

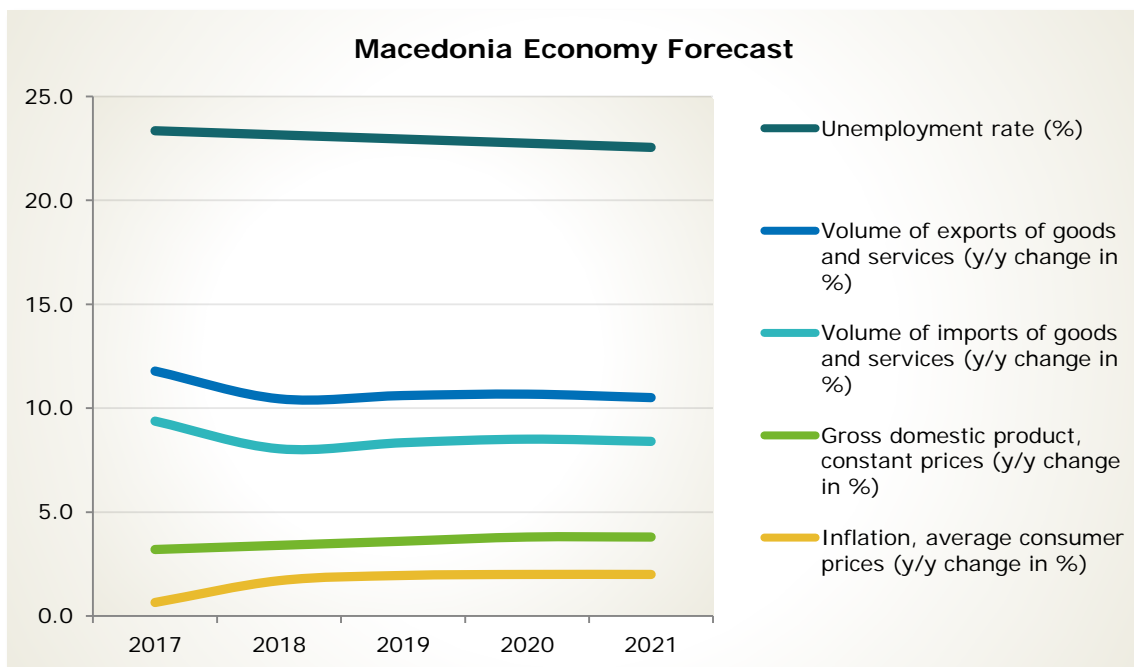
MACEDONIA ECONOMY REPORT 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF 2016	
GDP Growth	2.4% y/y
Industrial output	3.4% y/y
Industrial sales	9.9% y/y
Wholesales	7.4% y/y
Retail sales	6.4% y/y
Average annual deflation	0.3%
Unemployment rate	23.7%
Number of building permits	7.1% y/y
Money supply growth	6.1% y/y
Household loans	6.7% y/y
MBI10 blue-chip index	8.6% y/y
Gross external debt	EUR 7.253 bln
Current account deficit	EUR 303.3 mln
Net FDI inflow	EUR 358.5 mln
Foreign trade deficit	EUR 511.0 bln
Number of foreign tourist overnights	6.1% y/y



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

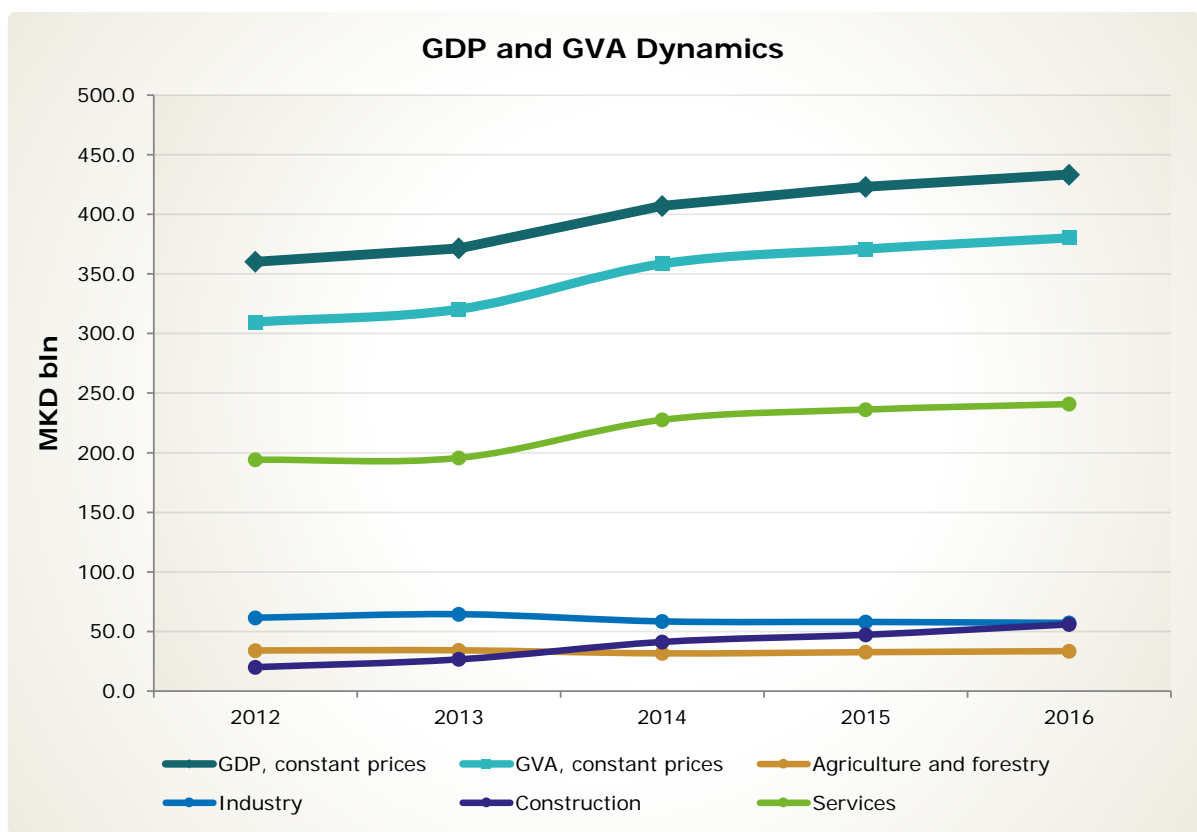
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 2.4% y/y in 2016, compared to a 3.8% y/y growth in 2015

The country's GDP increased by a real 2.4% y/y and totalled MKD 433.4 bln in 2016, according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM).

Final consumption, which contributed 87.1% to the GDP, increased in value terms by 3.7% y/y to MKD 377.4 bln in 2016. Gross capital formation went down by 4.3% to MKD 127.3 bln, contributing 29.4% to the GDP. Both exports and imports grew - by 11.5% and 7.6%, respectively.



