Republic of Macedonia
Ministry of Finance

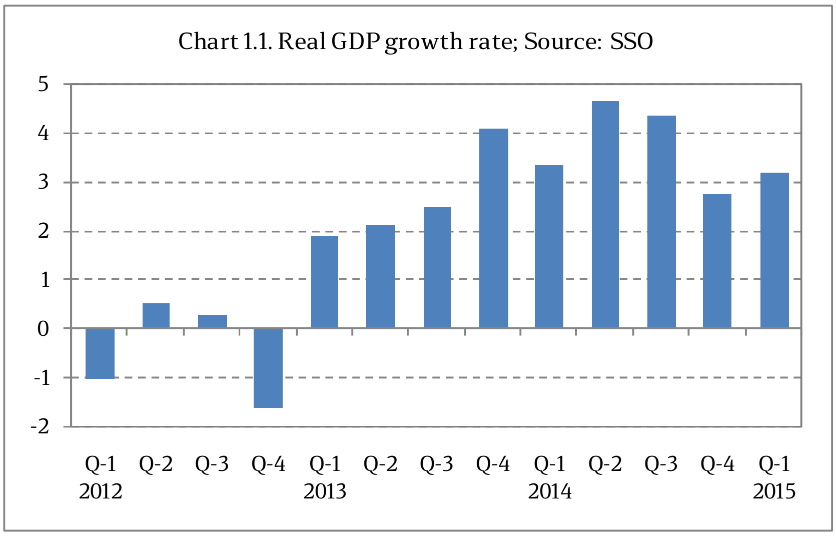
QUARTERLY ECONOMIC REPORT
Q1/2015

Summary

- GDP in Q1 2015, compared to the same quarter previous year, experienced 3.2% real growth, following the 2.7% growth realized in the previous quarter;
- Number of employed persons in Q1 2015 was higher by 1.6% compared to the same quarter in the previous year. Number of unemployed persons dropped by 3.7% on annual basis, which resulted in reduction of unemployment rate to 27.3% in Q1 2015;
- Inflation rate in Q1 2015 experienced drop of 0.9% compared to the same quarter in 2014, measured according to the Consumer Price Index;
- Average gross salary in Q1 2015 amounted to Denar 31,544 and compared to the gross salary in Q1 2014, it was higher by 2.1% in nominal terms and by 3.1% in real terms;
- Total budget revenues increased by 17% in Q1 2015, and total budget expenditures were higher by 1.5% compared to the same quarter in 2014;
- Total deposit potential of banks increased by 0.4% in Q1 2015 on quarterly basis;
- Credit activity of banks to non-government sector in Q1 2015 grew by 1.1% on quarterly basis;
- Macedonian Stock Exchange Index MSEI-10 in March 2015 fell by 4.8% compared to December 2014, while total turnover realized on the Stock Exchange experienced high drop of 90.3%.
- In Q1 2015, increase of both export by 12.4% and import by 4.8% was registered on annual basis, whereby total foreign trade expressed in euros, surged by 7.8%;

1. Macroeconomic Trends and Real Sector

GDP in Q1 2015, compared to the same quarter in 2014, experienced 3.2% real growth, following the 2.7% growth realized in the previous quarter. Nominal GDP growth in Q1 2015 amounted to 5.6% on annual basis, while GDP deflator accounted for 2.3%.

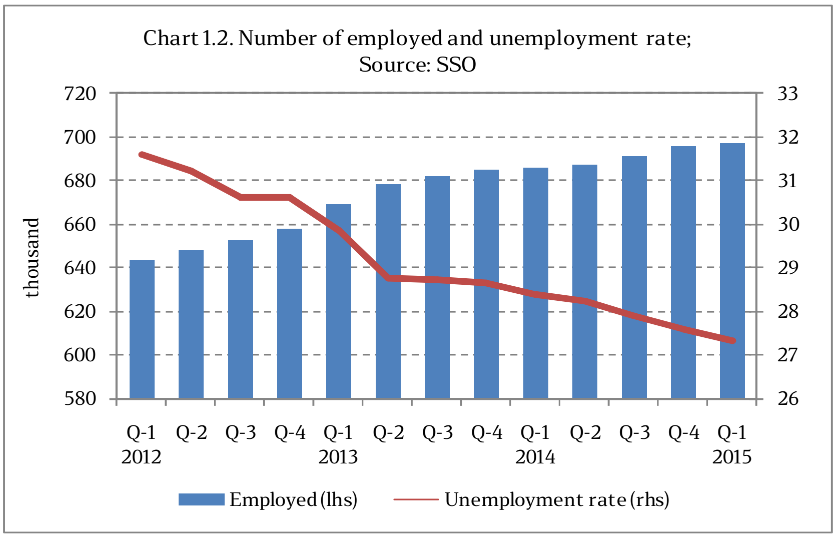


Analyzed according to the production side of GDP, in Q1 2015, positive performance was observed in several sectors. Industrial production continued its positive trends in 2015, growing by 3.1% in Q1, same as the growth of construction activity. Services sector surged by 3%, and within services, the sector Trade, transportation and catering, growing by 6.3%, had the biggest contribution to the economic activity growth, followed by the sectors: Professional, scientific, technical and administrative activities (9.9%), Financial and insurance activities (6.2%), Information and communication (3.5%) and Arts, entertainment, recreation and other service activities (6.6%), whereas drop was registered in the sectors Real estate activities (0.2%) and Public administration and defense, education and human health (1.9%). Agricultural production in Q1 dropped by 0.4%, under the influence of the unfavourable weather conditions.

