



Summary

- **GDP** in Q2 2016, compared to the same quarter in 2015, experienced 2.2% **real growth**, driven by the growth registered at both investments and export;
- **Number of employed persons** in Q2 2016 was higher by 3% compared to the same quarter of 2015. **Number of unemployed persons** dropped by 11.3%, which resulted in reduction of **unemployment rate** to 24% in Q2 2016;
- **Inflation rate** in Q2 2016, measured according to CPI, amounted to -0.7% on annual basis;
- Average **gross salary** amounted to Denar 32,736 in Q2 2016, increasing by 1.6% in nominal terms, i.e. surging by 2.3% in real terms, compared to the gross salary in Q2 2015;
- Total **budget revenues** were higher by 2.7% in Q2 2016, while total **budget expenditures** dropped by 1.9% compared to the same quarter of 2015;
- Total **deposit potential** of banks dropped by 2.9% in Q2 2016 on quarterly basis;
- **Credit activity** of banks to non-government sector experienced 2% decline in Q2 2016 on quarterly basis;
- **Macedonian Stock Exchange Index MSEI -10** declined by 4.2% in June 2016 compared to March 2016. Total turnover on the stock exchange surged by 54.6% in Q2 2016 compared to the previous quarter;
- In Q2 2016, both **export** and **import** grew by 1.9% and by 5% respectively on annual basis, whereby total **foreign trade**, expressed in euros, grew by 3.7%;

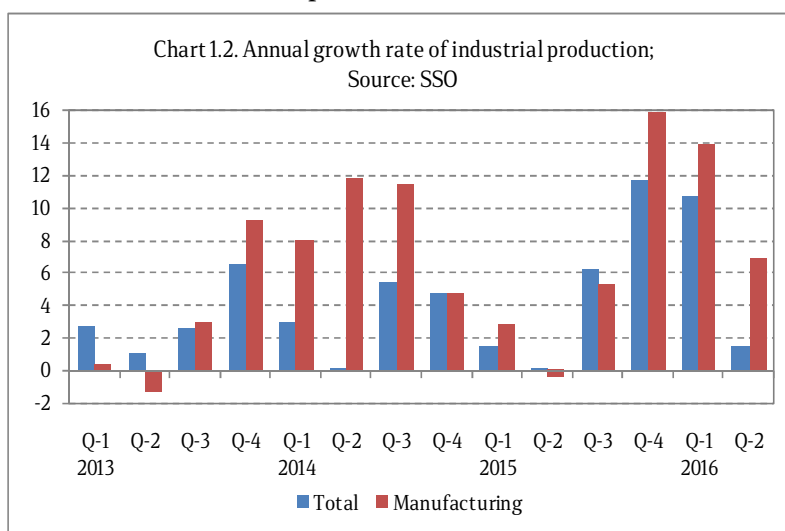
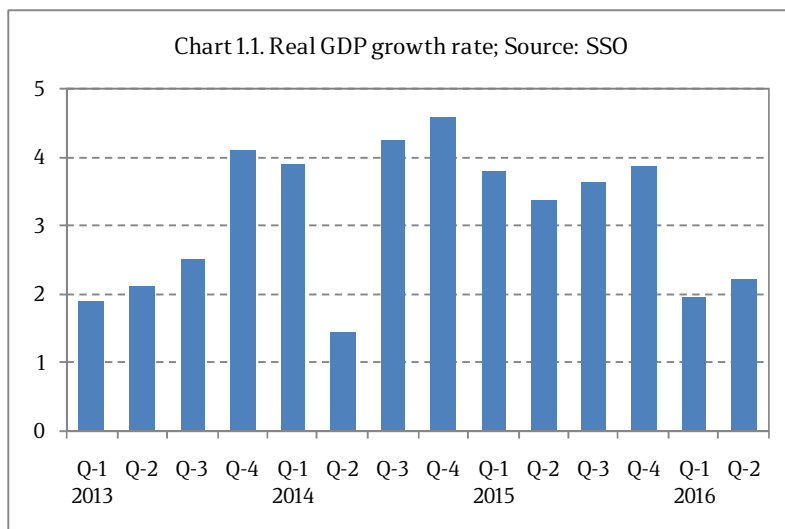
1. Macroeconomic Trends and Real Sector

In Q2 2016, compared to the same quarter of 2015, **GDP** experienced real growth of 2.2%. Nominal GDP growth in Q2 2016 amounted to 5.7% on annual basis, while the GDP deflator was 3.4%.

Analyzed according to the **production side of GDP**, positive performance was observed in several sectors in Q2 2016. Economic growth was driven by the

construction sector, which experienced a high growth of 31.0%. Favourable trends in the agricultural sector continued in Q2 2016 with a growth of 2.3%. Within the services, the following activities experienced growth: Professional, scientific, technical and administrative activities (11.5%), Financial and insurance activities (4.9%), Information and communications (1.3%) and Trade, transportation, food and accommodation services (0.2%), while a decrease registered: Real estate activities (1.3%), Public administration and defence, education and health (2.9%) and Arts, entertainment, recreation and other service activities (12.8%). Industry registered 1.8% drop in Q2 2016 as a result of the decline in Mining and Electricity and gas supply, amid almost unchanged production in Manufacturing.