Source: SSORM

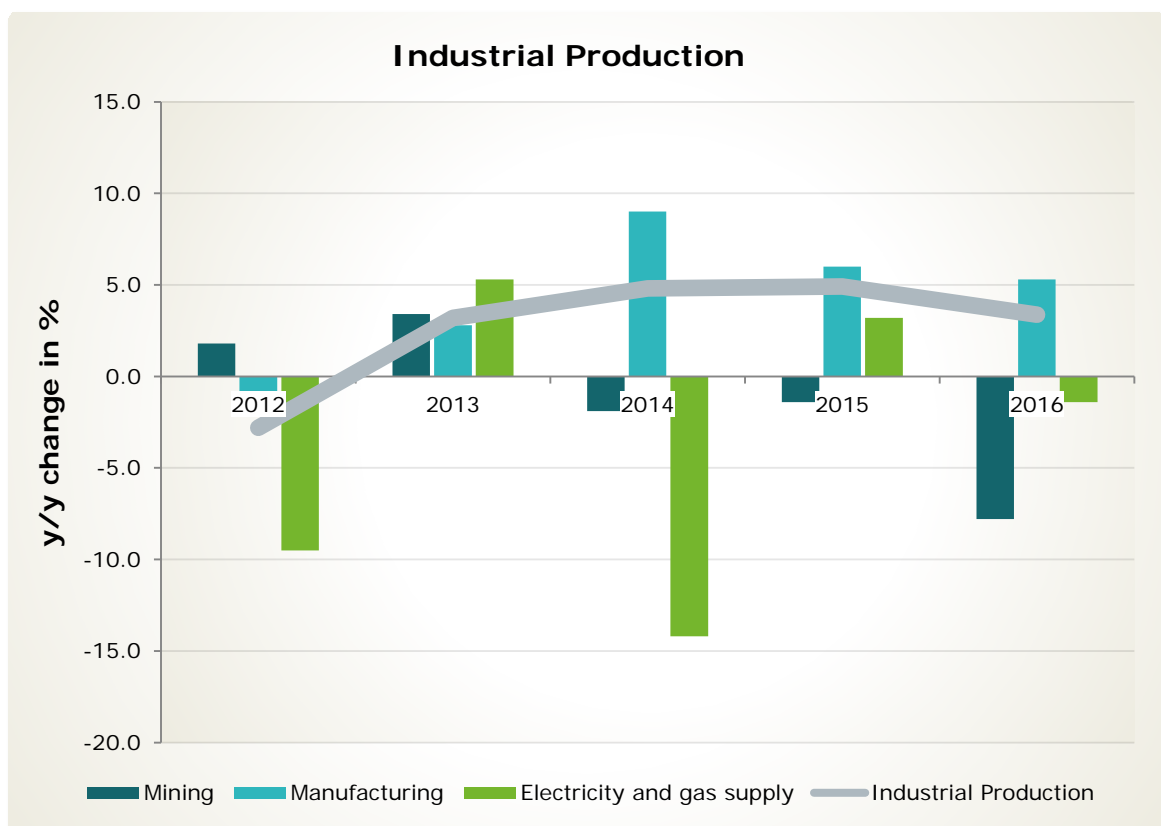
The gross value added (GVA) generated by the national economy increased in value by 2.5% y/y in 2016 and totalled MKD 380.3 bln. The agricultural sector registered an increase of 2.8% and its share in the GVA stood at 8.8%. The industrial sector decreased by 1.3%, and its share in the GVA structure fell to 15.0%. The construction industry jumped by 18.5%, thus slicing a 14.7% share, an increase in comparison to the 12.7% share in 2015. The services sector recorded a 2.0% increase, slicing a 63.3% share in the GVA, down from 63.7%.

2.2. INDUSTRIAL OUTPUT

Industrial output increased by 3.4% y/y in 2016

Industrial output went up by 3.4% on the year in 2016, according to SSORM. The output of the manufacturing sector rose by 5.3%. The production in the mining sector and in the electricity and gas supply sector fell by 7.8% and 1.4%, respectively.

Manufacture of motor vehicles, trailers and semi-trailers was the segment to report the highest annual production growth, of 52.2%, while manufacturing of chemicals and chemical products dropped the most, by 27.8%.

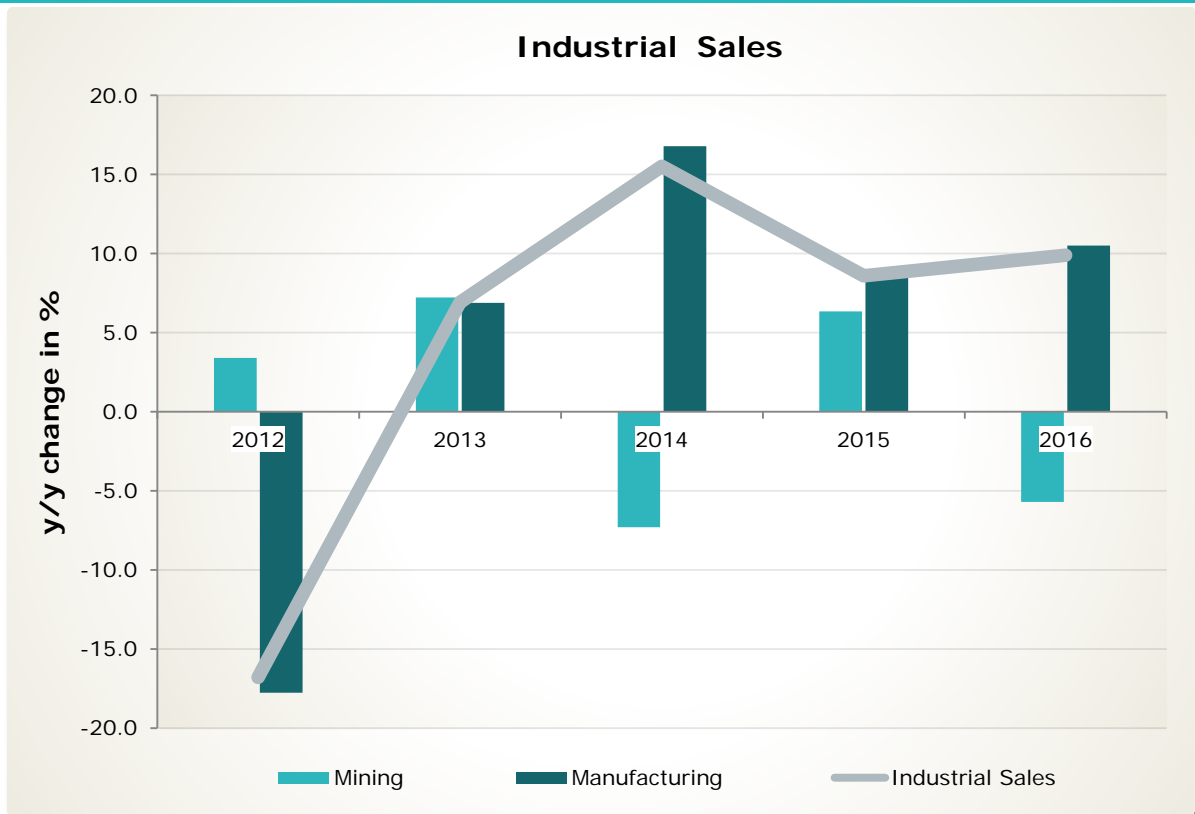


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 9.9% y/y in 2016

Industrial sales rose by 9.9% y/y in 2016, according to SSORM data. Sales in the manufacturing sector grew by 10.5%, while sales in the mining sector went down by 5.7%.



