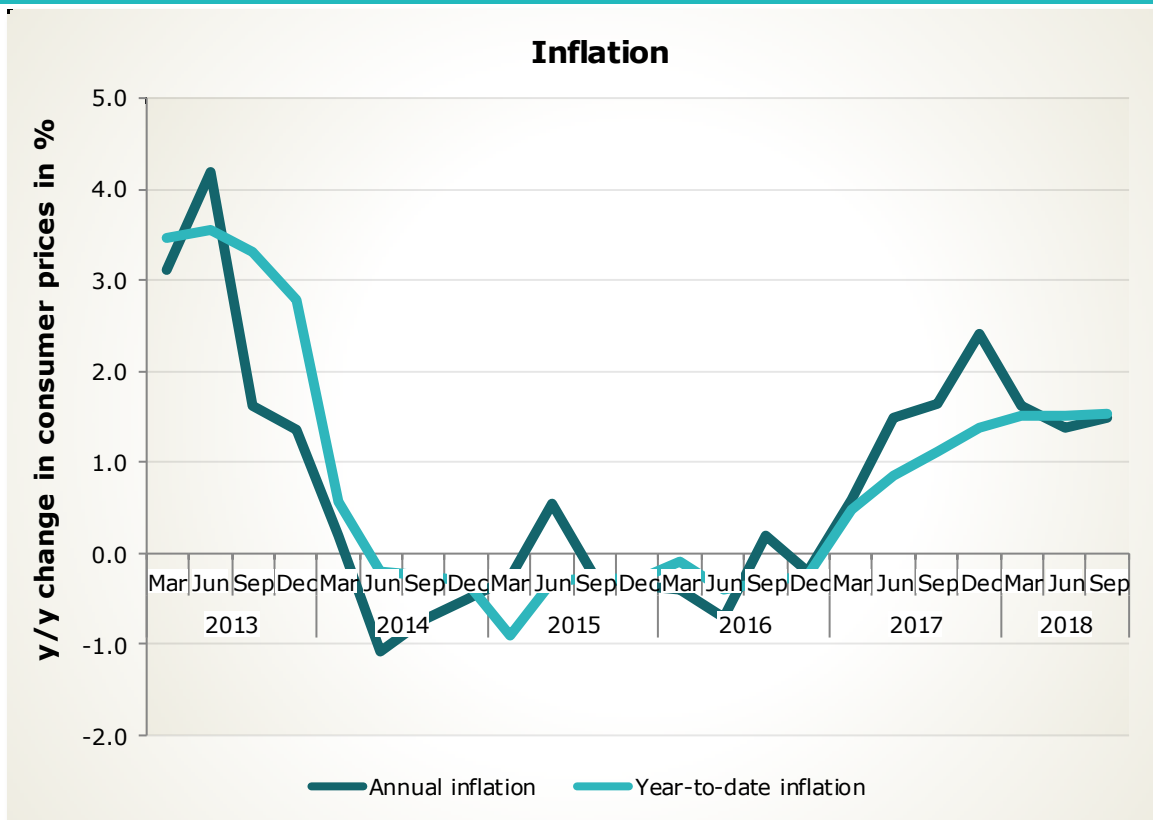
Source: SSORM

## 2.5. INFLATION

### *Macedonia registered 1.5% annual average inflation in January-September 2018*

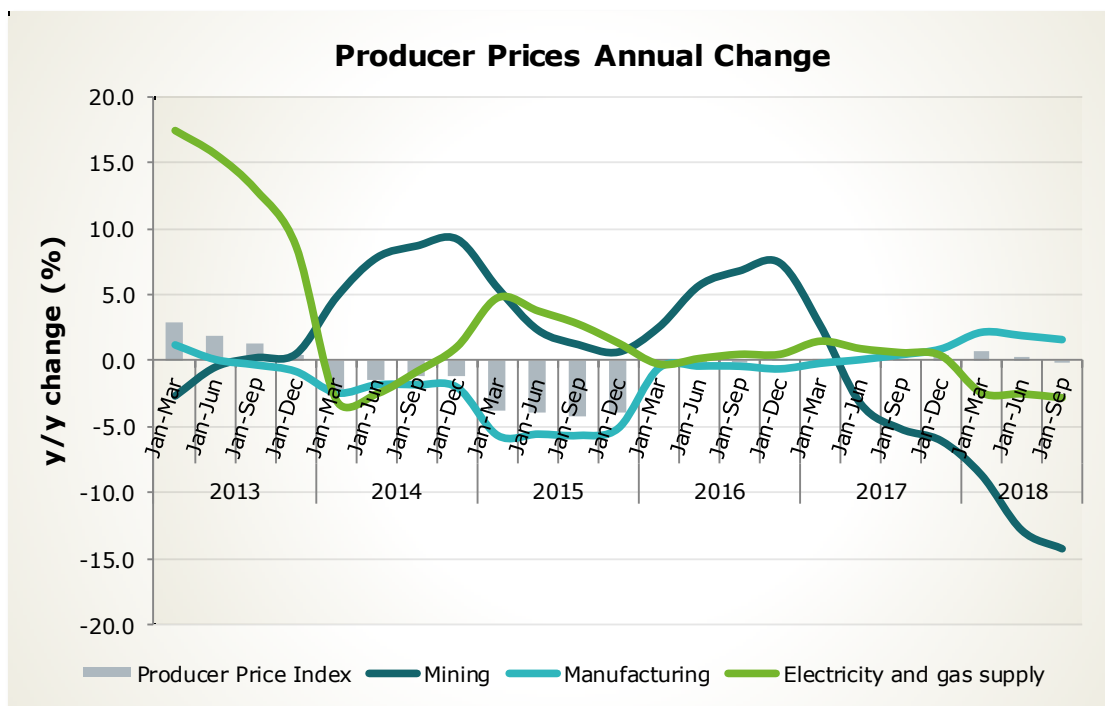
Macedonia registered an average annual inflation of 1.5% in January – September 2018, which is almost the same as in Q2 2018, according to SSORM.

