

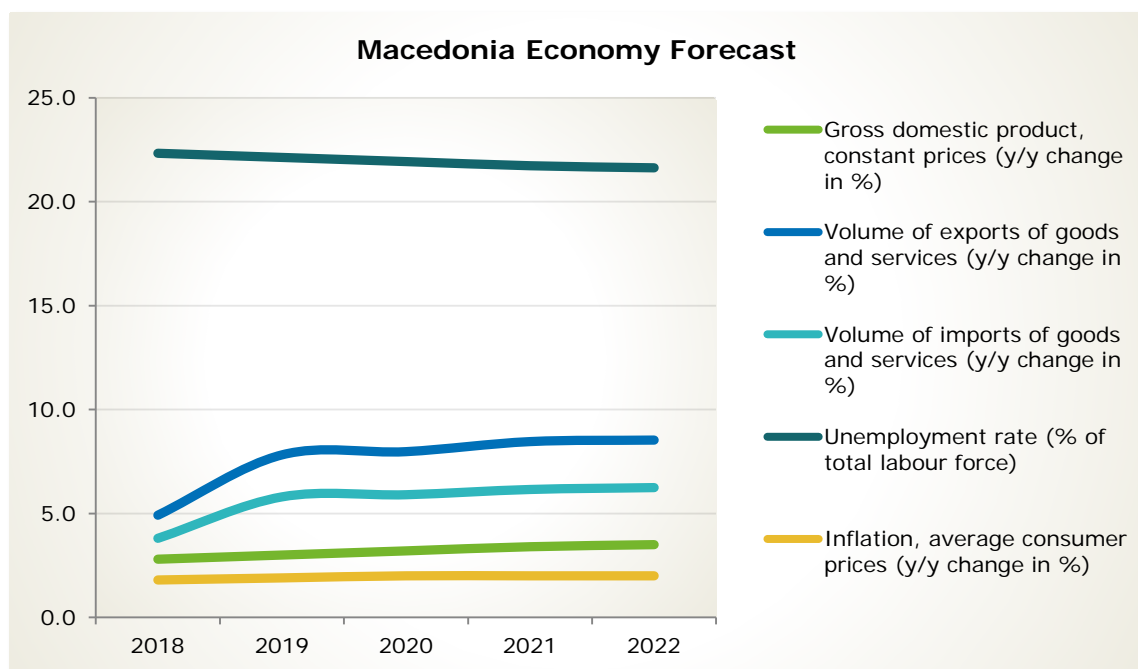
MACEDONIA ECONOMY REPORT 2017

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	5
2.1. GROSS DOMESTIC PRODUCT (GDP)	5
2.2. INDUSTRIAL OUTPUT	7
2.3. INDUSTRIAL SALES.....	8
2.4. WHOLESALE/RETAIL	9
2.5. INFLATION.....	10
3. LABOUR MARKET.....	12
4. CONSTRUCTION AND REAL ESTATE	13
5. MONEY SUPPLY AND BANKING SYSTEM.....	13
5.1. MKD EXCHANGE RATE.....	13
5.2. MONETARY AGGREGATES	13
5.3. BANKING AND INSURANCE.....	14
6. CAPITAL MARKETS	15
7. EXTERNAL SECTOR.....	16
7.1. FOREIGN DEBT	16
7.2. BALANCE OF PAYMENTS	17
7.3. FDI.....	18
7.4. FOREIGN TRADE	18
7.5. TOURSIM	19
8. MAJOR DEVELOPMENTS.....	20

1. MACROECONOMIC SNAPSHOT AND FORECAST

MACEDONIA – MACROECONOMIC SNAPSHOT AS OF 2017	
GDP Growth	0.02% y/y
Industrial output	0.2% y/y
Industrial sales	6.4% y/y
Wholesale	8.0% y/y
Retail sales	-1.6% y/y
Average annual inflation	1.4%
Unemployment rate	22.4%
Number of building permits	2.7% y/y
Money supply growth	4.1% y/y
Household loans	9.7% y/y
MBI10 blue-chip index	27.4% y/y
Gross external debt	EUR 7.403 bln
Current account deficit	EUR 133.7 mln
Net FDI inflow	EUR 227.5 mln
Foreign trade deficit	EUR 1.818 bln
Number of foreign tourist overnights	22.8% y/y

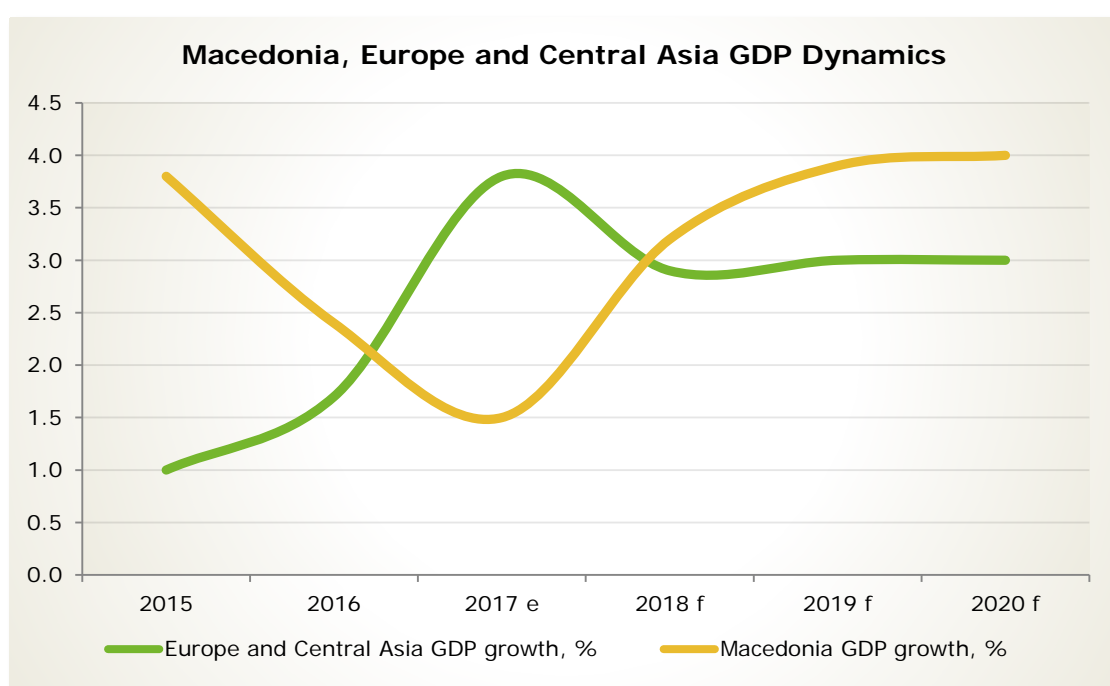


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

After experiencing a number of shocks in connection to the political crisis in the last two years, the economy of Macedonia has been on a standstill in 2017. However, country's GDP is expected to accelerate its pace of growth in 2018 to 2.8%, according to the IMF forecast. GDP growth is expected to further accelerate to 3.0% in 2019 and 3.2% in 2020, supported by

stronger investment and credit growth, expansion of export capacity, and continued improvement in labor markets. Headline inflation is projected to gradually reach 2.0% by end-2020. Despite narrowing trade deficits, the current account deficit is projected to widen in the medium term reflecting weaker remittances receipts. External debt would remain around 70% of GDP, due to both public and private sector borrowing.

Risks to the outlook include political uncertainties which could undermine the fragile confidence and investment, and slow down growth. There are also external downside risks from weaker growth in partner countries, and global policy uncertainty which could reduce exports and FDI directly or through the global supply chains. In addition, banking sector links expose Macedonia to a possible return of financial volatility in Greece.



Source: World Bank, Europe and Central Asia Economic Update, January 2018

The World Bank expects the country's GDP growth to accelerate to 3.2% in 2018 and to 3.9% in 2019, 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 2018-2019, 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.