Source: SSORM

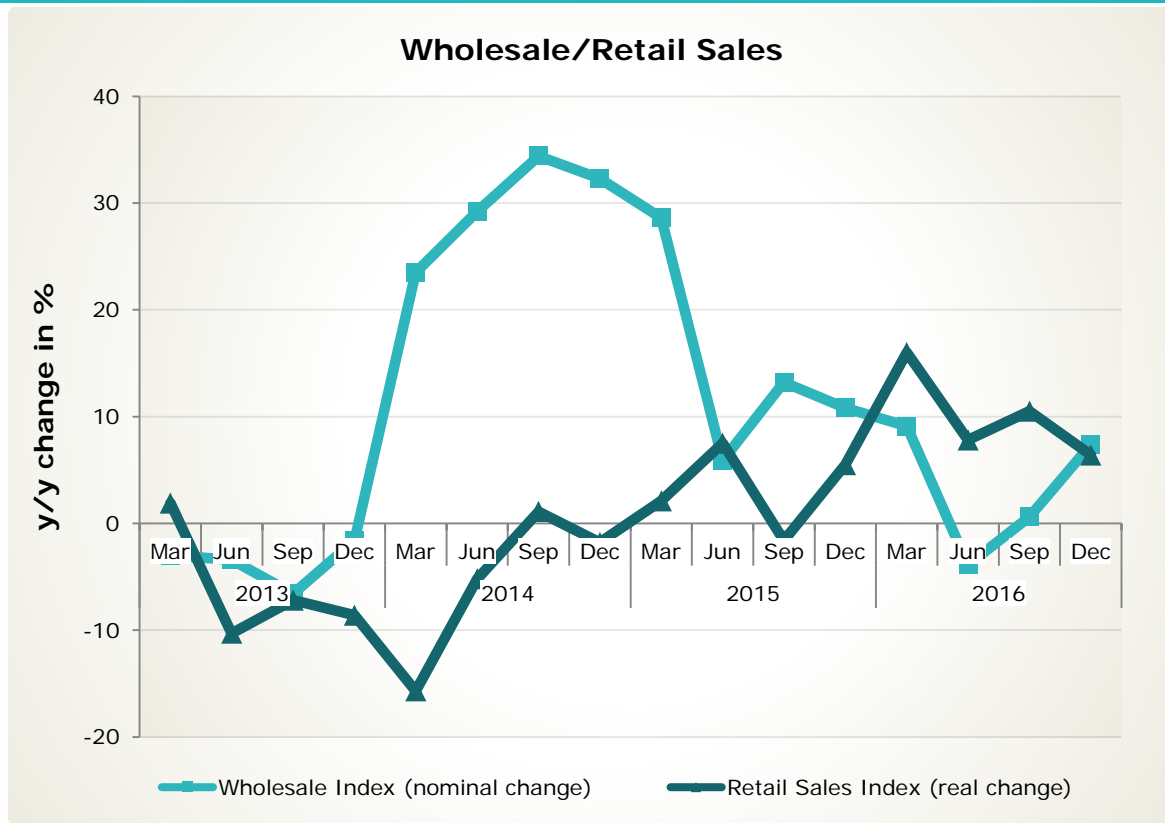
2.4. WHOLESALE/RETAIL

Wholesale and retail grew y/y in December 2016

Retail trade, except motor vehicles and motorcycles, increased by real 6.4% y/y in December 2016, according to SSORM. In October and November retail sales went up by 5.6% and 10.3%, respectively.

Retail sales of non-food products (except fuel) and retail sale of food, beverages and tobacco marked the highest growth, of 10.5% y/y, in December 2016, while retail trade of automotive fuel went down by 7.8%.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by nominal 7.4% y/y in December 2016. In November the sector increased by annual 3.8%, while in October it fell by 3.2%.



Source: SSORM

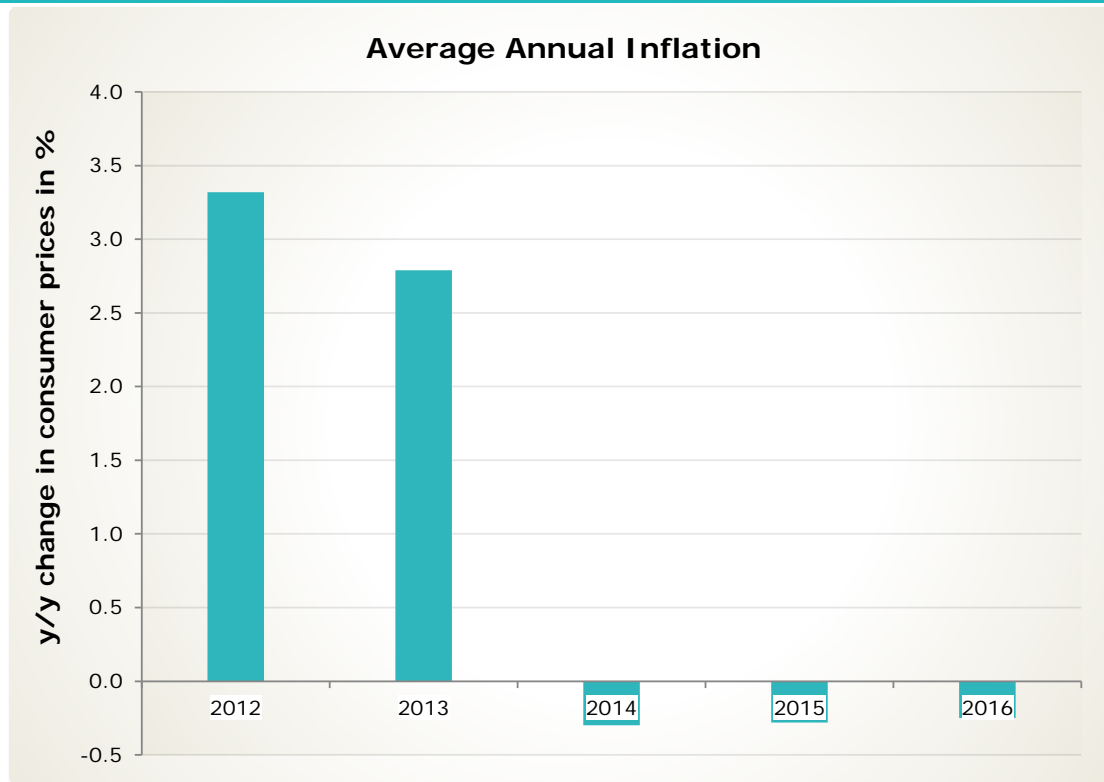
2.5. INFLATION

Annual average deflation of 0.3% in 2016

Macedonia registered average annual deflation of 0.25% in 2016, compared to a 0.28% average annual deflation a year ago, according to SSORM.

The highest annual average decrease in prices was registered in heat energy – 15.5%, followed by liquid fuels with 14.6% and fuels and lubricants for personal transport equipment with 7.7%.