The inflation in the segment of alcoholic beverages and tobacco came in at 5.7% compared to Q3 2017, while average prices in the transport sector went up by 8.6% y/y. Clothing and footwear prices went down by 0.7% y/y on average in Q3 2018, while the CPI in housing, water, electricity, gas and other fuels inched down by 0.1% y/y.



Source: SSORM

Producer prices notched down by 0.1% in the period January - September 2018 with prices of the manufacturing industry increasing by 1.6% while prices in the mining sector fell by 14.3% y/y. The PPI Index of electricity and gas supply decreased by 2.8% y/y in Q3 2018.



Source: SSORM

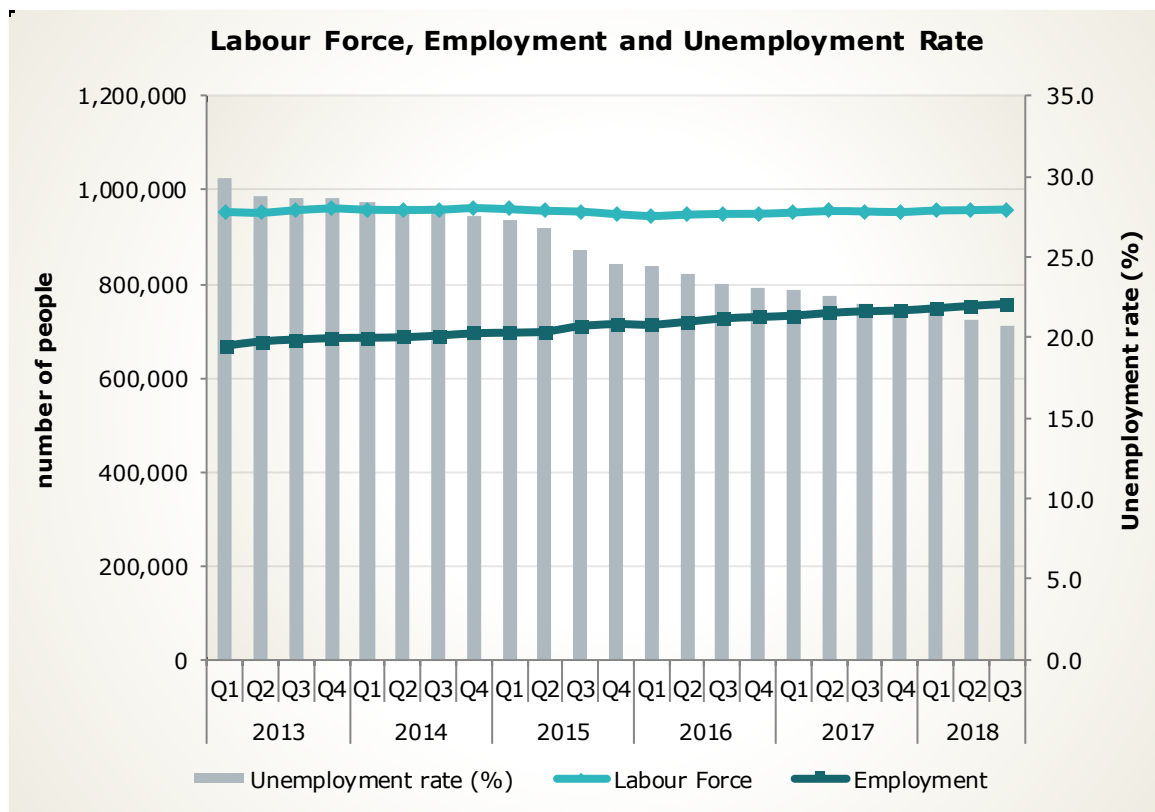
### 3. LABOUR MARKET

#### Unemployment rate down to 20.8%, wages grew 5.6% y/y in Q3 2018

Unemployment in Macedonia narrowed to 20.8% of the total labour force in Q3 2018, down from 22.1% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 759,445 in Q3 2018, up by 2.2% y/y.

