

Republic of Macedonia  
Ministry of Finance

QUARTERLY ECONOMIC REPORT  
Q2/2015

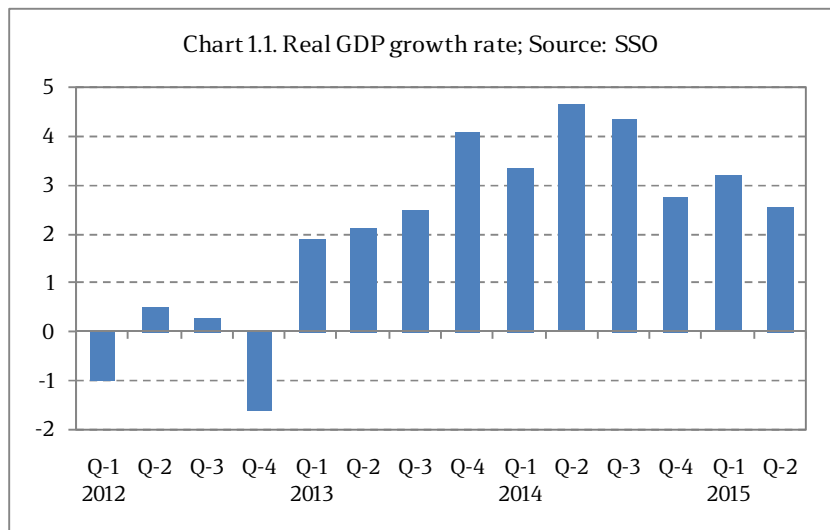
Summary

- In Q2 2015, compared to the same quarter of the previous year, **GDP** showed **real growth** of 2.6%, by which GDP growth was 2.9% in the first half of 2015;
- **Number of employed persons** in Q2 2015 was higher by 1.8% compared to the same quarter in the previous year. **Number of unemployed persons** dropped by 5.1%, which resulted in reduction of **unemployment rate** to 26.8% in Q2 2015;
- **Inflation rate** in Q2 2015 experienced growth of 0.3% compared to the same quarter in 2014, measured according to the Consumer Price Index;
- Average **gross salary** in Q2 2015 amounted to Denar 32,213, increasing by 3.3% in nominal terms, i.e. surging by 3% in real terms, compared to the gross salary in Q2 2014;
- Total **budget revenues** were higher by 11.3% in Q2 2015, and total **budget expenditures** were higher by 9.3% compared to the same quarter in 2014;
- Total **deposit potential** of banks increased by 0.8% in Q2 2015 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q2 2015 grew by 2.7% on quarterly basis;
- **Macedonian Stock Exchange Index MSEI-10** in June 2015 reduced by 6.5% compared to March 2015, while total turnover realized on the Stock Exchange experienced growth of 29.7%.
- In Q2 2015, increase of both **export** by 9% and **import** by 8.2% was registered on annual basis, whereby total **foreign trade** expressed in euros, surged by 8.6%;

## 1. Macroeconomic Trends and Real Sector

In Q2 2015, compared to the same quarter in 2014, **GDP** showed real growth of 2.6%, by which GDP growth was 2.9% in the first half of 2015. Nominal GDP growth in Q2 2015 amounted to 4.8% on annual basis, while GDP deflator accounted for 2.2%.

Analyzed according to the **production side of GDP**, in Q2 2015, growth of economic activity stemmed from the growth



of both construction and services sector. Construction grew by 6.2%, followed by the 3.1% growth in the previous quarter. Services sector experienced 3.5% growth in Q2 2015. Under the services, the sector trade, transport and catering, growing by 5.5%, had the biggest contribution to the economic activity growth, followed by the sectors: Financial and insurance activities (13.8%), expert, scientific, technical and administrative activities (12.6%), information and communications (2.5%) and activities related to real estate (1.2%), while drop was seen in the sectors public administration and defense, education and health (1.8%) and arts, entertainment, recreation and other services (0.6%). Industry in Q2 2015 dropped by 0.5%, following the period of subsequent growth in the previous nine quarters, and the 2.1% drop of agriculture.

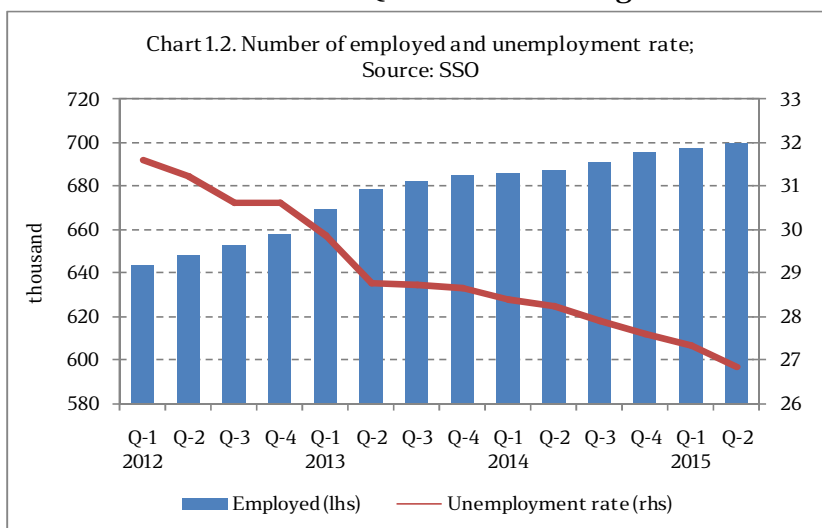
Growth of **industry** in Q2 2015 in line with the monthly data on industrial production, accounted for 0.2%, being a result of the realized positive trends at: production of machines and devices (26.5%), production of motor vehicles (14.3%), production of basic pharmaceutical products (11.0%), production of paper and paper products (10.2%), production of furniture (10.0%), production of textile (9.3%), production of metals (9.0%), mining of metal ore (9.0%), manufacture of electrical equipment (5.3%), production of food products (5.2%), electricity, gas, steam and air-conditioning supply (3.6%), production of beverages (2.2%), and other production industry (9.4%). Hence, annual positive growth was registered at 13, comprising 58.4% of the industrial production.

