



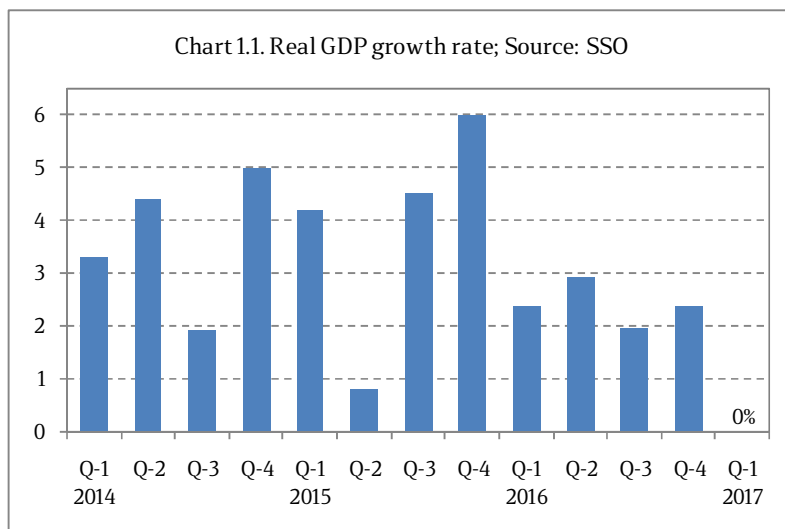
Summary

- **GDP** in Q1 2017, compared to the same quarter of 2016, remained unchanged, i.e. **growth** amounted to 0% on real basis;
- Number of **employees** in Q1 2017 was higher by 2.7% compared to the same quarter in 2016. Number of **unemployed persons** dropped by 5.5%, which resulted in reduction of **unemployment rate** to 22.9% in Q1 2017;
- **Inflation rate** in Q1 2017, measured according to CPI, amounted to 0.5% on annual basis;
- Average **gross salary** amounted to Denar 33,104 in Q1 2017, increasing by 2.3% in nominal terms, i.e. surging by 1.8% in real terms, compared to the gross salary in Q1 2016;
- Total **budget revenues** were higher by 5.3% in Q1 2017 and total **budget expenditures** by 0.2%, compared to the same quarter in 2016;
- Total **deposit potential** of banks dropped by 1.3% in Q1 2017 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q1 2017 dropped by 0.8% on quarterly basis;
- **Macedonian Stock Exchange Index MSEI-10** increased by 5.4% in March 2017 compared to December 2016; Total turnover on the stock exchange surged by 1.4% in Q1 2017 compared to the previous quarter;
- In Q1 2017 **export of goods** grew by 14.7% and **import of goods** and by 14.5% on annual basis, whereby total **foreign trade**, expressed in euros, grew by 14.6%;

1. Macroeconomic Trends and Real Sector

GDP in Q1 2017, compared to the same quarter of 2016, remained unchanged, i.e. growth amounted to 0.0% on real basis, following the growth of 2.4% in 2016.

Analyzed according to the **production side of GDP**, construction activity, which was the driving force of economic growth over the past year, dropped by 6.3% on real basis in Q1 2017 in conditions of decline in completed construction works. Drop was seen in the services sector as well, by 0.5%, as a result of the decrease in the following



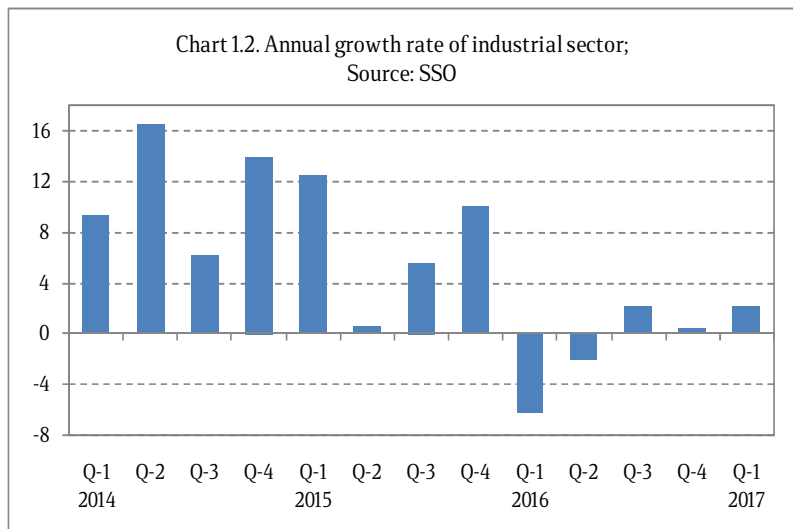
activities: Arts, entertainment and recreation and other service activities (9,9%), Public administration and defense (3.9%) and Financial and insurance activities (1.2%), while positive trend was seen in the following activities: Information and communications (5.5%), Trade, transportation and food and accommodation services (0.9%), Professional, scientific, technical and administrative activities (0.4%) and Real estate activities (0.1%).

Agriculture sector experienced a 1.1% growth in Q1 2017, following the 2.8% growth in the past year. Industrial sector increased by 2.1%, whereby Manufacturing experienced a 2.3% growth. In accordance with the monthly data on industrial production, favourable trends were also registered in the sector Supply of electricity, while Mining had negative contribution to the industry.

As for **Manufacturing**, in the first three months of 2017, growth on annual basis was recorded in the following branches: manufacture of computer, electronic and optical products (51.6%), manufacture of pharmaceutical products and preparations (23.5%), manufacture of furniture (21.8%), manufacture of chemicals and chemical products (17.2%), manufacture of other non-metallic mineral products (15.3%), printing and production of recorded media (15.2%), manufacture of machinery and equipment (8.4%), manufacture of rubber and plastic products (4.8%), manufacture of metals (3.3%) and manufacture of paper and paper products (2.3%). On the other hand, drop was seen at: repair and installation of machinery and equipment (65.5%), manufacture of wood and wood products (48.1%), manufacture of other transportation equipment (38.0%), manufacture of wearing apparel (20.1%), manufacture of fabricated metal products (14.3%), manufacture of textiles (9.8%), manufacture of motor vehicles (7.4%), manufacture of electrical equipment (6.6%), manufacture of beverages (6.5%),

manufacture of food products (4.8%), manufacture of tobacco goods (3.0%) and other manufacturing (40.1%).