Youth (population aged 15-24) unemployment rate went down 4.1 pp y/y, but remained high at 45.8%.



Source: SSORM

According to data of SSORM, the average monthly net salary in Q3 2018 went up by 5.6% in annual terms to MKD 24,212.

#### 4. CONSTRUCTION AND REAL ESTATE

##### *The number of building permits decreased in Q3 2018*

The number of building permits issued in Macedonia in Q3 2018 fell by 9.8% and totalled 378, according to SSORM. The building construction works value amounted to MKD 5.086 bln, down from MKD 5.968 bln a year earlier. The planned number of dwellings diminished to 1,428 from 1,434 in Q3 2017.

#### 5. MONEY SUPPLY AND BANKING SYSTEM

##### 5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR decreased to MKD 61.4929 in Q3 2018 from MKD 61.5009 in Q2 2018, according to National Bank of the Republic of Macedonia (NBRM) data.

<b>MKD Average Exchange Rate</b>			
<b>Foreign Currency</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q3 2017</b>
EUR	61.4929	61.5009	61.5783
USD	52.8973	51.5541	52.4754
GBP	68.9189	70.1745	68.6185
CHF	53.7441	52.3604	54.5050

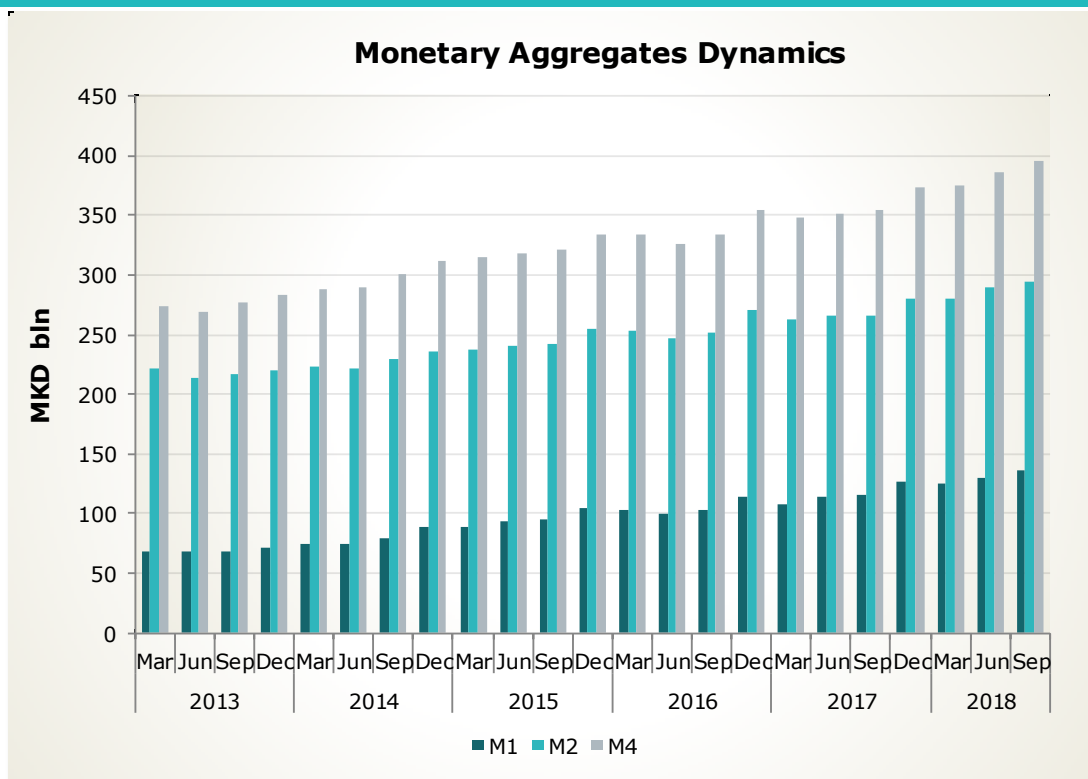
##### 5.2. MONETARY AGGREGATES

##### *Money supply growth was 11.7% y/y at end-September 2018*

Broad money (monetary aggregate M4) increased by 11.7% y/y and reached MKD 395.8 bln at the end of September 2018, according to data provided by NBRM.

The M2 money supply also grew, by 10.7% y/y, to MKD 295.0 bln.

Money aggregate M1, or narrow money, expanded by 17.1% to MKD 136.3 bln.

