



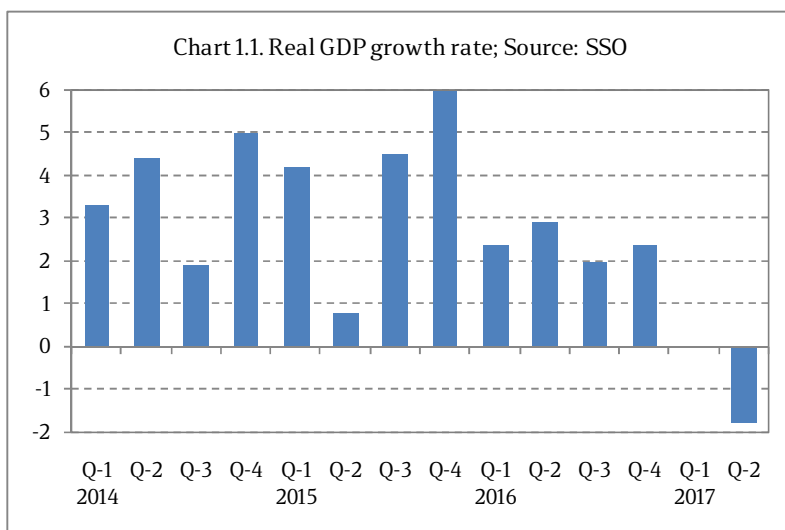
### Summary

- **Gross Domestic Product** in Q2 2017 compared to the same quarter in 2016 dropped by 1.8% in real terms;
- **Number of employees** in Q2 2017 was higher by 2.7% compared to the same quarter in 2016. **Number of unemployed persons** dropped by 5.2%, which resulted in reduction of **unemployment rate** to 22.6% in Q2 2017;
- **Inflation rate** in Q2 2017, measured according to CPI, amounted to 1.2% on annual basis;
- Average **gross salary** amounted to Denar 33,482 in Q2 2017, increasing by 2.3% in nominal terms, i.e. surging by 1.0% in real terms, compared to the gross salary in Q2 2016;
- Total **budget revenues** were higher by 5.3% in Q2 2017, while total **budget expenditures** surged by 13.2% compared to the same quarter of 2016;
- Total **deposit potential** of banks increased by 0.2% in Q2 2017 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q2 2017 grew by 2.2% on quarterly basis;
- Macedonian Stock Exchange Index **MSEI-10** increased by 1.4% in June 2017 compared to March 2017; Total turnover on the stock exchange dropped by 2.6% in Q2 2017 compared to the previous quarter;
- In Q2 2017, both **export and import of goods** grew by 17.0% and by 8.2% respectively on annual basis, whereby total **foreign trade**, expressed in euros, grew by 11.8%;

## 1. Macroeconomic Trends and Real Sector

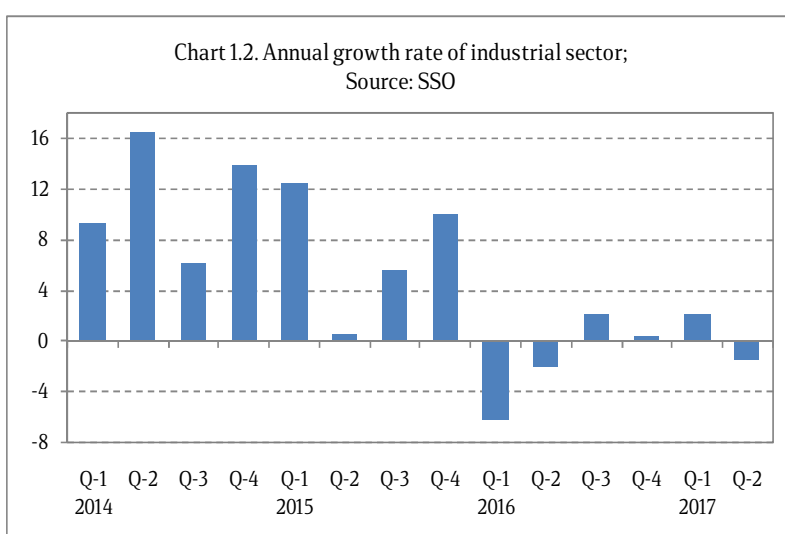
**Gross Domestic Product** in Q2 2017 compared to the same quarter in 2016 dropped by 1.8% in real terms. Nominal GDP growth amounted to 2.7% on annual basis, while GDP deflator was 4.6%.

Analyzed according to the **production side of GDP**, construction sector in Q2 2017 registered a decrease by 17.3% in real terms, thus the drop of the activity in this sector continued. Services and industrial sectors also recorded



reduced activity in Q2 2017. Services sector dropped by 0.8%, being due to the reduction in the following activities: Public administration and defense, education and health (4.1%), Arts, entertainment, recreation and other services (10.5%), Real estate activities (2.6%), and Professional, scientific, technical and administrative activities (4.7%), while drop was seen in following activities: Trade, transport and catering (3.9%), Information and communications and Financial and insurance activities (by 1.0% each).

Industrial sector in Q2 2017 dropped by 1.4%, following the 2.1% growth in the previous quarter, being mainly due to the drop in the Manufacturing by 1.6%. According to **monthly data on industrial production**, unfavourable trends at Manufacturing in Q2 2017 were seen at: manufacture of other transportation equipment (62.4%), manufacture of wood and wood products (21.2%), manufacture of electrical equipment (13.9%), manufacture of wearing apparel (12.7%), manufacture of basic metals (12.2%), manufacture of leather (10.5%), manufacture of furniture (8.5%), printing and reproduction of recorded media (1.5%), and manufacture of food products (1.3%).



On the other hand, growth was observed in the

following branches: repair and installation of machinery and equipment (35.5%), manufacture of machinery and equipment (21.9%), manufacture of other non-metallic mineral products (21.3%), manufacture of motor vehicles (16.6%), manufacture of beverages (13.7%), manufacture of fabricated metal products (11.8%), manufacture of tobacco products (11.7%), manufacture of computer, electronic and optical products (7.8%), manufacture of pharmaceutical products and preparations (6.7%), manufacture of textile (5.8%), manufacture of paper and paper products (3.8%), manufacture of rubber and plastic products (0.9%), manufacture of chemicals and chemical products (0.5%) and other manufacturing (3.6%).