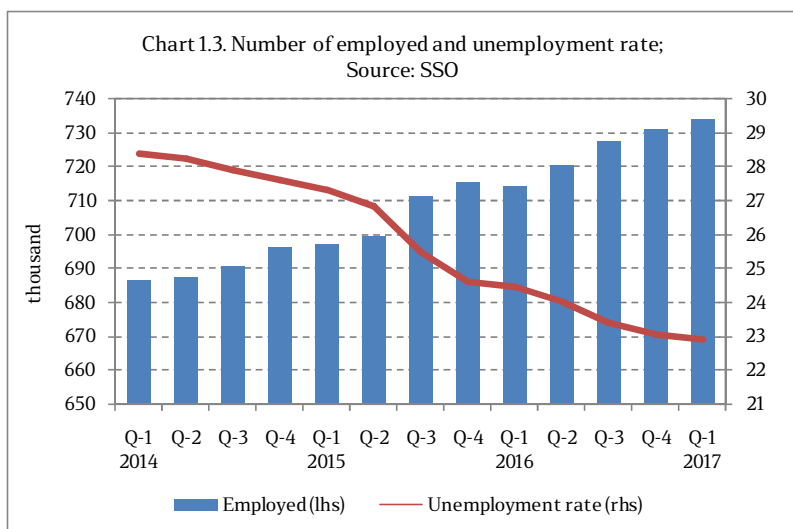
Analyzed according to the **expenditure side of GDP**, domestic demand had positive contribution to the economic growth in Q1 2017, while contribution of net export was negative, neutralizing the positive effect of consumption and investments on the growth.



Final consumption registered a 2.3% growth in real terms, as a result of the growth of both private consumption and public consumption. Private consumption experienced a 2.7% growth in real terms as a result, above all, of the increase of household disposable income in conditions of increase of employment and salaries. Public consumption surged by 0.7% in real terms. Gross investments increased by 0.6% in real terms in conditions of increased realization of budget capital expenditures and stronger import of capital goods.

Growth of export of goods and services amounted to 9.0% 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 economic activity in the EU as the most important destination to export the Macedonian products. Import of goods and services experienced higher growth compared to export, accounting for 10.7% in real terms, hence net export had negative contribution to the economic growth of around 2 percentage points (p.p.).

Positive trends on the **labour market** continued in Q1 2017 as well. According to the Labour Force Survey, the number of employed persons was higher by 2.7% compared to the same quarter of 2016. The increase of employment was accompanied by the drop of the number of unemployed

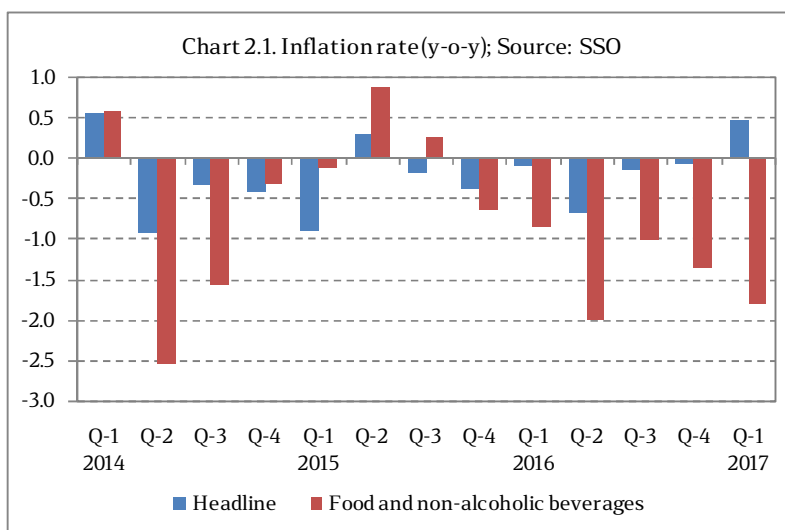


persons, decreasing by 5.5% on annual basis. Number of active population grew by 0.7%.

Such trends on the labour market caused for the unemployment rate in Q1 2017 to reduce to 22.9%, i.e. by 1.6 p.p. compared to the same quarter in 2016, while in relation to the previous quarter, it was lower by 0.2 p.p.. Employment rate in Q1 2017 amounted to 43.7%, being higher by 1.1 p.p. compared to the same quarter of 2016. Active population accounted for 56.7% of total working age population, being higher by 0.3 p.p. on annual basis.

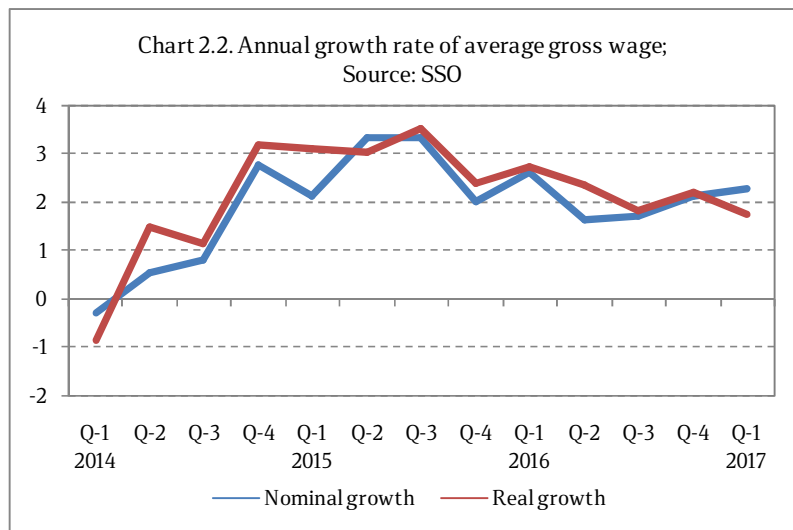
2. Prices, Costs and Productivity

Inflation rate, measured according to CPI index, in Q1 2017, amounted to 0.5% on annual basis, following the 0.1% drop registered in Q4 2016. Growth of consumer prices in Q1 2017 was a result of the higher prices in the following categories. Transport by 6.1%, Communications by 5.4%, Alcoholic beverages, tobacco and narcotics by 5.2%, Restaurants and hotels by 2.7%, Clothing and footwear by 2.4%, Furnishings, household equipment and routine maintenance of the house by 1.2%, and Recreation and culture by 0.4%. Highest drop of prices in Q1 2017 was seen at Food and non-alcoholic beverages category by 1.8%, followed by the categories: Health by 0.8%, Education by 0.3%, Housing, water, electricity, gas and other fuels by 0.2% and Miscellaneous goods and services by 0.8%.