Growth of **industry** in Q2 2016, according to the monthly data on industrial production, accounted for 1.5%, being a result of the realized positive trends at: manufacture of wood and products of wood and cork (48.2%), manufacture of rubber and plastic products (38.8%), manufacture of motor vehicles (36.7%), manufacture of computer, electronic and optical products (33.7%), manufacture of other transport equipment (26.9%), manufacture of tobacco products (20.9%),



manufacture of beverages (18.0%), manufacture of other non-metallic mineral products (15.8%), manufacture of electrical equipment (15.3%), repair and installation of machinery and equipment (14.6%), manufacture of furniture (13.5%), manufacture of machinery and equipment (12.2%), manufacture of textiles (7.6%) and manufacture of food products (5.0%). Hence, annual positive growth was registered at 14 branches, comprising 51.0% of the industrial production.

Drop was seen at: mining of coal and lignite (38.3%), electricity and gas supply (22.8%), manufacture of leather (22.5%), manufacture of chemicals and chemical products (14.8%), manufacture of paper and paper products (12.5%), mining of metal ores (12.2%), other mining and quarrying (10.0%), manufacture of metals (7.5%), manufacture of fabricated metal products (1.6%), manufacture of wearing apparel (0.6%), printing and production of recorded media (0.4%), manufacture of basic pharmaceutical products and preparations (0.2%) and other manufacturing (8.5%).

Analyzed according to the **expenditure side of GDP**, economic growth in Q2 2016 was driven by investment and export. Gross capital formation experienced 9.2% growth in real terms, amid the growth of construction activity and increased import of capital goods (machinery and equipment), as well as increased production of capital goods, as indicators of the growth of gross fixed capital formation.

Growth of export of goods and services amounted to 7.1% in real terms, mainly as a result of the growth of export by the capacities in the free economic zones, in conditions of favourable trends of the external demand, i.e. the sound growth of economic activity in the EU, as the most important destination to export the Macedonian products. Import of goods and services surged by 6.9% in real terms.

Final consumption (1.4%) had positive contribution on GDP growth in Q2 2016, as a result of 2.2% increase of private consumption, due, above all, to the increase of household disposable income, in conditions of increase of employment and salaries. Public consumption in Q2 2016 dropped by 1.9% in real terms.

Positive trends on the **labour market** continued in Q2 2016 as well. According to the Labour Force Survey, number of employed persons was higher by 3.0% compared to the same quarter of 2015. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 11.3%

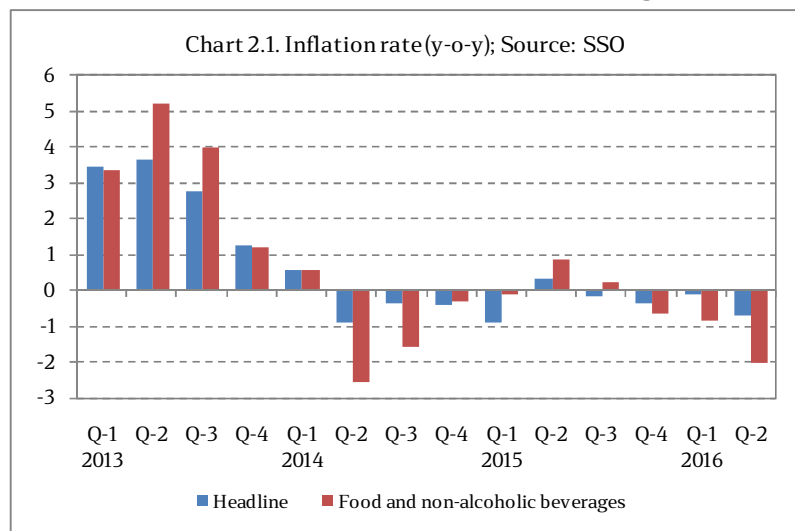


on annual basis. Number of active population declined by 0.8%.

Such trends on the labour market caused for the unemployment rate in Q2 2016 to drop to 24.0%, i.e. by 2.8 percentage points (p.p.) compared to the same quarter of the previous year, while in relation to the previous quarter, it was lower by 0.5 p.p.. Employment rate in Q2 2016 amounted to 42.9%, being higher by 1.2 p.p. compared to the same quarter of 2015. Active population accounted for 56.5% of the total working age population, decreasing by 0.5 p.p. compared to the same quarter of 2015.

2. Prices, Costs and Productivity

Inflation, measured according to the Consumer Price Index, experienced drop of 0.7% in Q2 2016 compared to the same quarter of 2015, following the 0.1% drop recorded in the previous quarter. Decrease of consumer prices in Q2 2016 was a result of the reduced prices in the categories: Transport by 4.3%, Food and non-alcoholic beverages by 2.0%, Housing, water, electricity, gas and other fuels by 0.7% and Miscellaneous goods and services by 0.5%. Category Alcoholic beverages, tobacco and narcotics experienced the highest price increase of 5.6% in Q2 2016, followed by the categories: Recreation and culture (3.5%), Communications (1.8%), Clothing and footwear (1.7%), Furnishings, household equipment and routine maintenance of the house (0.9%), Restaurants and hotels (0.8%), Education (0.4%) and Health (0.2%).