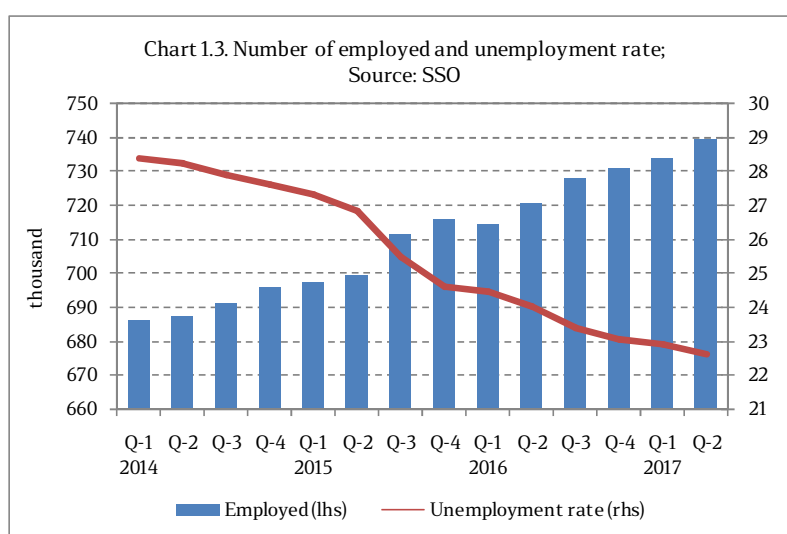
Favourable trends continued in the agricultural sector with intensified dynamics, i.e. real growth in Q2 2017 reached 4.1%, following the 1.1% growth recorded in the previous quarter.

Analyzed according to the **expenditure side of GDP**, in Q2 2017, domestic demand had negative contribution to the economic growth, being a result of the high drop of gross investments. Contribution of net export was positive, partially neutralizing the adverse effects of investment on the growth.

Final consumption registered 3.7% growth in real terms in Q1 2017, as a result of the growth of both private consumption and public consumption. Private consumption surged by 4.1%, amid increase of both employment and salaries. Public consumption grew by 2.0%. Gross investments dropped by 19.9% in real terms, amid significant decline of activity in the construction sector, based on GDP production side data.

Growth of export of goods and services amounted to 8.5% in real terms in Q2 2017, mainly as a result of the growth of export by the capacities in the free economic zones, in conditions of favourable trends of the external demand, i.e. growth of economic activity in the EU, as the most important destination to export the Macedonian products. Growth of export of goods and services in Q2 2017 slowed down, accounting for 3.5% in real terms, following the high growth of 10.7% in the previous quarter, by which net export had positive contribution to the economic growth.

Positive trends on the **labour market** continued in Q2 2017 as well. According to the Labour Force Survey, the number of employed persons was



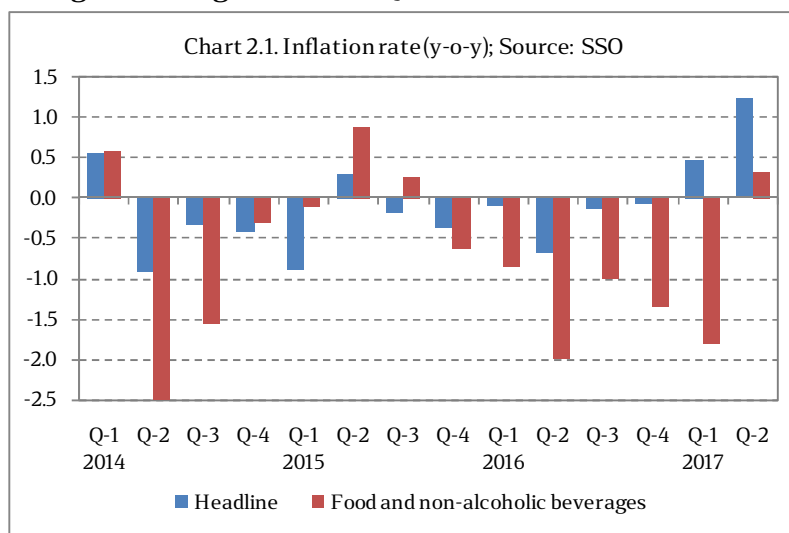
higher by 2.7% compared to the same quarter of 2016, being accompanied by the drop in the number of unemployed persons by 5.2% in real terms. The number of active population grew by 0.8%.

Such trends on the labour market caused for the unemployment rate in Q2 2017 to reduce to 22.6%, i.e. by 1.4 p.p. compared to the same quarter in 2016, while in relation to the previous quarter, it was lower by 0.3 p.p.. Employment rate in Q2 2017 amounted to 44.1%, being higher by 1.2 p.p. compared to the same quarter of 2016. Active population accounted for 56.9% of total working age population, being higher by 0.4 p.p. on annual basis.

## 2. Prices, Costs and Productivity

**Inflation rate**, measured according to CPI index, in Q2 2017, amounted to 1.2% on annual basis, following the 0.5% growth registered in Q1 2017. Growth of consumer

prices in Q2 2017 was a result of the higher prices in the following categories: Communication by 9.7%, Alcoholic beverages, tobacco and narcotics by 6.5%, Restaurants and hotels by 4.4%, Transport by 2.7%, Clothing and footwear and Furnishings, household equipment and routine maintenance of the house by 1.1% each, and Food and non-alcoholic beverages by 0.3%.