Retail prices in Q1 2017, compared to the same quarter in 2016, surged by 1.8% followed by 0.3% growth in Q4 2016. Prices of goods in Q1 2017 increased by 1.8%, while prices of services picked up by 1.6% compared to the same quarter in 2016. Within Goods category, prices of industrial products grew by 2.7%, while prices of agricultural products dropped by 7%. Increased prices of industrial products were a result of the higher prices of tobacco by 6.0%, non-food industrial products by 4.1% and beverages by 0.2%, while retail price of food industrial products was lower by 0.4%.

Average monthly **net salary** in Q1 2017 amounted to Denar 22,514, being higher by 2.2% in nominal terms compared to the same quarter in 2016. Net salary increased by 1.7% in real terms. Average monthly **gross salary** amounted to Denar 33,104, increasing by 2.3% in nominal terms, i.e. surging by 1.8% in real terms.



Labour productivity in Q1 2017 dropped by 2.7%, following the minimum 0.2% growth in the previous quarter, as a result of the increase of the number of employees in conditions of stagnation in production.

3. Fiscal Sector

3.1. Budget revenues according to the economic classification

In Q1 2017, share of total budget revenues accounted for 29.3% of the realized quarterly GDP, being higher by 5.3% compared to the same quarter of 2016, mostly due to the higher collection of tax revenues and social contributions as well as the higher collection of non-tax revenues. Thereby, as for tax revenues, higher collection was recorded at personal income tax, profit tax, value added tax and customs duties, while revenues on basis of excise duties experienced lower collection.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 49.5% of the total tax revenues in Q1 2017, being higher by 4.0% compared to the same quarter of last year. 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 lower by 2.5% compared to the same quarter of 2016, while customs revenues surged by 8.7%.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 8.0%, while profit tax revenues grew by 8.6% compared to the same quarter of the previous year, as a result of the higher collection on the basis of monthly advance payments.

Collection of indirect taxes in Q1 2017 was higher by 2.6%, while collection of direct taxes amounted to 8.3% compared to Q1 2016. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes in GDP increased by 0.3 p.p.. (4.6%

of quarterly GDP), while the share of revenues collected on the basis of indirect taxes in GDP dropped by 0.1 p.p., i.e. they accounted for 12.2% of GDP in Q1 2017.

Collection of **social contributions** was higher by 7.7%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 8.0%, health insurance contributions by 7.0% and employment contributions by 7.5%.

Collection of non-tax revenues, accounting for 3.0% of the quarterly GDP, was higher by 28.6% compared to the same quarter of 2016.

Capital revenues, including revenues on the basis of lease of construction land, sale of flats as well as revenues on the basis of dividends, were lower by 80.3% on annual basis in Q1 2017. Revenues on the basis of foreign donations picked up by 5.0%.

3.2. Revenues by budget users¹

Budget revenues and inflows in the Central Budget are performed mainly through the Ministry of Finance - Functions of the State, amounting to Denar 29.8 billion, i.e. 88.3% of revenues and inflows of all budget users in Q1 2017, and accounting for 19.3% of the annual plan of this budget user. Within the Ministry of Finance - Functions of the State, tax revenues predominate, accounting for 81.7% of total revenues and inflows of this budget user, whereby their collection reached 22.9% of the annual plan by March. Inflows on the basis of domestic borrowing in this period amounted to Denar 3.2 billion, accounting for 10.8% of the total amount of this budget user.

Next budget user having the largest revenues and inflows is the Ministry of Transport and Communications, the total revenues and inflows of which amount to Denar 1.4 billion, i.e. 4.1% of the revenues and inflows of all budget users, being revenues on the basis of loans, i.e. realized on the basis of foreign borrowing.

Ministry of Education and Science has collected revenues in the amount of Denar 937 million, i.e. 2.8% of the revenues and inflows of all budget users, most of which, i.e. 87.6% of the total amount are non-tax revenues, mainly on the basis of fees and charges. Other budget users have collected revenues, accounting for 4.8% of total revenues and inflows. Detailed data on each budget user are shown in the statistical data attached to this report.

As for budget funds, most of the revenues were collected by the Pension and Disability Insurance Fund of Macedonia, amounting to Denar 15.6 billion in Q1 2017 and for 24.5% of the Fund's annual plan.

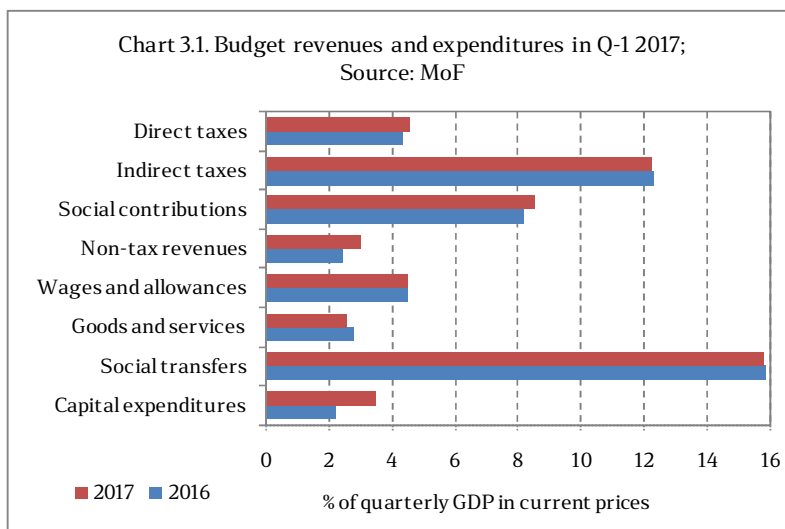
3.3. Budget expenditures according to the economic classification

In Q1 2017, total budget expenditures, accounting for 31.7% of the quarterly GDP, were higher by 0.2% compared to the same quarter of 2016.

¹ Data also include the inflows and they are not consolidated.

Current expenditures, accounting for 28.3% of the quarterly GDP, participated with 89.1% in the total expenditures and experienced 4.3% lower execution on annual basis. As for current expenditures, expenditures for goods and services were lower by 5.1%, while expenditures related to wages and allowances increased by 3.1% compared to the same quarter of 2016.

Funds for transfers, which participated with 63.4% in the total expenditures, were lower by 6.6% on annual basis. Social transfers surged by 2.8%, accounting for 49.8% of the total expenditures.