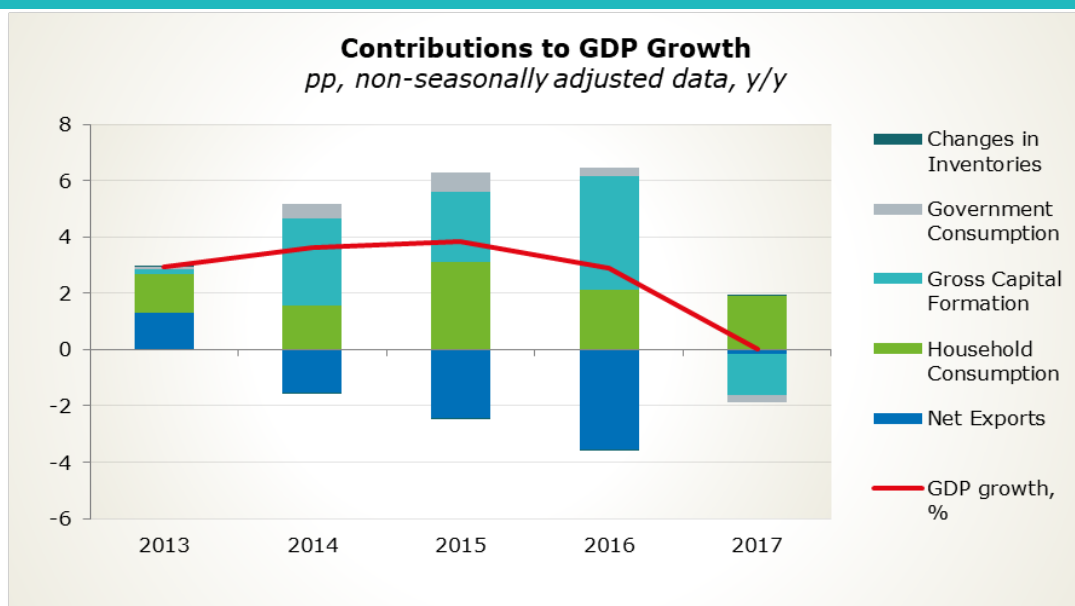
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP unchanged in 2017

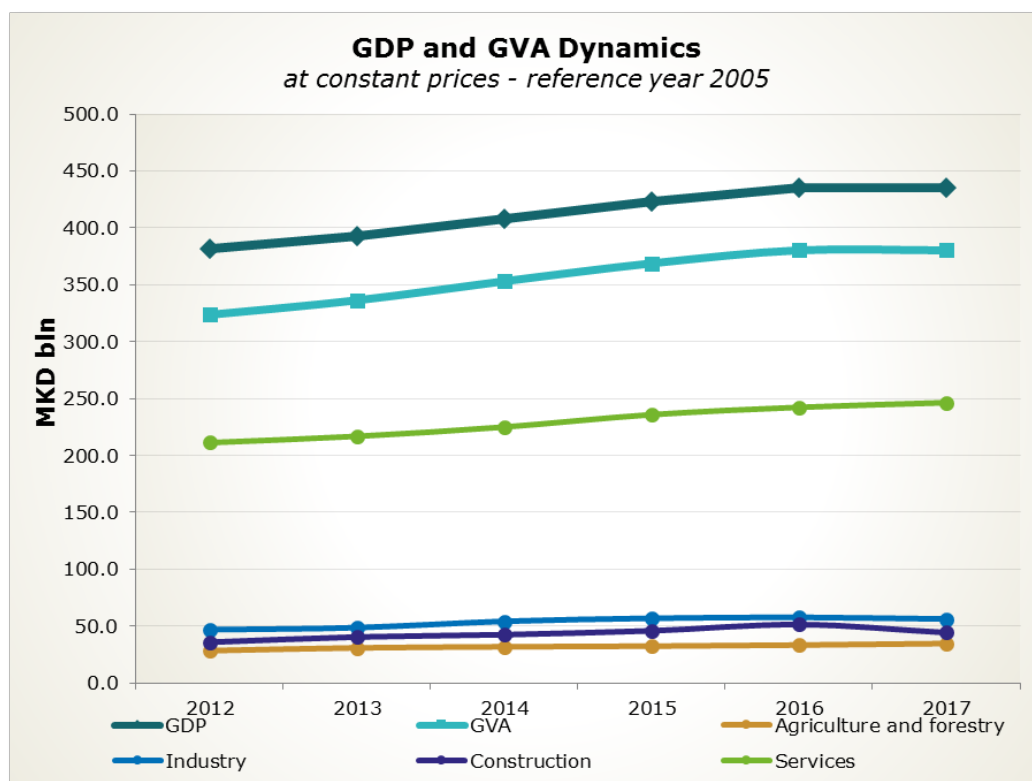
In 2017, the Macedonian economy stayed at the levels of 2016, according to preliminary data of the State Statistical Office of the Republic of Macedonia (SSORM). The stagnation was mainly due to the political uncertainties in the country which worsened the investment climate. As a result, the overall gross capital investments declined by 4.5% y/y in real terms and slashed 1.5 pp from the GDP growth during the year. In contrast, in 2016, gross capital formation added 4 pp to the GDP expansion.

In 2017, the overall final consumption increased by 2% y/y in real terms and household consumption contributed with 1.9 pp to the GDP growth. Net exports slashed 0.2 pp from the growth after the negative balance on the foreign trade account increased by 10% y/y.



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.

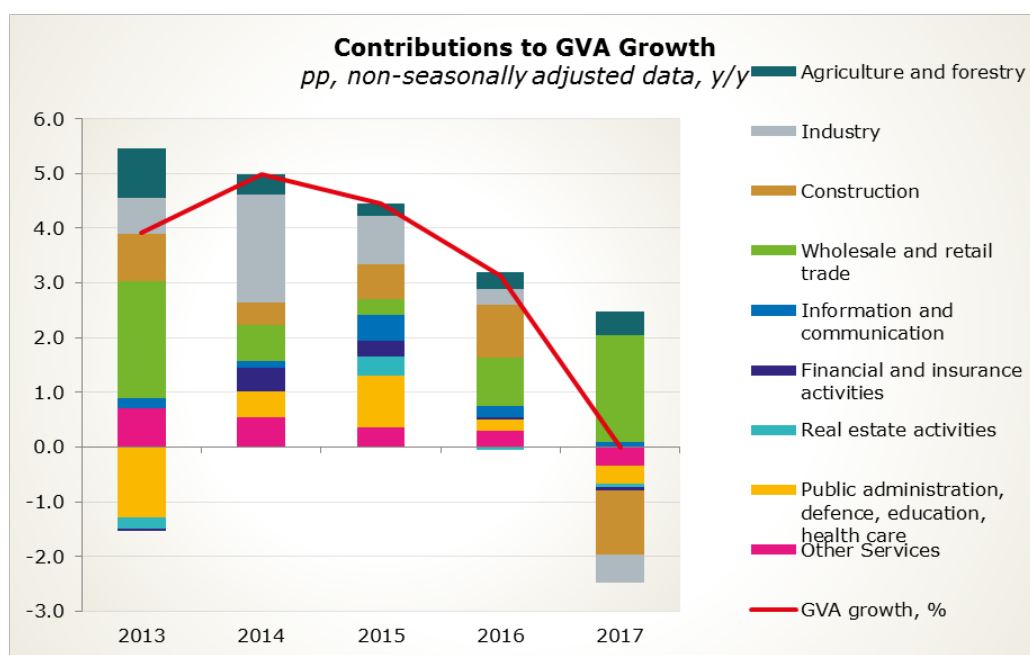


Source: SSORM

The gross value added (GVA) generated by the national economy stayed unchanged in 2017 and totalled MKD 380.3 bln. The agricultural sector registered an increase of 4.1% and its share in the GVA came in at 9.1%. The industrial sector decreased by 2.5%, and its share in the

GVA was 14.8%. The construction industry plunged by 13.7% y/y, thus slicing an 11.7% share. The services sector recorded a 1.7% increase, slicing a 65% share in the GVA.

In terms of sectors, the construction and industry took away 1.2 pp and 0.5 pp, respectively, from the GVA growth in 2017. Wholesale and retail trade contributed with 1.9 pp to the overall GVA growth, while the services sector as a whole added 1.0 pp to the yearly expansion.