Drop was seen at: production of coke and refined oil products (100.0%), production of tobacco goods (42.1%), repair and installation of machinery and equipment (29.8%), production of chemicals and chemical products (19.6%), production of leather (17.0%), production of other transportation equipment (16.1%), mining of coal and lignite (15.0%), production of rubber and plastic mass products (11.0%), production of wood and wood and cork products (5.0%), production of fabricated metal products (3.5%), production of

clothing (3.4%), other mining and quarrying (2.9%), printing and production of recorded media (1.9%) and production of other non-metal mineral products (0.1%).

Analyzed according to the **expenditure side of GDP**, growth in Q2 2015 was driven by export of goods and services, experiencing growth of 7.4% in real terms. Growth of export was mainly a result of the export of capacities in the free economic zones, in conditions of gradual recovery of external demand. Import of goods and services experienced lower growth than export, amounting to 1.6% in real terms, by which net export had positive contribution to the economic growth. Increase of final consumption in Q2 2015 amounted to 2.7%, as a result of the growth of both private consumption and public spending. Growth of private consumption amounted to 2% on real basis, as a result of the increase of both employment and salaries, as well as the more intensive growth of crediting to households, while increase of public spending amounted to 5.8% on real basis. Gross investments in Q2 2015 decreased by 7.6%.

Positive trends on the **labour market** continued in Q2 2015. According to the Labour Force Survey, number of employed persons was higher by 1.8% compared to the same quarter in the previous year. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 5.1% on annual basis. Number of active population decreased by 0.2%. Such

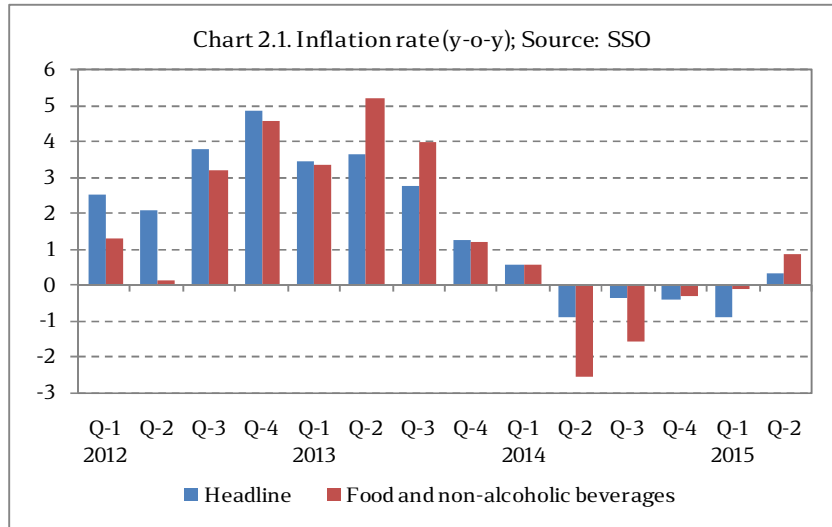


trends on the labour market caused for the unemployment rate in Q2 2015 to reduce to 26.8%, i.e. by 1.4 percentage points (p.p.) compared to the same quarter of the previous year, while compared to the previous quarter, it was lower by 0.5 p.p. Employment rate in Q2 2015 amounted to 41.7%, being higher by 0.6 p.p. compared to the same quarter in the previous year. Active population accounted for 57% of total working-able population, decreasing by 0.3 p.p. compared to the same quarter in the previous year.

## 2. Prices, Costs and Productivity

**Inflation**, measured according to the Consumer Price Index, experienced growth of 0.3% in Q2 2015 compared to the same quarter in 2014, following the 0.9% drop recorded in the previous quarter. Highest growth of consumer prices in Q12 2015 was recorded in the category alcoholic beverages and tobacco by 5.7%, followed by the following categories: Furnishings, household equipment and routine maintenance of the house