Transfers to the Pension

and Disability Insurance Fund, accounting for the most of the social transfers, surged by 1.9%, accounting for 30.7% of the total expenditures. Other transfers, including transfers to local government units, accounted for 12.7% of the total expenditures, i.e. it dropped by 32.1% compared to the same quarter of 2016. Block and earmarked grants to local government units surged by 0.6%, while subsidies and transfers were lower by 64.3%.

Interest-related expenditures grew by 17.6% on annual basis, whereby domestic debt interest-related expenditures increased by 27.1% and expenditures related to interest on foreign debt surged by 7.5%.

Execution of **capital expenditures**, accounting for 3.5% of the quarterly GDP, surged by 60.9% compared to the same quarter of 2016, i.e. they accounted for 10.9% of the total expenditures.

3.4. Expenditures by budget users²

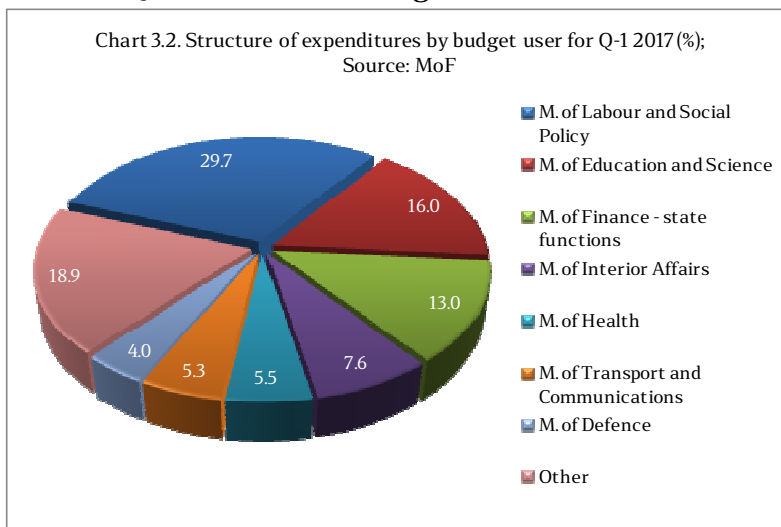
Review is below given of the budget expenditures for the largest budget users, the total annual budget of which accounts for 85% of the total budget of all budget users.

Ministry of Labour and Social Policy in Q1 2017 executed expenditures in the amount of Denar 10.2 billion or 24.7% of the total budget for 2017. Thereby, most of the expenditures (74.2%) in this period are intended for current transfers to extra-budgetary funds, for which Denar 7.6 billion was spent or 25.1% of the funds intended for 2017. Second most important expenditure item are the social benefits, participating with

² Data also include the outflows and they are not consolidated.

17.5% of total expenditures. As for this purpose, 22.8% (Denar 1.8 million) of the expenditures planned for 2017 were executed.

Ministry of Education and Science in Q1 2017 realized budget funds in the amount of Denar 5.5 billion, i.e. 22.1% of the total budget for 2017. Current transfers to LGUs account for most of the expenditures (59.5%), for which Denar 3.3 billion was spent or 25.3% of the total planned funds. Goods and services are the second most important item, accounting for 15.3%, for which Denar 846 million was spent, i.e. 19.6% of the total envisaged funds. As for salaries, wages and allowances (accounting for 14.8% of the total expenditures), Denar 822 million was realized, accounting for 23.9% of the total funds envisaged for the current year.



In Q1 2017, through the organizational code of the Ministry of Finance – Functions of the State³, Denar 4.5 billion was realized, accounting for 11.5% of the annual Budget. Interest payments with 35.0% account for most of the expenditures, for which Denar 1.6 billion was spent, i.e. 19.2% of the funds planned for this purpose in 2017. As regards the repayment of principal, total expenditures account for 25.8%, for which Denar 1.2 billion was realized or 6.3% of the planned funds. Third most important item are the capital expenditures, accounting for 18.1% for which Denar 817 million was spent or 10.5% of the annual plan.

In Q1 2017, Ministry of Internal Affairs realized total of Denar 2.6 billion, accounting for 24.9% of its budget for 2017. Salaries, wages and allowances are the most significant expenditure item, accounting for 69.8%, for which Denar 1.8 billion was spent, or 25.3% of the planned funds. Second most important item are goods and services, participating with 14.5%, for which Denar 379 million was realized or 17.8% of the annual plan.

Agency for Financial Support in Agriculture and Rural Development realized funds in the amount of Denar 181 million in Q1 2017, accounting for 2.1% of the funds planned for

³ Organizational code – Functions of the State covers the following activities: timely settlement of the state liabilities (repayment of interest and principal) on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon previously submitted documentation for payment; share in the capital of international financial institutions; VAT payment on the basis of capital investments financed from donations, financing projects from separate IPA Components (national co-financing and EU IPA funds). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of Macedonia and the Law on Budget Execution, envisages funds covering natural disasters and funds for financing unforeseen costs in the course of the fiscal year.

the current year. Capital expenditures are the most significant expenditure item, accounting for 69.3%, for which, during this period, Denar 125.1 million was realized or 6.4% of the planned funds. Subsidies and transfers account for 19.3% of the total expenditures, for which, in this period, Denar 34.8 million was realized or 0.5% of the annual plan.

Ministry of Defense in Q1 2017 realized budget funds in the amount of Denar 1.4 billion, i.e. 22.3% of the total 2017 budget. Salaries, wages and allowances accounted for the most with 63.4%, for which Denar 882 million was realized, accounting for 25.8% of the total funds planned for the current year. Goods and services, accounted for 26.9% of total expenditures, for which, during the analyzed period, Denar 375 million was spent, i.e. 26.9% of the total envisaged funds.

Ministry of Health in Q1 2017 realized budget funds in the amount of Denar 1.9 billion, accounting for 33.9% of its budget for 2017. Current transfers to extra-budgetary funds account for the most of the expenditures with 50.6%, for which, in this period, Denar 963 million was spent or 40.9% of the funds envisaged for 2017. Goods and services are the second most important item, accounting for 26.5% of total expenditures, for which, during the analyzed period, Denar 505 million was spent, i.e. 26.5% of total planned funds. Capital expenditures, participating with 21.5% in the total expenditures, were executed in the amount of Denar 408 million or 33.6%.

Ministry of Transport and Communications in Q1 2017 realized budget funds in the amount of Denar 1.8 billion, i.e. 39.7% of its budget for 2017. Capital expenditures accounted for the most in the total expenditures with 91.4%, while their execution in this period accounted for 44.2%, i.e. Denar 1.7 billion was realized.