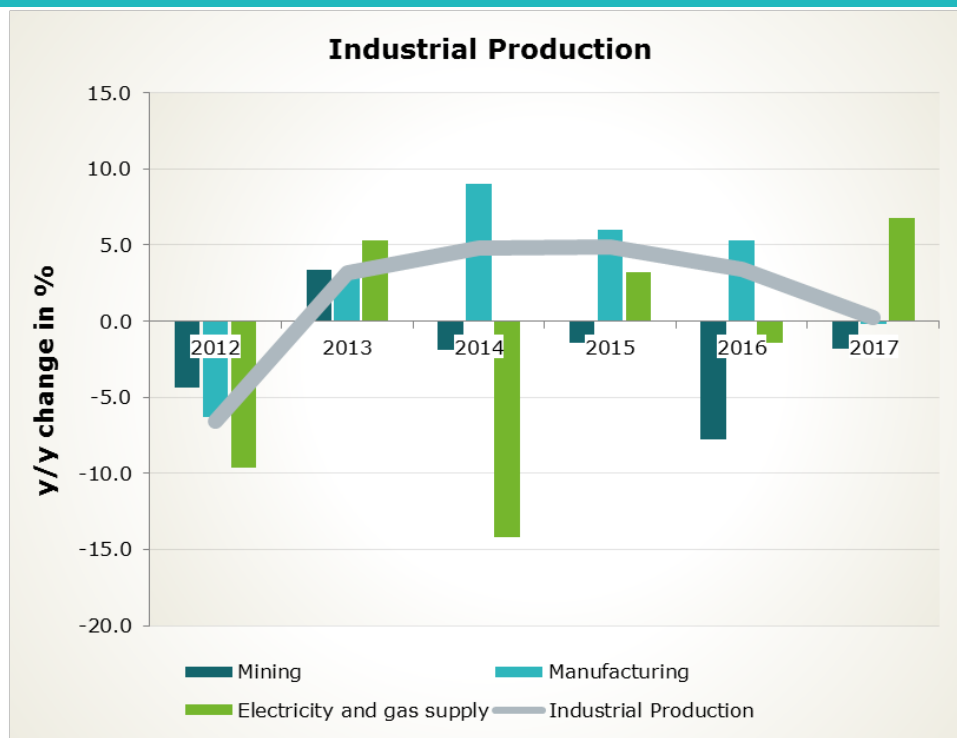
Source: SeeNews Calculations; SSORM

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

2.2. INDUSTRIAL OUTPUT

Industrial output increased by 0.2% y/y in 2017

Industrial output went up by 0.2% on the year in 2017, according to SSORM. The output of the manufacturing sector inched down by 0.2% y/y. The production in the mining sector also decreased, by 1.8%, while the output of electricity and gas supply expanded by 6.8% y/y.

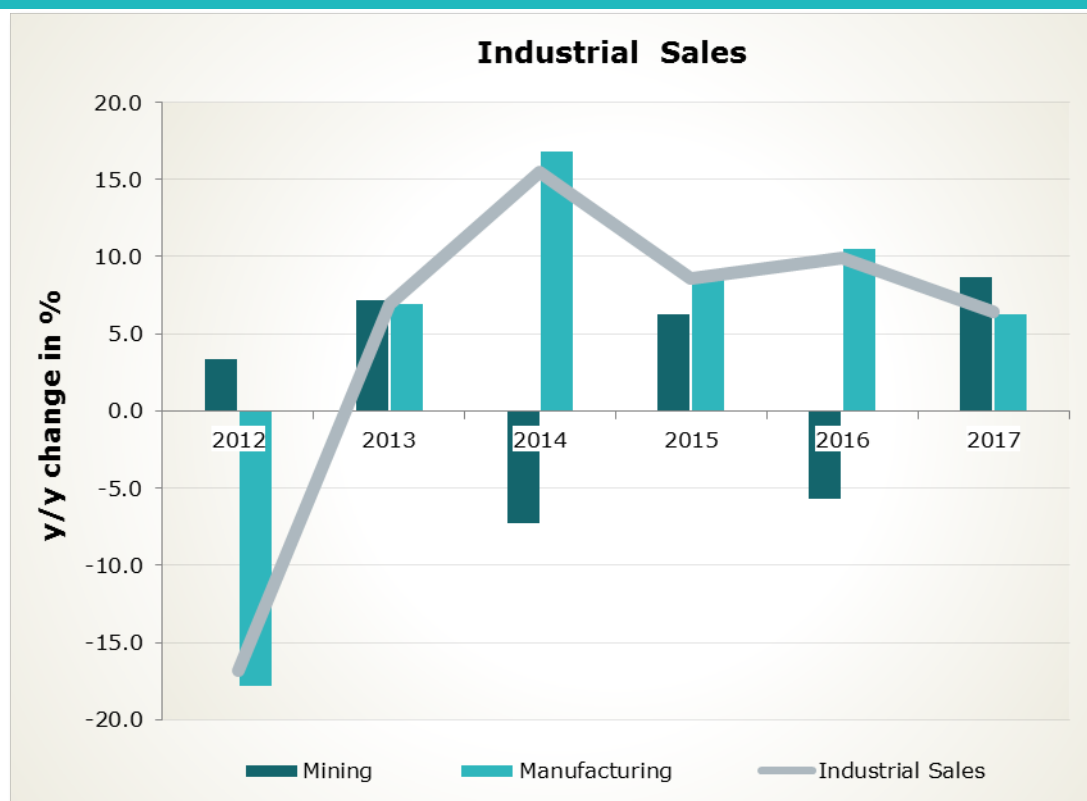


Source: SSORM

2.3. INDUSTRIAL SALES

Industrial sales went up by 6.4% y/y in 2017

Industrial sales rose by 6.4% y/y in 2017, according to SSORM data. Sales in the manufacturing sector grew by 6.3%, while sales in the mining sector went up by 8.7% y/y.



Source: SSORM

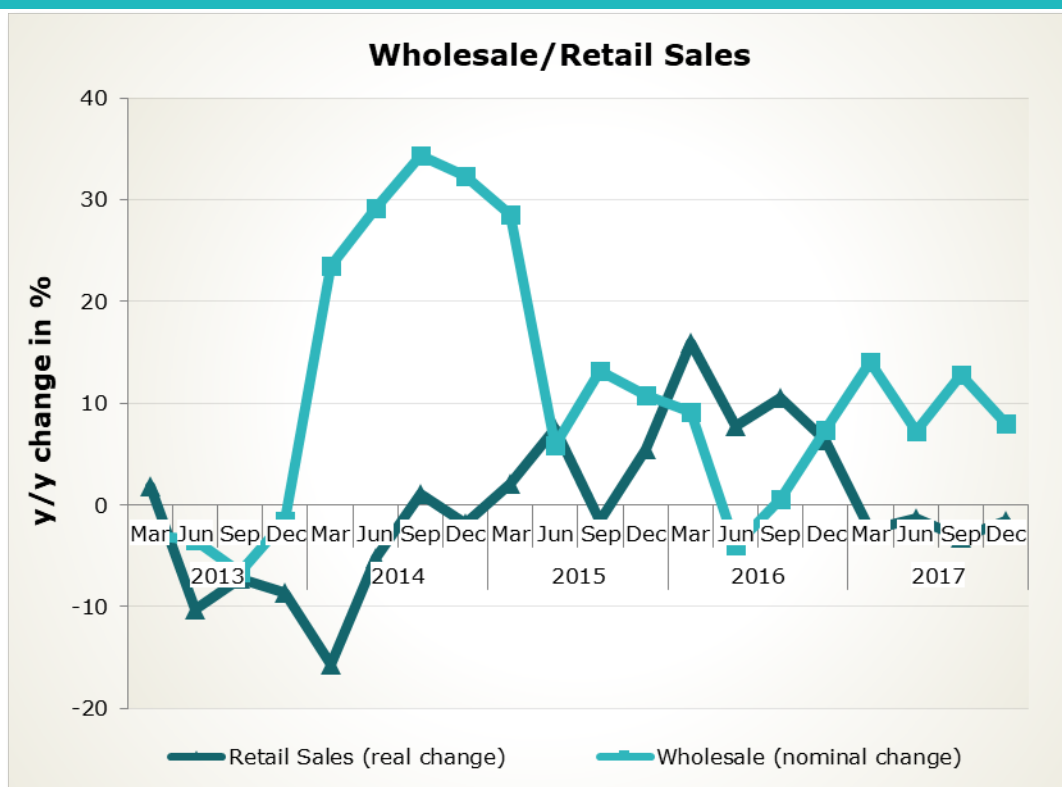
2.4. WHOLESALE/RETAIL

Retail sales narrowed by 1.6% y/y in December 2017

Retail trade, except of motor vehicles and motorcycles, decreased by real 1.6% y/y in December 2017, according to SSORM.

Retail sale of food, beverages and tobacco expanded by 5.1% in nominal terms and 2.4% in real terms and retail trade of automotive fuel increased by 7.4% in nominal terms and 1.2% in real terms. Retail sale of non-food products (except fuel) went down by 6.7% in nominal terms and 4.8% in real terms and retail trade, except automotive fuel went down by 1.5% in nominal terms and 2.9% in real terms.