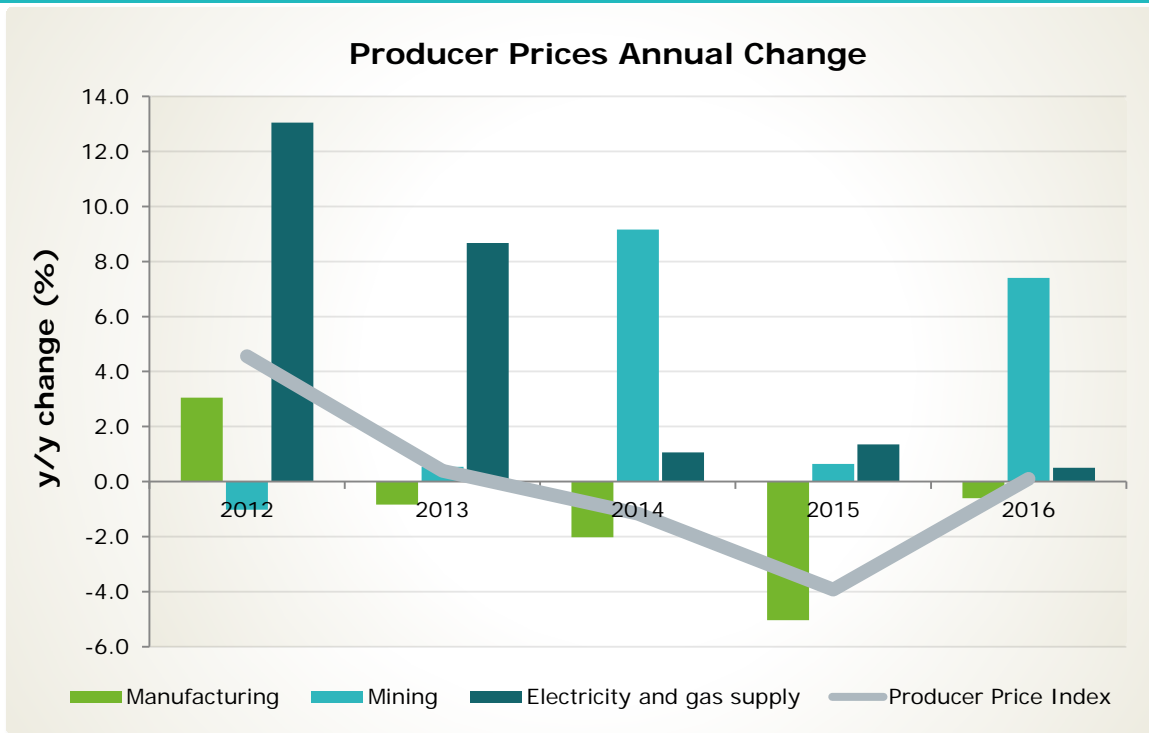
The consumer groups that recorded the highest inflation were carpets and other floor coverings, hospital services, and information processing equipment – 18.0%, 11.5% and 8.5%, respectively.



Source: SSORM

Producer prices increased by 0.1% in 2016 with most of the industries registering a growth – prices of the mining, and electricity and gas supply industries went up by 7.4%, and 0.5%, respectively, while prices in the manufacturing industry fell by 0.6%.

Segment wise, producer prices grew the most, by 16.8%, in the other manufacturing sector, while the sharpest drop, of 5.4%, was in the manufacture of other non-metallic mineral products.



Source: SSORM

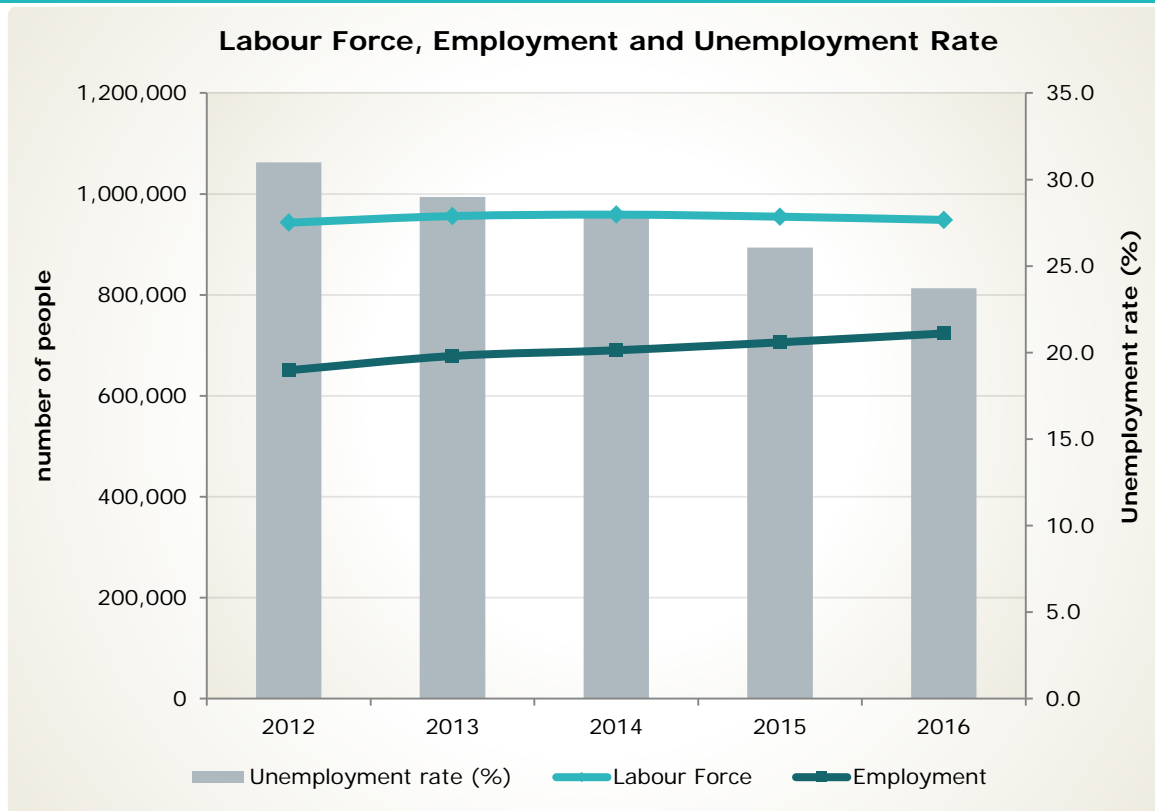
3. LABOUR MARKET

Unemployment rate at 23.7%, wages grew 2.0% y/y in 2016

Unemployment in Macedonia narrowed to 23.7% of the total labour force in 2016 from 26.1% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 723,550 in 2016, up by 2.5% y/y.

Youth (population aged 15-24) unemployment rate went up to 48.2%, compared to 47.3% in 2015.



Source: State Statistical Office

According to data of SSORM, the average monthly salary in 2016 went up by 2.0% in annual terms to MKD 22,342. Employees in air transport and computer programming, consultancy and related activities earned the highest salaries, of MKD 49,984 and MKD 49,505, respectively. Sports activities and amusement and recreation activities came third with MKD 44,103. The lowest wages were registered in manufacture of leather and related products - MKD 11,625, fishing and aquaculture - MKD 11,657, and manufacture of wearing apparel - MKD 12,641.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits rose by 7.1% in 2016

The number of building permits issued in Macedonia in 2016 increased by 7.1% and totalled 2,076, according to SSORM. The buildings construction works value amounted to MKD 36.482 bln, up from MKD 29.786 bln a year earlier.

The number of planned dwellings grew on the year to 7,837. The total built-up area of the housing units, covered by the permits, also increased y/y to 641,765 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 61.5949 in 2016 from MKD 61.6098 in 2015 and MKD 61.6228 in 2014, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate				
Foreign Currency	2016	2015	2014	2013
EUR	61.5950	61.6098	61.6228	61.5834
USD	55.6860	55.4968	46.4431	46.3970
GBP	75.4811	84.8680	76.4506	72.5624
CHF	56.5116	57.7286	50.7375	50.0426