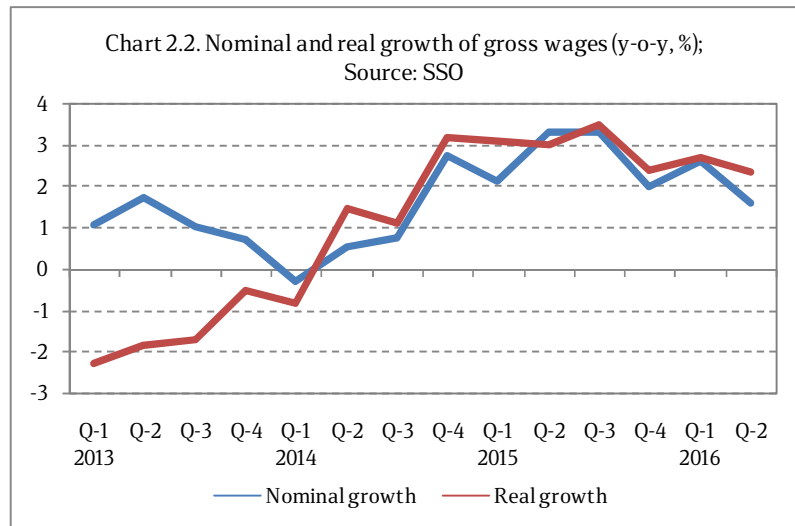


Retail prices in Q2 2016 decreased by 0.8% compared to the same quarter of 2015, following the 0.5% drop observed in the previous quarter. Drop of retail prices in Q2 2016 was due to the decreased prices of goods by 1.4%, while prices of services surged by 0.3% compared to the same quarter of the previous year. Within Goods category, prices of agricultural products dropped by 7.9%, while prices of industrial products declined by 0.7%. Reduced prices of industrial products were a result of the lower prices of non-food industrial products by 1.8%, while as regards other groups of products, prices increased. Hence, retail price of tobacco was higher by 7.9%, price of beverages surged by 0.2%, while price of food industrial products picked up by 0.1%.

Average monthly **net salary** in Q2 2016 amounted to Denar 22,289, being higher by 1.6% in nominal terms compared to Q2 2015. Net salary increased by 2.3% in real terms.

Average monthly **gross salary** amounted to Denar 32,736, increasing by 1.6% in nominal terms, i.e. surging by 2.3% in real terms.

Labour productivity in Q2 2016 dropped by 0.8% as a result of the lower growth of economic activity than the increase of the number of employees in the economy.



3. Fiscal Sector

Total budget revenues experienced higher performance by 2.7% in Q2 2016 compared to the same quarter of 2015, accompanied by lower increase of budget expenditures that were higher by 1.9%. This caused for **budget deficit** to amount to Denar 1,312 million in Q2 2016 or 0.9% of GDP realized in this quarter (central budget deficit amounted to Denar 786 million, i.e. 0.5% of quarterly GDP).

Share of total **budget revenues** accounted for 28.1% of the realized quarterly GDP, being higher by 2.7% compared to the same quarter of 2015, which is due to the higher performance of tax revenues by 6.8% and higher collection of contributions by 4.7%, while non-tax revenues experienced lower performance, i.e. a decline of 4.3%. Thereby, as for tax revenues, higher collection was recorded at excise duties, value added tax, personal income tax and customs duties, while revenues on basis of profit tax and other taxes experienced lower collection.

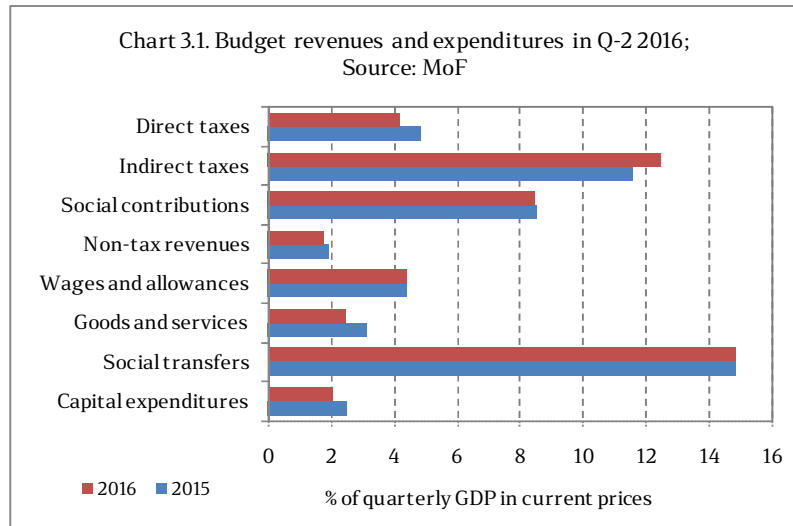
VAT revenues predominated, accounting for 47.9% of the total tax revenues, surging by 13.4% in Q2 2016 compared to the same quarter of 2015. As for VAT revenue structure, the highest share was on the basis of import, followed by VAT revenues collected on the basis of sales in the country.