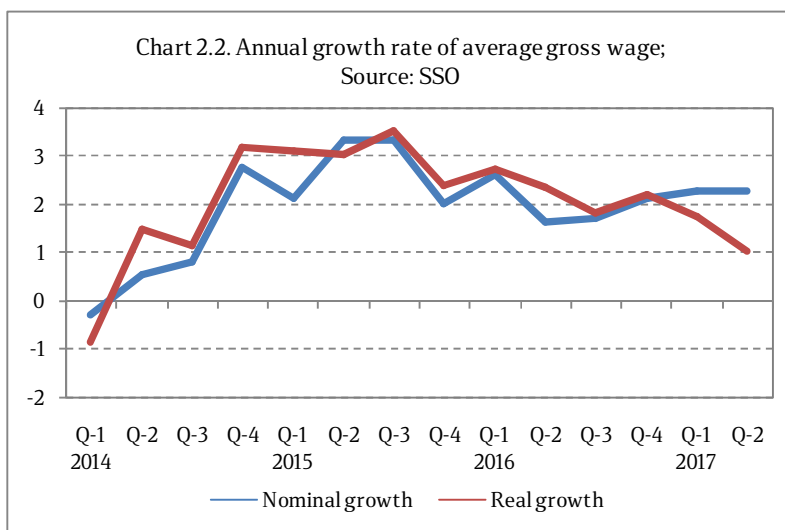
Highest drop of prices in Q2 2017 was recorded in the Health category by 0.6%, followed by the categories Housing, water, electricity, gas and other fuels, Recreation and culture and Miscellaneous goods and services by 0.4% each and Education by 0.3%.

**Retail prices** in Q2 2017, compared to the same quarter in 2016, surged by 2.6% following their 1.8% growth in Q1 2017. Prices of goods in Q2 2017 increased by 1.4%, while prices of services picked up by 4.6% compared to the same quarter in 2016. Within Goods category, prices of industrial products grew by 1.5%, while prices of agricultural products surged by 0.1%. Increase of prices of industrial products is a result of the higher prices at all groups, such as: tobacco by 8.9%, non-food industrial products by 1.6%, food industrial products by 0.4% and beverages by 0.1%.

Average monthly **net wage** in Q2 2017 amounted to Denar 22,790, being higher by 2.2% in nominal terms compared to the same quarter in 2016. Net wage increased by 1.0% in

real terms. Average monthly **gross wage** amounted to Denar 33,482, increasing by 2.3% in nominal terms, i.e. surging by 1.0% in real terms.

**Labour productivity** in Q2 2017 dropped by 4.3%, following the 2.7% drop in the previous quarter, as a result of the increase of the number of employees in conditions of production drop.



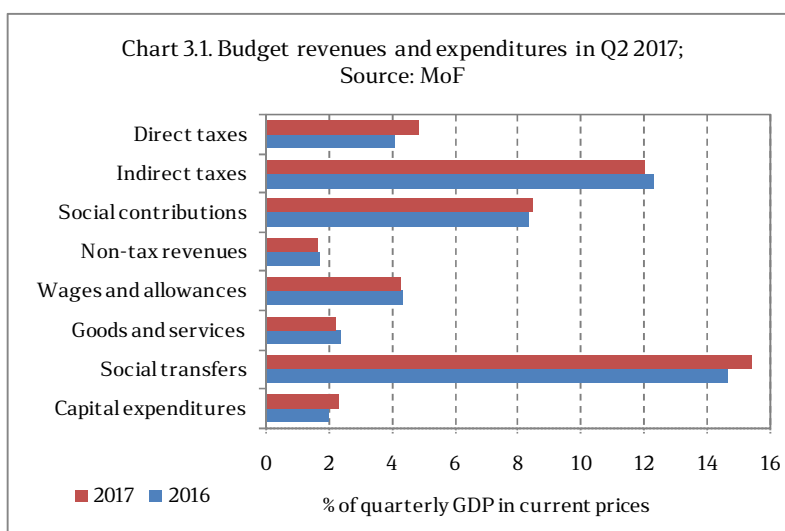
### 3. Fiscal Sector

#### 3.1. Budget revenues according to the economic classification

In Q2 2017, share of total budget revenues accounted for 28.4% of the realized quarterly GDP, being higher by 5.3% compared to the same quarter of 2016, 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, excises and customs duties, while revenues on the basis of value added tax experienced lower collection.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 43.1% of the total tax revenues, being lower by 5.1% in Q2 2017 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 higher by 10.0%, while customs revenues grew by 8.9% compared to the same quarter of 2016.

As for **direct taxes**, collection of revenues on



the basis of personal income tax increased by 11.9%, while profit tax revenues grew by 33.0% 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 Q2 2017 was higher by 0.3%, while collection of direct taxes increased by 21.6% compared to Q2 2016. From the point of view of structural share in GDP, the share of revenues on the basis of direct taxes increased by 0.8 p.p. (4.9% of quarterly GDP), while the share of revenues collected on the basis of indirect taxes dropped by 0.3 p.p. and accounted for 12.0% of GDP in Q2 2017.

Collection of **social contributions** was higher by 4.3%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 4.1%, health insurance contributions by 4.8%, and employment contributions by 4.7%.

Collection of **non-tax revenues**, accounting for 1.7% of the quarterly GDP, was higher by 0.5% 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 13.5% on annual basis in Q2 2017. Revenues on the basis of foreign donations picked up by 41.2%.

### 3.2. Revenues by Budget Users<sup>1</sup>

Budget revenues and inflows in the Central Budget are performed mainly through the **Ministry of Finance - Functions of the State**, amounting to Denar 30.7 billion, i.e. 92.8% of revenues and inflows of all budget users in Q2 2017, accounting for 20.3% of the annual projections of this budget user. Within the Ministry of Finance - Functions of the State, tax revenues accounted for the most, 83.8% of total revenues and inflows to this budget user, whereby their collection reached 24.8% of the annual projections in the second quarter. Inflows on the basis of domestic borrowing in this period amounted to Denar 2.1 billion, accounting for 6.8% of the total amount of this budget user.

**Ministry of Education and Science** has collected revenues in the amount of Denar 473 million, i.e. 1.4% of the revenues and inflows of all budget users, most of which, i.e. 81.1% of the total amount are non-tax revenues, mainly on the basis of fees and charges.

**Ministry of Health**, in Q2 2017, collected revenues in the amount of Denar 277 million or 0.8% of the revenues and inflows of all budget users. Most, i.e. 60.6% of the total amount is on the basis of tax revenues.

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 244 million, i.e. 0.7% 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.

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<sup>1</sup> Data also include the inflows and they are not consolidated.

The remaining budget users collectively generated revenues accounting for 4.2% of total revenues and inflows. Detailed data on each budget user are shown in the statistical annex attached to this report.

As for budget funds, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 16.0 billion in Q2 2017, accounting for 24.6% of the Fund's annual projections.