For the purpose of financing the activities in the field of culture⁴ in Q1 2017, the budget funds were realized in the amount of Denar 1.3 billion, i.e. 31.1% of the total budget for 2017. Capital expenditures accounted for the most in the total expenditures with 40.8%, while their execution in this period accounted for 41.4%, i.e. Denar 519.6 million was realized. Subsidies and transfers accounted for 29.9%, whereby Denar 380.9 million or 29.3% of the planned funds were realized for this purpose. As for salaries, wages and allowances, Denar 261.1 million was executed, being 24.6% of the total funds planned for the current year, and this item accounts for 20.5% of the total expenditures.

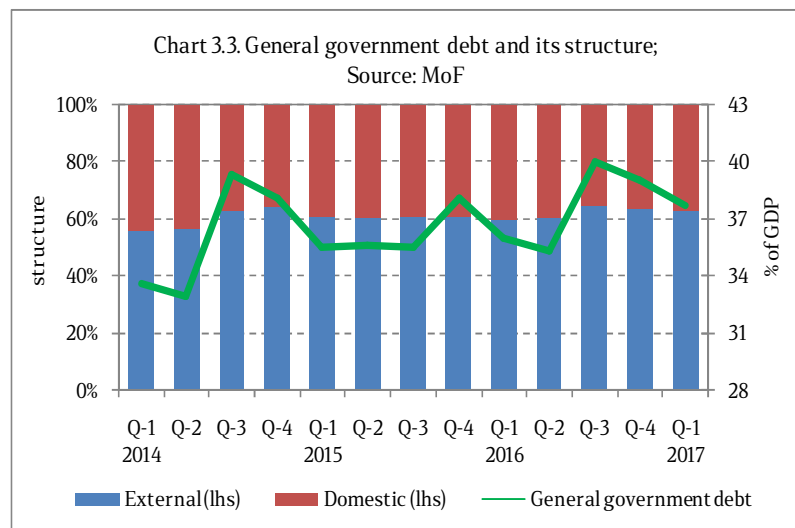
Detailed data on each budget user are shown in the statistical data attached to this report.

⁴ Financing activities in the area of culture supports the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural events, museum and film library activities, international cooperation in the area of culture, support to young talents, organizations in the field of culture, and decentralization of the government and more intensive realization of the capital projects.

3.5. Budget deficit and government debt

In the first quarter of 2017, **the consolidated budget deficit** amounted to Denar 3,567 million or 2.4% of GDP realized in this quarter, while central budget deficit amounted to Denar 3,263 million, i.e. 2.2% of quarterly GDP.

Total **government debt** at the end of Q1 2017 accounted for 37.8% of GDP, decreasing by 1.3 p.p. compared to Q4 2016. Share of the external debt in the total government debt decreased by 0.6 p.p. compared to Q4 2016, accounting for 62.9% of total government debt. Share of domestic debt increased to 37.1% of the total government debt.



4. Monetary and Financial Trends

In the first quarter of 2017, National Bank of the Republic of Macedonia reduced the reference interest rate by 0.5 p.p., from 3.75% to 3.25%, being due to the constant stabilization of the expectations of the economic entities and the continuous exhaustion of the effects of the political crisis, as well as the favourable trends on the foreign currency market, as a result of the NBRM intervention by repurchasing foreign currencies. Interest rate on available 7-day deposits amounted to 0.5% in March 2017 and, compared to the previous quarter, it remained unchanged.

Primary money⁵ in Q1 2017 increased by 1.1% on quarterly basis (2.2% growth was recorded in the previous quarter) in conditions of increase of total liquidity of banks by 7.3%, while currency in circulation dropped by 4.4%. Compared to Q1 2016, primary money surged by 8.0% (compared to 7.1% growth in Q4 2016), as a result of the increase of currency in circulation by 5.7% and increase of total liquidity of banks by 10.3%.

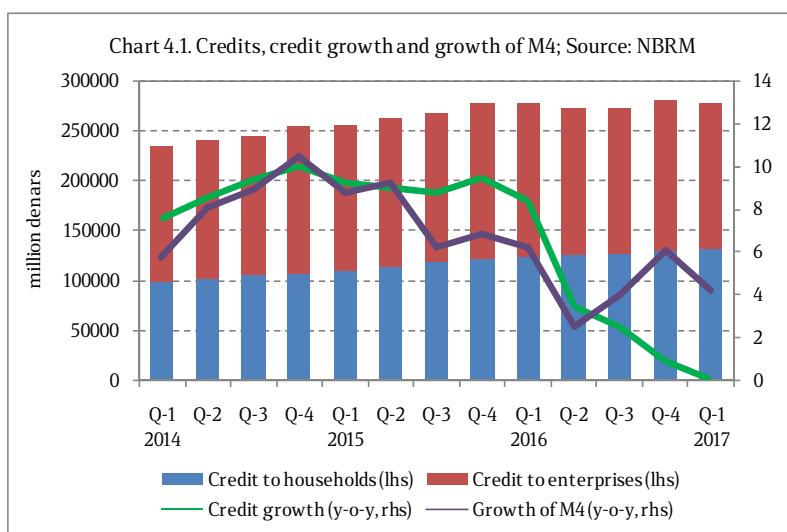
In Q1 2017, the narrowest money supply M1 experienced quarterly decline of 5.8% compared to the previous quarter. Monetary aggregate M2 dropped by 2.8%, while the broadest monetary aggregate M4 declined by 1.8%.

⁵ 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).

Total **deposit potential**⁶ of banks in Q1 2017 decreased by 1.3% on quarterly basis, compared to the previous quarter when the deposit potential grew by 6.3%. Sector analysis shows that deposits of enterprises dropped by 6.4%, while deposits of households grew by 0.1%. From currency point of view, Denar and foreign currency deposits, decreased by 2.1% and 0.2% respectively compared to the previous quarter. Level of euroization increased by 0.5 p.p. compared to the previous quarter, i.e. it accounted for 41.6%, measured through the share of foreign currency deposits in the total deposit potential.