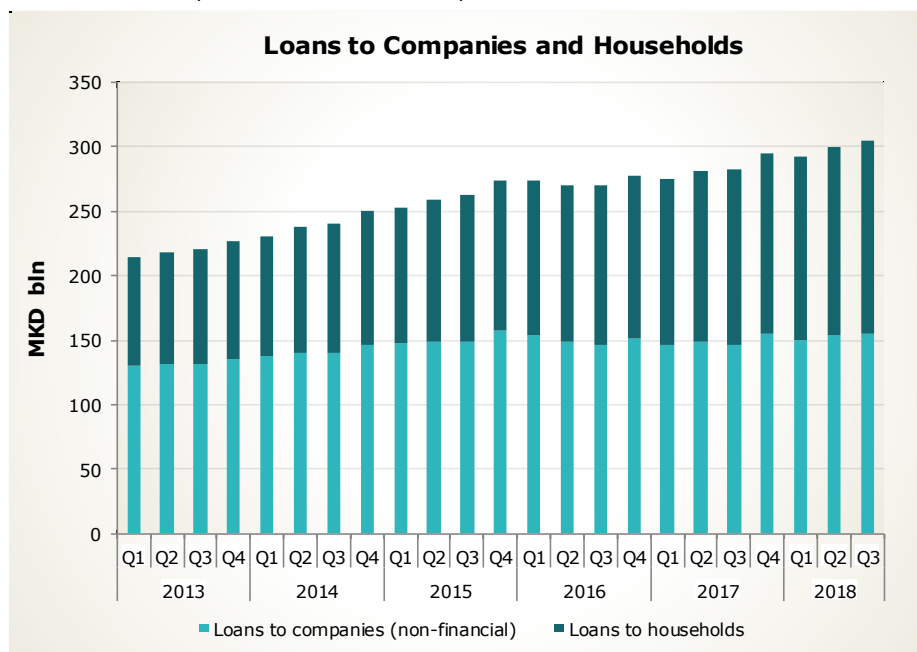


Source: NBRM

### 5.3. BANKING AND INSURANCE

#### Total loans increased by 8.3% y/y in Q3 2018

Loans to the non-government sector totalled MKD 309.1 bln in Q3 2018, up from MKD 285.5 bln in Q3 2017, according to NBRM. Household loans jumped by 10.5% to MKD 150.5 bln, while loans to non-financial corporations climbed by 6.0% to MKD 154.9 bln.

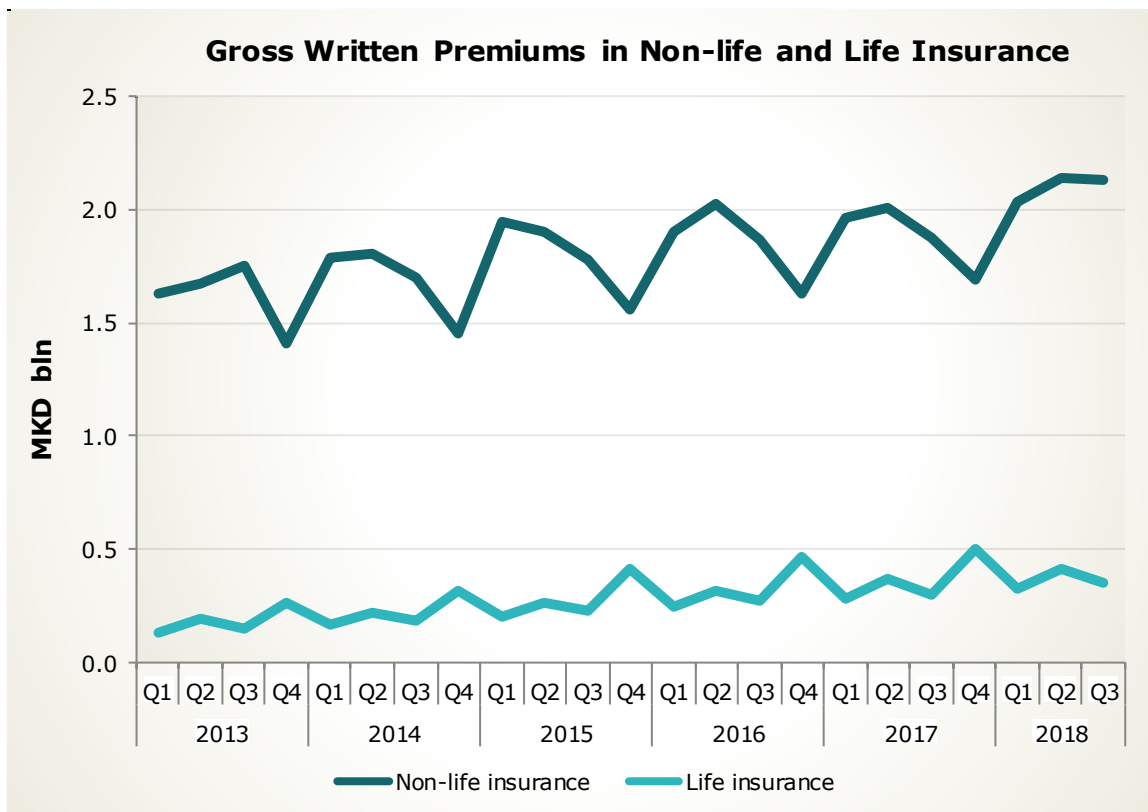


Source: NBRM

## Insurance premium income went up by 14.2% y/y in Q3 2018

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 2.484 bln, up by 14.2% y/y, in Q3 2018, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 2.129 bln, or by 13.7% more than in the corresponding quarter of the previous year, while the life insurance market grew by 17.6% y/y to MKD 0.355 bln.



