

Republic of Macedonia Ministry of Finance

QUARTERLY ECONOMIC REPORT Q3 2016

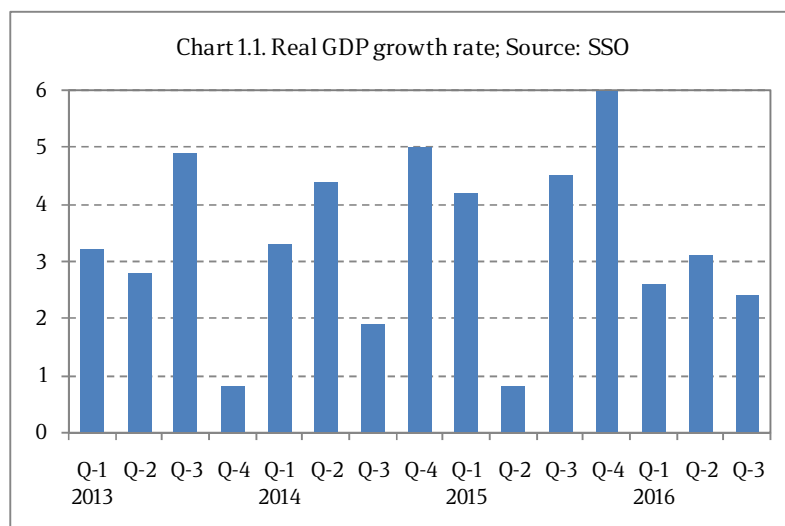
Summary

- **GDP** in Q3 2016, compared to the same quarter in 2015, experienced 2.4% **real growth**, as a result of the growth of exports and private consumption;
- **Number of employed persons** in Q3 2016 was higher by 2.3% compared to the same quarter of 2015. **Number of unemployed persons** dropped by 8.7%, which resulted in reduction of **unemployment rate** to 23.4% in Q3 2016;
- **Inflation rate** in Q3 2016, measured according to CPI, amounted to -0.1% on annual basis;
- Average **gross wage** amounted to Denar 32,756 in Q3 2016, increasing by 1.7% in nominal terms, i.e. surging by 1.8% in real terms, compared to the gross wage in Q3 2015;
- Total **budget revenues** were higher by 11.4% in Q3 2016, while total **budget expenditures** surged by 5.2% compared to the same quarter of 2015;
- Total **deposit potential** of banks increased by 2.3% in Q3 2016 on quarterly basis;
- **Credit activity** of banks to non-government sector experienced 0.2% increase in Q3 2016 on quarterly basis;
- **Macedonian Stock Exchange Index MSEI -10** surged by 14.5% in September 2016 compared to June 2016. Total turnover on the stock exchange declined by 24.2% in Q3 2016 compared to the previous quarter;
- In Q3 2016, both **export** and **import** grew by 10.4% and by 10.1%, respectively, on annual basis, whereby total **foreign trade**, expressed in euros, grew by 10.2%;

1. Macroeconomic Trends and Real Sector

In Q3 2016, compared to the same quarter of 2015, **GDP** experienced real growth of 2.4%¹, by which the GDP growth in the first three quarters of 2016 amounted to 2.7%. Nominal GDP growth in Q3 2016 amounted to 9.9% on annual basis, while GDP deflator was 7.3%.

Analyzed according to the **production side of GDP**, positive performance in Q3 2016 was observed in several sectors. Economic growth was driven by the construction sector, which experienced growth of 10.3%. Favourable trends in



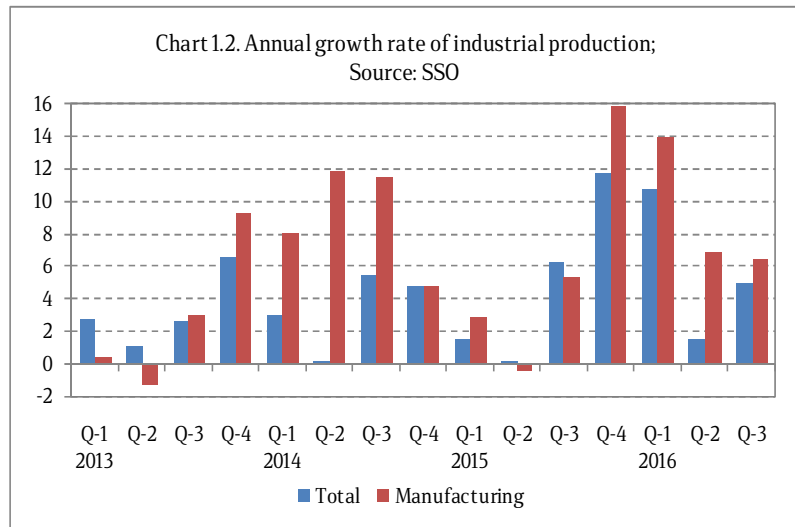
the agriculture continued in Q3 2016 with a growth of 4.9%. Industry experienced growth of 2.1%, underpinned by the increased production in Manufacturing by 1.1%.

Services sector experienced 1.4% growth in Q3 2016, within which Professional, scientific, technical and administrative activities, surging by 10.9%, contributed the most to the economic growth, followed by the sectors: Information and communications (5.6%), Financial and insurance activities (3.5%), Trade, transportation, food and accommodation services (0.4%) and Arts, entertainment, recreation and other services (1%). Decline was registered at Real estate activities (1.9%) and Public administration and defence, education and health (0.1%).