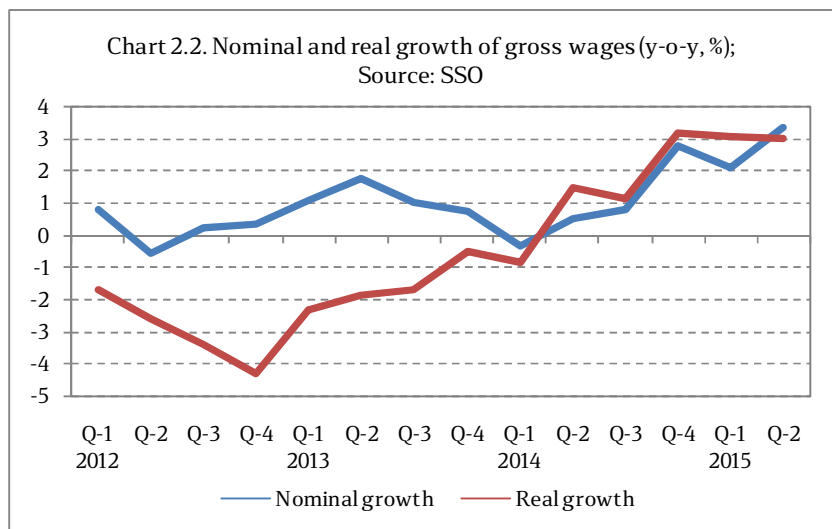
by 3.1%, health by 1.7%, housing, water, electricity, gas and other fuels by 1.6%, restaurants and hotels by 1.0%, food and non-alcoholic beverages by 0.9%, clothing and footwear by 0.4%, recreation and culture by 0.2% and other goods and services by 0.1%. Price decline in Q2 2015 was recorded at the



following categories: Transport by 7.5% and communications by 4.9%. Prices remained the same at the education category.

**Retail prices** in Q2 2015 decreased by 0.7% compared to the same quarter in 2014, following the 2.7% drop observed in the previous quarter. Decrease of retail prices in this period was also due to the reduced prices of services and goods. Drop of prices in the category goods was 0.9%, while the category services decreased by 0.4% on annual basis. Thereby, prices of industrial goods declined by 1.8%, while prices of agricultural products surged by 7.4%. Reduced prices of industrial goods were a result of the lower prices of both non-food industrial products by 3.3% and food industrial products by 0.2%. Retail price of tobacco increased by 6.3% and retail prices of beverages grew by 0.6%.

Average **net salary** in Q2 2015 amounted to Denar 21,947, being higher by 3.1% in nominal terms compared to net salary in Q2 2014. Net salary grew by 2.7% in real terms. Average **gross salary** amounted to Denar 32,213, increasing by 3.3% in nominal terms, i.e. surging by 3% in real terms, compared to the gross salary in Q2 2014.



**Labour productivity** in Q2 2015 increased by 0.8% as a result of the higher growth of economic activity than the increase of the number of employees in the economy, by which the trend of positive growth of productivity continues.

### 3. Fiscal Sector

Higher performance of total budget revenues by 11.3% was observed in the second quarter of 2015, compared to same quarter in 2014, accompanied by increase of the budget expenditures by 9.3%. This contributed for the **Budget deficit** to amount to Denar 3,220 million in Q2 2015 or 2.3% of GDP realized in this quarter (central budget deficit amounted to Denar 2,622 million, i.e. 1.9% of quarterly GDP).

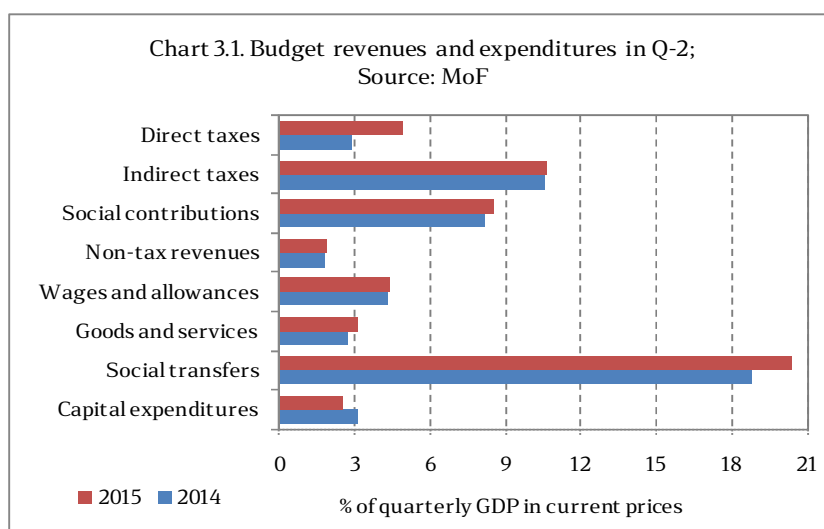
Total **budget revenues** participated with 28.8% of the realized quarterly GDP, being higher by 11.3% compared to the same quarter in 2014, being mostly due to the higher performance of tax revenues by 10.7%, higher performance of non-tax revenues by 9.7%, as well as higher contributions by 9.3%. Thereby, as for tax revenues, higher collection was recorded at excise duties, personal income tax and profit tax, while revenues on the basis of VAT, customs duties and other taxes experienced lower collection.

VAT revenues predominated, accounting for 45.1% of the total tax revenues, being lower by 2.4% in Q2 2015 compared to the same quarter of 2014. Gross collection of VAT was higher by 6.7% during this quarter, while VAT refund was higher by 33.5% compared to Q2 2014.