Growth of industry in Q1 2015 according to monthly data on industrial production, amounted to 1.5%, being a result of the realized positive trends at: manufacture of motor vehicles, trailers and semi-trailers (284.4%), manufacture of paper and paper products (26.1%), manufacture of furniture (24.3%), electricity, gas, steam and air conditioning supply (17.9%), manufacture of fabricated metal products (17.1%), manufacture of textiles (10.6%), manufacture of wearing apparel (7.2%), repair and installation of machinery and equipment (5.9%), manufacture of food products (4.8%), manufacture of basic metals (4.6%), manufacture of basic pharmaceutical products (4.6%), manufacture of beverages (2.4%), manufacture of machinery and equipment (1.4%), mining of metal ores (1.2%) and other manufacturing (29.6%). Hence, annual positive growth was registered at 15 branches, comprising 69.9% of the industrial production.

Drop was seen at: manufacture of coke and refined petroleum products (100%), manufacture of tobacco products (31.8%), mining of coal and lignite (25.4%), manufacture of chemicals and chemical products (20.5%), manufacture of rubber and plastic products (16.6%), other mining and quarrying (16.1%), manufacture of other non-metallic mineral products (15%), printing and reproduction of recorded media (11%), manufacture of electrical equipment (10.6%), manufacture of leather (9%), manufacture of wood and of products of wood and cork (8.3%) and manufacture of other transport equipment (3.2%).

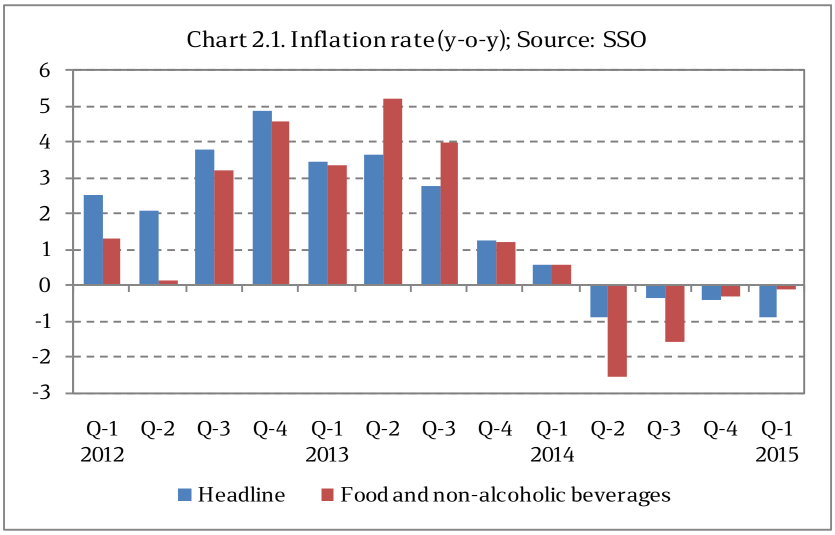
Analyzed according to the expenditure side of GDP, in Q1 2015 growth was driven by export of goods and services, experiencing real growth of 8%. Growth of exports was a result of the increased export potential of the country, amid gradual recovery of external demand. Imports experienced almost 2-times lower growth than exports, amounting to 4.3% in real terms, implying that net exports had a positive contribution to the economic growth. Investment and consumption have also positively contributed to the GDP growth. Real growth of gross investment amounted to 2.4%, while final consumption surged by 1.9%, as a result of the increase of both private and public consumption. Private consumption grew by 2.2% in real terms, being a result of the increase of employment, wages, as well as the more intensified growth of credits to households. Public consumption increased by 0.9%.



Positive trends on the labour market continued in 2015. According to the Labour Force Survey, number of employed persons in Q1 2015 was higher by 1.6% compared to the same quarter in the previous year. Employment growth was accompanied with a decrease in the number of unemployed persons, falling by 3.7% on annual basis. Number of active population was higher by 0.1% on annual basis. Such trends on the labour market caused for the unemployment rate in Q1 2015 to reduce to 27.3%, i.e. by 1,1 percentage point (p.p). compared to the same quarter of the previous year. Employment rate in Q1 2015 amounted to 41.6%, being higher by 0.6 p.p. compared to the same quarter in the previous year. Active population in Q1 2015 accounted for 57.3% of total working-age population, being not changed compared to the same quarter in the previous year.