Growth of **industry** in Q3 2016, according to the monthly data on industrial production, accounted for 5.0%, being a result of the realized positive trends at: manufacture of motor vehicles (98.6%), manufacture of computer, electronic and optical products (61.7%), manufacture of wood and products of wood and cork (50.7%), manufacture of electrical equipment (33.6%), manufacture of machinery and equipment (27.8%), manufacture of rubber and plastic products (22.3%), manufacture of basic pharmaceutical products and preparations (18.2%), manufacture of other non-metallic mineral products (15.8%), repair and installation of machinery and equipment (15.3%), manufacture of furniture (13.3%), manufacture of textiles (13.2%), electricity and gas supply (12.6%), manufacture of paper and paper products (5.5%) and other manufacturing (13.1%). Hence, annual positive growth was registered at 14 branches, comprising 43.9% of the industrial production.

¹ SSO simultaneously revised the GDP real growth rates for the previous quarters (including 2015 as well). Thus, GDP growth in Q1 2016 was revised to 2.6% from the previous 2%, while the growth in Q2 2016 was revised to 3.1% from the previous 2.2%.

Drop was seen at: manufacture of chemicals and chemical products (29.2%), manufacture of fabricated metal products (17.9%), manufacture of other transport equipment (14.9%), mining of coal and lignite (13.5%), manufacture of wearing apparel (10.2%), manufacture of leather (9.2%), manufacture of food products (8.4%),



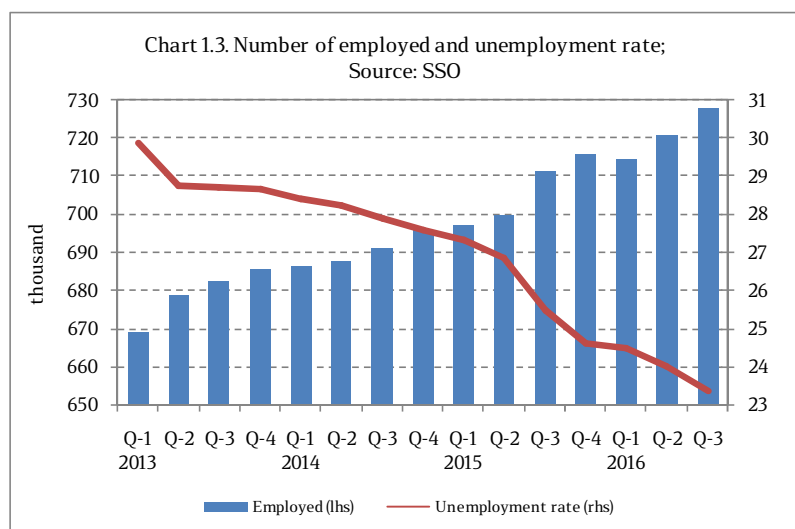
manufacture of metals (6.5%), manufacture of tobacco products (5.6%), printing and production of recorded media (3.9%), mining of metal ores (3.3%), manufacture of beverages (1.8%) and other mining and quarrying (0.3%).

Analyzed according to the [expenditure side of GDP](#), economic growth in Q3 2016 was a result of the growth registered at both export and private consumption. Growth of export of goods and services amounted to 15.6% in real terms, mainly as a result of the growth of export by the capacities in the free economic zones, amid 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 13.3% in real terms.

Final consumption grew by 4.4% in real terms in Q3 2016, as a result of 5.6% increase of private consumption, due, above all, to the increase of household disposable income, in conditions of increase of employment and wages. Public consumption dropped by 0.4% in real terms, as a result of the reduced budget expenditures for goods and services.

Gross capital formation experienced 4% decline in real terms, despite the growth of construction activity in the country and increased budget capital expenditures, as indicators of the growth of gross fixed capital formation.

Positive trends on the [labour market](#) continued in Q3 2016. According to the Labour Force Survey,

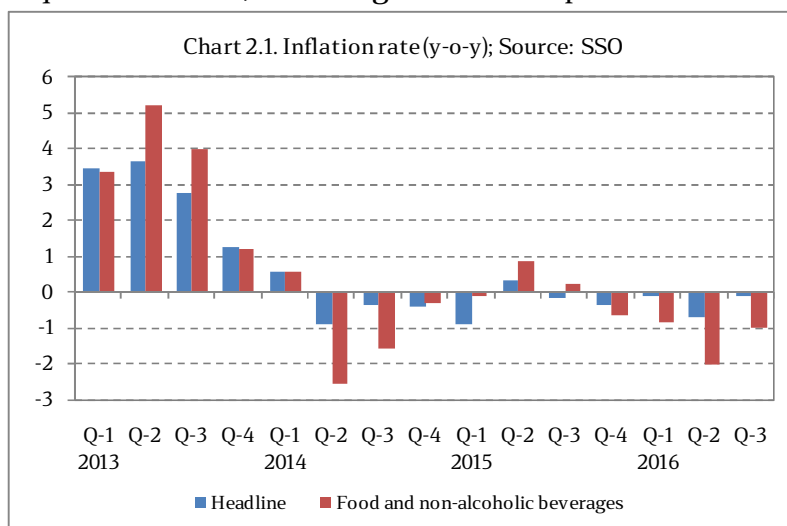


number of employed persons was higher by 2.3% compared to the same quarter of 2015. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 8.7% on annual basis. Number of active population declined by 0.5%.

Such trends on the labour market caused for the unemployment rate in Q3 2016 to drop to 23.4%, i.e. by 2.1 percentage points (p.p.) compared to the same quarter of the previous year, while in relation to the previous quarter, it was lower by 0.6 p.p.. Employment rate in Q3 2016 amounted to 43.4%, being higher by 1 p.p. compared to the same quarter of 2015. Active population accounted for 56.6% of total working age population, decreasing by 0.3 p.p. compared to the same quarter of 2015.