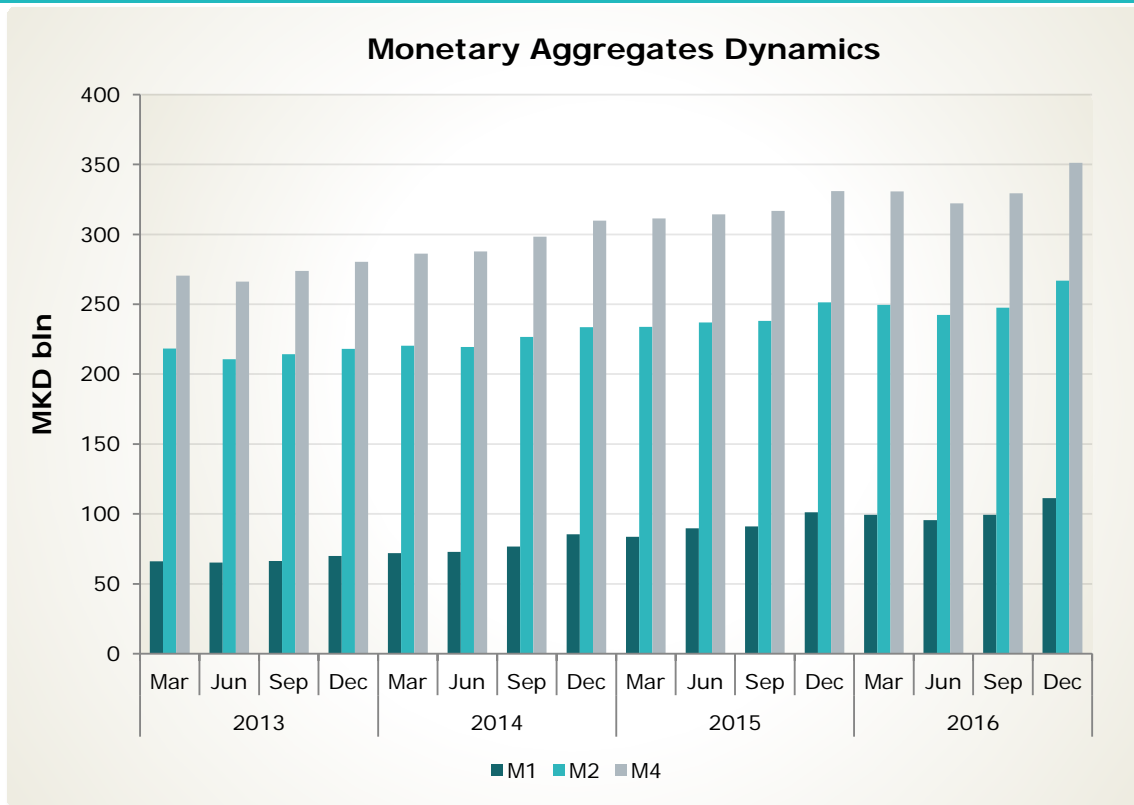
5.2. MONETARY AGGREGATES

Money supply growth was 6.1% y/y at end-December 2016

Broad money (monetary aggregate M4) increased by 6.1% y/y and reached MKD 351.2 bln at the end of December 2016, according to data provided by NBRM.

The M2 money supply also grew, by 6.1% y/y, to MKD 266.8 bln.

Money aggregate M1, or narrow money, went up by 9.9% to MKD 111.3 bln.

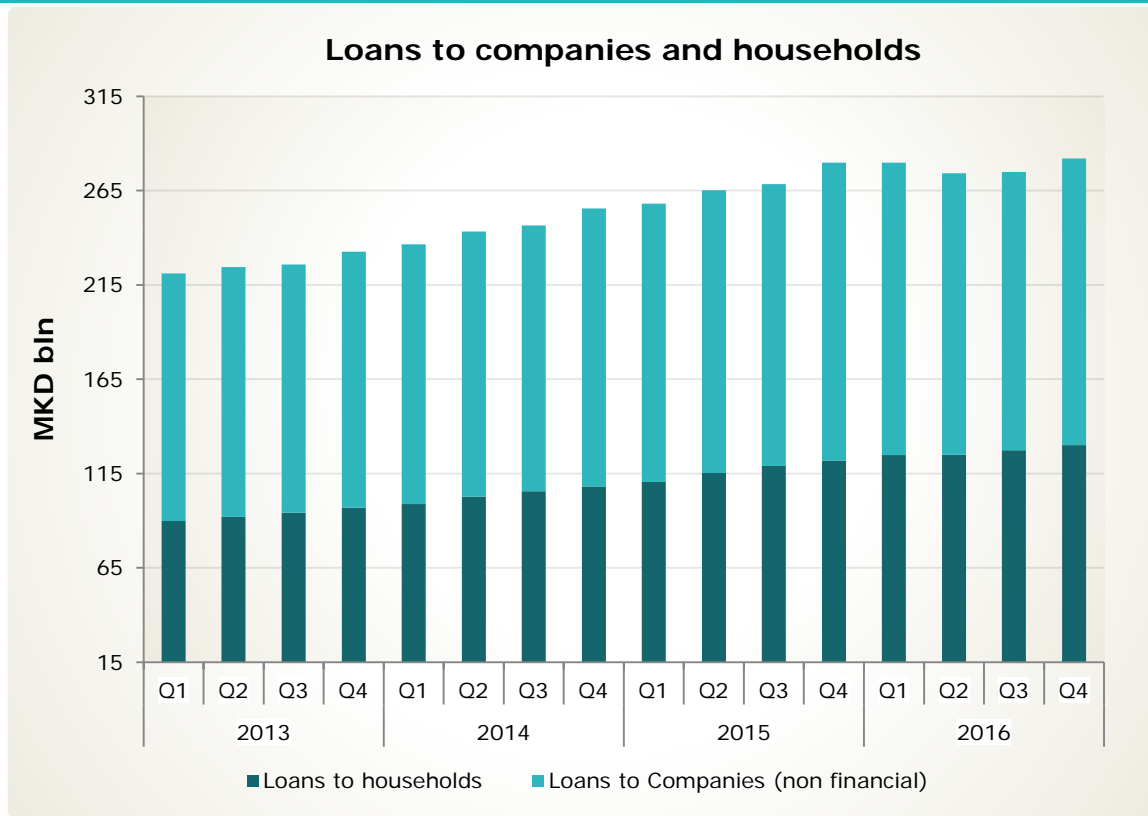


Source: NBRM

5.3. BANKING AND INSURANCE

Household loans increased by 0.8% y/y in Q4 2016

Loans to the non-government sector totalled MKD 282.0 bln in Q4 2016, up by 0.8% y/y, according to NBRM. Household loans jumped by 6.7% to MKD 130.1 bln. Loans to non-financial corporations went down by 3.8% to MKD 151.9 bln.



Source: NBRM

As of end-September 2016¹, 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.