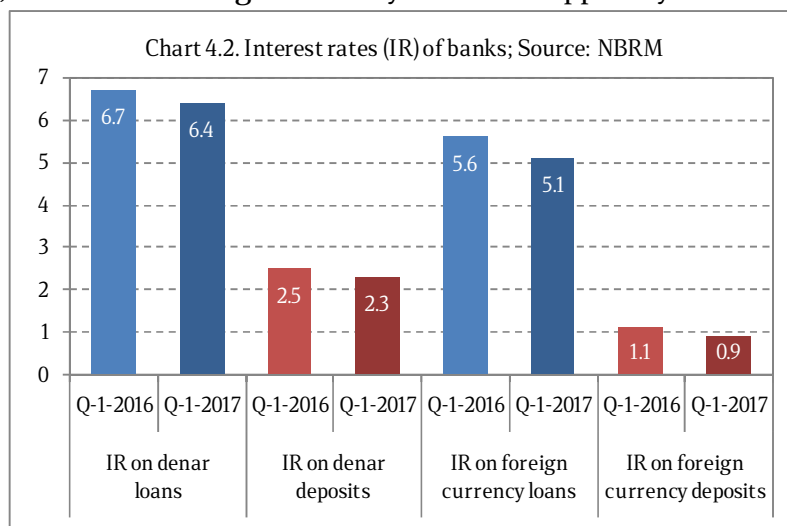
As regards maturity, the share of long-term deposits in total deposit potential in Q1 2017 increased compared to the previous quarter, reaching 27.3% (accounting for 26.6% in Q4 2016), as a result of the increase of long-term deposits by 1.2% in relation to the previous quarter. Short-term deposits dropped by 0.7% in the analyzed period.

Credit activity of banks to non-government sector in Q1 2017 experienced decrease of 0.8 % on quarterly basis (compared to 2.7% growth in the previous quarter), in conditions of drop of credits to private enterprises by 3.3%, while credits to households grew by 2.1%.



From currency point of view, Denar and foreign currency credits dropped by 0.8% and 1.1% respectively in Q1 2017, compared to the previous quarter. From maturity point of view, in Q1 2017, long-term credits experienced 1.2% growth in relation to the previous quarter, while short-term credits dropped by 6.2%.

In Q1 2017, **interest rate** on Denar credits amounted to 6.4%, decreasing by 0.1 p.p.

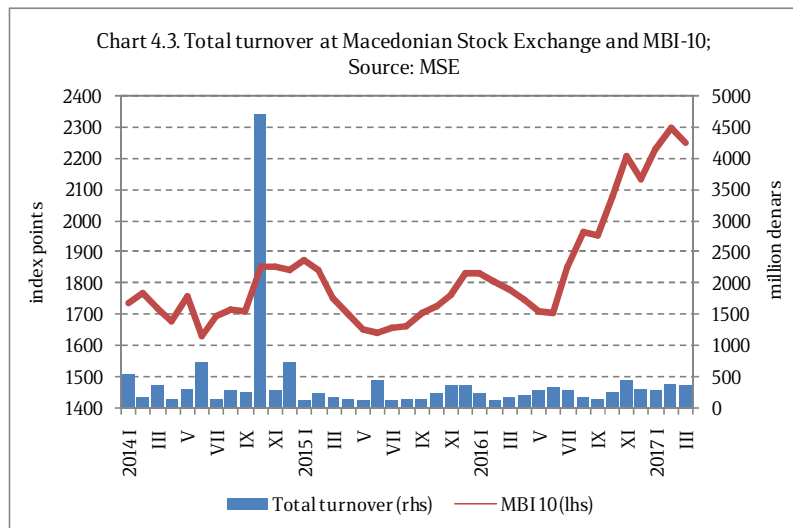


⁶ Deposits also include calculated interest.

compared to the previous quarter. Interest rate on foreign currency credits was 5.1% in Q1 2017, dropping by 0.1 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.2 p.p. on monthly basis, accounting for 2.3% in Q1 2017, while interest rate on foreign currency deposits dropped by 0.1 p.p. compared to the previous month, accounting for 0.9%. In Q1 2017, interest rate on newly granted Denar credits amounted to 5.7%, while interest rate on newly approved foreign currency credits accounted for 4.5%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.7% and 1.0% respectively.

As regards the **capital market**, in Q1 2017, total turnover on the Stock Exchange experienced 1.4% increase compared to the previous quarter, being a result of the increase of the turnover realized through block transactions by 36.5%, while the turnover realized through trading in best dropped by 5.8%. Compared to the same quarter in 2016, total turnover surged by 92.2%, in conditions of increase of the turnover realized through trading in best by 52.2%, while turnover realized through block transactions grew by 4.7 times (365.8%).

Macedonian Stock Exchange Index MSEI-10, as aggregate indicator of stock exchange trends at the end of the first quarter, amounted to 2,251.1 index points, increasing by 5.4% compared to December 2016, while compared to March 2016, the index was higher by 26.4%.



5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,681.9 million in Q1 2017, surging by 14.6% compared to the same quarter of 2016.

In Q1 2017, **export of goods** amounted to EUR 1,128.3 million, whereby compared to Q1 2016, it surged by 14.7%, while compared to the previous quarter, it decreased by 1.1%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q1 2017, compared to the same quarter of 2016, were registered at:

- machinery and transport equipment, increasing by 19.0% (within which highest increase was seen at the following categories: electrical machinery, apparatus

and appliances by 26.1% or EUR 27.9 million; industrial machinery, equipment and machine parts by 14.7% or EUR 17.5 million and road vehicles by 25.6% or EUR 10.9 million);

- chemical products by 14.9% (chemical materials and products by 15.6% or EUR 33.6 million);
- manufactured goods classified chiefly by material by 22.0% (iron and steel by 35.4% or EUR 28.3 million);
- crude materials, inedible, except fuels by 62.2% (metal ores and metal scrap by 66.1% or EUR 20.7 million);
- mineral fuels and lubricants, being twice higher (petroleum and petroleum products increasing by more than two times or EUR 5.0 million and electricity by two times or EUR 4.3 million);
- miscellaneous manufactured articles by 2.0% (furniture and parts thereof, bedding, mattresses and similar by 18.3% or EUR 6.5 million) and
- beverages and tobacco by 2.0% (tobacco and tobacco products by 4.5% or EUR 0.9 million).