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by nominal 8.0 y/y in December 2017.



Source: SSORM

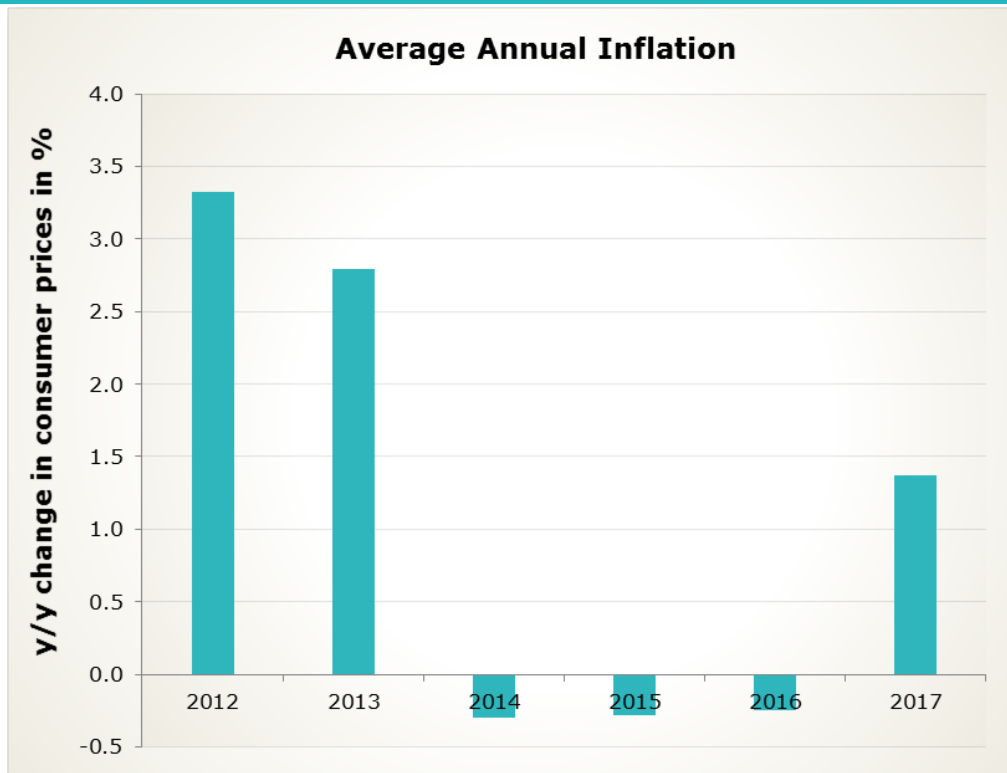
2.5. INFLATION

Macedonia registered annual average inflation in January - December 2017

After three years of deflation, Macedonia registered an average annual inflation of 1.4% in January - December 2017, according to SSORM.

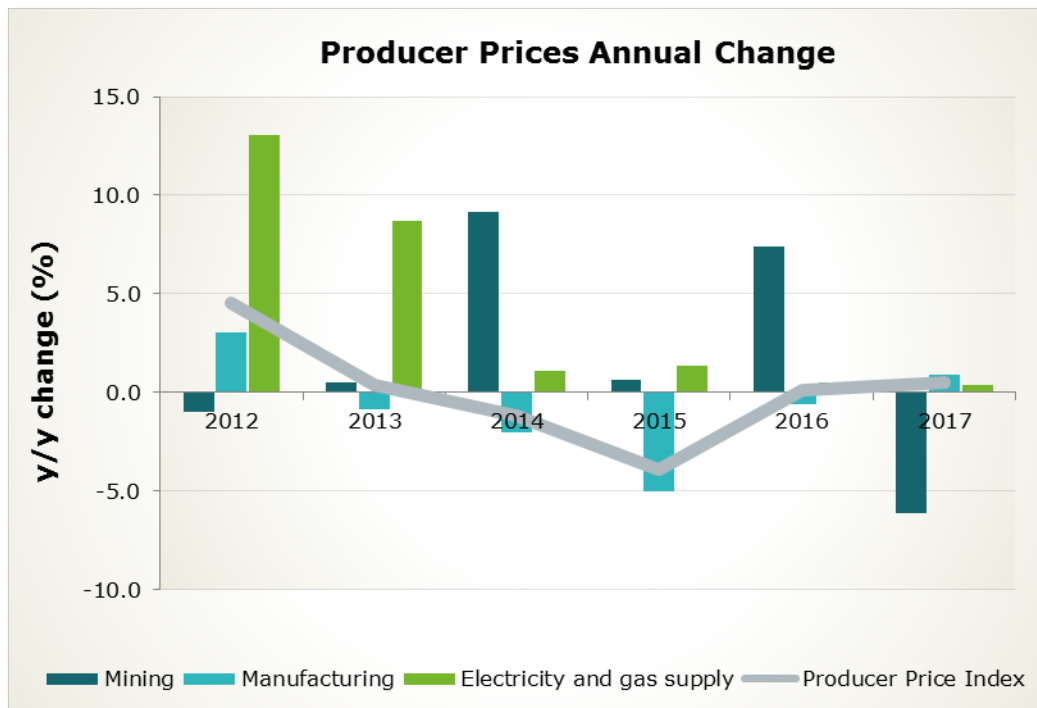
The Consumer price index (CPI) of the group of alcoholic beverages, tobacco and narcotics increased by 6.3% y/y, while the group of clothing and footwear experienced increase in prices of 1.0% on average.

The inflation at the transport and the communication sectors came in at 5.5% and 8.5%, respectively.



Source: SSORM

Producer prices notched up by 0.5% in the period January - December 2017 with prices of the manufacturing, and electricity and gas supply industries increasing by 0.9%, and 0.4%, respectively, while prices in the mining sector fell by 6.1% y/y.



Source: SSORM

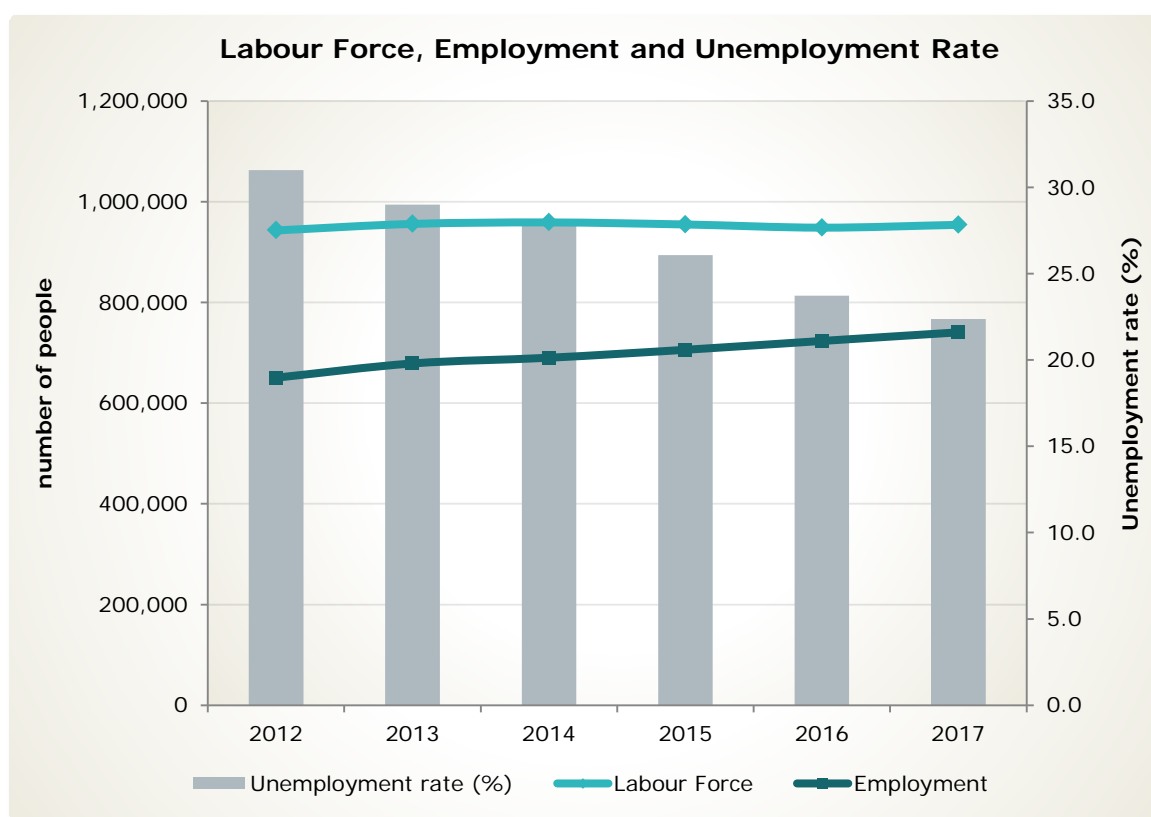
3. LABOUR MARKET

Unemployment rate down to 22.4%, wages grew 2.6% y/y in 2017

Unemployment in Macedonia narrowed to 22.4% of the total labour force in end-2017 from 23.7% a year earlier, according to data of SSORM.