As for VAT structure, VAT share was the biggest when importing, whereby collection surged by 6.2%, while VAT on the basis of sales in the country grew by 9.8%. Excise revenues were higher by 6.3% compared to the same quarter of 2014. As for direct taxes, personal income tax increased by 8.0%, revenues on the basis of profit tax increased by record 2.3 times (125.7%) compared to the same quarter of the previous year, whereby one should take into account that the revenues for this tax is mainly a result of the tax collected on the basis of tax balances, monthly advance payments and paid dividend and other distribution of profit.

From the point of view of structural share in GDP, direct taxes on annual basis increased their share in GDP by 1.5 p.p. (4.9% of quarterly GDP), while the share of indirect taxes in GDP decreased by 0.6 p.p., i.e. accounting for 11.5% of GDP in the second quarter.

Indirect taxes in the second quarter of 2015 were almost identical, i.e. they decreased by only 0.1% compared to Q2 2014.



Collection of social contributions was higher by 9.3%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance contributions by 9.3%, health insurance contributions by 9.3% and employment contributions by 8.8%. Non-tax revenues, accounting for 1.9% of total quarterly GDP, were higher by 9.7% compared to the same period in 2014.

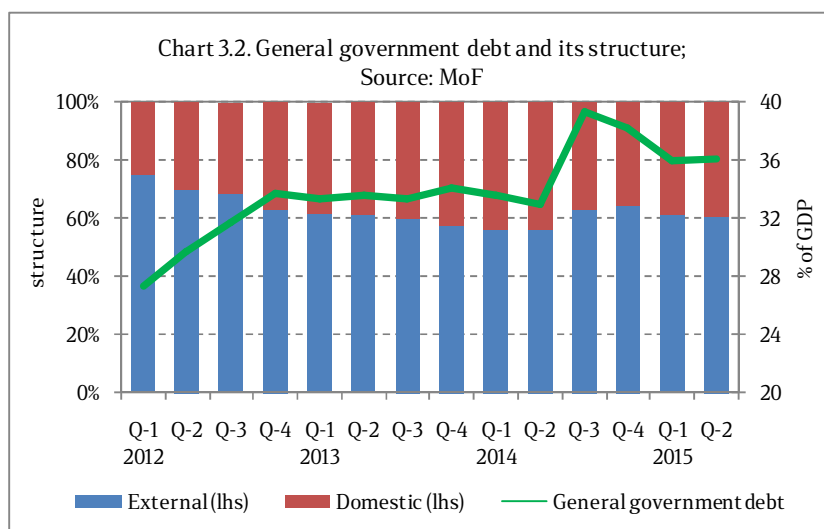
Capital revenues in Q2 2015 were higher by 23.5% on annual basis (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends). Revenues on the basis of grants were higher by 58.4%, compared to Q2 2014.

In Q2 2015, total **budget expenditures** participating with 31.1% in the quarterly GDP, were higher by 9.3% compared to the same quarter in 2014. Current expenditures, accounting for 28.7% of quarterly GDP, participating with 92.0% in the total expenditures, were realized by 12.2% more on annual basis. As for current expenditures, expenditures for goods and services increased by 21.0%, while expenditures related to salaries and allowances surged by 6.0% compared to the same quarter last year. Funds for transfers, participating with almost 2/3 in the total expenditures (65.4%), were higher by 13.6% compared to the same quarter in 2014. Social transfers surged by 5.3%, accounting for 47.5% in the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most in the social transfers, surged by 2.8%, participating with 28.4% in the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 17.1% in the total expenditures, i.e. they surged by 42.4% compared to the same period in 2014. Block grants to local government units grew by 1.5%.

Interest-related expenditures were lower by 12.9 compared to the first quarter of 2014. Expenditures on the basis of interests on domestic debt declined by 20.8% compared to the same quarter of 2014, while interests on foreign debt increased by 4.3%.

Capital expenditures accounting for 2.5% of quarterly GDP, compared to the same quarter in 2014, were lower by 16.3%, i.e. they participated with 8.0% in the total expenditures.

Total **government debt** at the end of Q2 2015 accounted for 36.1% of GDP, increasing by 0.1 p.p. compared to Q1 2015. Share of the external debt in the total debt decreased by 0.7 p.p. compared to Q1 2015,



accounting for 60.4% of total government debt. Share of domestic debt grew by 39.6% of the total government debt.

#### 4. Monetary and Financial Trends

In the second quarter of 2015, NBRM retained the reference interest rate at 3.25%, given the absence of more significant changes in conditions of implementing monetary policy. Interest rate on available 7-day deposits amounted to 0.5 p.p. in June 2015, and compared to the previous quarter, it remained the same.