### 3.3. Budget expenditures according to the economic classification

In Q2 2017, total budget expenditures, accounting for 31.5% of the quarterly GDP, were higher by 13.2% compared to the same quarter of 2016.

**Current expenditures**, accounting for 29.1% of the quarterly GDP, participated with 92.5% in the total expenditures and experienced 12.6% higher execution on annual basis. As for current expenditures, expenditures for goods and services were lower by 4.6%, while expenditures related to wages and allowances increased by 1.3% compared to the same quarter of 2016.

Funds for transfers, which participated with 70.2% in the total expenditures, were higher by 18.7% on annual basis. Social transfers surged by 8.0%, accounting for 48.9% of the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most of the social transfers, surged by 8.2%, accounting for 29.9% of the total expenditures. Other transfers, which include transfers to local government units, accounted for 20.6% in the total expenditures, i.e. they surged by 54.4% compared to the second quarter in 2016. Block and earmarked grants to local government units increased by 0.8%, while subsidies and transfers were higher by 155.4%.

Interest-related expenditures dropped by 24.7% on annual basis, whereby domestic debt interest-related expenditures declined by 17.5% and expenditures related to interest on foreign debt reduced by 33.6%.

Execution of **capital expenditures**, accounting for 2.4% of the quarterly GDP, surged by 21.0% compared to the same quarter of 2016, i.e. they accounted for 7.5% of the total expenditures.

### 3.4. Expenditures by Budget Users<sup>2</sup>

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

**Ministry of Labour and Social Policy**, in Q2 2017, executed expenditures in the amount of Denar 10.5 billion or 24.7% of the total budget for 2017. Thereby, most of the expenditures (73.7%) in this period were intended for current transfers to extra-budgetary funds, for which Denar 7.7 billion was spent or 24.9% of the funds planned for

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<sup>2</sup> Data also include the outflows and they are not consolidated.



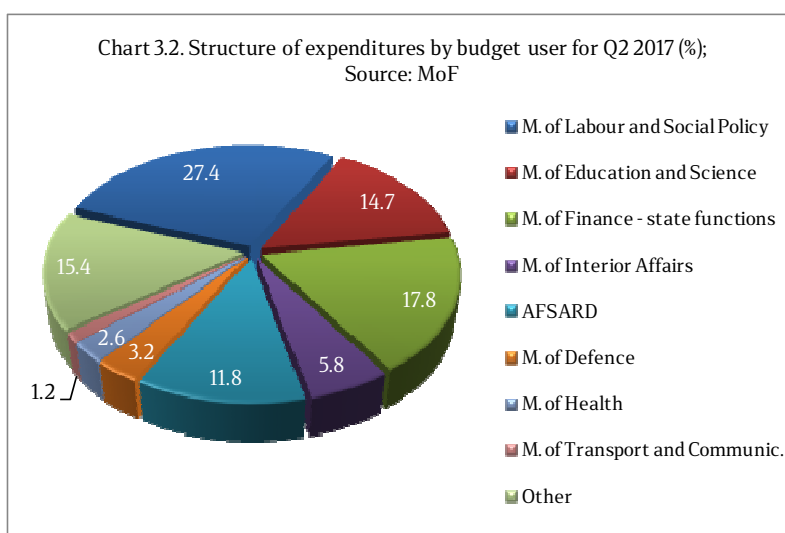
2017. The second highest expenditure category was social benefits, participating with 19.2% in the total expenditures. As for this purpose, 25.0% (Denar 2.0 billion) of the expenditures projected for 2017 were executed.

**Ministry of Education and Science**, in Q2 2017, realized budget funds in the amount of Denar 5.6 billion, i.e. 23.8% of the total 2017 budget. Current transfers to LGUs account for most of the expenditures (58.4%), for which Denar 3.3 billion was spent or 25.3% of total planned funds. Wages and allowances are the second highest expenditure category, participating with 14.5%, Denar 820 million being spent therefore, i.e. 24.5% of the total projected funds. As for goods and services (accounting for 13.2% of the total expenditures), Denar 744 million was spent, accounting for 18.9% of the total funds projected for the current year.

In Q2 2017, Denar 6.8 billion was spent through the organizational code **Ministry of Finance – Functions of the State**<sup>3</sup>, accounting for 17.8% of the annual budget. Most of the expenditures or 52.3% are

for principal repayment, for which Denar 3.6 billion was spent or 19.6% of the funds projected for this purpose. Capital expenditures accounted for 20.2% of the total expenditures, with Denar 1.4 billion being spent or 19.0% of the annual plan. Third most important item are the interest payments, accounting for 11.2%, for which Denar 761 million was spent or 9.3% of the annual projections.

In Q2 2017, **Ministry of Internal Affairs** spent a total amount of Denar 2.2 billion, accounting for 21.9% of its 2017 budget. Wages and allowances were the highest expenditure category, accounting for 80.9%, with Denar 1.8 billion being spent therefore or 24.7% of the projected ones. Second most important item are goods and services, participating with 13.2%, for which Denar 292 million was spent or 16.7% of the annual projections.



<sup>3</sup> As regards the organizational code “Functions of the State”, following activities are included: timely servicing of liabilities (interest and principal repayment) of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds for financing unforeseen costs in the course of the fiscal year.



**Agency for Financial Support in Agriculture and Rural Development (AFSARD)** spent funds in the amount of Denar 4.5 billion in Q2 2017, accounting for 52.4% of the funds planned for the current year. Subsidies and transfers were the highest expenditure category (accounting for 86.8%), with funds in the amount of Denar 3.9 billion being executed therefore or 58.6% of the projected ones. Capital expenditures accounted for 12.7% of the total expenditures, with funds in the amount of Denar 571 million being executed therefore or 31.3% of the annual projections.

**Ministry of Defense**, in Q2 2017, spent budget funds in the amount of Denar 1.2 billion, i.e. 21.2% of the total 2017 budget. Wages and allowances accounted for the most with 72.2%, for which, Denar 877 million was realized, accounting for 24.9% of the total funds planned for the current year. Expenditures related to goods and services accounted for 23.7% of total expenditures, with Denar 288 million being spent therefore during the analyzed period, i.e. 21.1% execution of the total projected funds.