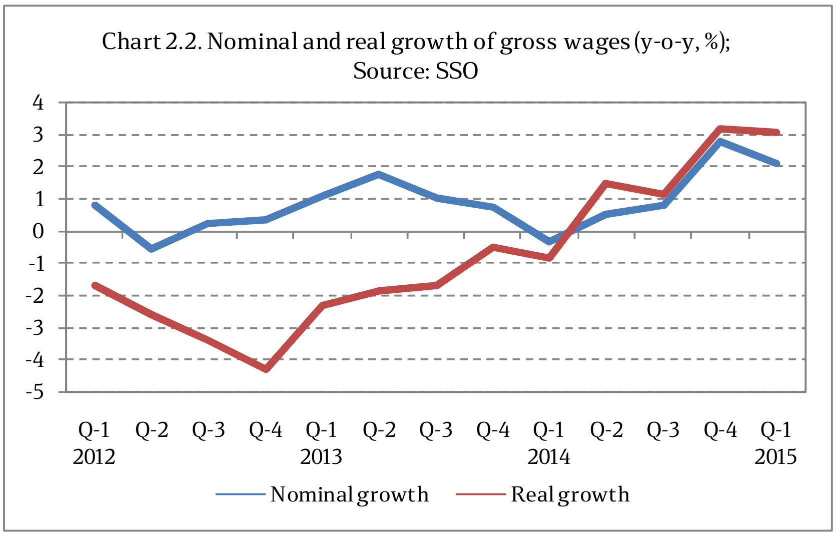
2. Prices, Costs and Productivity

Inflation, measured according to the Consumer Price Index, experienced drop of 0.9% in Q1 2015 compared to the same quarter in 2014, following the 0.4% drop recorded in the previous quarter. Price decrease was a result of the reduced prices in many categories: transport by 11.0%, communication by 6.4%, recreation and culture by 2.3%, miscellaneous goods and services by 0.7%, furnishings, household equipment and maintenance of the house by 0.6%, health by 0.3% and food and non-alcoholic beverages by 0.1%. Highest growth of consumer prices in Q1 2015 was recorded in the category alcoholic beverages and tobacco by 5.6%, followed by the following categories: Housing, water, electricity, gas and other fuels by 1.6%, clothing and footwear and restaurants and hotels by 0.2% each. Prices remained the same at the education category.



Retail prices in Q1 2015 decreased by 2.7% compared to the same quarter in 2014, following the 1.9% drop observed in the previous quarter. Decrease of retail prices in this period was due to the reduced prices of both services and goods. Drop of prices in the services category was 3%, while prices of goods decreased by 2.6% on annual basis. Thereby, prices of industrial goods decreased by 3.4%, while prices of agricultural products surged by 5.4%. Reduced prices of industrial goods were a result of the lower prices of both non-food industrial products by 5.5% and food industrial products by 0.9%. Retail price of tobacco increased by 6.3% and retail prices of beverages grew by 0.1%.

Average net salary in Q1 2015 amounted to Denar 21,445, being higher by 1.7% in nominal terms compared to net salary in Q1 2014. Net salary grew by 2.6% in real terms. Average gross salary amounted to Denar 31,544, increasing by 2.1% in nominal terms, i.e. surging by 3.1% in real terms, compared to the gross salary in Q1 2014.



Labour productivity in Q1 2015 increased by 1.6% as a result of the higher growth of economic activity relative to employment growth in the economy, by which the trend of positive growth of productivity continues.

3. Fiscal Sector

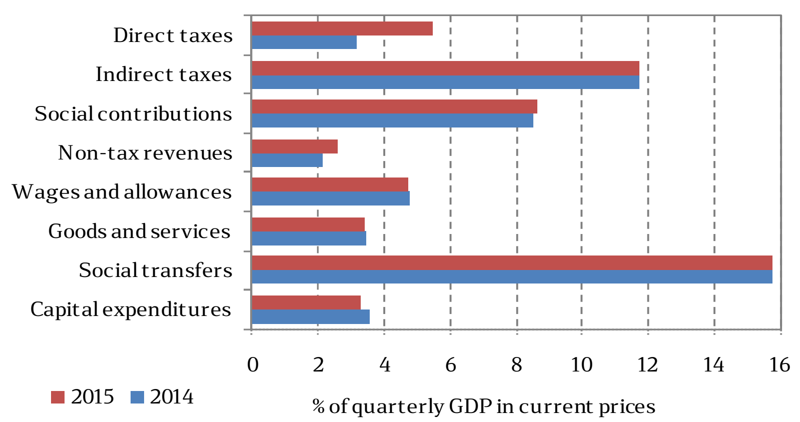
Higher performance of total budget revenues by 17.0% was observed in the first quarter of 2015, compared to same quarter in 2014, accompanied by moderate increase of the budget expenditures by 1.5%. This caused for **budget deficit** in Q1 2015 to amount to Denar 6,301 or 5.0% of GDP realized in this quarter (central budget deficit amounted to Denar 5,276 million, i.e. 4.2% of quarterly GDP).

Total **budget revenues** participated with 29.8% of the realized quarterly GDP, being higher by 17.0% compared to the same quarter in 2014, being mostly due to the higher performance of tax revenues by 20.4%, higher performance of non-tax revenues by 26.0%, as well as higher contributions by 7.1%. 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 42.5% of the total tax revenues, being lower by 6.6% in Q1 2015 compared to the same quarter of 2014. Gross collection of VAT was lower by 1.3% during this quarter, while VAT refund was higher by 11.4% compared to the same period in 2014.

As for VAT structure, VAT share was the biggest when importing, decreasing by 4.7%, VAT on the basis of sales in the country grew by 6.0%, while collection of VAT grants decreased by 66.6%. Excise revenues were higher by 49.1% compared to the same quarter of 2014. As for direct taxes, personal income tax surged by 6.4%. Profit tax revenues were higher by record 3.8 times (278.4%) compared to the same quarter of the previous year, whereby one should take into account that the increase of revenues on the basis of this tax was mainly due to the tax collected on the basis of tax balances, monthly advance payments and paid dividend and other distribution of profit.