2. Prices, Wages and Productivity

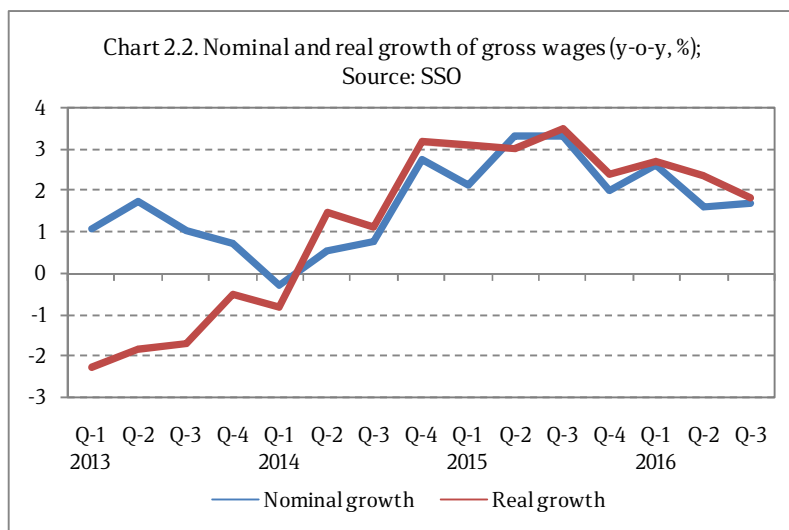
Inflation, measured according to the Consumer Price Index, experienced drop of 0.1% in Q3 2016 compared to the same quarter of 2015, following the 0.7% drop recorded in the previous quarter. Decrease of consumer prices in Q3 2016 was a result of the reduced prices in the categories: Transport by 2.4%, Health by 1.1%, Food and non-alcoholic beverages by 1.0%, Housing, water, electricity, gas and other fuels by 0.3% and Miscellaneous goods and services by 0.5%. Category Alcoholic beverages,



tobacco and narcotics experienced the highest price increase of 4.8% in Q3 2016, followed by the categories: Furnishings, household equipment and routine maintenance of the house (2.8%), Communications (1.5%), Clothing and footwear (1.4%), Recreation and culture (1.1%), Education (0.4%) and Restaurants and hotels (0.3%).

Retail prices in Q3 2016 remained unchanged compared to the same quarter of 2015, following the 0.8% drop observed in the previous quarter. Prices of goods in Q3 2016 dropped by 0.5%, while prices of services surged by 0.8% compared to the same quarter of the previous year. Within Goods category, prices of agricultural products dropped by 3.5%, while prices of industrial products declined by 0.2%. Reduced prices of industrial products were a result of the lower prices of non-food industrial products by 0.7% and food industrial products by 0.4%, while as regards other groups of products, prices increased. Hence, retail price of tobacco was higher by 6.1%, while price of beverages surged by 0.2%.

Average monthly **net wage** in Q3 2016 amounted to Denar 22,273, being higher by 1.6% in nominal terms compared to Q3 2015. Net wage increased by 1.7% in real terms. Average monthly **gross wage** amounted to Denar 32,756, increasing by 1.7% in nominal terms, i.e. surging by 1.8% in real terms.



Labour productivity in Q3

2016 remained unchanged, taking into account that economic activity and number of employed persons in the economy experienced almost identical increase.

3. Fiscal Sector

Total budget revenues experienced higher performance by 11.4% in the third quarter of 2016 compared to same quarter of 2015, accompanied by slower increase of total budget expenditures, being higher by 5.2%. This caused for **consolidated budget deficit** to amount to Denar 2,149 million in Q3 2016 or 1.4% of GDP realized in this quarter (central budget deficit amounted to Denar 2,322 million, i.e. 1.5% of quarterly GDP).

Share of total **budget revenues** accounted for 27.9% of the realized quarterly GDP, being higher by 11.4% compared to the same quarter of 2015, due to the higher performance of tax revenues by 13.9%, higher collection of contributions by 5.8% and higher performance of non-tax revenues by 3.4%. Thereby, as for tax revenues, higher collection was recorded at excise duties, value added tax, customs duties, personal income tax and profit tax, while revenues on basis of other taxes experienced lower collection.

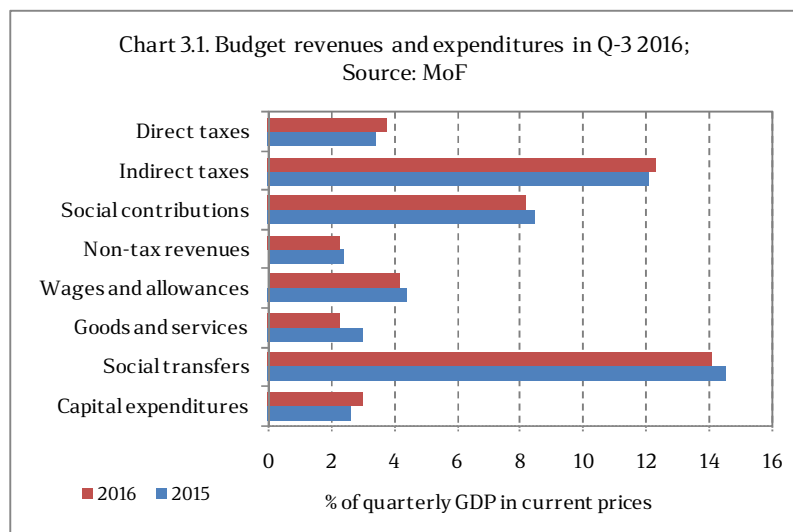
As regards indirect taxes, VAT revenues predominated, accounting for 45.0% of the total tax revenues, surging by 5.0% in Q3 2016, compared to the same quarter of 2015. As for VAT revenue structure, the highest share was on the basis of import, followed by VAT revenues collected on the basis of sales in the country.