**Ministry of Health**, in Q2 2017, spent budget funds in the amount of Denar 1.0 billion, accounting for 17.1% of the total 2017 budget. Current transfers to extra-budgetary funds account for the most of the expenditures with 43.4%, for which, in this period, Denar 435 million was spent or 18.1% of the funds projected for 2017. Expenditures related to goods and services were the second highest expenditure category, accounting for 37.9% of the total expenditures, with funds in the amount of Denar 380 million being executed therefore in the analyzed period, i.e. 20.2% of the total projected ones. Capital expenditures, participating with 16.3% in the total expenditures, were executed in the amount of Denar 163 million or 11.2% of the annual plan.

**Ministry of Transport and Communications**, in Q2 2017, spent budget funds in the amount of Denar 471 million, i.e. 10.6% of the 2017 total budget. Capital expenditures accounted for the most in the total expenditures with 53.6%, while their execution in this period accounted for 7.0%, i.e. Denar 253 million was spent. Subsidies and transfers accounted for 37.1% of total expenditures, their execution accounting for 29.1%, i.e. Denar 175 million being spent therefore.

For the purpose of **financing the activities in the field of culture**<sup>4</sup>, funds in the amount of Denar 966 million were spent in Q2 2017, i.e. 24.9% of the total budget for 2017. Subsidies and transfers accounted for the most in the total expenditures with 33.1%, while their execution in this period accounted for 25.4%, i.e. Denar 320 million was spent. Capital expenditures accounted for 29.0%, whereby Denar 280 million or 25.6% of the planned funds were spent for this purpose. As for wages and allowances, Denar 260 million was executed, being 24.8% of the total funds planned for the current year, accounting for 27.0% of the total expenditures.

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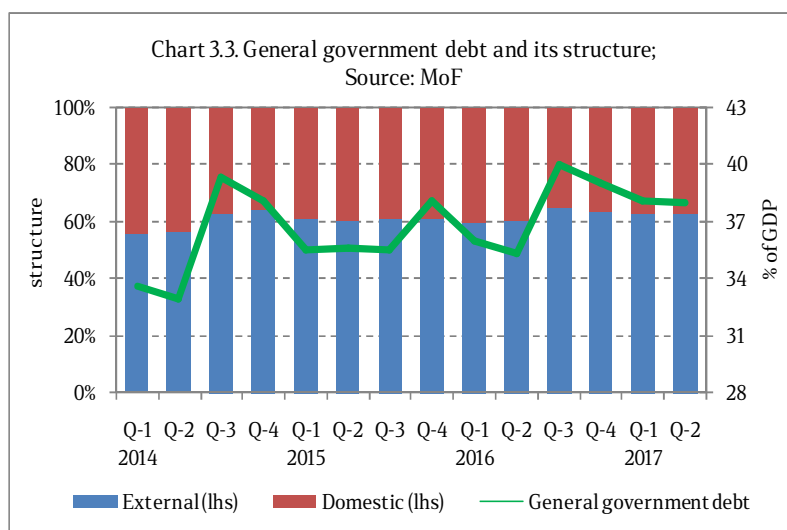
<sup>4</sup> Financing activities in the area of culture support the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural events, museum and film library activities, international cooperation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

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

### 3.5. Budget deficit and government debt

In the second quarter of 2017, the **consolidated budget deficit** amounted to Denar 4,739 million or 3.1% of GDP in this quarter, while central budget deficit amounted to Denar 4,145 million, i.e. 2.7% of quarterly GDP.

Total **government debt** at the end of Q2 2017 accounted for 38.0% of GDP, decreasing by 0.1 p.p. compared to Q1 2017. Share of the external debt in the total debt increased by 0.2 p.p. compared to Q1 2017, accounting for 63.1% of total government debt. Share of domestic debt decreased to 36.9% of the total government debt.



## 4. Monetary and Financial Trends

In the second quarter of 2017, National Bank of the Republic of Macedonia retained the reference interest rate at 3.25%, after its reduction by 0.5 p.p., from 3.75% to 3.25% in the previous quarter, 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 June 2017 and, compared to the previous quarter, it remained unchanged.

**Primary money**<sup>5</sup> in Q2 2017 increased by 0.3% on quarterly basis (1.1% growth was recorded in the previous quarter) in conditions of increase of currency in circulation by 4.9%, while total liquidity of banks dropped by 4.3%. Compared to Q2 2016, primary money surged by 5.1% (compared to 8.0% growth in Q1 2017), as a result of the increase of currency in circulation by 10.1% and increase of total liquidity of banks by 0.2%.

<sup>5</sup> 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 Q2 2017, the narrowest money supply M1 experienced 4.6% increase compared to the previous quarter. Monetary aggregate M2 surged by 0.9%, while the widest monetary aggregate M4 increased by 0.7%.

Total **deposit potential**<sup>6</sup> of banks in Q2 2017 increased by 0.2% on quarterly basis, compared to the previous quarter when the deposit potential reduced by 1.3%. Sector analysis shows that deposits of enterprises dropped by 1.9%, while deposits of households grew by 0.9%. Analyzed by currency, compared to the previous quarter, Denar deposits surged by 1.0%, while foreign currency deposits dropped by 0.9%. Level of euroization dropped by 0.4 p.p. compared to the previous quarter, i.e. to 41.2%, measured through the share of foreign currency deposits in the total deposit potential.