Source: ASO

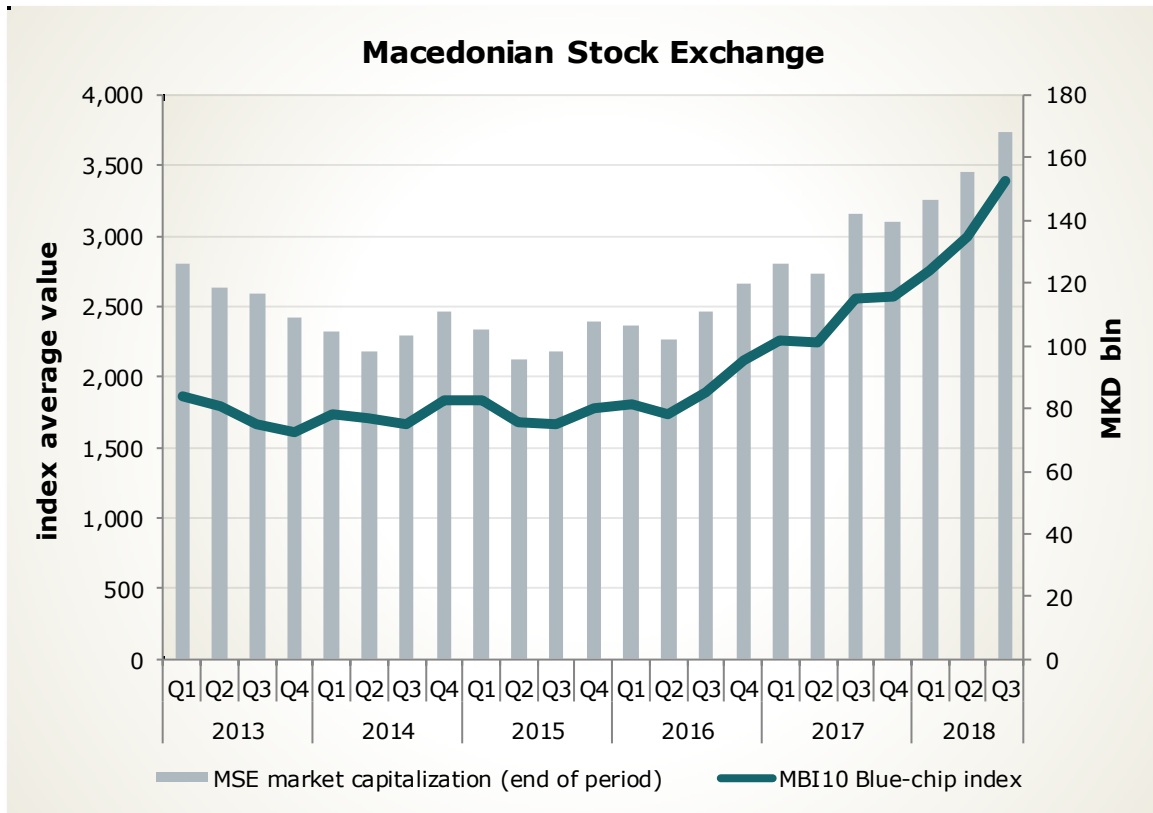
## 6. CAPITAL MARKETS

### Blue-chip MBI10 grew by 13.2% q/q in Q3 2018

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 13.2% q/q to 3,387 points in Q3 2018.

The total turnover on the MSE reached MKD 1.865 bln in Q3 2018 versus MKD 1.167 bln in the same quarter of 2017.

The market capitalisation of MSE in the period grew to MKD 168.4 bln from MKD 142.1 bln in Q3 2017.