Excise revenues were higher by 27.3% compared to the same quarter of 2015, while collection of revenues on the basis of customs duties increased by 8.7%.

As for direct taxes, collection of revenues on the basis of personal income tax increased by 17.2%, while profit tax revenues were higher by 28.5% compared to the same quarter of the previous year, whereby one should take into account that such revenue increase

at this tax was mainly a result of the increased payments on the basis of tax balances, as well as the tax collected on the basis of monthly advance payments.

From the point of view of structural share in GDP, the share of revenues collected on the basis of direct taxes to GDP surged by 0.4 p.p. on annual basis (3.8% of quarterly GDP), while the share of revenues collected on the basis of indirect taxes to GDP picked up by 0.2 p.p., i.e. they accounted for 12.3% of GDP in Q3 2016.



Collection of indirect taxes in Q3 2016 surged by 12.1% and direct taxes collection picked up by 21.7% in relation to Q3 2015.

Collection of social contributions was higher by 5.8%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance contributions by 5.8%, health insurance contributions by 5.7% and employment contributions by 6.6%. Collection of non-tax revenues, accounting for 2.3% of the quarterly GDP, was higher by 3.4% compared to the same quarter of 2015.

Capital revenues in Q3 2016 were higher by 2.4 times 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 15.3% compared to Q3 2015.

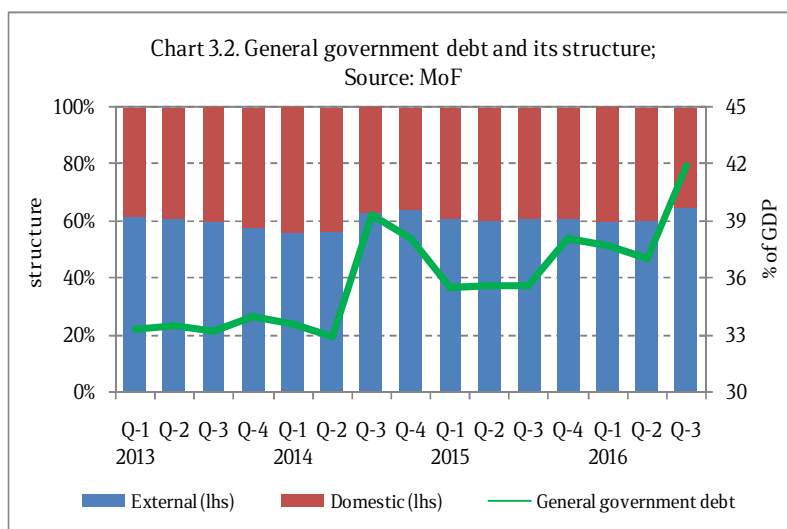
In Q3 2016, total **budget expenditures**, accounting for 29.3% of the quarterly GDP, were higher by 5.2% compared to the same quarter of 2015. Current expenditures, accounting for 26.3% of the quarterly GDP, participated with 89.7% in the total expenditures and experienced 3.3% higher execution on annual basis. As for current expenditures, expenditures for goods and services were lower by 16.0%, while expenditures related to wages and allowances increased by 4.3% compared to the same quarter of 2015. Transfers, accounting for 62.4% of the total expenditures, were higher by 6.4% compared to the same quarter of 2015. Social transfers surged by 6.1%, accounting for 48.1% of the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most of the social transfers, surged by 7.2%, accounting for 29.2% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 13.7% in the total expenditures, i.e. they surged by 8.3% compared to

the same quarter of 2015. Block and earmarked grants to local government units picked up by 2.2%, while subsidies and transfers were higher by 20.9%.

Interest-related expenditures dropped by 0.4% on annual basis, whereby domestic debt interest-related expenditures declined by 3.8%, and expenditures related to interest on foreign debt increased by 0.7%.

Execution of capital expenditures, accounting for 3.0% of the quarterly GDP, increased by 26.2% compared to the same quarter of 2015, i.e. they accounted for 10.3% of the total expenditures.

Total **government debt** at the end of Q3 2016 accounted for 41.9% of GDP, increasing by 4.9 p.p. compared to Q2 2016, as a result of the Eurobond issuance on the international capital market in July. Share of the external debt in the total debt increased by 4.4 p.p. compared to Q2 2016, accounting for 64.9% of total government debt. Share of domestic debt dropped to 35.1% of the total government debt.



4. Monetary and Financial Trends

In the third quarter of 2016, NBRM kept the reference interest rate at 4.0%, after increasing it by 0.75 p.p. in Q2 2016. Interest rate on available 7-day deposits amounted to 0.5% in September 2016 and, compared to the previous quarter, it remained unchanged.

Primary money² in Q3 2016 increased by 1.4% on quarterly basis (3% growth was recorded in the previous quarter) in conditions of increase of both total liquidity of banks and currency in circulation by 1.5% and 1.3% respectively. Compared to Q3 2015, primary money surged by 6.2% (compared to 9.5% growth in Q2 2016), as a result of the increase of currency in circulation by 7.9% and increase of total liquidity of banks by 4.6%.