Employed population aged 15 years and older counted 740,648 in 2017, up by 2.4% y/y.

Youth (population aged 15-24) unemployment rate went down by 1.5 pp y/y and remained high at 46.8%.



Source: State Statistical Office

According to data of SSORM, the average monthly net salary in 2017 went up by 2.6% in annual terms to MKD 22,928.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 2.7% y/y in 2017

The number of building permits issued in Macedonia in 2017 advanced by 2.7% and totalled 2,132, according to SSORM. The buildings construction works value amounted to MKD 29.9 bln, down from MKD 36.5 bln a year earlier.

The number of planned dwellings went up to 7,939 from 7,837 in 2016. The total built-up area of the housing units, covered by the permits, increased by 3.5% y/y, to 664,111 sq m in 2017 from 641,765 sq m in 2016.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. MKD EXCHANGE RATE

The average exchange rate of the MKD against the EUR decreased to MKD 61.5743 in 2017 from MKD 61.595 in 2016, according to National Bank of the Republic of Macedonia (NBRM) data.

MKD Average Exchange Rate			
Foreign Currency	2017	2016	2015
EUR	61.5743	61.5950	61.6098
USD	54.6450	55.6860	55.4968
GBP	70.2932	75.4811	84.8680
CHF	55.4607	56.5116	57.7286

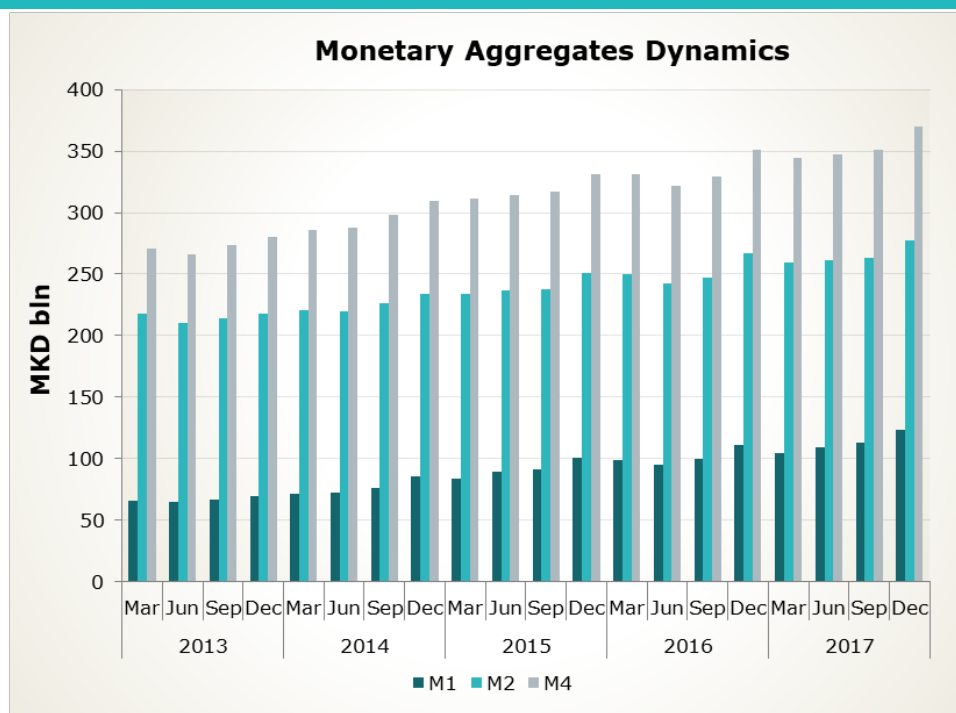
5.2. MONETARY AGGREGATES

Money supply growth was 5.3% y/y at end-December 2017

Broad money (monetary aggregate M4) increased by 5.3% y/y and reached MKD 370.0 bln at the end of December 2017, according to data provided by NBRM.

The M2 money supply also grew, by 4.1% y/y, to MKD 277.6 bln.

Money aggregate M1, or narrow money, expanded by 10.7% to MKD 123.2 bln.

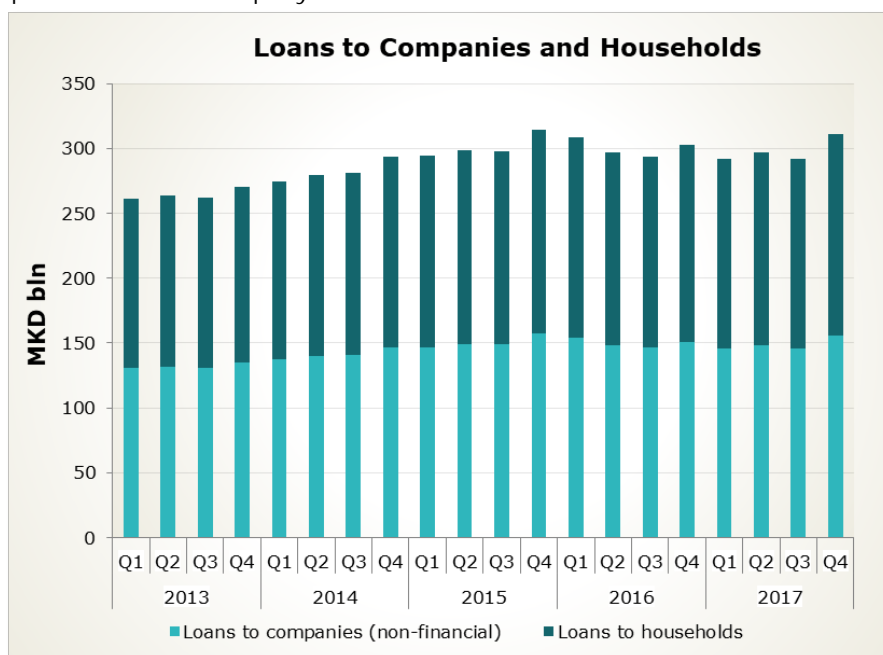


Source: NBRM

5.3. BANKING AND INSURANCE

Household loans increased by 9.7% y/y in Q4 2017

Loans to the non-government sector totalled MKD 294.4 bln in Q4 2017, up by 6% y/y, according to NBRM. Household loans jumped by 9.7% to MKD 138.83 bln. Loans to non-financial corporations inched up by 2.9% to MKD 155.5 bln.