Source: MSE

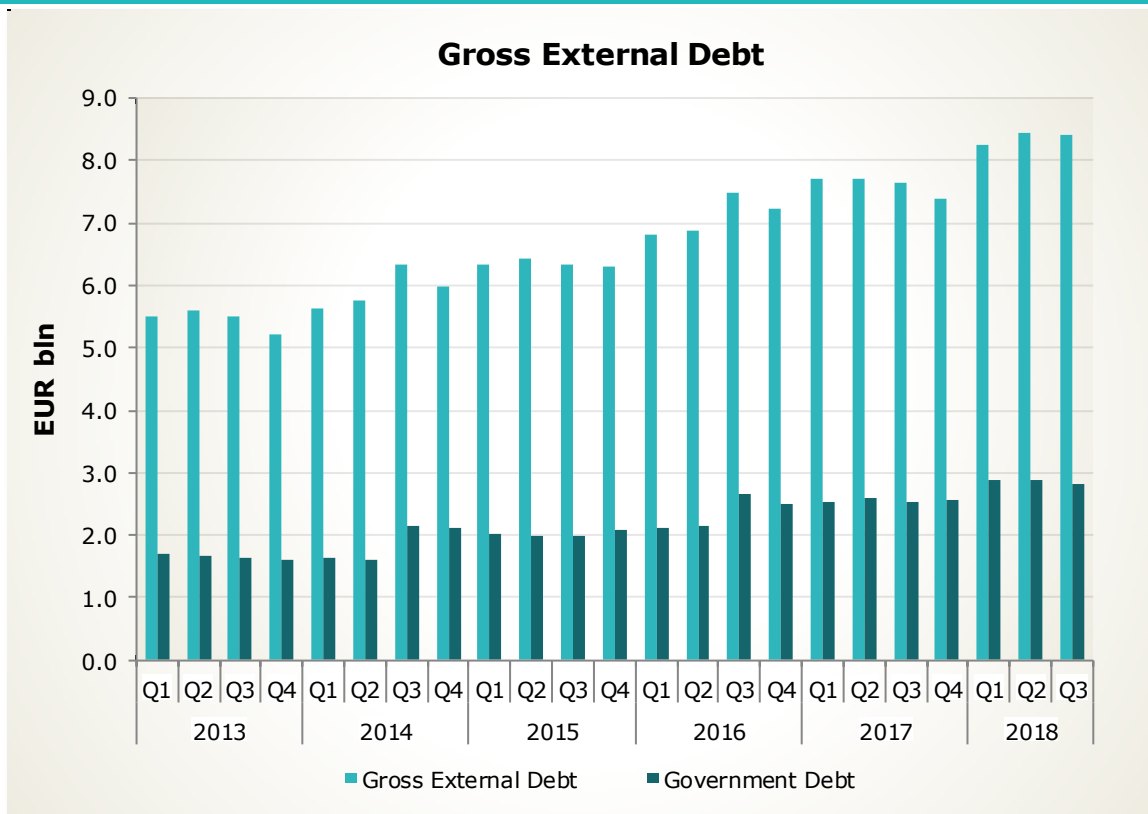
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt went up 10.1% y/y to EUR 8.400 bln in September 2018*

The gross external debt totalled EUR 8.400 bln in September 2018, increasing by 10.1% compared to September 2017. In comparison to June 2018, the gross external debt marked a decrease of EUR 25.9 mln.

As of September 2018, long-term liabilities amounted to EUR 6.071 bln, or 72.3% of the total debt, and short-term liabilities totalled EUR 2.329 bln, equal to 27.7% of the total debt.

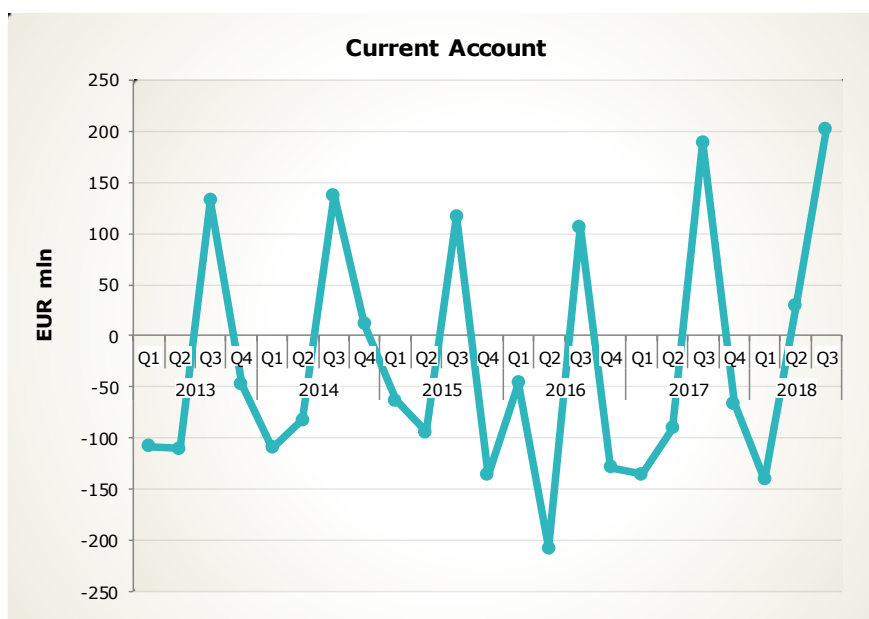


Source: NBRM

## 7.2. BALANCE OF PAYMENTS

### Current account surplus at EUR 202.2 mln in Q3 2018

The current account surplus increased to EUR 202.2 mln in Q3 2018 from EUR 189.4 mln in Q3 2017, according to the central bank statistics data. Secondary income rose by 2.0% y/y to EUR 523.1 mln in Q3 2018.