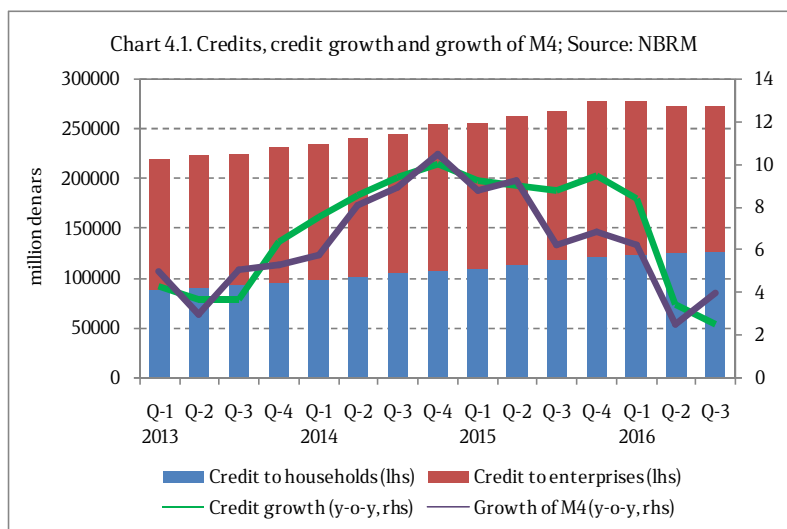
² It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

In Q3 2016, the narrowest money supply **M1** experienced quarterly increase of 4.2% compared to the previous quarter. **Monetary aggregate M2** surged by 2.1%, while the broadest **monetary aggregate M4** increased by 2.2%.

Total deposit potential³ of banks in Q3 2016 picked up by 2.3% on quarterly basis, compared to the previous quarter when the deposit potential dropped by 2.9%. Sector analysis showed that deposits of enterprises and deposits of households surged by 3.6% and 1.8% respectively. Analyzed by currency, compared to the previous quarter, Denar deposits increased by 2.1%, while foreign currency deposits surged by 2.6%. Level of euroization increased by 0.1 p.p. compared to the previous quarter, i.e. to 42.1%, 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 Q3 2016 increased compared to the previous quarter, reaching 27.5% (accounting for 27.4% in Q2 2016), as a result of the increase of long-term deposits by 2.7% in relation to Q2 2016. Short-term deposits increased by 0.7% in the analyzed period.

Credit activity of banks to non-government sector in Q3 2016 experienced an increase of 0.2% on quarterly basis (compared to 2% decline in the previous quarter), in conditions of growth of credits to households by 1.9%, while credits to private enterprises dropped by 0.9%. From currency point of view, Denar credits



experienced 0.7% growth in Q3 2016 compared to the previous quarter, while foreign currency credits dropped by 1.6%. From maturity point of view, in Q3 2016, long-term credits experienced 1.3% growth in relation to the previous quarter, while short-term credits dropped by 2.1%.

In Q3 2015, **interest rate** on Denar credits amounted to 6.6%, remaining unchanged compared to the previous quarter. Interest rate on foreign currency credits was 5.4% in Q3 2016, dropping by 0.1 p.p. compared to the previous quarter. Interest rate on Denar deposits remained unchanged in Q3 2016, accounting for 2.5%, while interest rate on foreign currency deposits declined by 0.1 p.p., accounting for 1.0%. In Q3 2016, interest rate on newly granted Denar credits amounted to 6%, while interest rate on newly

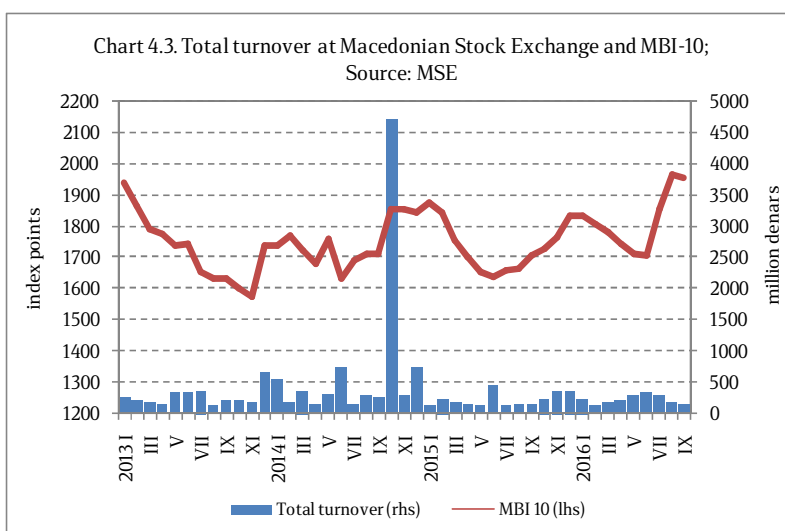
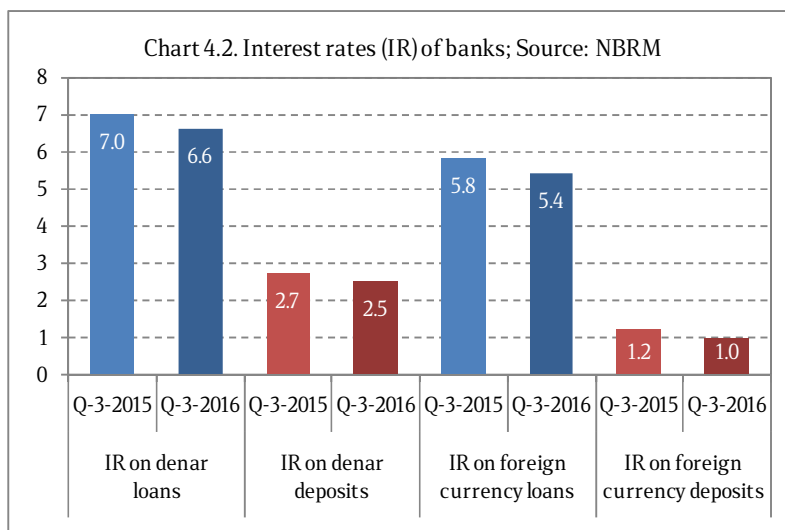
³ Deposits also include calculated interest.

approved foreign currency credits accounted for 5.1%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.7% and 1.1% respectively.