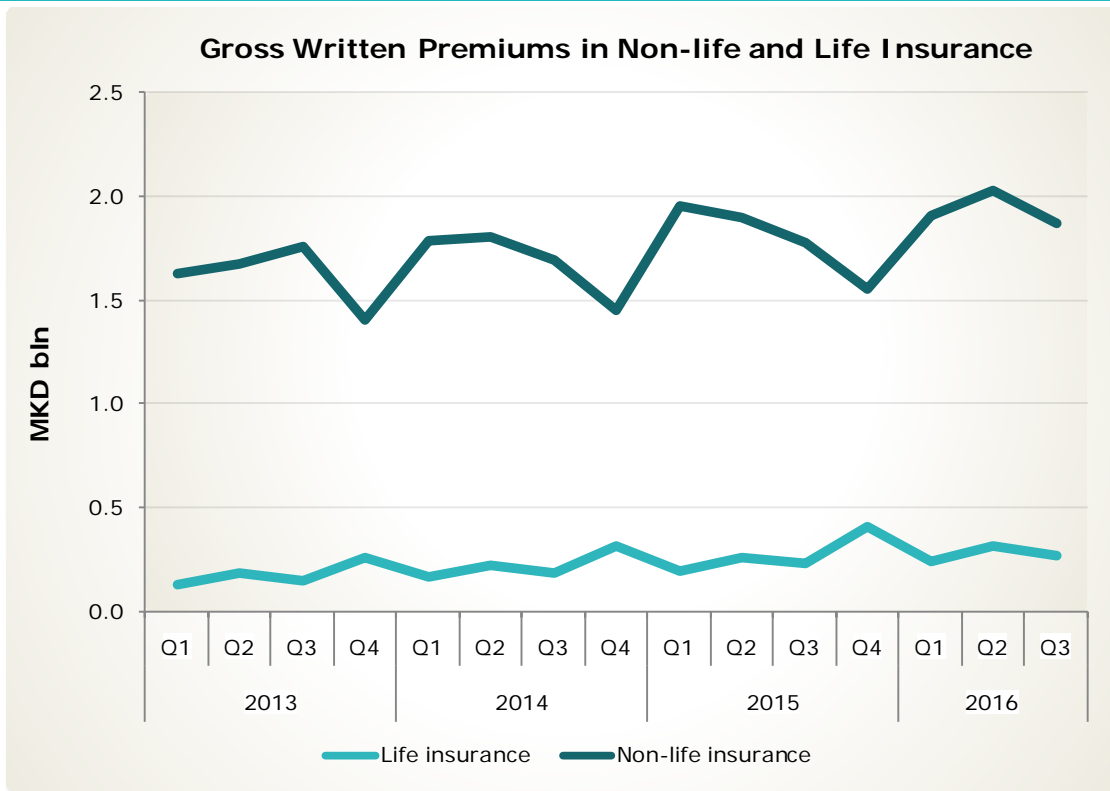
Insurance premium income went up by 6.6% y/y in Q3 2016²

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.

¹ Annual data for the assets of the banking system was not available at the time of preparation of this report.

² Annual data for the insurance market was not available at the time of preparation of this report.



Source: ASO

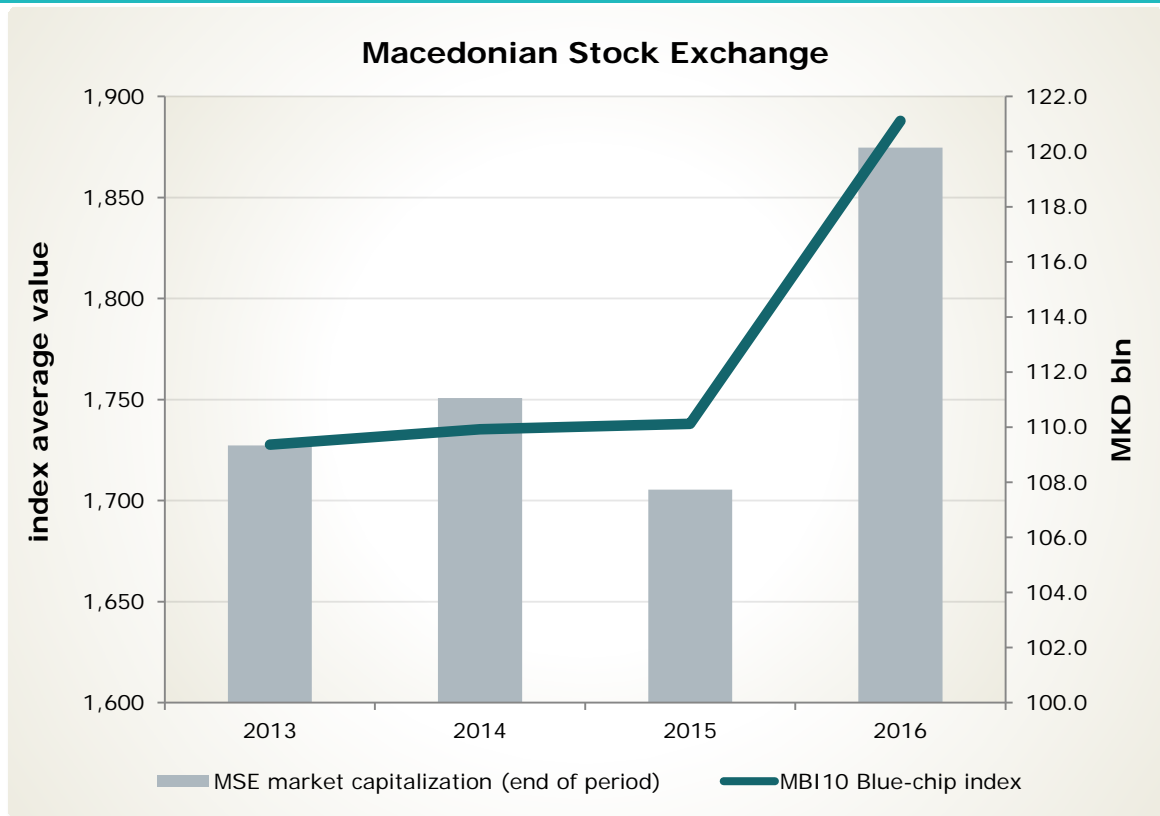
6. CAPITAL MARKETS

Blue-chip MBI10 increased by 8.6% y/y in 2016

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 8.6% y/y to 1,888 points in 2016.

The total turnover on the MSE reached MKD 3.023 bln in 2016 versus MKD 2.660 bln a year earlier.

The market capitalisation of MSE grew to MKD 120.1 bln from MKD 107.7 bln.



Source: MSE

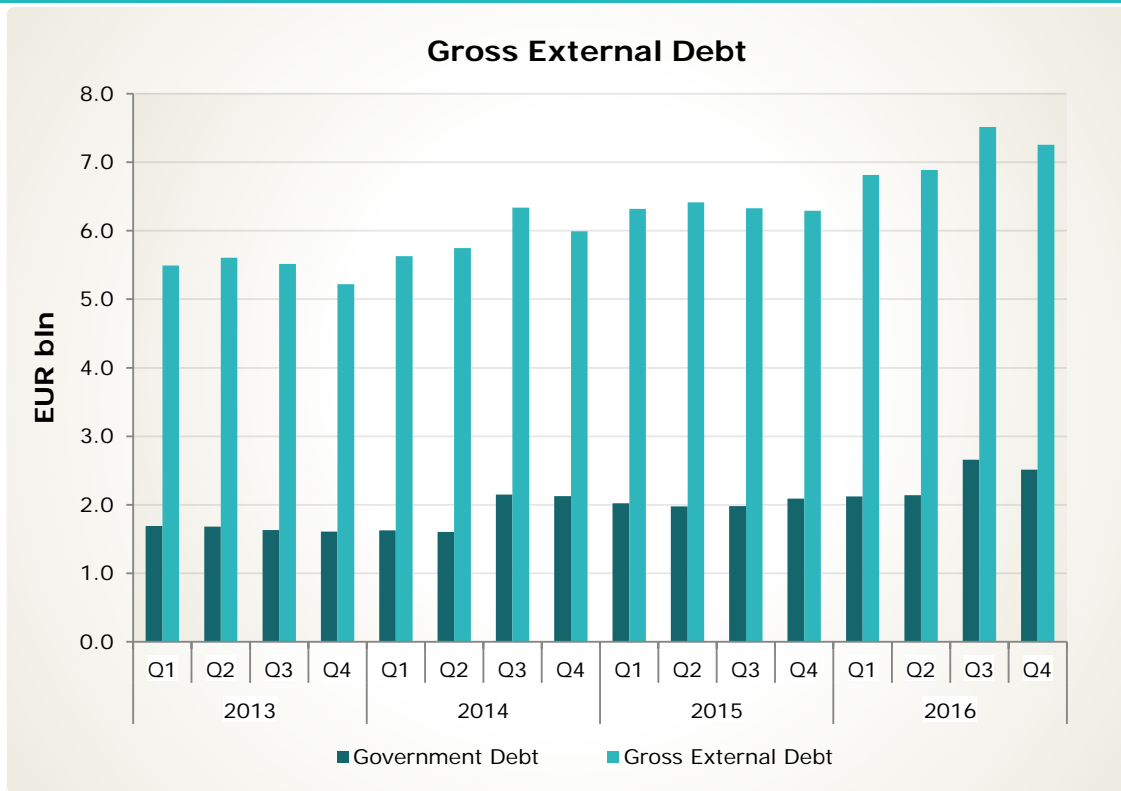
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up to EUR 7.253bln in Q4 2016

The gross external debt totalled EUR 7.253 bln in Q4 2016, which was 73.6% of the projected full-year GDP. The debt increased by 15.3% or EUR 962.6 mln, compared to Q4 2015. In comparison to Q3 2016 the gross external debt fell by EUR 260.7 mln.