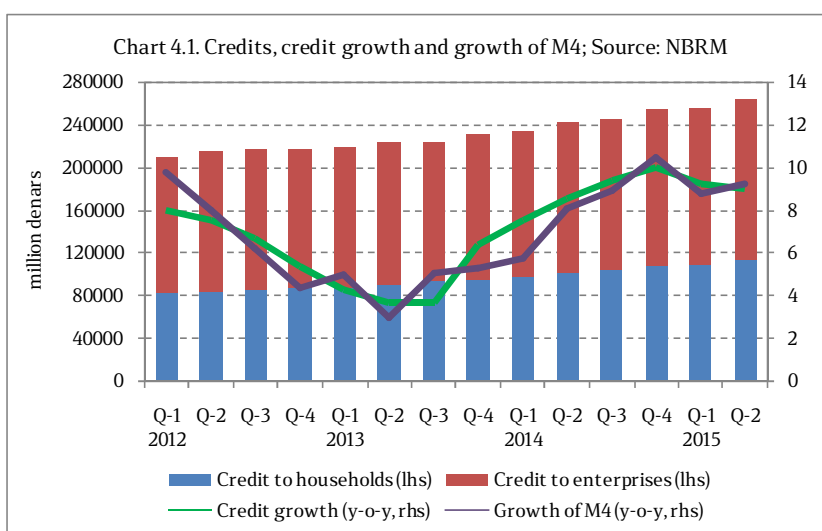
**Primary money**<sup>1</sup> in Q2 2015 surged by 1.2% on quarterly basis (6.2% drop was recorded in the previous quarter) in conditions of increase of total liquidity of banks by 0.3% and increase of ready money in circulation by 2.2%. Compared to Q2 2014, primary money increased by 5.8% (compared to 7.1% growth in Q1 2015), as a result of the increase of ready money in circulation by 13.7%, while total liquidity of banks declined by 1.2%.

During the second quarter of 2015, the narrowest money supply **M1** increased by 7.1% compared to Q1 2015. **Monetary aggregate M2** surged by 1.3%, while the broadest **monetary aggregate M4** increased by 0.9%.

**Total deposit potential**<sup>2</sup> of banks in Q2 2015 increased by 0.8% on

quarterly basis, compared to the previous quarter when the deposit potential grew by 0.4%. From the point of view of sectors, deposits of enterprises increased by 5.0%, while deposits of households declined by 0.7%. Analyzed by currency, compared to the previous quarter, Denar deposits and foreign currency deposits surged by 1.3% and 0.1% respectively. Level of euroization decreased by 0.3 p.p. compared to the previous quarter, i.e. to 41.4%, measured through the share of foreign currency deposits in the total deposit potential.

From maturity point of view, in the past period, there was continuous increase of the share of long-term deposits in the total deposit potential, however, in Q2 2015, share of long-term deposits decreased, reaching 27.3% (amounting to 27.7% in Q1 2015), as a result



<sup>1</sup> It includes ready money in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

<sup>2</sup> Deposits also include calculated interest.

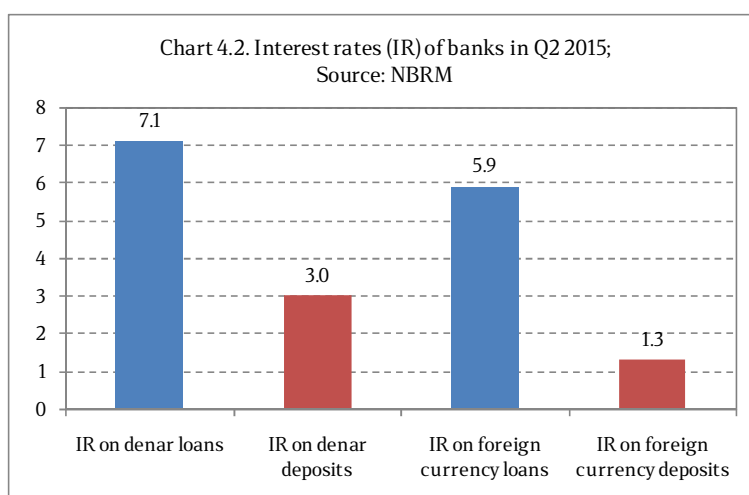
of the slight decrease of long-term deposits by 0.4% compared to the previous quarter. Short-term deposits decreased by 1.9% in the analyzed period.

**Credit activity of banks to non-government sector** in Q2 2015 experienced growth of 2.7% on quarterly basis (compared to the 1.1% growth in the previous quarter), in conditions of growth of credits to households by 4.2%, and growth of credits to private enterprises by 1.7% compared to the previous quarter. From currency point of view, in Q2 2015, Denar credits increased by 4.1%, while foreign currency credits dropped by 2.4% on quarterly basis.

From maturity point of view, long-term credits in Q2 2015 experienced quarterly growth of 3.9%, while short-term credits remained the same compared to the previous quarter.

In Q2 2015, **interest rate**<sup>3</sup> on Denar credits amounted to 7.1%, reducing by 0.2 p.p. compared to the previous quarter. Interest rate on foreign currency credits in Q2 2015 also decreased by 0.1 p.p., accounting for 5.9%. Interest rates on Denar deposits and foreign currency deposits in Q2 2015 dropped by 0.2 p.p., accounting for 3.0% and 1.3% respectively.

In Q2 2015, interest rate on newly approved Denar credits amounted to 6.4%, while interest rate on newly approved foreign currency credits accounted for 5.4%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.9% and 1.2% respectively.