As regards the **capital market**, in Q3 2016, total turnover on the Stock Exchange experienced 24.2% drop compared to the previous quarter, being a

result of the decline of the turnover realized through both trading in best and block transactions by 22.3% and 26% respectively. Compared to the same quarter of the previous year, total turnover surged by 49.7% in conditions of increase of the turnover realized through block transactions by 3.4 times, while turnover realized through trading in best surged by 27.5%.

Macedonian Stock Exchange Index MSEI-10, as aggregate indicator of stock exchange trends, amounted to 1,954.4 index points at the end of the third quarter, surging by 14.5% compared to June 2016, while compared to September 2015, the index was higher by 14.7%.



5. External Sector

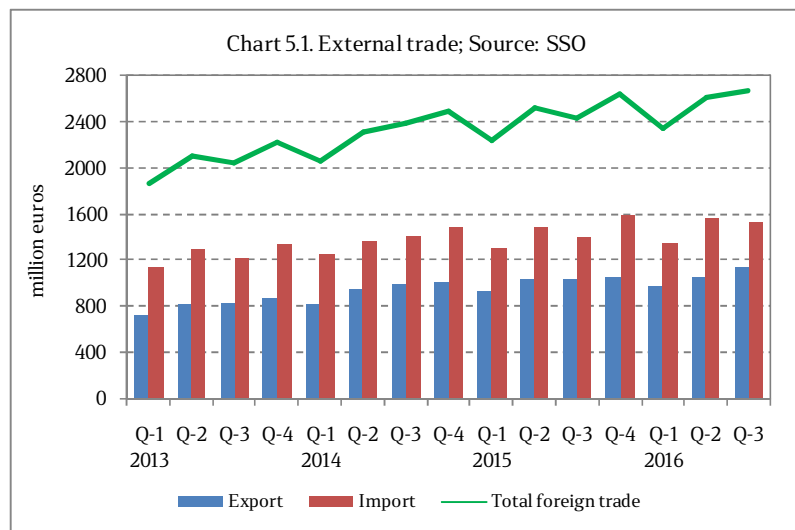
5.1. Foreign Trade

According to the data of the State Statistical Office in Q3 2016, total foreign trade amounted to EUR 2,673 million, increasing by 10.2% compared to the same quarter of 2015.

In Q3 2016, **export** of goods amounted to EUR 1,138.5 million, whereby compared to Q3 2015, it surged by 10.4%, while compared to the previous quarter, it increased by 7.8%

Analyzed by SITC sectors (Standard International Trade Classification), positive trends in the export in Q3 2016, compared to the same quarter of 2015, were registered at the following:

- machinery and transport equipment, increasing by 18.9% (within which export



grew at the following categories: electrical machinery, apparatus and appliances by 26.7% or EUR 26.5 million; road vehicles by 57.1% or EUR 12.6 million and industrial machinery, equipment and machine parts by 8.7% or EUR 11.3 million);

- chemical products, increasing by 12.3% (chemical materials and products by 13.7% or EUR 25.6 million);
- beverages and tobacco, increasing by 56.4% (tobacco and tobacco products by 65.2% or EUR 22 million);
- miscellaneous manufactured articles, increasing by 4% (furniture and parts thereof, bedding, mattresses and similar by 14% or EUR 4.2 million);
- crude materials, inedible, except fuels, increasing by 8.7% (metal ores and metal scrap by 10.5% or EUR 3.5 million);
- mineral fuels and lubricants, increasing by 24.1% (petroleum and petroleum products by 29.7% or EUR 3 million).

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

- manufactured goods classified chiefly by material, dropping by 4.3% (within which export of iron and steel dropped by 10.4% or EUR 13.3 million);
- food products, decreasing by 2.9% (fruit and vegetables by 5.7% or EUR 2.9 million).

In Q3 2016, **observed by economic purpose**, the largest share in export had industrial supplies (46.9%), followed by the categories: consumer goods (16.4%), products for investments without transport equipment (14.8%), transport equipment (11.8%), food and beverages (8.9%) and fuels and lubricants (1.1%).

Import of goods in Q3 2016 amounted to EUR 1,534.5 million, surging by 10.1% compared to Q3 2015, while in relation to the previous quarter, it decreased by 1.5%.