Excise revenues were higher by 17.4% compared to the same quarter of 2015. As for direct taxes, collection of revenues on the basis of personal income tax increased by 6.3%, while profit tax revenues were lower by 23.9% compared to the same quarter of 2015, whereby one should take into account that such revenue decline at this tax was mainly a result of the reduced payments on the basis of tax balances.

From the point of view of structural share in GDP, share of revenues, collected on the basis of direct taxes, in GDP dropped by 0.7 p.p. on annual basis (4.2% of quarterly GDP),

while as regards the share of revenues, collected on the basis of indirect taxes, in GDP picked up by 0.9 p.p., i.e. they accounted for 12.5% of GDP in Q2 2016.

Collection of indirect taxes in Q2 2016 picked up by 14.3%, while direct taxes collection experienced 10.1% decline in relation to Q2 2015.



Collection of social contributions was higher by 4.7%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance contributions by 4.6%, health insurance contributions by 4.9% and employment contributions by 4.9%. Collection of non-tax revenues, accounting for 1.7% of the quarterly GDP, was lower by 4.3% compared to the same quarter of 2015.

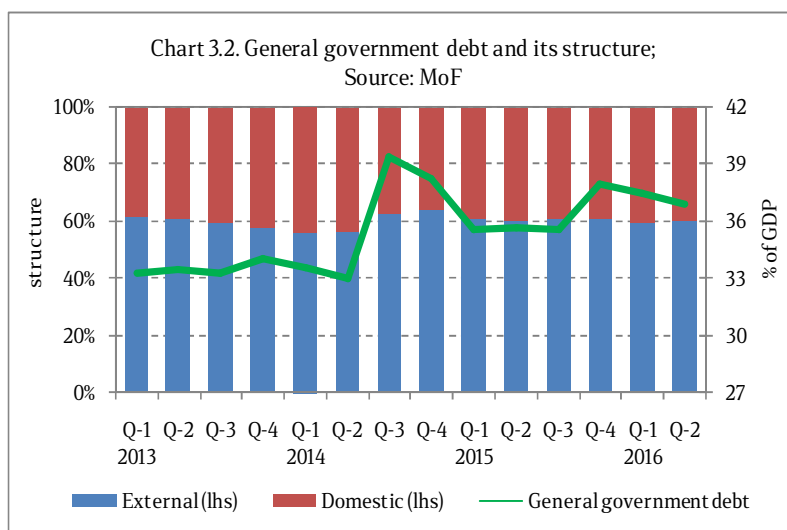
Capital revenues performance in Q2 2015 was lower by 78.6% on annual basis (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends). Revenues collected on the basis of foreign grants were higher by 9.3% compared to Q2 2015.

In Q2 2016, total **budget expenditures**, accounting for 29.0% of the quarterly GDP, were lower by 1.9% compared to the same quarter of 2015. Current expenditures, accounting for 27.0% of the quarterly GDP, participated with 93.0% in the total expenditures and experienced 0.9% lower execution on annual basis. As for current expenditures, expenditures for goods and services were lower by 17.6%, while expenditures related to salaries and allowances increased by 5.8% compared to the same quarter of 2015. Transfers, accounting for 67.0% of the total expenditures, were higher by 0.4% compared to the same quarter of 2015. Social transfers surged by 5.8%, accounting for 51.3% of the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most of the social transfers, surged by 7.9%, accounting for 31.3% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 15.1% of the total expenditures, i.e. it dropped by 13.4% compared to the same quarter of 2015. Block and earmarked grants to local government units surged by 3.2%, while subsidies and transfers were lower by 34.7%.

Interest-related expenditures dropped by 7.0% on annual basis, whereby domestic debt interest-related expenditures declined by 17.5%, and expenditures related to interest on foreign debt increased by 10.5%.

Execution of capital expenditures, accounting for 2.0% of the quarterly GDP, dropped by 13.5% compared to the same quarter of 2015, i.e. they accounted for 7.0% of the total expenditures.

Total **government debt** at the end of Q2 2016 accounted for 36.9% of GDP, decreasing by 0.6 p.p. compared to Q1 2016. Share of the external debt in the total debt increased by 0.8 p.p. compared to Q1 2016, accounting for 60.5% of total government debt. Share of domestic debt dropped to 39.5% of the total government debt.



4. Monetary and Financial Trends

In the second quarter of 2016, NBRM increased the reference interest rate by 0.75 p.p. from 3.25% to 4.0%. Such tightening of the monetary policy was due to the increased demand for foreign currency and the pressures on the banks' deposit base, as a result of the worsened expectations of the economic agents, caused by the instable political situation in the country. Interest rate on available 7-day deposits amounted to 0.5% in June 2016 and, compared to the previous quarter, it remained unchanged.

Primary money¹ in Q2 2016 increased by 3% on quarterly basis (0.3% growth was recorded in the previous quarter) in conditions of increase of both total liquidity of banks and currency in circulation by 5.4% and 0.7% respectively. Compared to Q2 2016, primary money surged by 9.5% (compared to 7.6% growth in Q1 2016), as a result of the increase of currency in circulation by 8.6% and increase of total liquidity of banks by 10.4%.