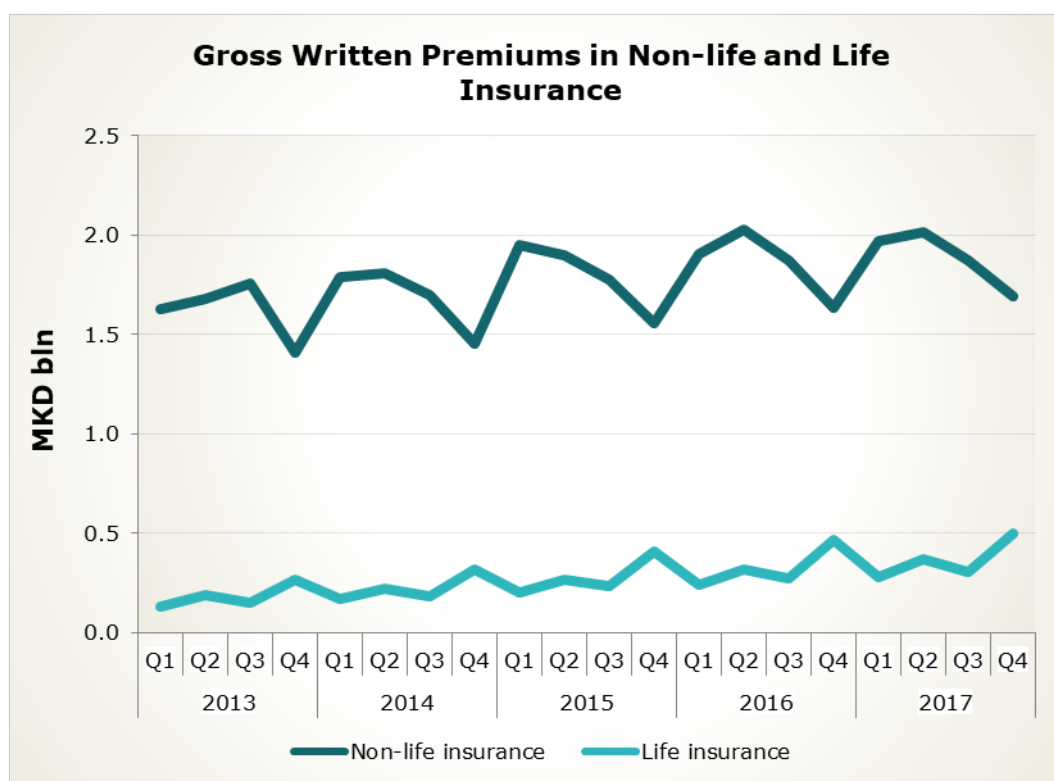


Source: NBRM

Insurance premium income went up by 3.1% y/y in 2017

The total gross written premiums (GWP) of the non-life and life insurance companies stood at MKD 8.992 bln, up by 3.1% y/y, in 2017, according to Macedonia's Insurance Supervision Agency (ASO).

The GWP of the non-life insurance market stood at MKD 7.546 bln, or by 1.6% more than in 2016, while the life insurance market grew by 11.9% y/y to MKD 1.446 bln.



Source: ASO

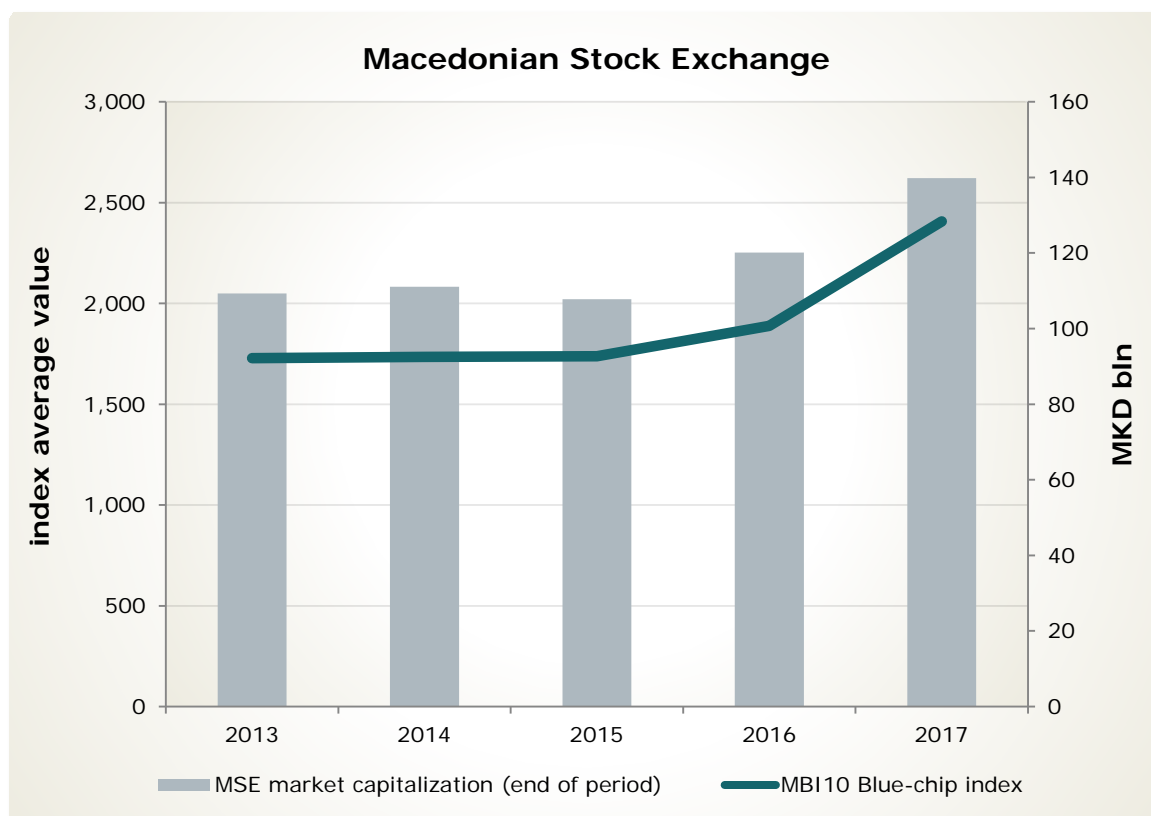
6. CAPITAL MARKETS

Blue-chip MBI10 grew by 27.4% in 2017

The average value of MBI10, the blue-chip index of the Macedonian Stock Exchange (MSE), went up by 27.4% y/y to 2,406 points as of end-2017.

The total turnover on the MSE reached MKD 4.738 bln in 2017 versus MKD 3.023 bln in the previous year.

The market capitalisation of MSE in the period grew to MKD 139.8 bln from MKD 120.2 bln end-2016.



Source: MSE

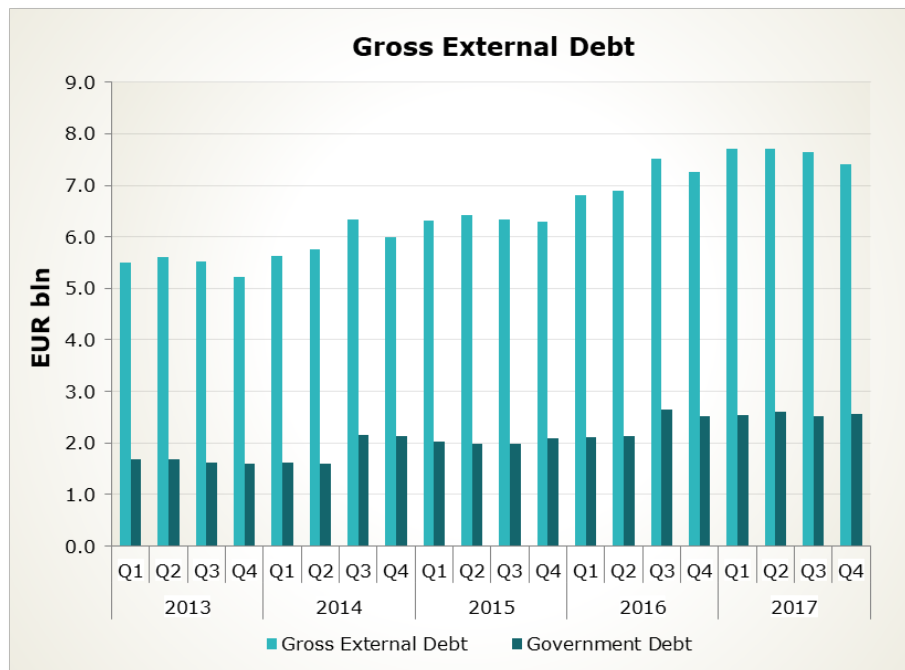
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up by 2.1% y/y to EUR 7.403 bln in 2017

The gross external debt totalled EUR 7.403 bln in 2017, according to NBRM. The debt decreased by 3.1% compared to Q3 2017.

As of Q4 2017, long-term liabilities amounted to EUR 5.624 bln, or 76% of the total debt, and short-term liabilities totalled EUR 1.779 bln, equal to 24% of the total debt.