Chart 3.1. Budget revenues and expenditures in Q-1;
Source: MoF



From the point of view of structural share in GDP, direct taxes on annual basis increased their share in GDP by 2.3 p.p.. (5.4% of quarterly GDP), while as regards indirect taxes, identical share of 11.8% of GDP was observed during the both separate quarters in 2014 and 2015 respectively (despite that the increase of indirect taxes in the first quarter of 2015 accounted for 5.6% compared to Q1 2014, this does not change their share in quarterly GDP).

Collection of social contributions was higher by 7.1%, whereby higher collection was recorded at all contributions, i.e. pension insurance contributions - 6.8%, health insurance contributions – 7.5% and employment contributions - 7.6%. Non-tax revenues, accounting for 2.6% of total quarterly GDP, were higher by 26.0% compared to the same period in 2014.

Capital revenues in Q1 2015 were higher by 82.2% 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 donations were higher by 28.1%.

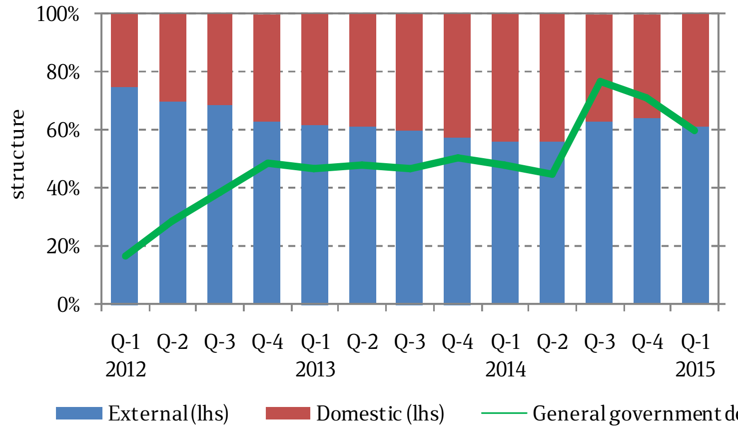
In Q1 2015, total budget expenditures participating with 34.8% in the quarterly GDP, were higher by 1.5% compared to the same quarter in 2014. Current expenditures, accounting for 31.6% of quarterly GDP, were realized by 2.1% more on annual basis. As for current expenditures, expenditures for goods and services increased by 3.1%, while expenditures related to salaries and allowances surged by 5.3% compared to the same quarter last year. Funds for transfers, participating with 64% in the total expenditures, remained unchanged compared to the same quarter in 2014. Social transfers surged by 5.6%, accounting for 45.3% in the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most in the social transfers, surged by 5.2%, participating with 28.0% in the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 15.3% in the total expenditures, i.e. they dropped by 1.6% compared to the same period in 2013. Block grants to local government units grew by 3.3%, while subsidies and transfers were lower by 27.5%.

Interest-related expenditures were higher by 38.3% compared to the first quarter of 2014. Expenditures on the basis of interests on domestic debt surged by 94.2% compared to the same quarter of 2014, while interests on foreign debt increased by 4.0%, however, compared to the fourth quarter of 2014, they were lower by 7.6 p.p.

Capital expenditures accounting for 3.3% of quarterly GDP, compared to the same quarter in 2014, were lower by 3.8%, i.e. they participated with 9.4% in the total expenditures.

Fiscal burden, measured as determined part of budget revenues compared to the nominal GDP, accounted for 26.4%

Chart 3.2. General government debt and its structure; Source: MoF



in Q1 2015, being identical tax burden, as same as the one in the previous quarter.

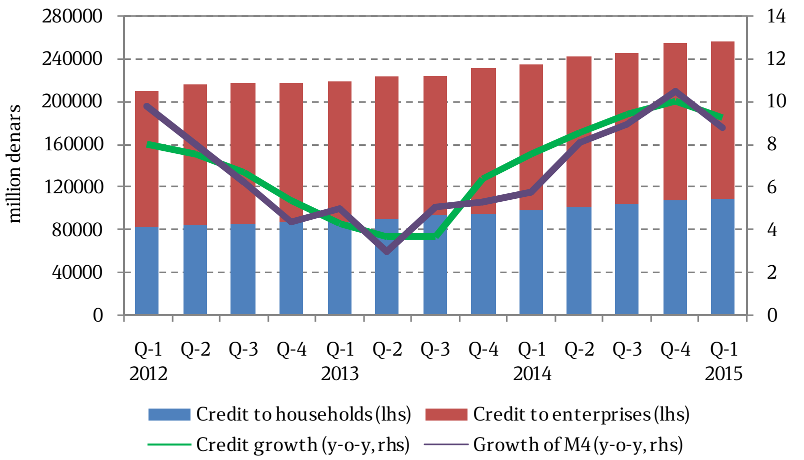
Total government debt at the end of Q1 2015 accounted for 36.0% of GDP, decreasing by 2.2. p.p. compared to Q4 2014. Share of the external debt in the total debt decreased by 3.0 p.p. compared to Q4 2014, accounting for 61.1% of total government debt. Share of domestic debt grew by 38.9% of the total government debt.

4. Monetary and Financial Trends

In the first quarter of 2015, NBRM retained the reference interest rate at 3.25%, given the absence of significant changes in the ambient for conducting monetary policy. Interest rate on available 7-day deposits decreased by 0.5 p.p. compared to the previous quarter, amounting to 0.5% in March 2015.