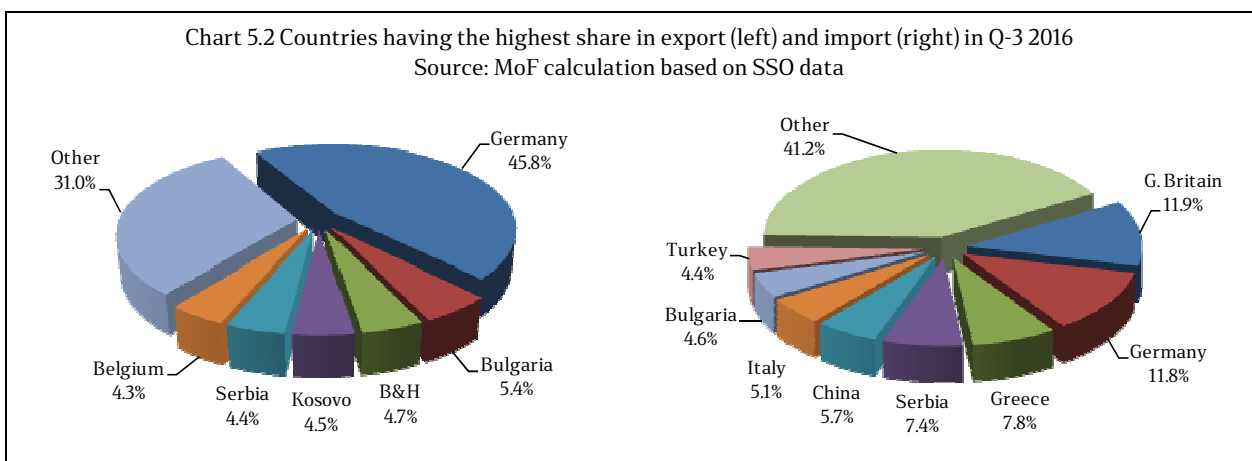
Analyzed by SITC sectors, the highest increase of import in Q3 2016, compared to Q3 2015, was seen at:

- manufactured goods classified chiefly by material, surging by 21% (within which import grew at the following categories: non-ferrous metals by 40.3% or EUR 64.5 million; iron and steel by 23.4% or EUR 16.3 million and non-metallic mineral manufactures by 18.9% or EUR 13.7 million);
- machinery and transport equipment, increasing by 14.1% (electrical machinery, apparatus and appliances by 21.2% or EUR 18.7 million; and road vehicles by 11.2% or EUR 7.4 million);
- chemical products, increasing by 6.1% (chemical materials and products by 31% or EUR 9.4 million);
- miscellaneous manufactured articles, increasing by 15.3% (furniture and parts thereof, bedding, mattresses and similar by 32.9% or EUR 3.3 million; clothing by 15.4% or EUR 2.6 million and professional, scientific and controlling instruments and apparatus by 16.4% or EUR 2.1 million);
- beverages and tobacco, surging by 35.4% (tobacco and tobacco products by 72.9% or EUR 5.2 million).

Negative import trends were seen at:

- crude materials, inedible, except fuel, dropping by 36.8% (within which metal ores and metal scrap dropped by 58.5% or EUR 16.6 million);
- mineral fuels and lubricants, decreasing by 9.8% (petroleum and petroleum products by 9.2% or EUR 10.5 million and electricity by 26.4% or EUR 7 million);
- food products, dropping by 0.3% (cereals and cereal preparations by 21.3% or EUR 4.5 million; ; feeding stuff for animals by 32.9% or EUR 2.7 million and meat and meat preparations by 5.7% or EUR 2 million).

Observed by economic purpose, the largest share in import in Q3 2016 had industrial supplies (50.6%), followed by the categories: products for investments without transport equipment (13.2%), consumer goods (10.8%), food and beverages (10.2%), fuels and lubricants (8.9%) and transport equipment (6.2%).



In Q3 2016, foreign trade of the Republic of Macedonia with the European Union (EU 28),

in relation to Q3 2015, surged by 13.9%, whereby share of trade with the EU in the total foreign trade increased by 2 p.p. compared to the third quarter of 2015, accounting for 69.7%. Thereby, in Q3 2016, export of goods accounted for 79.4%, while share of import of goods was 62.6%.

5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, surplus in the amount of EUR 140.9 million was recorded on the balance of payments **current account** in Q3 2016, accounting for 5.5% of GDP, as opposed to the surplus of 4.9% of GDP registered in the same quarter of last year.

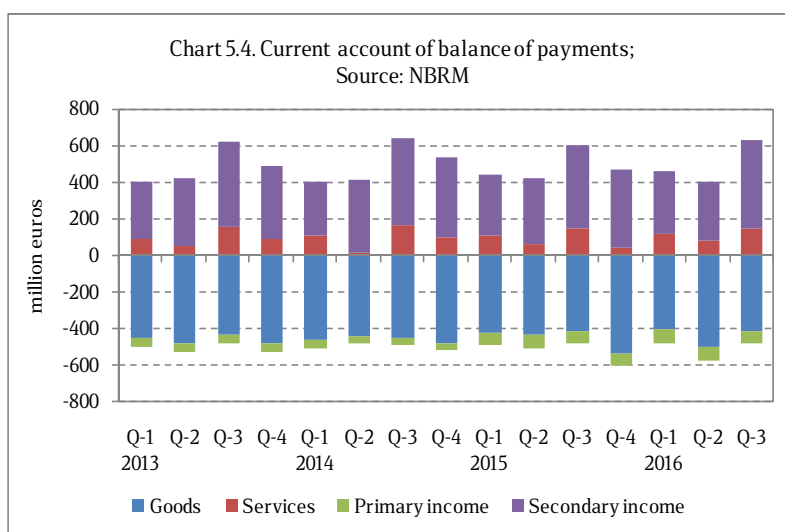
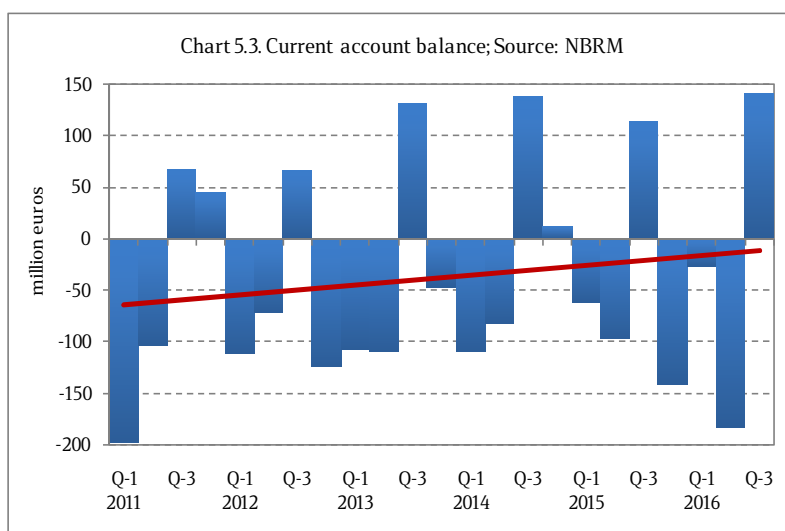
Analyzed on annual basis, current account surplus in Q3 2016 increased by 23.2% (EUR 26.6 million), being a