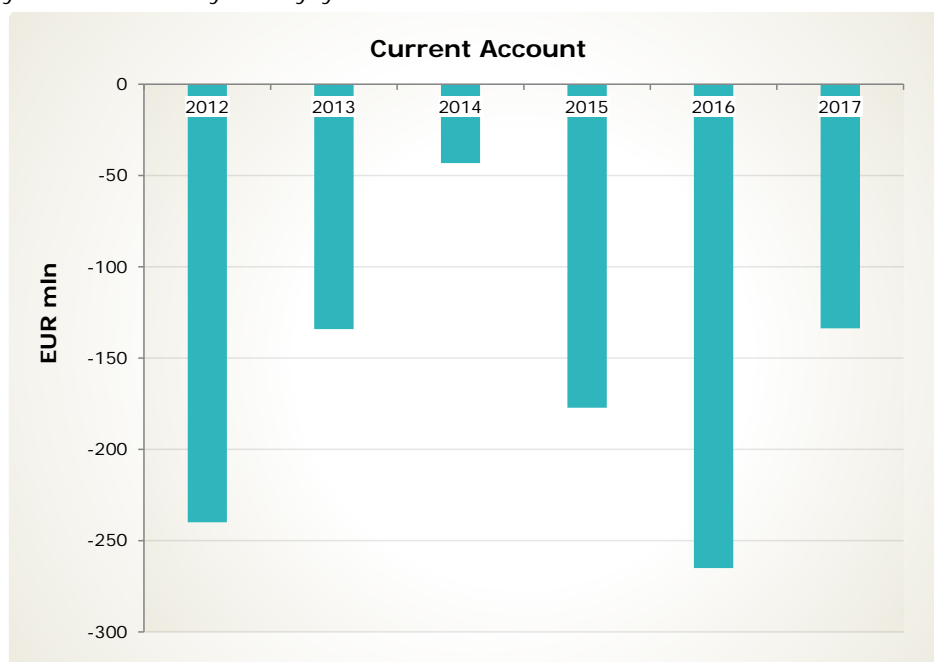
Source: NBRM

7.2. BALANCE OF PAYMENTS

Current account deficit shrank by 50% y/y to EUR 133.7 mln in 2017

The current account deficit fell to EUR 133.7 mln in 2017 from EUR 265 mln in 2016, according to central bank statistics data.

Secondary income rose by 7.0% y/y to EUR 1.691 bln in 2017.



Source: NBRM

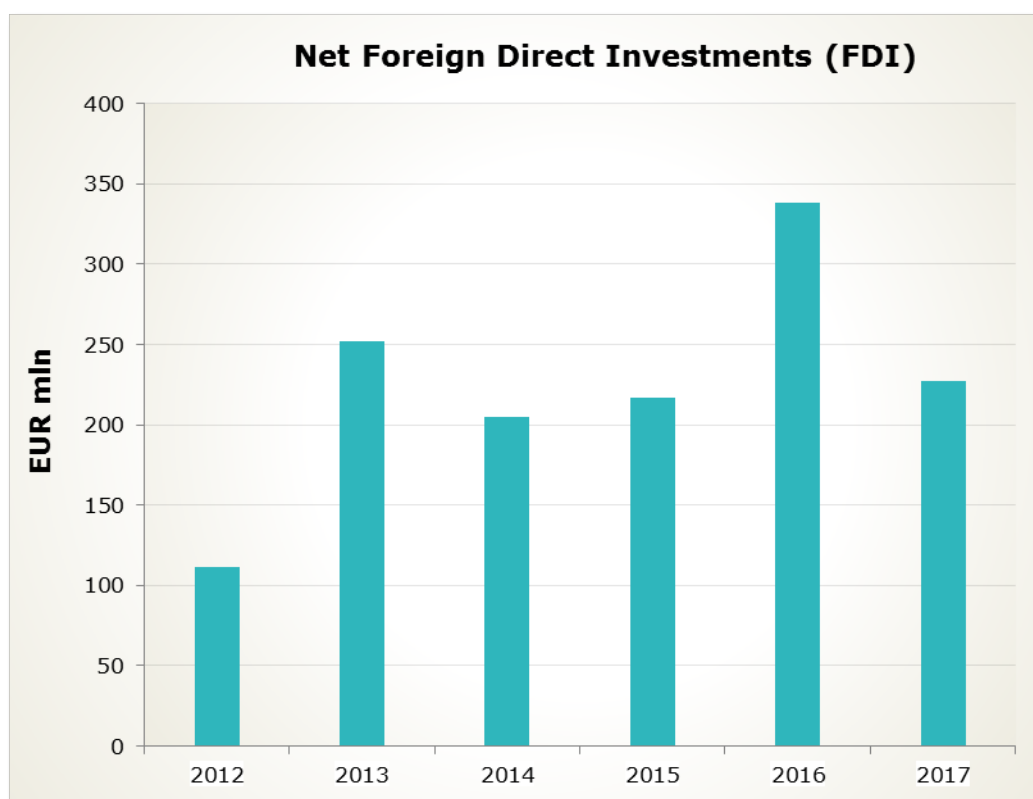
7.3. FDI

Net FDI declined by a third to EUR 227.5 mln in 2017

The net FDIs in Macedonia went down by 32.8% y/y to EUR 227.5 mln in 2017 compared to FDIs of EUR 338.4 mln in 2016, according to NBRM.

For 2017 the leaders in terms of FDI in Macedonia were Germany, Austria and the offshore zone Saint Vincent and the Grenadines with investments of EUR 37.6 mln, EUR 24.0 mln and EUR 21.0 mln, respectively.

A breakdown by industries showed that the services sector attracted the largest share of the total investments, or EUR 67.0 mln. The mining and quarrying sector accounted for EUR 34.4 mln, while real estate activities attracted EUR 21.3 mln. The manufacturing sector had a net outflow of EUR 75.6 mln in 2017.

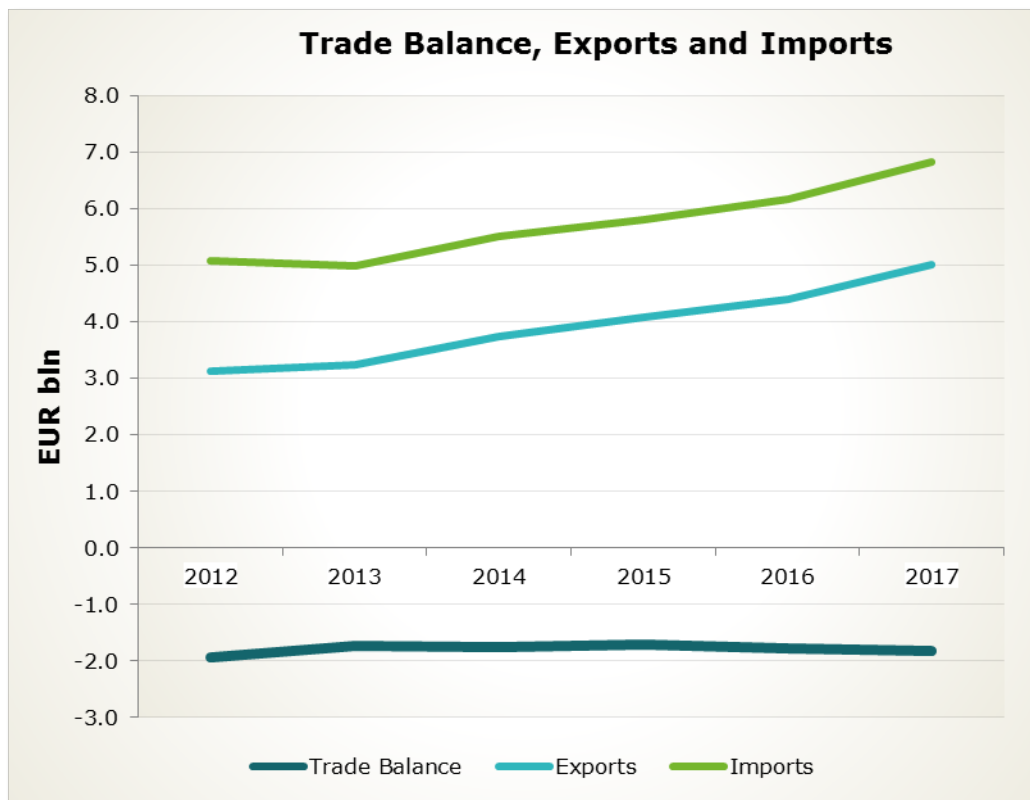


Source: NBRM

7.4. FOREIGN TRADE

Foreign trade deficit up by 1.8% y/y in 2017

The trade deficit stood at EUR 1.818 bln in 2017, compared to EUR 1.786 bln a year earlier, according to NBRM. Exports increased by 14.1% y/y to EUR 5.007 bln, while imports went up by 10.5% y/y to EUR 6.825 bln.