Primary money[1] in Q1 2015 dropped by 6.2% (growth of 8.3% was recorded in the previous quarter) in conditions of decrease of total liquidity of banks by 12.1% and slowed down increase of currency in circulation by 0.6%. Compared to March 2014, primary money increased by 7.1% (compared to 13.8% growth in Q4 2014), as a result of the increase of currency in circulation by 12.3% and total liquidity of banks by 2.5%.

Chart 4.1. Credits, credit growth and growth of M4; Source: NBRM



During the first quarter of 2015, the narrowest money supply M1 decreased by 2.1% compared to Q4 2014. Monetary aggregate M2 surged by 0.1%, while the broadest monetary aggregate M4 increased by 0.5%.

Total deposit potential[2] of banks in Q1 2015 increased by 0.4% on quarterly basis, experiencing slower growth dynamics compared to the previous quarter when the deposit potential grew by 3.9%. The sectoral analysis shows that deposits of enterprises decreased by 4.5%, while deposits of households grew by 1.8%. From currency point of view, Denar deposits decreased by 1.3%, while foreign currency deposits grew by 2.9% compared to the previous quarter. Level of euroization increased by 1.0 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.

[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.

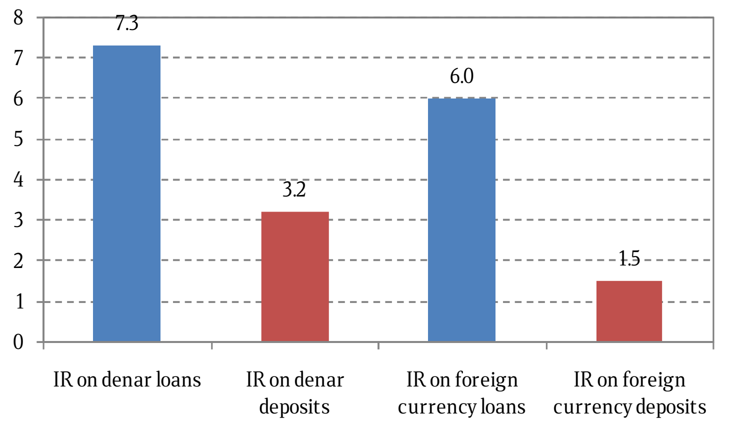
From maturity point of view, in the past period, there was continuous growth of share of long-term deposits in total deposit potential, reaching 27.7% in Q1 2015, being in line with the quarterly increase of long-term deposits by 1.9%. Short-term deposits increased by 1.3% in the analyzed period.

Credit activity of banks to non-government sector in Q1 2015 experienced growth of 1.1% on quarterly basis (compared to the 3.6% growth in the previous quarter), in conditions of growth of credits to households by 2.4%, while credits to private enterprises remained the same compared to the previous quarter. From currency point of view, Denar credits grew by 0.9% on quarterly basis, while foreign currency credits in Q1 2015 registered quarterly growth of 1.7%.

From maturity point of view, long-term credits in Q1 2015 experienced quarterly growth of 1.9%, while short-term credits were lower by 2.2%.

In Q1 2015, **interest rate**[3] on Denar credits amounted to 7.3%, while interest rate on foreign currency credits accounted for 6.0%.Interest rates on Denar and foreign currency deposits in Q1 2015 accounted for 3.2% and 1.5% respectively.

Chart 4.2. Interest rates (IR) of banks in Q-1-2015;
Source: NBRM



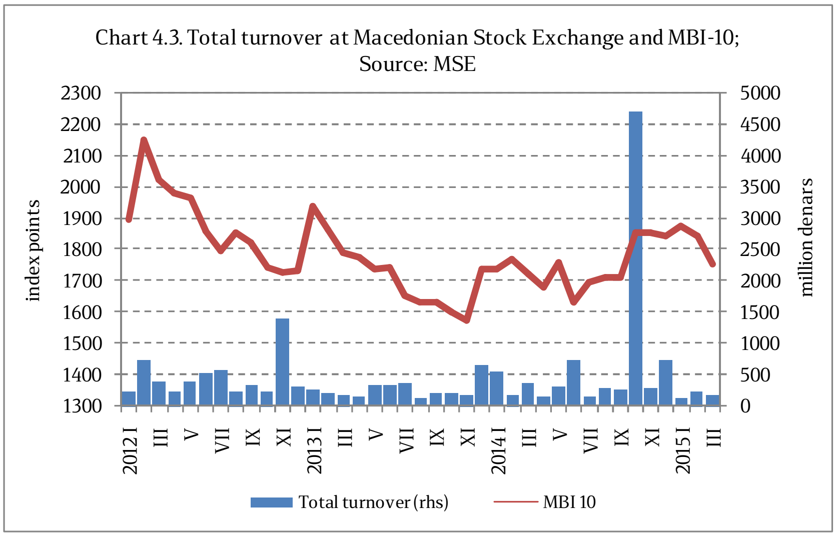
In Q1 2015, interest rate on newly approved Denar credits amounted to 6.4%, while interest rate on newly approved foreign currency credits accounted for 5.4%. Interest rates on newly received Denar and foreign currency deposits accounted for 2.3% and 1.5% respectively.