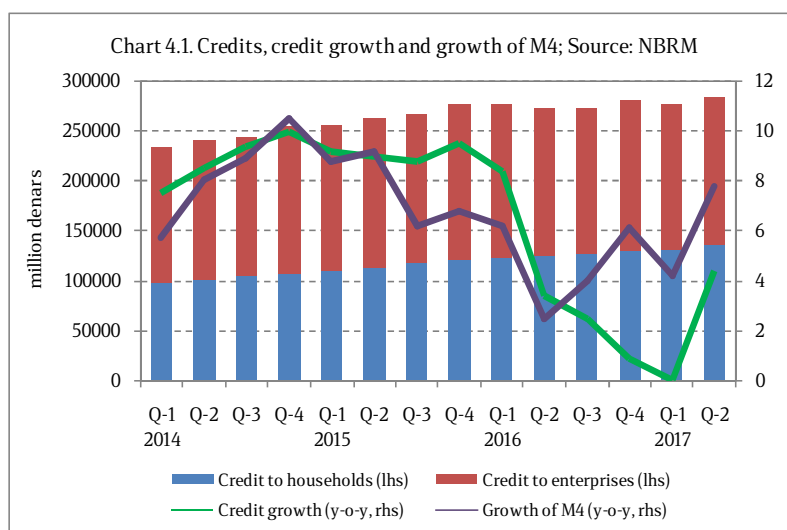
As regards maturity, share of long-term deposits in total deposit potential in Q2 2017 remained the same compared to the previous quarter, accounting for 27.3% (accounting for 27.3% in Q1 2017 as well), while the long-term deposits increased by 0.3% in relation to the previous quarter. Short-term deposits dropped by 1.8% in the analyzed period.

**Credit activity** of banks to non-government sector in Q2 2017 increased by 2.2 % on quarterly basis (compared to 0.8% drop in the previous quarter), in conditions of growth of credits to private enterprises by 1.7%, while credits to households grew by 3.0%.

From currency point of view, Denar and foreign

currency credits increased by 2.7% and 0.1% respectively in Q2 2017, compared to the previous quarter. From maturity point of view, in Q2 2017, long-term credits experienced 1.6% growth in relation to the previous quarter, while short-term credits surged by 2.3%.

In Q2 2017, **interest rate** on Denar credits amounted to 6.3%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 5.0% in Q2 2017, dropping by 0.1 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.1 p.p. on monthly basis, accounting for 2.2% in Q2 2017, while interest rate on foreign currency deposits remained unchanged on quarterly basis, accounting for 0.9%. In Q2 2017, interest rate on newly granted Denar credits amounted

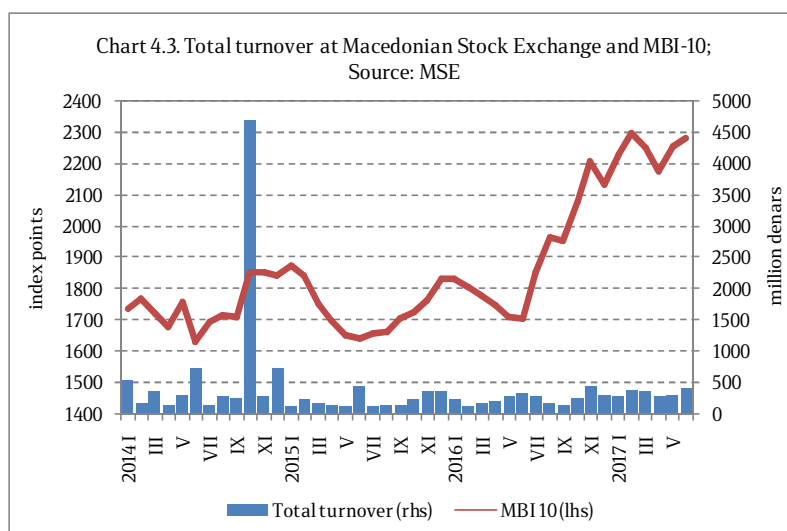
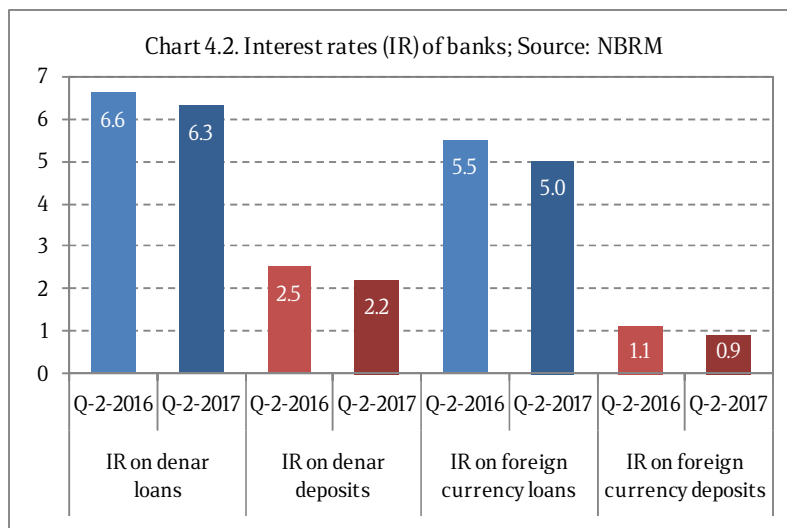


<sup>6</sup> Deposits also include calculated interest.

to 5.5%, 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 0.9% respectively.

As regards the **capital market**, in Q2 2017, total turnover on the Stock Exchange experienced 2.6% drop compared to the previous quarter, being a result of the decrease of the turnover realized through block transactions by 24.4%, while the turnover realized through trading in best surged by 8.2%. Compared to the same quarter in 2016, total turnover surged by 21.1% in conditions of increase of the turnover realized through trading in best and turnover realized through block transactions by 27.0% and 10.0%, respectively.

Macedonian Stock Exchange Index MSEI -10, as aggregate indicator of stock exchange trends, amounted to 2,282.34 index points at the end of the second quarter, increasing by 1.4% compared to March 2017, while compared to June 2016, the index was higher by 33.7%.



## 5. External Sector

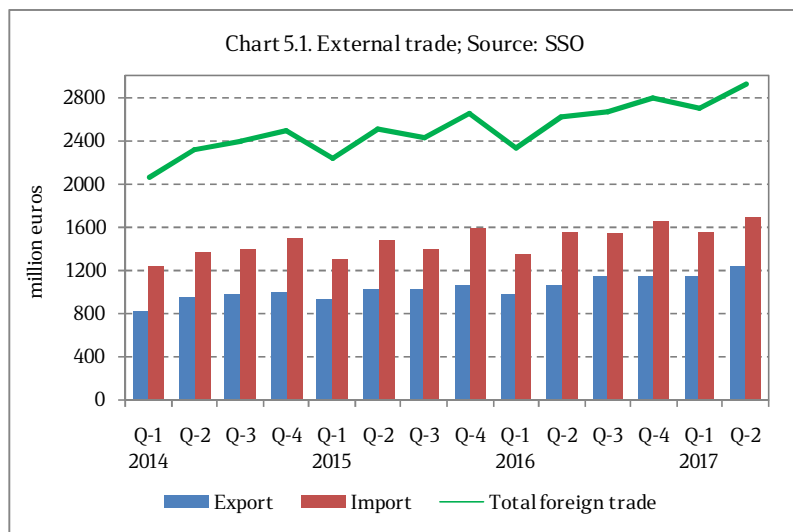
### 5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,921.8 million in Q2 2017, surging by 11.8% compared to the same quarter of 2016.