In Q2 2016, the narrowest money supply **M1** experienced quarterly decline of 3.9% compared to the previous quarter. **Monetary aggregate M2** dropped by 2.9%, while the broadest **monetary aggregate M4** declined by 2.6%.

Total deposit potential² of banks in Q2 2016 declined by 2.9% on quarterly basis, compared to the previous quarter when the deposit potential grew by 0.1%. Sector

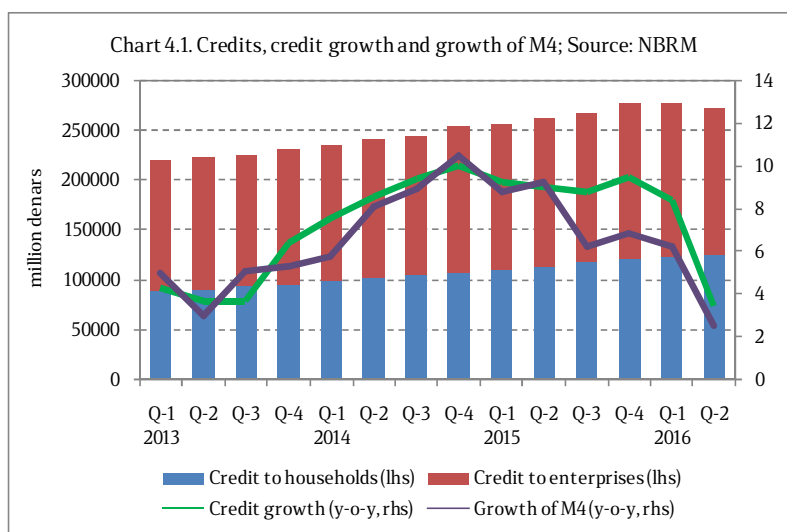
¹ It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

² Deposits also include calculated interest.

analysis showed that deposits of enterprises and deposits of households decreased by 3.4% and 3.5% respectively. Analyzed by currency, compared to the previous quarter, Denar deposits dropped by 5%, while foreign currency deposits surged by 0.2%. Level of euroization increased by 1.3 p.p. compared to the previous quarter, i.e. to 42%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, share of long-term deposits in total deposit potential in Q2 2016 increased compared to Q1 2016, reaching 27.4% (accounting for 27.2% in Q1 2016), as a result of the decline of long-term deposits by 2% in relation to the previous quarter. Short-term deposits dropped by 2.1% in the analyzed period.

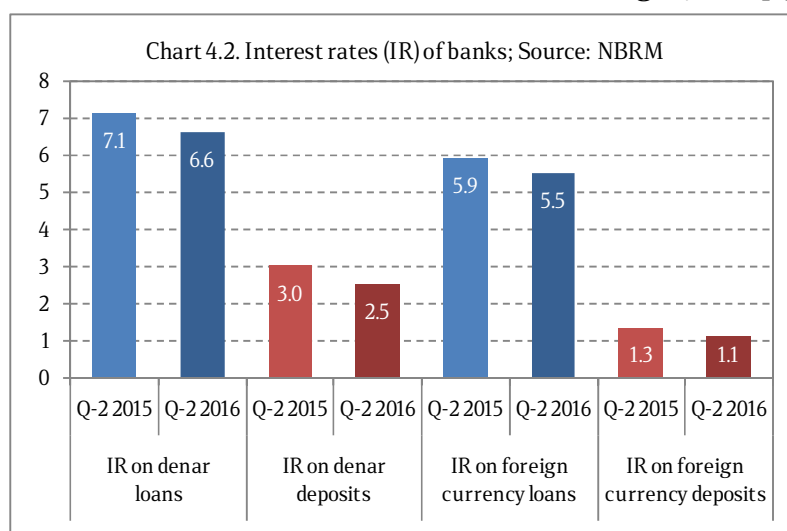
Credit activity of banks to non-government sector in Q2 2016 experienced decline of 2% on quarterly basis (compared to 0.1% growth in the previous quarter), in conditions of growth of credits to households by 0.2%, while credits to private enterprises dropped by 3.8%. From currency point of view, in Q2 2016, Denar



and foreign currency credits dropped by 1.3% and 4.8% respectively, compared to the previous quarter. From maturity point of view, in Q2 2016, long-term credits experienced 3.3% growth in relation to the previous quarter, while short-term credits dropped by 1.5%.