On the **capital market**, in Q1 2015, there was a high drop of total turnover on the stock exchange, i.e. it reduced by 90.3% compared to the previous quarter, due to the decreased amount of block transactions, declining by 88.9% compared to the previous quarter, as well as the drop of the turnover realized through traditional trading by 34.0%. This drop of the turnover on the stock exchange at quarterly level is a result of the fact that total turnover on the stock exchange registered multiple increase in the fourth quarter of 2014, thanks to the public offer of securities of several companies in October 2014.

Compared to the same quarter in the previous year, total turnover also dropped by 49.1% in conditions of reduced traditional trading and block transactions. Turnover realized through classical trading dropped by 27.7% on annual basis.

[3] Starting January 2015, NBRM has changed the methodology for calculating the interest rates. Such changes are result of the full compliance with he European standards.

Macedonian Stock Exchange Index MSEI - 10, as an aggregate indicator of stock exchange trends at the end of the first quarter, amounted to 1,755.5 index points, decreasing by 4.8% compared to December 2014, while compared to March 2014, the index was higher by 1.8%.

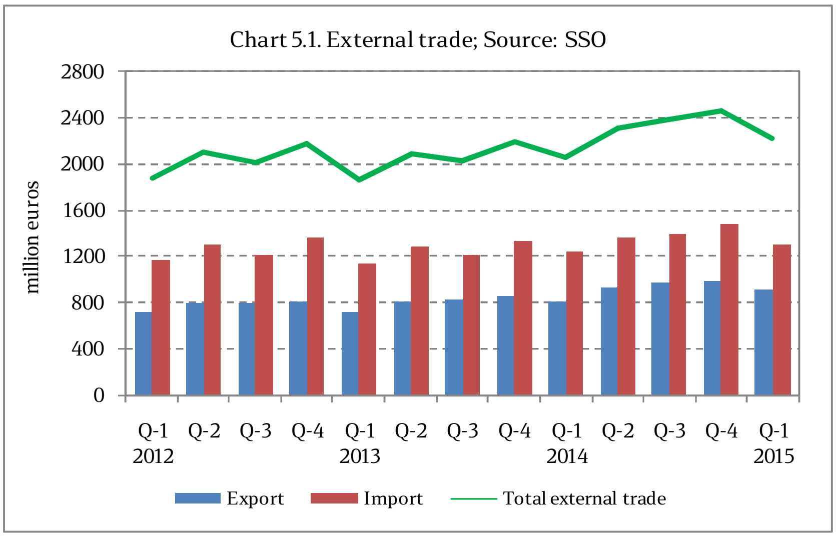


5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office in Q1 2015, total foreign trade amounted to EUR 2,215.4 million, increasing by 7.8% compared to the same quarter in 2014.

In Q1 2015, export of goods amounted to EUR 915.1 million and, compared to the same quarter in the previous year, it surged by 12.4%, while compared to the previous quarter, it decreased by 7.3%.



Analyzed by SITC sectors (Standard International Trade Classification), positive trends in the export in Q1 2015 compared to the same quarter in 2014 were registered at the following:

- machinery and transport equipment, increasing by 31.4% (within which the following categories experienced increase: industrial machines and spare parts by 46.6% or EUR 31.9 million; electrical machines, devices and spare parts by 12.9% or EUR 8.4 million; and road vehicles by 29.0% or EUR 5.8 million);

- miscellaneous manufactured articles by 9.3% (furniture and parts thereof, bed linen, mattresses and similar by two and a half times or EUR 15.9 million); and footwear by 28.1% or EUR 2.7 million);
- chemical products by 7.7% (chemical materials and products increased by 10.0% or EUR 15.1 million);
- beverages and tobacco by 23.2% (tobacco and tobacco products by 72.3% or EUR 10.1 million);
- food products by 10.6% (cereals and cereal preparations by 24.7% or EUR 2.9 million; and meat and meat products by 50.3% or EUR 2.9 million);
- crude materials, inedible, except fuels by 6.7% (metal ore and metal scrap by 9.5% or EUR 3.5 million) and
- manufactured goods classified chiefly by material by 2.7% (non-ferrous metals by 68.8% or EUR 1.9 million; and metal products by 29.1% or EUR 2.6 million).

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

- mineral fuels and lubricants by 5.4% (oil and oil products decreased by 37.2% or EUR 3.6 million).

In Q1 2015, observed by **economic purpose**, the following products were most exported: goods for industrial procurement (48.5%), followed by consumer goods (20.0%), products for investments without transport equipment (14.8%), food and beverages (7.8%), transport equipment (7.8%) and fuels and lubricants (1.1%).

Import of goods in Q1 2015 amounted to EUR 1,300.2 million, increasing by 4.8% compared to Q1 2014, while in relation to the previous quarter, it decreased by 11.9%.

Analyzed by **SITC sectors**, highest increase of import in Q1 2015, compared to Q1 2014, was seen at:

- manufactured goods classified chiefly by material by 16.5% (whereby increase was seen at the following categories: non-ferrous metals by 34.3% or EUR 51.0 million; and iron and steel by 18.4% or EUR 11.4 million);
- chemical products by 11.6% (inorganic chemical products by more than three times or EUR 21.9 million);
- machinery and transport equipment by 10.0% (electrical machines, devices and spare parts by 17.4% or EUR 10.1 million; transport equipment multiply increased or EUR 8.3 million; and machinery specialized for particular industries by 34.8% or EUR 6.4 million);
- miscellaneous manufactured articles by 5.6% (furniture and parts thereof, bed linen, mattresses and similar by 23.4% or EUR 1.5 million; clothing by 8.3% or EUR 1.1 million; and footwear by 13.3% or EUR 1.1 million) and

- beverages and tobacco by 22.8% (whereby increase was seen at the following category: tobacco and tobacco products by 35.8% or EUR 1.6 million).