In Q2 2017, **export of goods** amounted to EUR 1,235.8 million, whereby compared to Q2 2016, it surged by 17.0%, while compared to the previous quarter, it increased by 8.6%.

Analyzed by SITC **sectors** (Standard International Trade Classification), positive trends in the export in Q2 2017, compared to the same quarter of 2016, were registered at the following:

- machinery and transport equipment, increasing by 24.5% (within which



highest increase was seen at the following categories: electrical machines, apparatus and appliances by EUR 34.5 million or 29.6%; industrial machinery, equipment and machine parts by EUR 21.9 million or 18.0% and road vehicles by EUR 17.8 million or 43.1%);

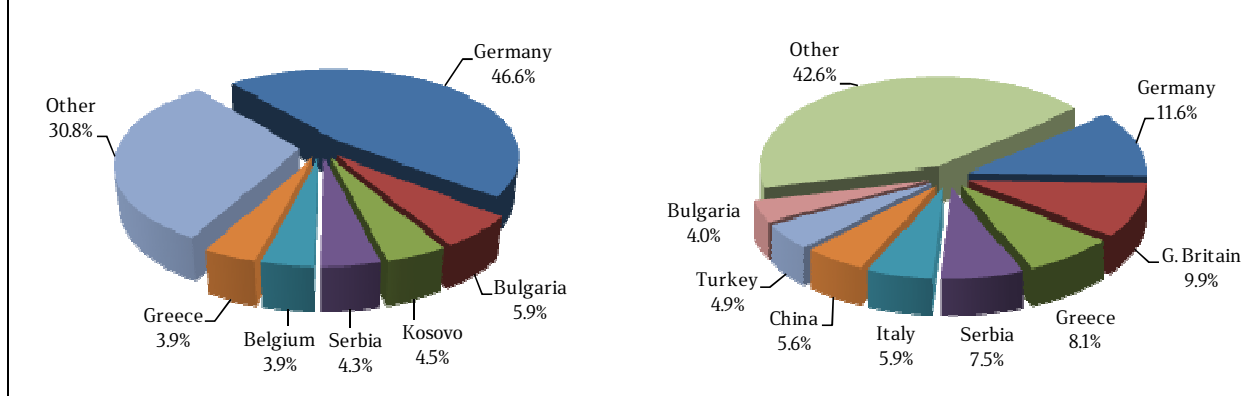
- chemical products, increasing by 19.5% (chemical materials and products by EUR 48.5 million or 22.2%);
- crude materials, inedible, except fuels, growing by 61.3% (metal ores and metal scrap by EUR 20.9 million or 61.2%);
- beverages and tobacco, increasing by 55.5% (tobacco and tobacco products by EUR 15.1 million or by almost two times);
- manufactured goods classified chiefly by material, increasing by 11.0% (iron and steel by EUR 7.6 million or 7.3%);
- food products, growing by 8.3% (cereals and cereal preparations by EUR 2.3 million or 14.8% and meat and meat preparations by EUR 2.0 million or 28.2%) and
- mineral fuels and lubricants, increasing by 38.9% (petroleum and petroleum products by EUR 2.6 million or 29.4%).

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

- miscellaneous manufactured articles, dropping by 6.4% (within which highest drop was seen at the following categories: apparel by EUR 8.7 million or 7.6% and furniture and parts thereof, bedding, mattresses and similar by EUR 4.0 million or 10.6%) and
- animal and vegetable oils, decreasing by 67.0% (fixed vegetable fats and oils, crude, refined or fractioned by EUR 3.8 million or 69.9%).

In Q2 2017, **observed by economic purpose**, the largest share in export had industrial supplies (48.3%), followed by the categories: products for investments without transport equipment (15.5%), consumer goods (14.0%), transport equipment (12.5%), food and beverages (8.6%) and fuels and lubricants (1.0%).

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q2 2017  
 Source: MoF calculation based on SSO data



**Import of goods** in Q2 2017 amounted to EUR 1,686.1 million, surging by 8.2% compared to Q2 2016, while in relation to the previous quarter, it increased by 8.1%.

Analyzed **by SITC sectors**, increase of import in Q2 2017, compared to Q2 2016, was seen at:

- machinery and transport equipment, growing by 8.8% (within which highest growth was seen at the category electrical machinery, apparatus and appliances by EUR 37.4 million or 39.1%);
- manufactured goods classified chiefly by material, increasing by 5.5% (non-ferrous metals by EUR 14.7 million or 6.9% and non-metallic mineral manufactures by EUR 9.5 million or 10.7%);
- mineral fuels and lubricants, increasing by 23.6% (petroleum and petroleum products by EUR 12.2 million or 13.2% and electricity by EUR 8.8 million or 53.0%);
- crude materials, inedible, except fuels, surging by 47.7% (metal ores and metal scrap by EUR 14.0 million or by more than twice);
- food products, increasing by 8.4% (meat and meat preparations by EUR 4.2 million or 14.3% and sugars, sugar preparations and honey by EUR 3.7 million or 41.7%);
- chemical products, increasing by 4.2% (chemical materials and products by EUR 4.2 million or 10.4% and plastics in primary forms by EUR 2.1 million or 10.7%) and
- miscellaneous manufactured articles, increasing by 0.7% (furniture and parts thereof, bedding, mattresses and similar by EUR 1.4 million or 8.9%).

The highest decline of import was seen at the following:

- beverages and tobacco, dropping by 9.4% (wherein, highest drop was recorded at the category tobacco and tobacco products by EUR 2.8 million or 26.9%) and
- animal and vegetable oils, decreasing by 16.6% (fixed vegetable fats and oils, crude, refined or fractioned by EUR 2.4 million or 18.6%).