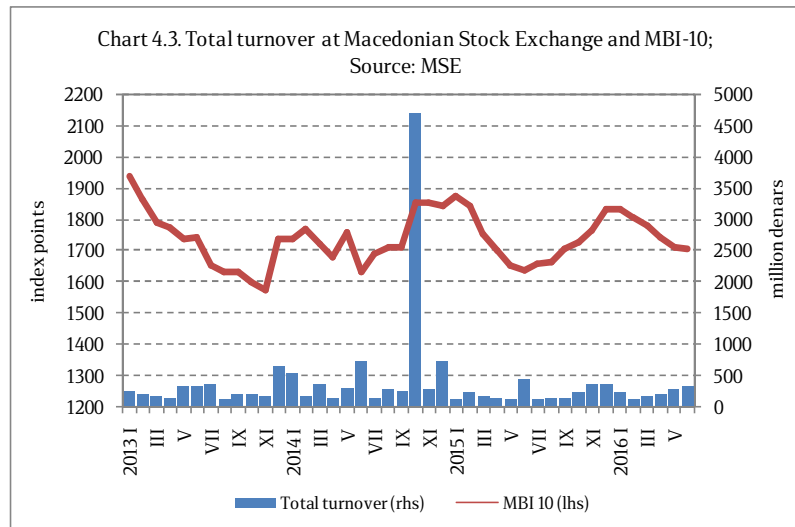
In Q2 2016, **interest rate** on Denar credits amounted to 6.6%, decreasing by 0.1 p.p. compared to Q1 2016.

Interest rate on foreign currency credits was 5.5% in Q2 2016, dropping by 0.1 p.p. compared to the previous quarter. Interest rates on Denar and foreign currency deposits in Q2 2016 remained unchanged on quarterly basis, accounting for 2.5% and 1.1% respectively. In Q2 2016, interest rate on newly



granted Denar credits amounted to 6%, while interest rate on newly approved foreign currency credits accounted for 5%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.8% and 0.9% respectively.

As regards the **capital market**, in Q2 2016, total turnover on the Stock Exchange experienced 54.6% increase compared to Q1 2016, being a result of the increase of the turnover realized through block transactions by 2.2 times (220%), as well as increased turnover realized through trading in best by 29.6%. Compared to the same quarter of the previous year, total turnover surged by 15.2% in conditions of increase of the turnover realized through block transactions by more than 4 times (415.6%), while turnover realized through trading in best dropped by 8.8%.



Macedonian Stock Exchange Index MSEI -10, as aggregate indicator of stock exchange trends, amounted to 1,706.97 index points at the end of the second quarter, decreasing by 4.2% compared to March 2016, while compared to June 2015, the index was higher by 4%.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,610.2 million in Q2 2016, increasing by 3.7% compared to the same quarter of 2015.

In Q2 2016, **export** of goods amounted to EUR 1,054.7 million, whereby compared to Q2 2015, it surged by 1.9%, while compared to the previous quarter, it increased by 7.3%.

Analyzed by SITC sectors (Standard International Trade Classification), positive trends in the export in Q2 2016, compared to the same quarter of 2015, were registered at the following:

- machinery and transport equipment, increasing by 19.5% (within which export grew at the following categories: industrial machinery and machine parts by 20.4% or EUR 20.6 million; road vehicles by 54.5% or EUR 14.6 million and electrical machinery, apparatus and appliances by 13.3% or EUR 13.7 million);

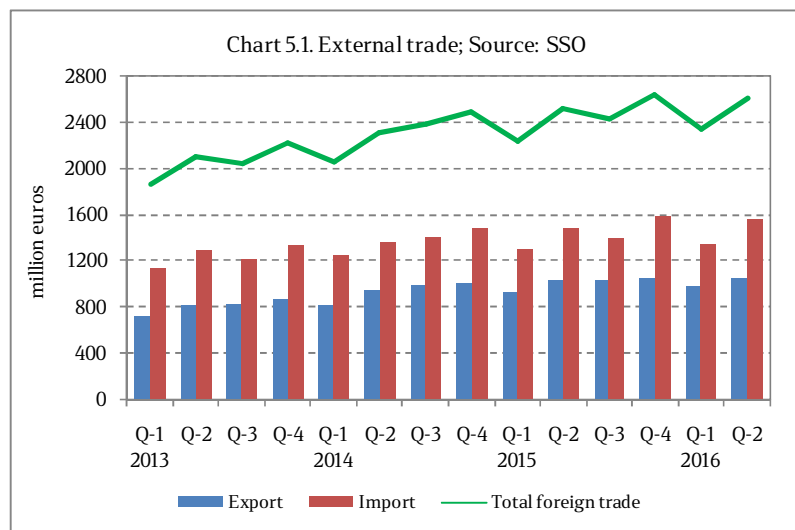
- miscellaneous manufactured articles, increasing by 5.7% (furniture and parts thereof, bedding, mattresses and similar by 32.1% or EUR 9.3 million);
- food products, increasing by 12% (fruit and vegetables by 21.7% or EUR 8.1 million);
- beverages and tobacco, increasing by 25.5% (tobacco and tobacco products by 23.5% or EUR 3.2 million and beverages by 28.1% or EUR 3.1 million);
- chemical products, increasing by 1.8% (chemical materials and products by 1.4% or EUR 3.1 million).

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

- manufactured goods classified chiefly by material, dropping by 22.3% (export of iron and steel dropped by 30.2% or EUR 44.4 million);
- crude materials, inedible, except fuels, dropping by 19.6% (metal ores and metal scrap by 23.1% or EUR 10.3 million);
- mineral fuels and lubricants, decreasing by 27.9% (electricity by 91.9% or EUR 4.1 million).