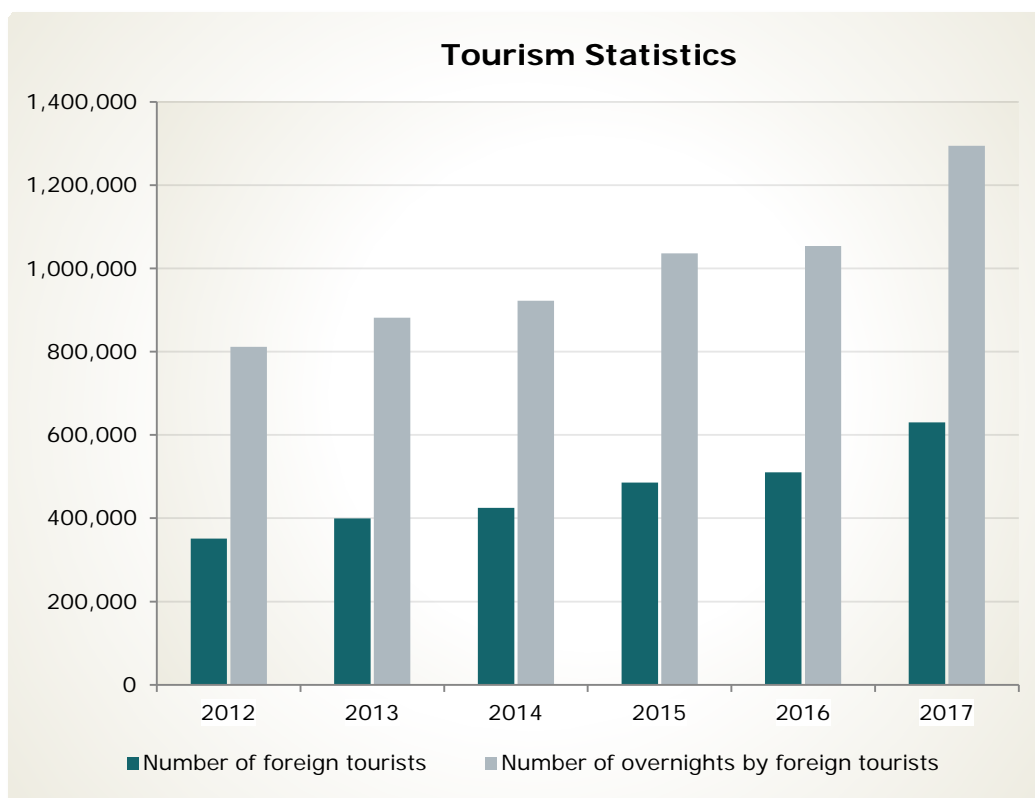
Source: NBRM

7.5. TOURSIM

Number of foreign tourist overnights grew by 22% y/y in 2017

Tourist overnights of foreigners increased by an annual 22% to 1.3 million in 2017, according to SSORM. Foreign tourist overnights accounted for 46.6% of the total tourist overnights in the country, up from 43% in the year-ago quarter.

The number of foreign citizens who visited the country was also on the rise, by 23.5%, to 630,594.



Source: SSORM

8. MAJOR DEVELOPMENTS

EBRD to lend EUR 2.0 mln to Macedonia's Ohridska Banka for green projects

Dec 28, 2017

The European Bank for Reconstruction and Development (EBRD) will lend EUR 2.0 mln to Macedonia's Ohridska Banka under its Green Energy Financing Facility for the Western Balkans.

[Read the full story here](#)

Macedonia's 2018 draft budget sets deficit at 2.7%/GDP

Dec 22, 2017

Macedonia's 2018 government draft budget envisages a deficit of RSD 18.2 bln, equivalent to 2.7% of the country's gross domestic product (GDP), according to the finance ministry.

[Read the full story here](#)

EC may soon decide to launch accession talks with Macedonia - Hahn

Dec 7, 2017

The European Commission may soon decide on the launch of accession talks with Macedonia if the country adopts the recommended legislative reforms by the end of 2017, the EU enlargement commissioner Johannes Hahn said.

[Read the full story here](#)

Macedonia targets 25% RES share in power output in 2025

Dec 6, 2017

Macedonia is targeting a 25% share of renewable energy sources (RES) in its electricity production in 2025, according to the country's ambassador to Ukraine, Stole Zmejkoski.

[Read the full story here](#)

Macedonian SMEs need to boost online transactions, improve ICT skills

Nov 24, 2017

Macedonia's small and medium-sized companies (SMEs) need to catch up with their peers in regard to online transactions, ICT skills and R&D support, according to the European Commission.

[Read the full story here](#)

Macedonia should speed up economic reforms - EBRD

Nov 23, 2017

With the political crisis of the past two years in Macedonia now resolved, the new government should accelerate economic reforms and focus on areas such as improved fiscal management and measures to enhance social inclusion, the EBRD said.

[Read the full story here](#)

EC cuts Macedonia's 2017 GDP growth fcast on investment decline

Nov 9, 2017

The European Commission said on Thursday it has lowered its projection for Macedonia's economic growth in 2017 to 1.7% from 2.9% previously, due to the prolonged political crisis in the country leading to decline in investments.

[Read the full story here](#)

Albania's Balfin to invest EUR 180 mln in real estate project in Macedonia

Oct 25, 2017

Albanian investment group Balfin has said it will invest EUR 180 mln euro (USD 211 mln) in its Skopje East Gate real estate development project in the capital of neighbouring Macedonia.

[Read the full story here](#)

EBRD mulls EUR 10 mln equity commitment to back SMEs in SEE

Oct 25, 2017

The European Bank for Reconstruction and Development (EBRD) said it is considering an equity commitment of up to EUR 10 mln (USD 11.8 mln) to fund Alterum Capital Partners I which plans to invest in small and medium-sized enterprises (SMEs) in Southeastern Europe (SEE).

[Read the full story here](#)

DISCLAIMER:

Whilst the information contained in this Profile has been given in good faith and every effort has been made to ensure its accuracy, SeeNews cannot guarantee the accuracy of this information and hereby expressly disclaims any responsibility for error, misinterpretation and any and all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the Service referred to herein, or in the event of bankruptcy, liquidation or cessation of trade in any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned. Unless otherwise stated, the copyrights and any other rights in all material on this site are owned by SeeNews. Use of this Profile is provided by SeeNews

subject to the following Terms and Conditions:

1. Use of this Profile constitutes your acceptance of these Terms and Conditions which take effect when you first use this Profile. SeeNews reserves the right to change these terms and conditions at any time by posting changes on line. You are responsible for reviewing regularly information posted on line to obtain timely notice of such changes. Your continued use of the Profile after changes are posted constitutes your acceptance of this agreement.
2. Neither SeeNews nor other related parties, whilst endeavouring to provide 24/7 availability, will be held liable if for any reason the Profile is unavailable at any time.
3. Access to this Profile may be suspended temporarily or permanently and without notice.
4. Whilst SeeNews endeavours to ensure that the information on this site is correct and up-to-date, no warranty, express or implied, is given as to its accuracy and SeeNews does not accept any liability for error or omission.
5. Part of this Profile contains materials submitted to SeeNews by third parties. Third parties are responsible for ensuring that materials submitted for inclusion on this Profile complies with national and relevant international law. SeeNews can not guarantee the accuracy of this material and hereby expressly disclaims any responsibility for error, omission or inaccuracy in the material, misinterpretation and any all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the services referred to herein, or in the event of bankruptcy, liquidation or cessation of trade of any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned or from SeeNews upon explicit request.
6. SeeNews shall not be liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this Profile, or any data contained in it, or from any action or decision taken as a result of using this Profile or any such information.
7. SeeNews accepts no responsibility for the content of any site to which a hypertext link from this Profile exists. Such links are provided for your convenience on an "as is" and "as available" basis with no warranty, express or implied, for the information provided within them.
8. If any of these terms should be determined to be illegal, invalid or otherwise unenforceable by reason of the laws of any state or country in which these terms are intended to be effective, then to the extent and within the jurisdiction in which that term is illegal, invalid or enforceable, it shall be severed and deleted from the clause concerned and the remaining terms and conditions shall remain in full force and effect and continue to be binding and enforceable.
9. By accessing and reading any part of this Profile, you should have accepted these Terms in full.

Copyright

All rights reserved. Downloads and print extracts of SeeNews content are allowed for personal and non-commercial use only. Re-publication or re-distribution of content, including by framing, is strictly prohibited without the prior written consent of SeeNews.

SeeNews Ltd 2018