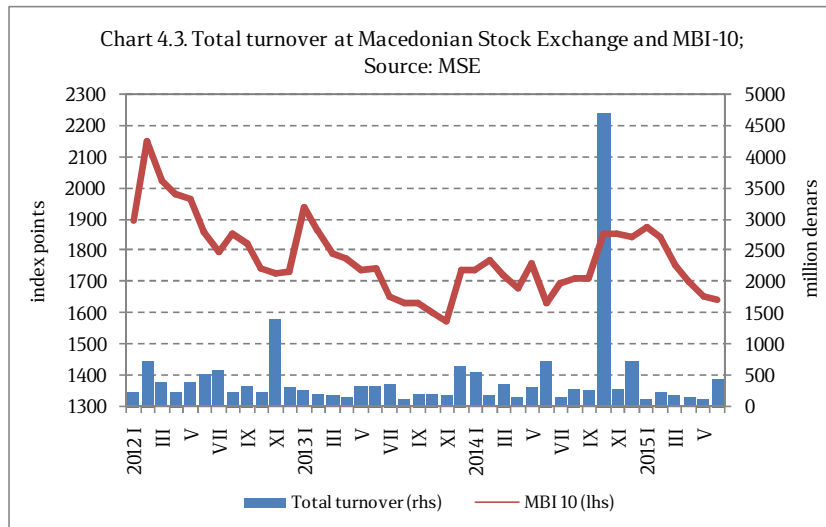
On the **capital market**, in Q2 2015, accelerated increase of the total turnover on the Stock Exchange was recorded, i.e. it surged by 29.7% compared to the previous quarter, being mainly due to the increased turnover realized through the classical trading by 39%. Turnover from block transactions decreased by 44.3% on quarterly basis. In April 2015, public offer of stock exchange auctions amounting to Denar 9,077,331 was recorded.

Compared to the same quarter in the previous year, total turnover dropped by 39.7% in conditions of reduced turnover from block transactions by 93.7%, while turnover from classical trading grew by 21.0% on annual basis.

<sup>3</sup> Starting January 2015, NBRM has changed the methodology for calculating the interest rates. Such changes in the statistics of interest rates were a result of full compliance with the European standards.



Macedonian Stock Exchange Index MSEI - 10, as aggregate indicator of stock exchange trends at the end of the second quarter, amounted to 1,640.85 index points, decreasing by 6.5% compared to March 2015, while compared to June 2014, the index was higher by 0.5%.

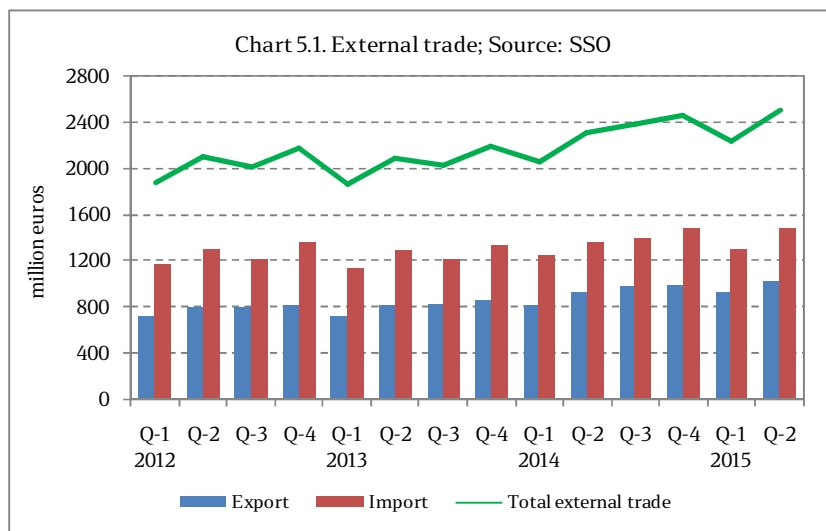


## 5. External Sector

### 5.1. Foreign Trade

According to the data of the State Statistical Office in Q2 2015, total foreign trade amounted to EUR 2,502.7 million, increasing by 8.6% compared to the same quarter in 2014.

In Q2 2015, **export of goods** amounted to EUR 1023.3 million and, compared to the same quarter in the previous year, it surged by 9.0%, while compared to the previous quarter, it increased by 10.0%.



Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q2 2015 compared to the same quarter in 2014 were registered at the following:

- chemical products by 30.9% (chemical materials and products increased by 37.0% or EUR 58.3 million);
- machines and transport equipment by 23.7% (within which the following categories experienced increase: electrical machines, devices and spare parts by 35.5% or EUR 24.8 million; and industrial machines and spare parts by 18.9% or EUR 16.0 million);

- products classified by material by 5.2% (iron and steel by 2.2% or EUR 3.1 million; metal products by 24.1% or EUR 2.5 million; and non-ferrous metals by almost two times or EUR 2.0 million); and
- raw materials, except fuel by 10.5% (metal ore and metal scrap by 16.5% or EUR 6.3 million).

On the other hand, negative export trends are seen at:

- beverages and tobacco by 51.7% (tobacco and tobacco products by 66.1% or EUR 26.4 million);
- various finished goods by 1.9% (clothing by 8.7% or EUR 10.7 million);
- food products by 7.1% (meat and meat products by 45.7% or EUR 5.4 million; and fruit and vegetables by 10.5% or EUR 4.4 million); and
- mineral oils and lubricants by 12.6% (oil and oil products by 38.7% or EUR 5.5 million).