Source: NBRM



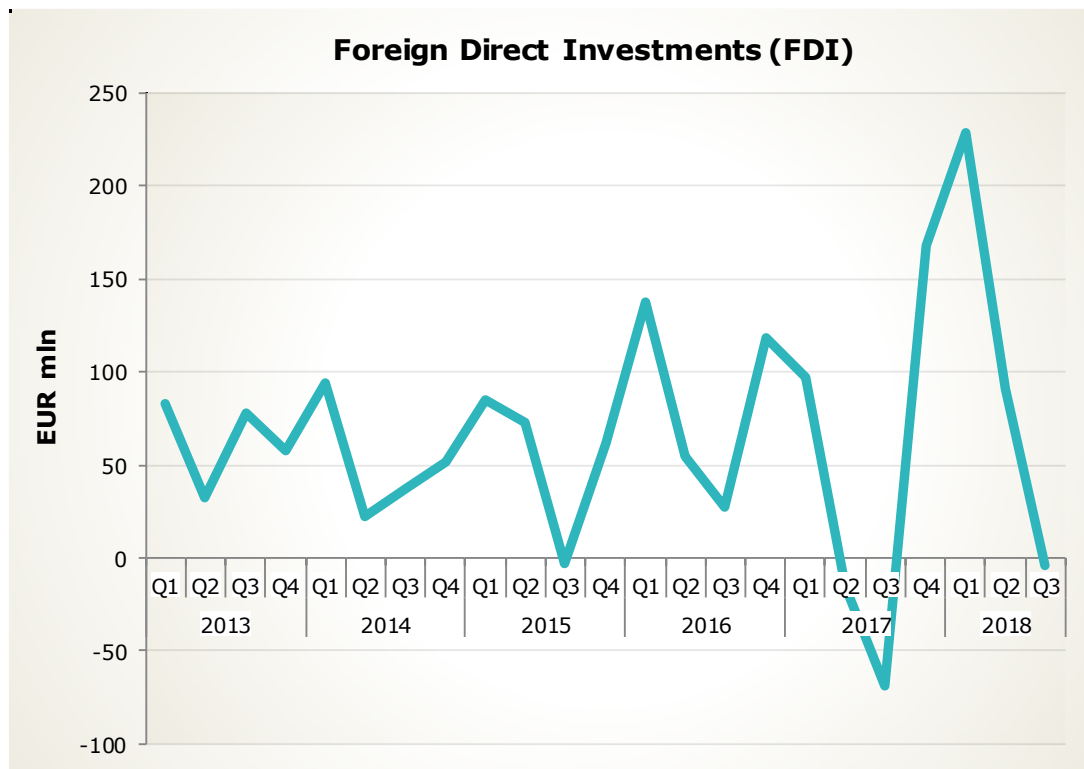
## 7.3. FDI

### Net FDI outflow at EUR 4.02 mln in Q3 2018

The net FDI outflow in Macedonia reached EUR 4.0 mln in the third quarter of 2018 compared to a deficit of EUR 68.4 mln a year earlier, according to NBRM.

For Q3 2018 the leaders in terms of FDI in Macedonia were Turkey, the Netherlands and Italy with investments of EUR 15.2 mln, EUR 5.5 mln and EUR 4.5 mln, respectively.

A breakdown by industries showed that financial intermediation, except insurance and pension funding attracted the largest FDIs, of EUR 11.4 mln in the quarter, followed by manufacturing of machinery and equipment not elsewhere classified with EUR 5.4 mln.