Observed **by economic purpose**, the largest share in import in Q2 2017 had industrial supplies (51.6%), followed by the categories: products for investments without transport

equipment (13.0%), consumer goods (10.1%), food and beverages (10.0%), fuels and lubricants (8.7%) and transport equipment (6.4%).

In Q2 2017, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q2 2016, surged by 11.9%, whereby share of trade with the EU 28 in the total foreign trade decreased by 0.4 p.p. compared to the second quarter of 2016, accounting for 69.7%. Thereby, in Q2 2017, export of goods accounted for 79.9%, while share of import of goods was 62.1%.

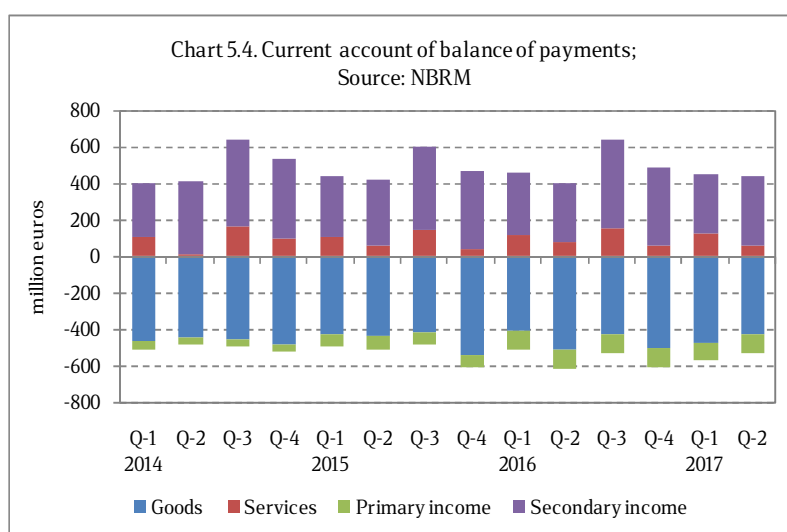
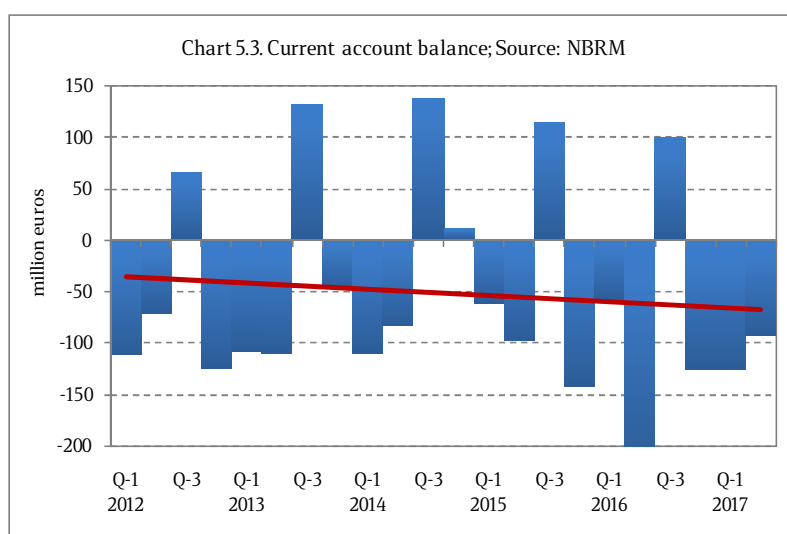
## 5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, deficit in the amount of EUR 92.6 million was recorded on the balance of payments **current account** in Q2 2017, accounting for 3.7% of quarterly GDP, as opposed to the deficit of 9.1% of GDP registered in the same quarter of 2016.

Analyzed on annual basis, current account deficit in Q2 2017 reduced by EUR 126.8 million, being a result of the decreased deficit on the goods account by 16.5% and the increase of the positive balance on the secondary income account by 19.2%. Decreased surplus on the services account by 22.0% and the increased deficit on the primary income account by 2.9% had the opposite effect.

In Q2 2017, in conditions of greater increase of export compared to import of goods, **trade deficit** narrowed by EUR 84.6 million on annual basis, accounting for 17.2% of quarterly GDP, being by 4.0 p.p. lower than the deficit in the same quarter of 2016.

Surplus on **services account** amounted to EUR 58.5 million in Q2 2017 and,





compared to the same quarter of 2016, it declined by EUR 16.5 million.

**Trade openness** of Macedonia in Q2 2017 accounted for 121.3% of quarterly GDP, increasing by 8.9 p.p. compared to Q2 2016.

**Primary income** account experienced EUR 105.7 million deficit in Q2 2017, widening by EUR 3.0 million on annual basis.

Surplus on the **secondary income** account amounted to EUR 383.0 million in Q2 2017, increasing by EUR 61.7 million on annual basis. Growth was a result of the increase of private transfers by EUR 75.7 million (24.8%), participating with 99.5% in the secondary income account, while the decrease of official transfers by EUR 14.0 million (88.2%) acted in opposite direction.

Balance on the **capital account** amounted to EUR 1.7 million in Q2 2017 and, compared to the same quarter of last year, it dropped by EUR 1.2 million, which is due to the reduced inflow of capital transfers.

**Foreign direct investments** (FDIs) in the country amounted to EUR 9.8 million in Q2 2017 and, compared to Q2 2016, they grew by EUR 61.1 million.

**Portfolio investments** amounted to EUR 5.9 million in Q2 2017, as opposed to the negative value in the amount of EUR 6.0 million in the same quarter in 2016. **Other**

**investments** in Q2 2017 were negative, amounting to EUR 67.3 million, under which, currencies and deposits amounted to EUR 20.0 million, while the balance on the accounts of loans and trade credits and advance payments was negative, amounting to EUR 25.2 million and EUR 61.8 million, respectively.

**Reserve assets** amounted to EUR 2.4 billion at the end of the second quarter of 2017, surging by 11.2% compared to Q2 2016. At the end of Q2 2017, reserve assets provided for 4.4-month coverage of import of goods and services in the previous 12-month period, being an adequate level of reserves for conducting monetary policy.