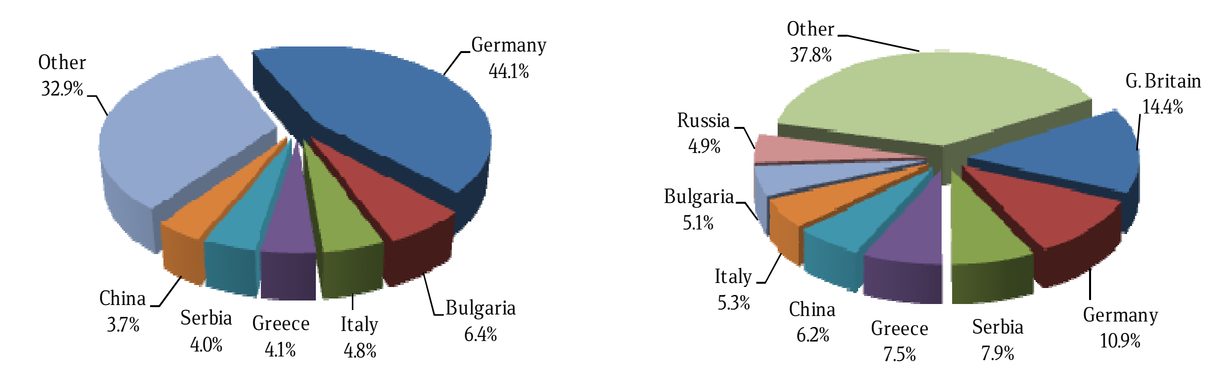
Highest decline of import was seen at the following:

- mineral fuels and lubricants by 23.7% (oil and oil products by 28.1% or EUR 34.3 million; electricity by 23.9% or EUR 11.8 million);
- food products by 1.0% (cereals and cereal preparations by 15.3% or EUR 3.0 million; and meat and meat products by 9.4% or EUR 2.5 million) and
- crude materials, inedible, except fuels by 0.8% (wood and cork reduced by 14.3% or EUR 0.4 million).

Observed by **economic purpose** in Q1 2015, the following products were most imported: goods for industrial procurement (49.8%), followed by fuels and lubricants (12.3%) investment goods without transport equipment (12.0%), consumer goods (10.3%), food and beverages (9.8%), and transport equipment (5.7%).

In Q1 2015, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q1 2014, decreased by 12.6%, whereby share of trade with EU in the total foreign trade decreased by 0.6 p.p. compared to the first quarter in 2014, accounting for 69.4%. Thereby, export of goods participated with 78.7%, while import of goods with 62.8%.

Chart 5.2. Countries having the highest share in export (left) and import (right) in Q1 2015
Source: MoF calculations based on SSO data



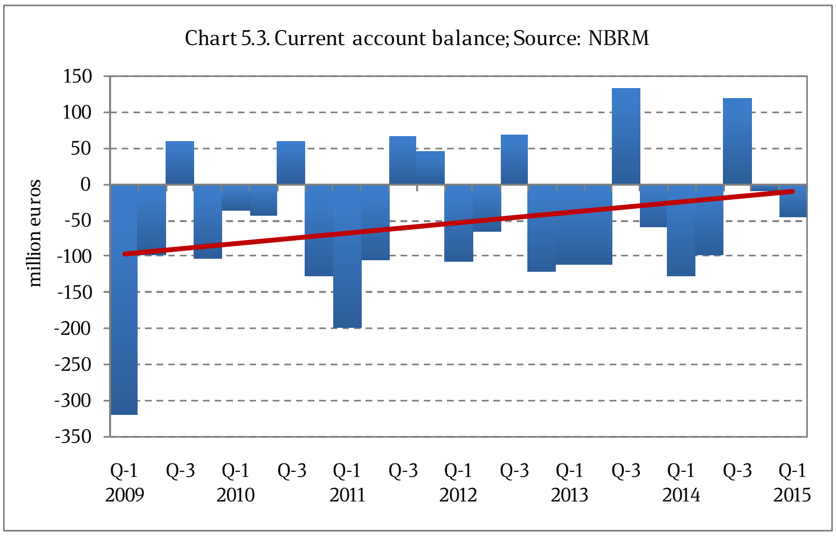
As a result of the structural changes in the trade with abroad, in the first quarter of 2015, 93.5% of the trade deficit of the country was a result of the trade deficit with Great Britain, Serbia, Greece and Russia, while the rest of the deficit was a result of the trade with: China, Turkey, Italy, Romania, Austria, etc. Surplus was realized in the trade with Germany, Kosovo, Belgium, Spain and Switzerland.

5.2. Balance of payments

According to the data from the National Bank of the Republic of Macedonia, in the first quarter of 2015, deficit of EUR 44.3 million was recorded on the balance of payments

current account, accounting for 2.2% of GDP[4] and compared to the same quarter of 2014, it narrowed by 4.4 p.p..

Analyzed on annual basis, the current account balance in Q1 2015 reduced by 65.1%, being a result of the narrowing of the trade account deficit by 11.2%, higher inflows on the secondary income account by 10.6% and the increased surplus on the service account by 3.8%, while higher deficit on primary income account by 10.5% acted in opposite direction.