As of Q4 2016, long-term liabilities amounted to EUR 5.658 bln, or 78.0% of the total debt, and short-term liabilities totalled EUR 1.596 bln, equal to 22.0% of the total debt.



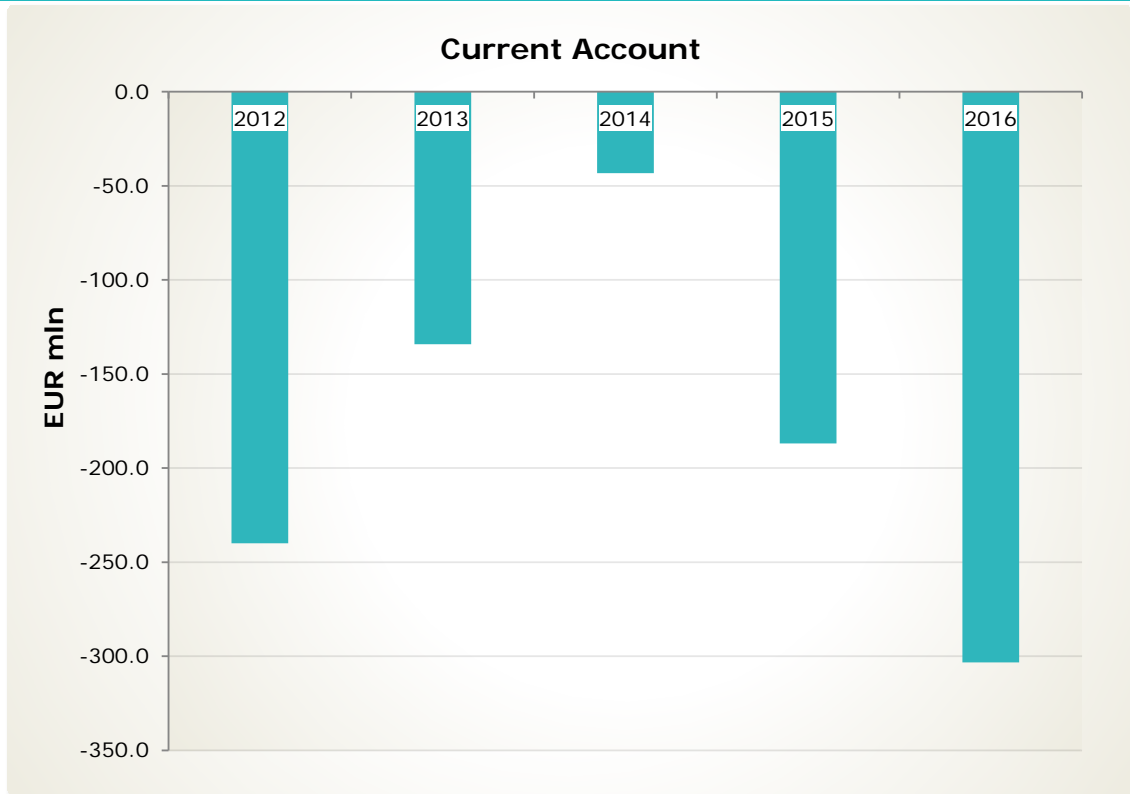
Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account deficit at EUR 303.3 mln in 2016

The current account deficit increased to EUR 303.3 mln in 2016 from EUR 187.0 mln in 2015, according to central bank statistics data.

Secondary income fell by 0.8% y/y to EUR 1.571 bln in 2016.



Source: NBRM

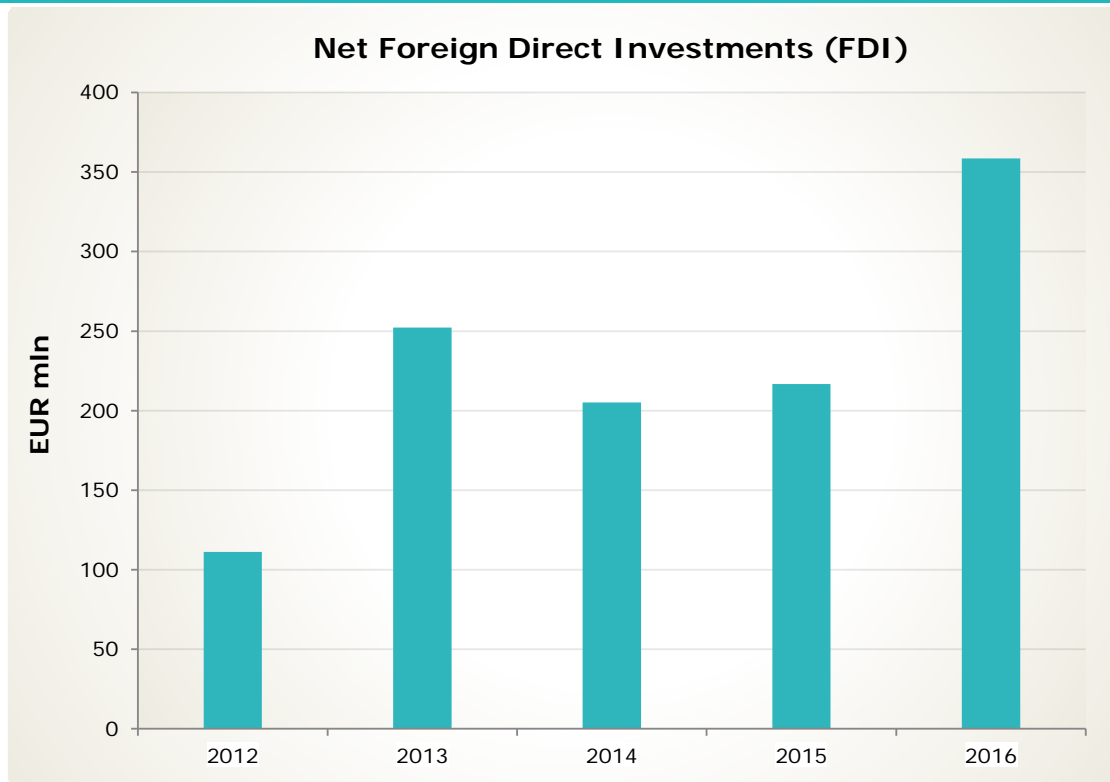
7.3. FDI

Net FDI inflow at EUR 358.5 mln in 2016

The net FDI inflow in Macedonia reached EUR 358.5 mln in 2016 from EUR 216.7 mln a year earlier, according to NBRM.