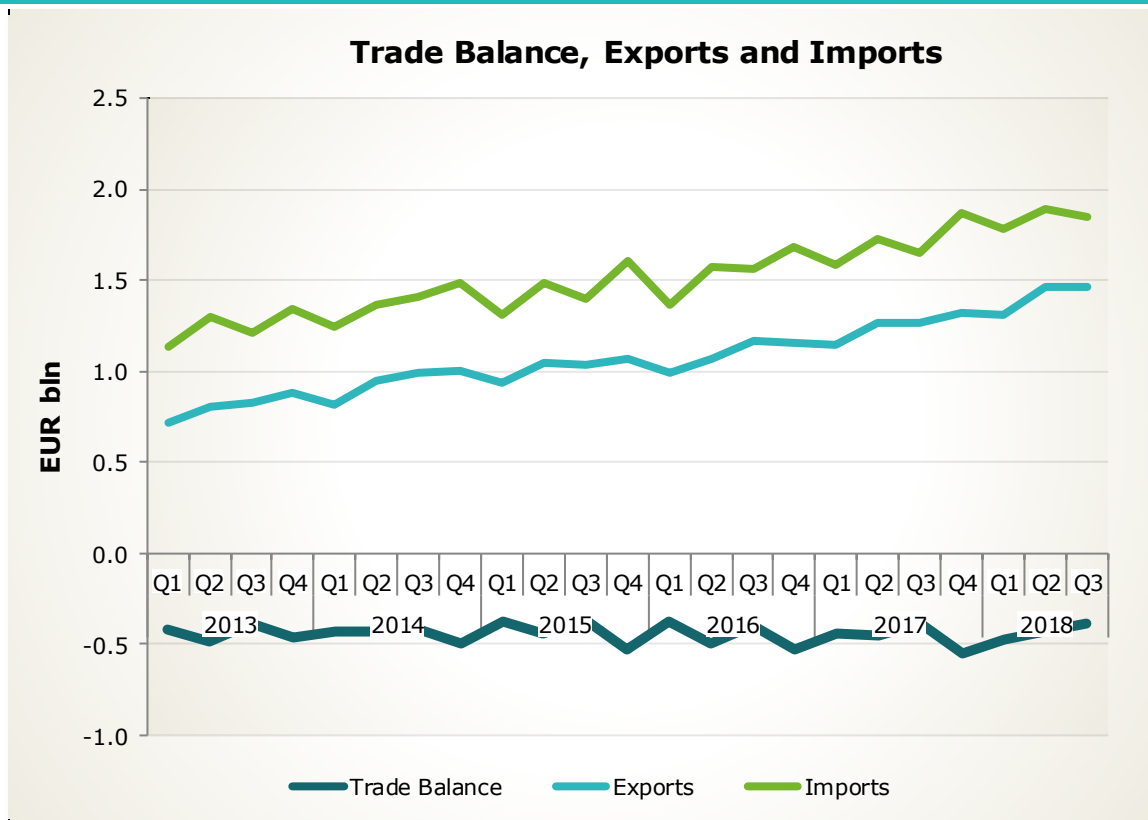


Source: NBRM

## 7.4. FOREIGN TRADE

### Foreign trade deficit down by 1.0% y/y in Q3 2018

The trade deficit stood at EUR 381.9 mln in Q3 2018, compared to EUR 385.9 mln a year earlier, according to NBRM. Exports increased by 15.8% y/y to EUR 1.463 bln, while imports went up by 11.9% y/y to EUR 1.845 bln.



Source: NBRM

## 7.5. TOURISM

### Number of foreign tourist overnights grew by 11.8% y/y in Q3 2018

Tourist overnights of foreigners increased by an annual 11.8% to 640,471 in Q3 2018, according to SSORM. Foreign tourist overnights accounted for 35.0% of the total tourist overnights in the country, down from 36.0% in the year-ago quarter.

The number of foreign citizens who visited the country was also on the rise, by 7.0%, to 275,907.



Source: SSORM

## 8. MAJOR DEVELOPMENTS

### **ODW-Elektrik to invest EUR 4.2 mln to expand operations in Macedonia**

Sept 26, 2018

German cable and wiring systems manufacturer ODW-Elektrik will invest EUR 4.2 mln to expand the capacity of its factory in Macedonia, according to the government in Skopje.

[Read the full story here](#)

### **EBRD is lending EUR 10 mln to Macedonia to improve regional connectivity**

Sept 20, 2018

The European Bank for Reconstruction and Development (EBRD) is providing EUR 10 mln senior loan to finance the construction of a part of European road Corridor VIII crossing Macedonia.

[Read the full story here](#)

### **Motorway to border with Macedonia to be ready by end-2018**

Sept 6, 2018

The construction of the 60-km long motorway linking Pristina to the border with Macedonia is expected to be completed by the end of 2018, according to the Kosovo's prime minister Ramush Haradinaj.

[Read the full story here](#)

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**Macedonia to hold referendum on name deal with Greece on Sept 30**

July 31, 2018

Macedonia's parliament approved a decision to hold a referendum on September 30 on a deal with Greece to change the name of the former Yugoslav republic that is expected to open the way for the country to join NATO and the EU.

[Read the full story here](#)

**EU to help Macedonia protect borders in case of migrant influx**

July 18, 2018

The European Commission initialled a draft status agreement with Macedonia, aiming to assist the Western Balkan country in border management in case of migrant influx.

[Read the full story here](#)

**NATO invites Macedonia to start accession talks**

July 12, 2018

The member countries of the North Atlantic Treaty Organization (NATO) decided to invite Macedonia to start accession talks, according to the secretary general of the Alliance, Jens Stoltenberg.

[Read the full story here](#)

**Macedonia's Automakedonija signs EUR 4.5 mln loan deal**

July 2, 2018

Macedonian car dealer Automakedonija has signed EUR 4.5 mln loan deal with four local banks. The loan will be used by the company to fund new investments and for the needs of working capital.

[Read the full story here](#)

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