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

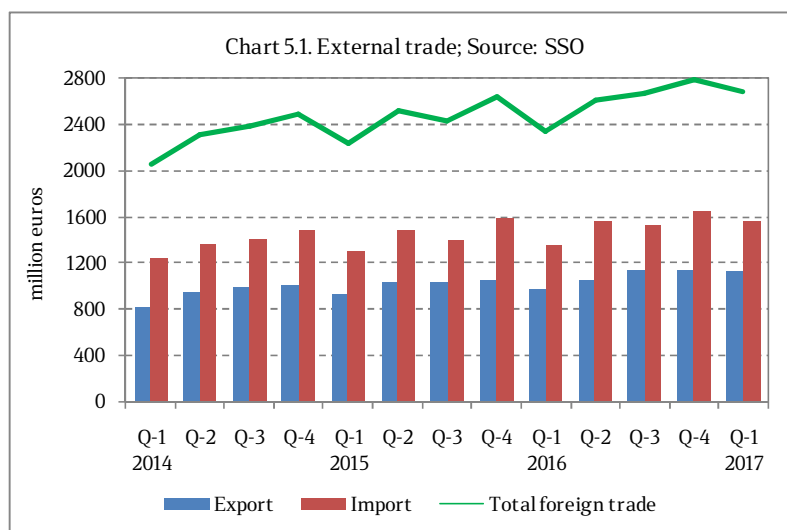
- food products, decreasing by 13.5% (wherein the highest drop was registered at the fruit and vegetables category by 29.7% or EUR 9.5 million) and
- animal and vegetable oils by 73.6% (solid vegetable oils and fats, raw, refined or fractioned by 77.2% or EUR 3.2 million).

In Q1 2017, observed **by economic purpose**, the largest share in export had industrial supplies (48.5%), followed by the categories: products for investments without transport equipment (15.6%), consumer goods (15.3%), transport equipment (12.7%), food and beverages (6.3%) and fuels and lubricants (1.6%).

Import of goods in Q1 2017 amounted to EUR 1,553.6 million, surging by 14.5% compared to Q1 2016, while in relation to the previous quarter, it decreased by 6.0%.

Analyzed by **SITC sectors**, increase of import in Q1 2017, compared to Q1 2016, was seen at:

- manufactured goods classified chiefly by material, increasing by 16.6% (within which highest growth was seen at the category non-ferrous metals by

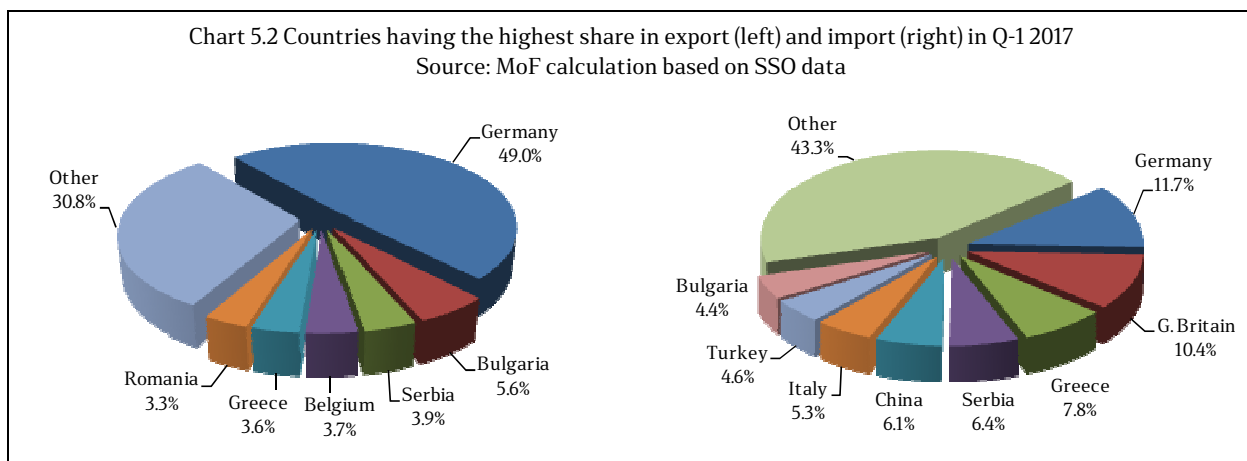


43.9% or EUR 71.9 million);

- mineral fuels and lubricants by 42.6% (petroleum and petroleum products by 47.3% or 32.7 million and natural and industrial gas by 54.9% or EUR 12.3 million);
- machinery and transport equipment by 10.2% (electrical machinery, apparatus and appliances by 26.7% or EUR 24.4 million and machinery for treating metal by more than two times or EUR 6.8 million);
- crude materials, inedible, except fuel by 40.7% (metal ores and metal scrap by more than two times or EUR 11.6 million);
- food products by 8.4% (meat and meat products by 14.2% or EUR 3.5 million and milk products and eggs by 21.7% or EUR 2.2 million);
- miscellaneous manufactured articles by 7.4% (furniture and parts thereof, bedding, mattresses and similar by 28.1% or EUR 2.8 million and clothing by 12.6% or EUR 2.2 million);
- beverages and tobacco by 27.8% (tobacco and tobacco products by 43.8% or EUR 3.4 million) and
- chemical products by 1.4% (non-organic chemical products by 25.0% or EUR 2.1 million and medical and pharmaceutical products by 5.1% or EUR 1.7 million).

Decline of import was seen at the sector animal and vegetable oils by 8.4%, within which solid vegetable oils and fats, raw, refined or fractioned dropped by 10.4% or EUR 1.1 million.

Observed by **economic purpose**, the largest share in import in Q1 2017 had industrial supplies (49.0%), followed by the categories: products for investments without transport equipment (12.9%), fuels and lubricants (10.9%), consumer goods (10.6%), food and beverages (9.4%) and transport equipment (7.1%).



In Q1 2017, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q1 2016, surged by 12.4%, whereby share of trade with the EU in the total foreign trade decreased by 1.4 p.p. compared to the first quarter of 2016, accounting for 70.4%. Thereby, in Q1 2017, export of goods accounted for 83.1%, while share of import of goods was 61.2%.

5.2. Balance of payments

According to the data from the National Bank of the Republic of Macedonia, deficit in the amount of EUR 125.5 million was recorded on the balance of payments **current account** in Q1 2017, accounting for 5.3% of quarterly GDP, as opposed to the deficit of 2.6% of GDP registered in the same quarter of 2016.

Analyzed on annual basis, current account deficit in Q1 2017 widened by EUR 66.8 million, being a result of the increased deficit on the goods account by 15.1% and the decrease of the positive balance on the secondary income account by 5.4%. Increased surplus on the services account by 9.8% and the decreased deficit on the primary income account by 2.2% had the opposite effect.