For 2016 the leaders in terms of FDI in Macedonia were Germany, the Netherlands and Turkey with investments of EUR 39.859 mln, EUR 27.959 mln and EUR 24.610 mln, respectively.

A breakdown by industries showed that the textiles and wearing apparel segment was the leader in terms of attracted FDI with EUR 52.153 mln, motor vehicles, trailers and semi-trailers followed with EUR 35.488 mln, and mining and quarrying was third with EUR 20.916 mln.



Source: NBRM

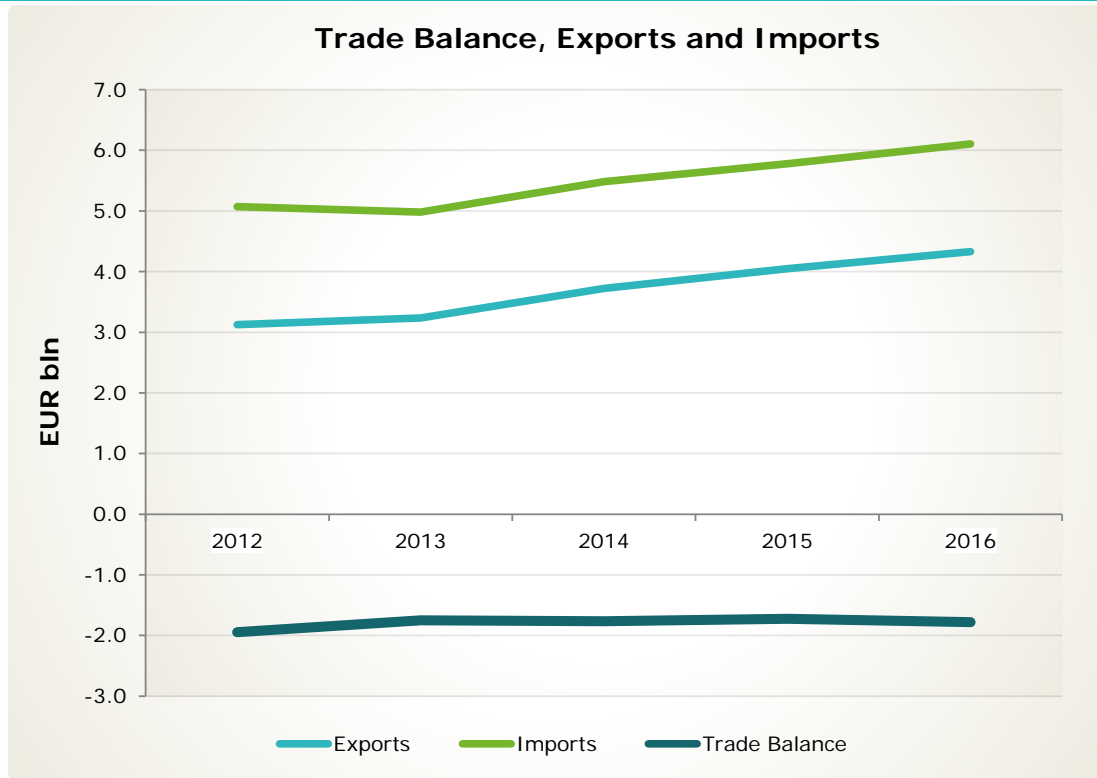
7.4. FOREIGN TRADE

Foreign trade deficit grew by 3.0% y/y in 2016

The trade deficit stood at EUR 1.777 mln in 2016, compared to EUR 1.726 mln a year earlier, according to NBRM.

Macedonia's most exported goods in 2016 were chemical products, which accounted for 20.4% of the total, followed by general industrial machinery with a 12.0% share and electrical machinery with a 11.0% share.

In terms of imports, non-ferrous metals had the largest share, of 13.6%, followed by textile yarn, fabrics, made-up articles and related products and electrical machinery, apparatus and appliances, with a 6.7% share each.



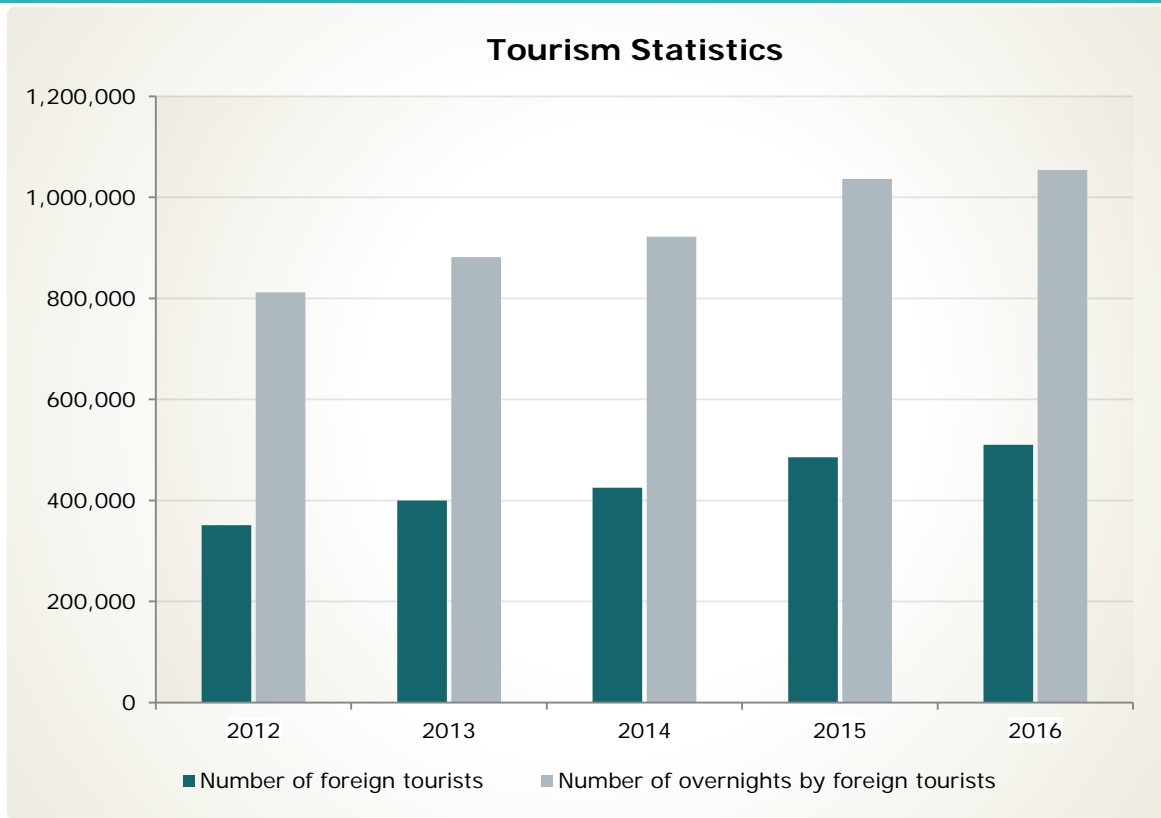
Source: NBRM

7.5. TOURSIM

Number of foreign tourist overnights grew by 1.7% y/y in 2016

Tourist overnights of foreigners increased by an annual 1.7% to 1,054,017 in 2016, according to SSORM. Foreign tourist overnights accounted for 42.8% of the total tourist overnights in the country, down from 43.3% in the year-ago quarter.

The number of foreign citizens who visited the country went up, by 5.1%, to 510,484. Most of the foreign tourists came from Turkey, 37.7% of the total, followed by Serbia, with 17.9%, and Greece with 14.4%.



Source: SSORM

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