In Q2 2015, observed **by economic purpose**, the following products were most exported: goods for industrial procurement (51.1%), followed by consumer goods (16.8%), products for investments without transport equipment (13.6%), food and beverages (8.7%), transport equipment (8.5%) and fuels and lubricants (1.3%).

**Import of goods** in Q2 2015 amounted to EUR 1,479.4 million, increasing by 8.2% compared to Q2 2014, while in relation to the previous quarter, it increased by 13.1%.

Analyzed **by SITC sectors**, highest increase of import in Q2 2015, compared to Q2 2014, was seen at:

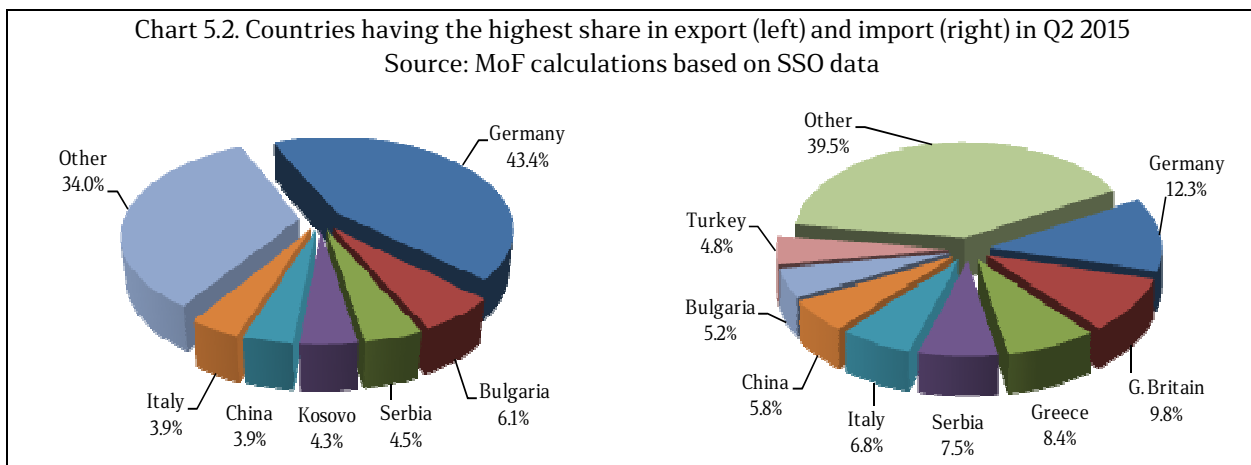
- products classified according to the material by 11.0% (whereby increase was seen at the following categories: non-ferrous metals by 13.3% or EUR 22.4 million; items from non-metal minerals by 30.7% or EUR 15.6 million and iron and steel by 23.1% or EUR 13.1 million);
- machines and transport equipment by 17.1% (machinery specialized for particular industries by 60.4% or EUR 15.7 million; electrical machines, devices and spare parts by 18.8% or EUR 13.8 million; and road vehicles by 15.0% or EUR 8.2 million);
- chemical products by 17.6% (inorganic chemical products by almost two and a half times or EUR 11.0 million; and chemical materials and products by 36.7% or EUR 8.5 million);
- food products by 11.4% (fruit and vegetables by 22.4% or EUR 3.8 million; and milk products and eggs by 22.4% or EUR 2.5 million); and
- beverages and tobacco by 20.6% (tobacco and tobacco products by 38.7% or EUR 2.4 million);

Highest decline of import was seen at the following:

- mineral oils and lubricants by 16.5% (oil and oil products by 18.3% or EUR 25.3 million);
- various finished goods by 0.1% (professional, scientific and controlling instruments and apparatus by 24.2% or EUR 3.1 million); and
- raw materials, except fuel by 1.1% (metal ore and metal scrap by 6.6% or EUR 2.4 million).

Observed by **economic purpose** in Q2 2015, goods for industrial procurement (50.5%), followed by investment goods without transport equipment (13.2%), fuels and lubricants (10.5%), food and beverages (10.2%), consumer goods (9.7%) and transport equipment (5.7%).

In Q2 2015, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q2 2014, decreased by 12.7%, whereby share of trade with EU in the total foreign trade decreased by 2.2 p.p. compared to the second quarter in 2014, accounting for 68.3%. Thereby, export of goods participated with 75.5%, while import of goods with 63.2%.



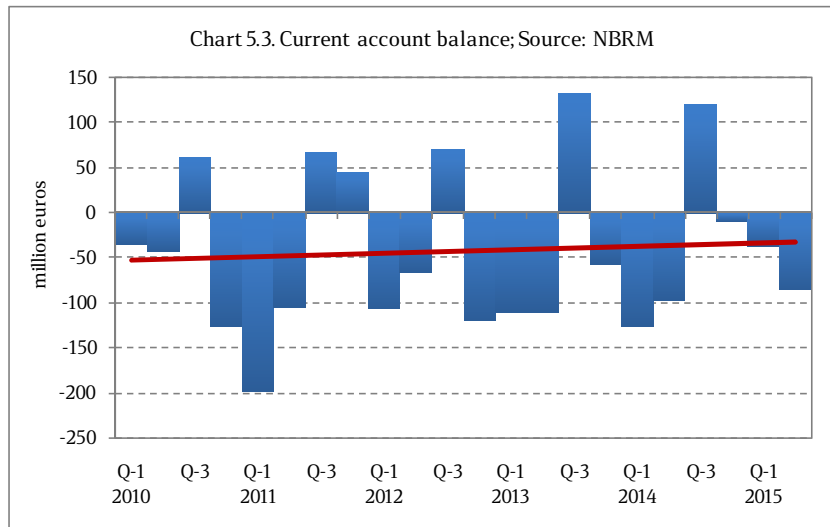
As a result of the structural changes in the trade with abroad, in the second quarter of 2015, 76.4% of the trade deficit of the country was a result of the trade deficit with Great Britain, Greece, Serbia and Italia, while the rest of the deficit was a result of the trade with: Turkey, China, Romania, Austria, etc. Surplus was realized in the trade with Germany, Kosovo, Belgium, Bosnia and Herzegovina and Spain.