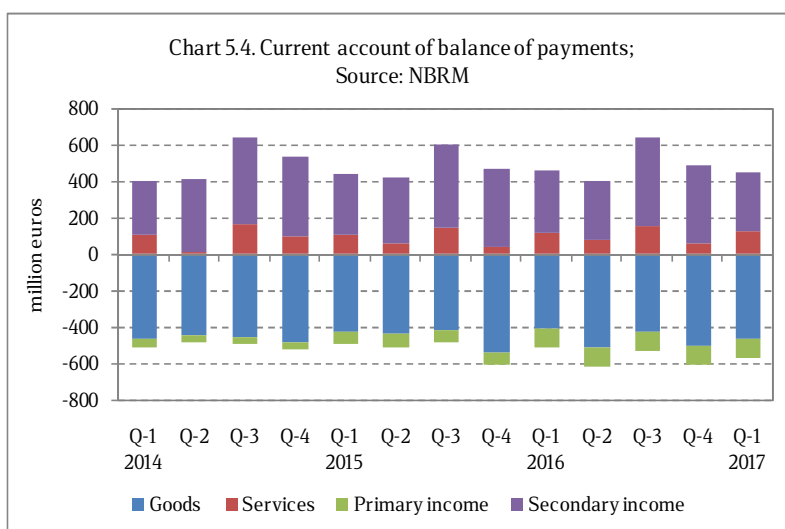
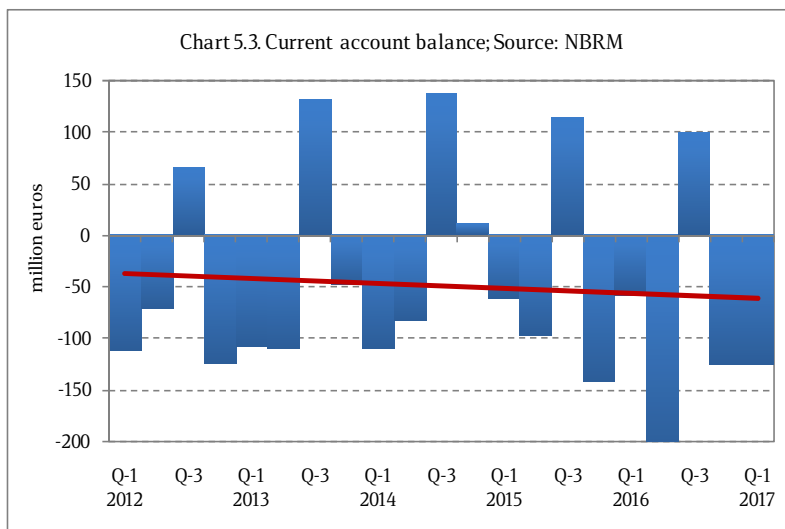
In Q1 2017, in conditions of greater increase of import compared to export of goods, **trade deficit** widened by EUR 61.8 million on annual basis, accounting for 19.9% of quarterly GDP, being by 2.0 p.p. higher than the deficit in the same quarter of 2016.

Surplus on **services account** amounted to EUR 125.1 million in Q1 2017 and, compared to the same quarter of 2016, it increased by EUR 11.1 million.

Trade openness of Macedonia in Q1 2017 accounted for 119.4% of quarterly GDP, increasing by 10.5 p.p. compared to Q1 2016.

Primary income account experienced EUR 103.2 million deficit in Q1 2017, narrowing by 2.2% or EUR 2.3 million on annual basis.

Surplus on the **secondary income** account amounted to EUR 323.5 million in Q1 2017, dropping by EUR 18.5 million on annual basis (5.4%). The decrease was due to the reduction of official net transfers by EUR 10.2

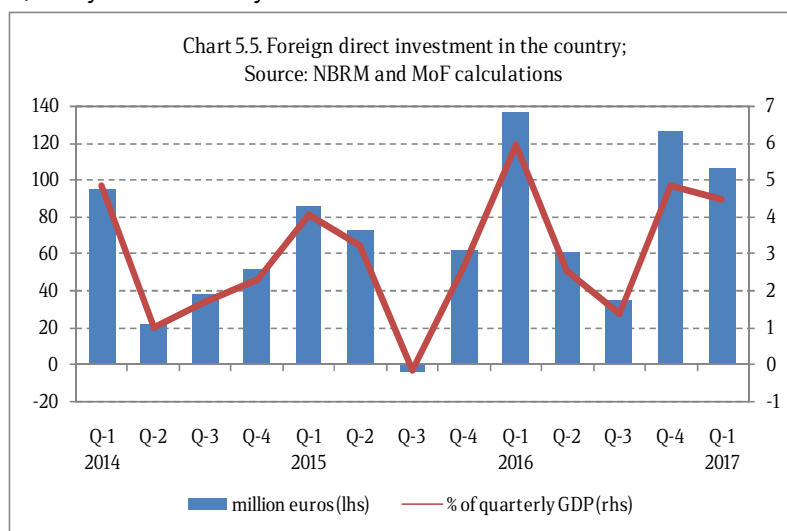


million (32.9%), participating with 6.5% in the secondary income account and the decrease of private transfers by EUR 8.2 million (2.6%), participating with 93.5% in the secondary income account.

Balance on the **capital account** amounted to EUR 0.7 million in Q1 2017 and, compared to the same quarter of last year, it dropped by EUR 1.6 million, entirely due to the reduced inflow of capital transfers.

Foreign direct investments (FDIs) in the country amounted to EUR 105.7 million in Q1 2017 and, compared to Q1 2016, they declined by EUR 30.8 million. Most of the FDIs in

this period, i.e. 84.3% was in the form of reinvested profit. Inflow of FDIs on the basis of equity accounted for 16.3% of the total inflow, while debt instruments had slight negative contribution to FDIs. Observed by activity, most of the FDIs in this quarter were seen in the services sector, especially in the trade activity.



Portfolio investments in Q1 2017 were negative, amounting to EUR 20.3 million. **Other investments** amounted to EUR 74.3 million in Q1 2017, being higher by 64.0% compared to the same quarter in 2016. As regards the category other investments, currencies and deposits amounted to EUR 34.5 million, loans amounted to EUR 27.4 million, while the balance on trade credit and advances account amounted to EUR 12.4 million.

Foreign exchange reserves amounted to EUR 2,534.4 million in the first quarter of 2017, surging by 11.8% compared to Q1 2016. At the end of Q1 2017, reserve assets provided for 4.7-month coverage of import of goods and services in the previous 12-month period, being an adequate level of reserves for conducting monetary policy.