result of the increased inflows on the secondary income account by 4.4%, improved balance on the services account by 5.2%, as well as the slight narrowing of the deficit in the goods account (by 0.5%). Widened deficit on the primary income account by 5.1% had the opposite effect.

In Q3 2016, in conditions of greater increase of export compared to import of goods, **trade deficit** narrowed by EUR 2.3 million on annual basis, accounting for 16.3% of quarterly GDP, being by 1.7 p.p. lower than the deficit in the same quarter of 2015.

Surplus on **services account** amounted to EUR 146.2 million in Q3 2016 and, compared to the same quarter of 2015, it surged by EUR 7.2 million or by 5.2%.

Trade openness of the Republic of Macedonia accounted for 114.9% of the quarterly GDP in Q3 2016, being higher by 2.8 p.p. compared to the same



quarter of 2015.

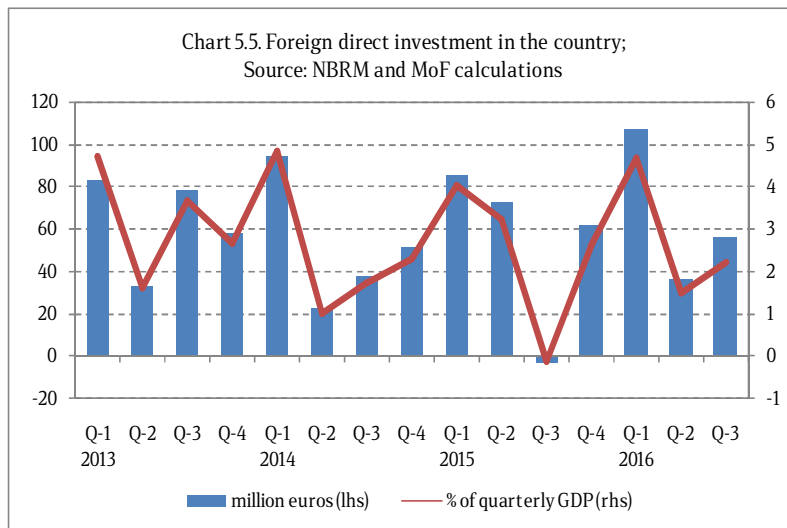
Primary income account experienced EUR 73.4 million deficit in Q3 2016, widening by EUR 3.6 million or by 5.1% on annual basis, as a result of the increased net outflow of investment income (4.3%) compared to the same quarter last year.

Surplus on the **secondary income** account amounted to EUR 484.6 million in Q3 2016, picking up by EUR 20.6 million on annual basis. Such increase was a result of the increase of both private and official net transfers, whereby private transfers surged by EUR 17.8 million, accounting for 98.9% of the secondary income account, while the official transfers picked up by EUR 2.8 million.

Balance on the **capital account** amounted to EUR 5 million in Q3 2016 and, compared to the same quarter of 2015, it surged by 2.3 times, as a result of the increased inflow of private capital transfers.

Net lending of the country amounted to EUR 145.9 million in Q3 2016, increasing by EUR 29.4 million on annual basis.

Foreign direct investments (FDIs) in the country amounted to EUR 56.1 million in Q3 2016 unlike in Q3 2015, when EUR 3.4 million outflow was registered. Most of FDIs in this period, i.e. around 70%, was on the basis of equity. Analyzed by activity, the highest FDI inflow in this period was seen in the industrial sector, in particular in manufacturing.



Portfolio investments were negative in Q3 2016, amounting to EUR 432.4 million, being a worsening of the balance compared to Q3 2015. Such trends were a result of the issuance of long-term debt instrument by the State sector in July.

Other investments amounted to EUR 67.3 million in Q3 2016, dropping by EUR 43.0 million in relation to Q3 2015. As regards the category Other investments, currencies and deposits amounted to EUR 46.8 million, trade credits amounted to EUR 58.2 million, while loans experienced a negative balance in the amount of EUR 37.0 million.

Reserves assets amounted to EUR 2,699 million at the end of the third quarter of 2016, increasing by 23.4% compared to the same quarter of 2015. At the end of Q3 2016,

reserve assets provided for 5.2-month coverage of import of goods and services in the previous 12-month period, being an adequate level of reserve assets.