## 5.2. Balance of payments

According to the data from the National Bank of the Republic of Macedonia, in the second quarter of 2015, deficit of EUR 84.1 million was recorded on the balance of payments **current account**, accounting for 3.7% of GDP<sup>4</sup> and compared to the same quarter of 2014, it narrowed by 0.8 p.p..

<sup>4</sup> Calculation also included GDP for the second quarter for 2015, announced by the State Statistics Office.

Analyzed on annual basis, the current account balance in Q2 2015 reduced by 13.5%, being a result of the increased surplus on the service account by almost nine times and the narrowing of the trade account deficit by 0.1%, while higher deficit on primary income account by 13.1% and lower inflows on the secondary income account by 7.4% acted in opposite direction.

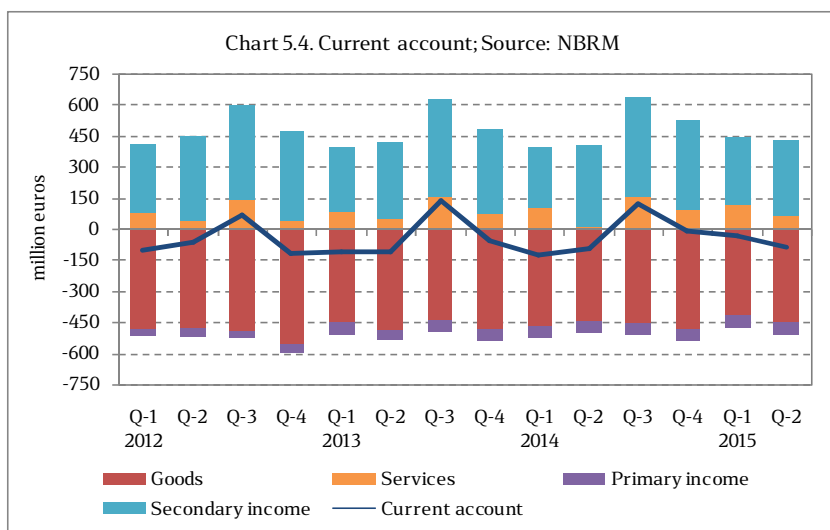


In Q2 2015, in conditions of greater absolute increase of export compared to import of goods, **trade deficit** narrowed by 0.1% on annual basis, i.e. by EUR 0.6 million, amounting to 19.7% of quarterly GDP.

In conditions of greater absolute increase of export of services compared to import of services, in Q2 2015, the **balance of services** account increased by almost nine times on annual basis.

**Trade openness** of the Republic of Macedonia in Q2 2015 compared to the same quarter of the previous year, increased by 0.6 p.p., accounting for 113.3% of quarterly GDP.

Deficit of **primary income** account in Q2 2015 amounted to EUR 63.0 million, deepening by 13.1% on annual basis, acting in opposite direction on the movement of the current account.



Balance of the **secondary income** account in Q2 2015 amount to EUR 363.6

million, decreasing by 8.9% on annual basis. Drop is due to the decrease of income of the sector "financial corporations, non-financial corporations, households, and NPISHs"<sup>5</sup> by

<sup>5</sup> Secondary income account includes the incomes from the sectors 1. General government and incomes, 2. Financial corporations, non-financial corporations, households and NPISHs, including 2.1/ Personal transfers (current transfers between resident and non-resident households) and 2.2/ Other current transfers.

4.2%, participating with 97.4% in the secondary income account and the decrease of income of the general government sector by 68.2%, participating with 2.6% in the secondary income account.

Balance of **capital account** in Q2 2015 amounted to EUR 0.7 million, narrowing by EUR 1 million compared to Q2 2014, being mainly due to the reduced inflow of capital transfers.

**Net borrowing** in the country in Q2 2015 amounted to EUR 83.4 million, reducing by 12.8% on annual basis.

**Direct investments** in the country in Q2 2015 amounted to EUR 52.6 million, increasing by 39.0% on annual basis (or by EUR 14.8 million), mainly due to the increased inflows on the basis of equity (increase by almost six times), as well as due the inflows on the basis of reinvested profit, amounting to EUR 20.4 million in Q2 2015. Multiple reduction of the inflow of debts from debt instruments had opposite effect.

**Foreign currency reserves** at the end of the second quarter of 2015 amounted to EUR 2254.8 million, increasing by 20.4% compared to the same quarter of 2014.