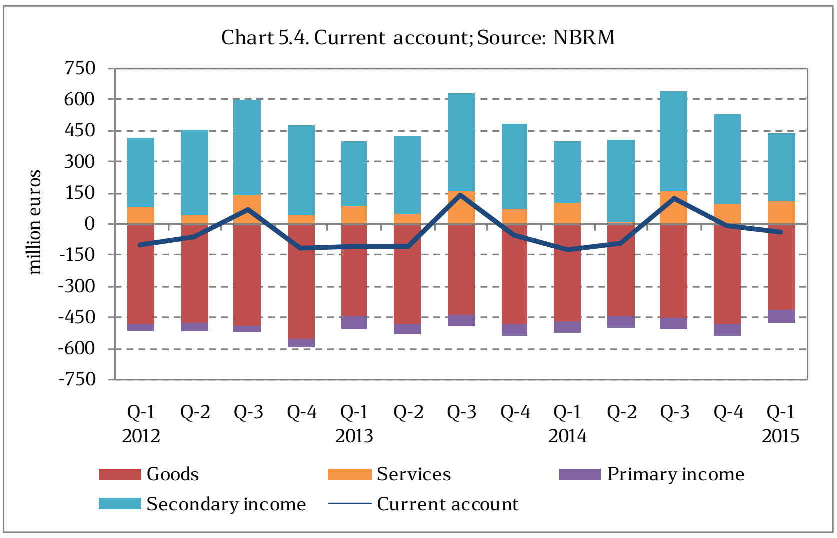
In Q1 2015, in conditions of greater absolute increase of import compared to export of goods, **trade deficit** narrowed by 11.2% on annual basis, i.e. by EUR 52.8 million, amounting to 20.4% of quarterly GDP.

In conditions of greater absolute increase of export compared to import of services, in Q1 2015, the balance of **services account** increased by 3.8% on annual basis.

Trade openness of the Republic of Macedonia in Q1 2015 compared to the same quarter of the previous year, increased by 3.8 p.p., accounting for 112.2% of quarterly GDP.

Deficit of **primary income** account in Q1 2015 amounted to EUR 60.2 million, deepening by 10.5% on annual basis, acting in opposite direction on the movement of the current account.

Balance of the **secondary income** account in Q1 2015 amount to EUR 326.1 million, and they increased by 10.7% on annual basis. Growth is due to the increase of income of the sector "financial corporations, non-financial corporations,



[4] Calculation also included GDP for the first quarter for 2015, published by the State Statistics Office.

households, and NPISHs"[5] by 7.5%, participating with 95.2% in the secondary income account and the increase of income of the general government sector by 2.5 times, participating with 4.8% in the secondary income account.

Balance of **capital account** in Q1 2015 amounted to EUR 1.7 million, narrowing by 30.1% compared to Q1 2014, being mainly due to the reduced inflow of capital transfers by 30.6%.

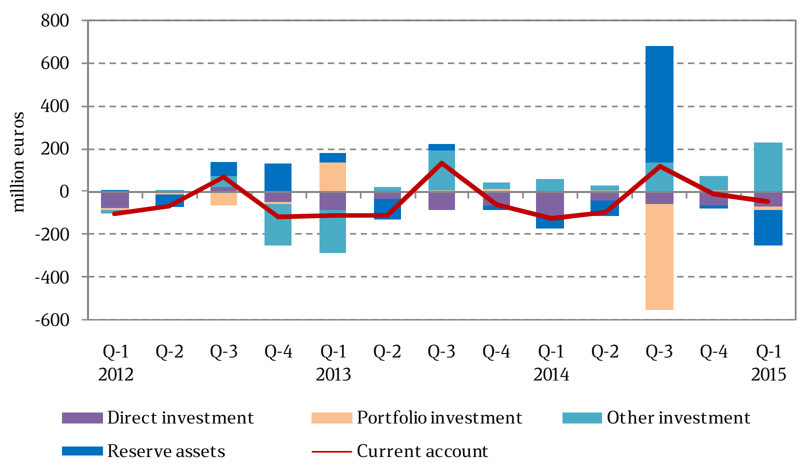
Net borrowing in the country in Q1 2015 amounted to EUR 42.5 million, reducing by 65.8% on annual basis.

Direct investments in the country in Q1 2015 amounted to EUR 69.1 million, reducing by 36.4% on annual basis (or by EUR 39.5 million), mainly due to the reduced inflows on the basis of equity (reduction by 53.1%), as well as the inflows on the basis of reinvested profit, amounting to EUR 2.2 million in Q1 2015. Increased inflow of funds on the basis of debt instruments by 46.7%, i.e. EUR 19 million acted in opposite direction.

Portfolio investments in Q1 2015 were negative, amounting to EUR -11.5 million.

Other investments in Q1 2015 amounted to EUR 231.5 million, being higher by 4.2 times compared to the same quarter of the previous year. As regards the category other investments, currencies and deposits amounted to EUR 65.3 million, loans amounted to EUR 138.8 million, while the balance on trade credit and advances account amounted to EUR 27.4 million.

Chart 5.5. Financing of current account; Source: NBRM



Reserve assets at the end of the first quarter of 2015 amounted to EUR 2354.8 million, increasing by 21.3% compared to the same quarter of 2014.

[5] 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.