In Q2 2016, **observed by economic purpose**, the largest share in export had industrial supplies (46.7%), followed by the categories: consumer goods (16.5%), products for investments without transport equipment (14.2%), transport equipment (12.2%), food and beverages (9.7%) and fuels and lubricants (0.9%).

Import of goods in Q2 2016 amounted to EUR 1,555.5 million, surging by 5% compared to Q2 2015, while in relation to the previous quarter, it increased by 14.7%.



Analyzed by SITC sectors, the highest increase of import in Q2 2016, compared to Q2 2015, was seen at:

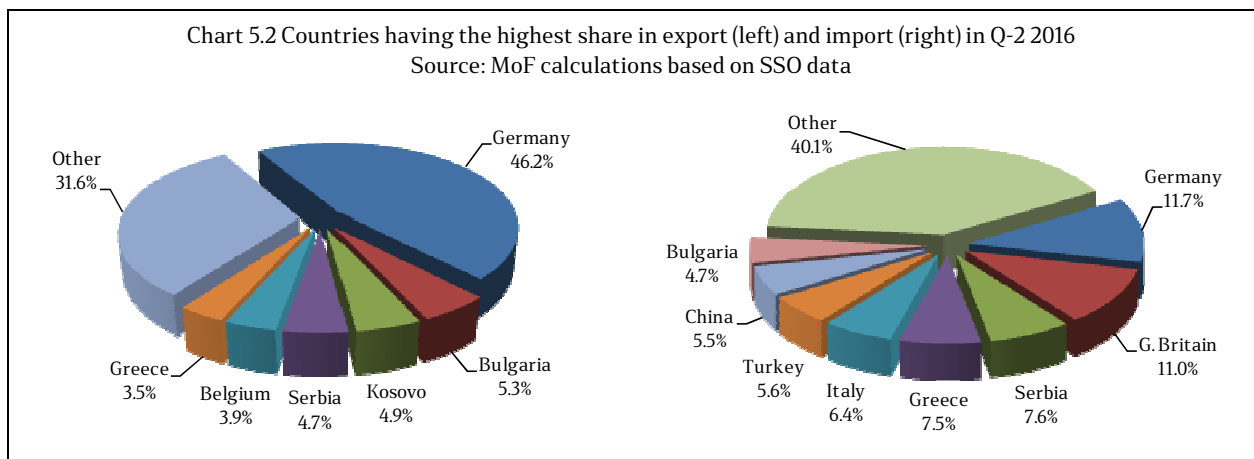
- manufactured goods classified chiefly by material, surging by 13.3% (within which import grew at the following categories: non-ferrous metals by 12.1% or EUR 23.2 million; non-metallic mineral manufactures by 32.6% or EUR 21.7 million and iron and steel by 16.6% or EUR 11.7 million);
- machinery and transport equipment, surging by 10.5% (road vehicles by 34.4% or EUR 21.7 million; electrical machinery, apparatus and appliances by 9.7% or EUR

- 8.5 million and industrial machinery and machine parts by 14.2% or EUR 6.6 million);
- chemical products, increasing by 5.9% (chemical materials and products by 26.4% or EUR 8.4 million and medical and pharmaceutical products 24% or EUR 7.4 million).
- miscellaneous manufactured articles, increasing by 22.6% (furniture and parts thereof, bedding, mattresses and similar by 50.5% or EUR 5.1 million; professional, scientific and controlling instruments and devices by 44.7% or EUR 4.4 million, and clothing by 23.2% or EUR 3.3 million);
- beverages and tobacco, picking up by 13.3% (tobacco and tobacco products by 24.5% or EUR 2.1 million).

The highest decline of import was seen at the following:

- crude materials, inedible, except fuel, dropping by 42.9% (within which metal ores and metal scrap dropped by 67.4% or EUR 22.4 million);
- mineral fuels and lubricants, decreasing by 23.3% (petroleum and petroleum products by 18.9% or EUR 21.4 million);
- food products, dropping by 2.3% (feeding stuff for animals by 30.4% or EUR 2.6 million and meat and meat preparations by 4.1% or EUR 1.3 million).

In Q2 2016, **observed by economic purpose**, the largest share in import had industrial supplies (51.3%), followed by the categories: products for investments without transport equipment (13.2%), consumer goods (11%), food and beverages (9.7%), fuels and lubricants (7.7%) and transport equipment (6.9%).



In Q2 2016, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q2 2015, surged by 8%, whereby share of trade with the EU in the total foreign trade increased by 1.4 p.p. compared to the second quarter of 2015, accounting for 70.1%. Thereby, in Q2 2016, export of goods accounted for 79.5%, while share of import of goods was 63.7%.

5.2. Balance of payments

According to the data from the National Bank of the Republic of Macedonia, deficit in the amount of EUR 169.4 million was recorded on the balance of payments **current account** in Q2 2016, accounting for 7.1% of GDP, as opposed to the deficit of 3.6% of GDP registered in the same quarter of last year.

Analyzed on annual basis, current account deficit in Q2 2016 widened by EUR 87.3 million, being a result of the increased deficit on the goods account by 15.1%, decreased inflow on the secondary income account by 11.5% and higher deficit on the primary income account by 2%. Improved surplus on the services account by 42.2% had the opposite effect.

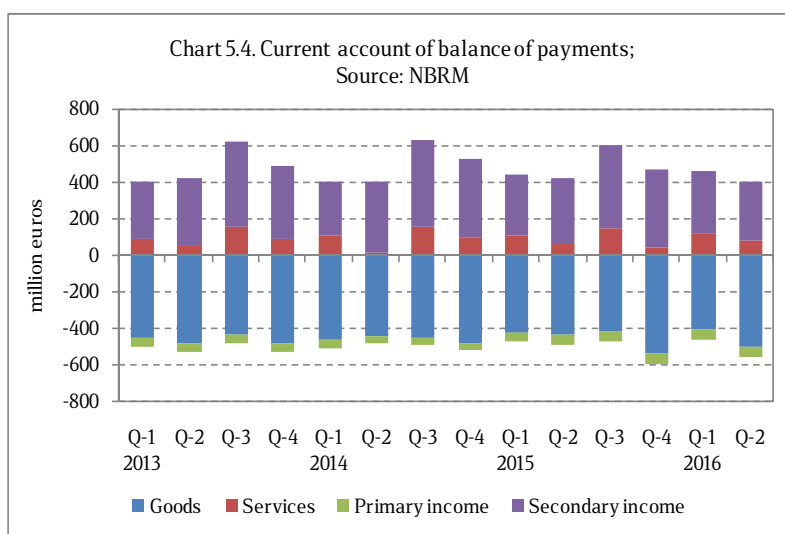
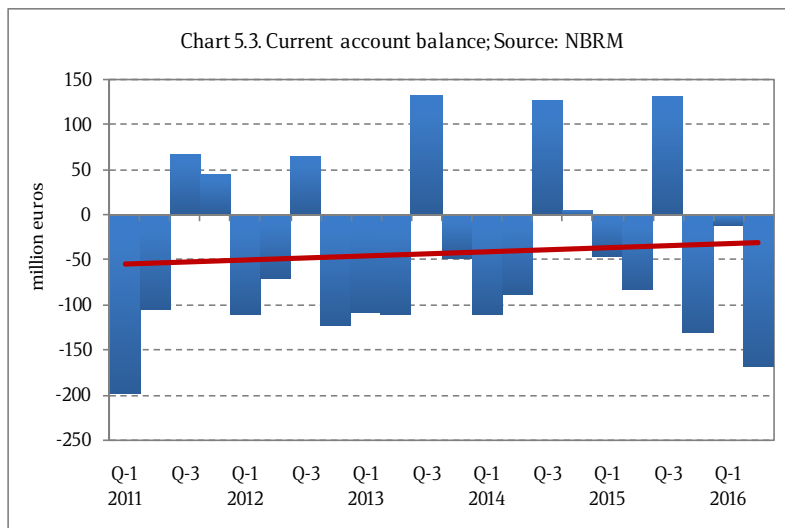
In Q2 2016, in conditions of greater increase of import compared to export of goods, **trade deficit** widened by EUR 66.7 million on annual basis, accounting for 21.2% of quarterly GDP, being by 1.8 p.p. higher than the deficit in the same quarter of 2015.

Surplus on **services account** amounted to EUR 74.7 million in Q2 2016 and, compared to the same quarter of 2015, it surged by EUR 22.2 million.

Trade openness of the Republic of Macedonia accounted for 114% of the quarterly GDP in Q2 2016, being higher by 0.1 p.p. compared to the same quarter of 2015.

Primary income account experienced EUR 57.9 million deficit in Q2 2016, widening by EUR 1.1 million on annual basis.

Surplus on the **secondary income** account amounted to EUR 320.7 million in Q2 2016, dropping by EUR 41.6 million on annual basis. Such drop was a result of the decline of private net transfers by EUR 48.2



million, accounting for 95% of the secondary income account, while the official net transfers picked up by EUR 6.6 million.

Balance on the **capital account** amounted to EUR 2.7 million in Q2 2016 and, compared to the same quarter of 2015, it surged by EUR 1.7 million, completely due to the increased inflow of capital transfers.

Net lending of the country amounted to EUR 166.7 million in Q2 2016, increasing by EUR 85.6 million on annual basis.

Direct investments in the country amounted to EUR 60.3 million in Q2 2016 and, compared to Q2 2015, they dropped by EUR 14.7million. Inflow of direct investments in this period was mostly on the basis of equity.

Portfolio investments were negative and amounted to EUR 6.6 million in Q2 2016, being a worsening of the balance by EUR 15.5 million in relation to Q2 2015.

Other investments amounted to EUR 17.9 million in Q2 2016, surging by EUR 0.4 million in relation to Q2 2015. As regards the category Other investments, currencies and deposits amounted to EUR 46.3 million, trade credits amounted to EUR 4.9 million, while loans experienced a negative balance in the amount of EUR 33.3 million.

Reserves assets amounted to EUR 2,158.8 million at the end of the second quarter of 2016, dropping by 4.3% compared to the same quarter of 2015. At the end of Q2 2016, reserve assets provided for 4.3-month coverage of import of goods and services in the previous 12-month period, being an adequate level of reserve assets.

