



Summary

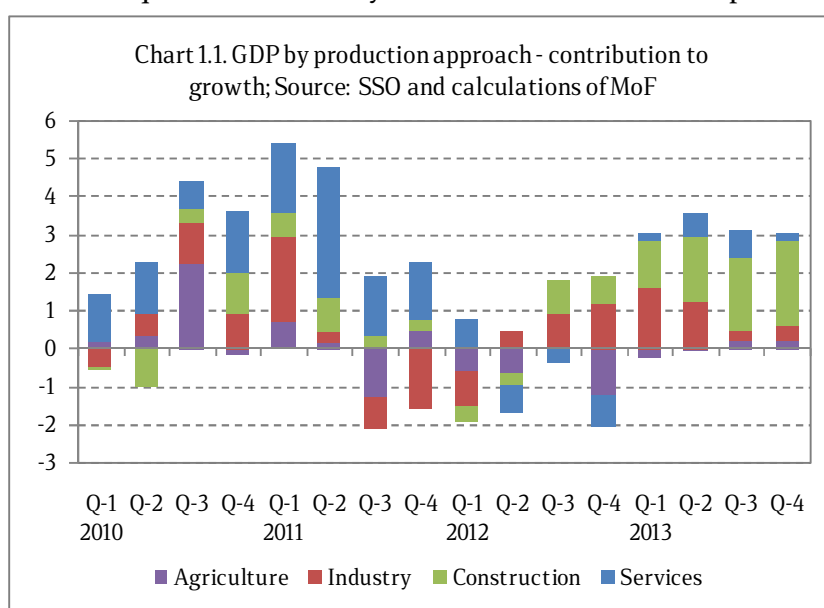
- In Q4 2013, compared to the same quarter of 2012, **GDP** realized **real growth** of 3.2%, thus the average growth for 2013 amounted to 3.1%;
- According to the Labour Force Survey, **number of employed persons** in Q4 2013 was higher by 4.2% compared to the same quarter in the previous year. **Number of unemployed persons** dropped by 5.2% on annual basis, which resulted in reduction of **unemployment rate** by 28.6% in Q4 2013;
- **Inflation rate in** Q4 2013 experienced growth of 1.3% compared to the same quarter in 2012, measured according to the Consumer Price Index;
- Average **gross salary** in Q4 2013 amounted to Denar 31,209 and compared to the gross salary in Q4 2012, it was higher by 0.7% in nominal terms, i.e. being lower by 0.6% in real terms;
- Total **budget revenues** were higher by 4.3% in Q4 2013 compared to the same quarter in 2012, while total **budget expenditures** were lower by 1.8%;
- Total **deposit potential of** banks increased by 2.3% in Q4 2013 on quarterly basis.
- **Credit activity** of banks to non-government sector experienced intensified growth rate of 3% in Q4 2013 on quarterly basis;
- **Macedonian Stock Exchange Index MSEI-10** in December 2013 surged by 6.4% compared to September 2013, while total turnover realized on the Stock Market grew by 53.8%.
- In Q4 2013, **export** increased by 6.5%, while **import** decreased by 2.6%, on annual basis (Q/Q-4), whereby total **foreign trade**, expressed in euros, increased by 0.8%;

1. Macroeconomic Trends and Real Sector

In Q4 2013, compared to the same quarter of 2012, **GDP** showed **real growth** of 3.2%, by which the average growth in 2013 accounted for 3.1%, being one of the highest compared to the EU Member Countries and EU candidate countries.

Nominal GDP growth in Q4 2013 accounted for 4.9% compared to the same quarter last year, implying that GDP deflator amounted to 1.6%. Average nominal GDP growth in 2013 accounted for 3.4%, while GDP deflator amounted to 0.3%.

Analyzed according to the **GDP production side**, in Q4 2013, positive growth was observed in several sectors. Construction sector contributed the most to the overall economic growth, registering high activity growth of 32.1%, following the high growth rates realized in the previous three quarters. Industry also continues with the positive performance in Q4 2013, surging by 2.6%. Positive trends continue in the transport, storage and communications sector as well, where the growth accounted for 2.1%. Hotels and restaurants sector grew by 4.4%, following the low drop recorded in the previous quarter. As for the agriculture sector, the growth accounted for 1.9%, while financial intermediation sector amounted to 1.2%. Drop was recorded in the sectors trade (1.5%) and public administration (0.2%).



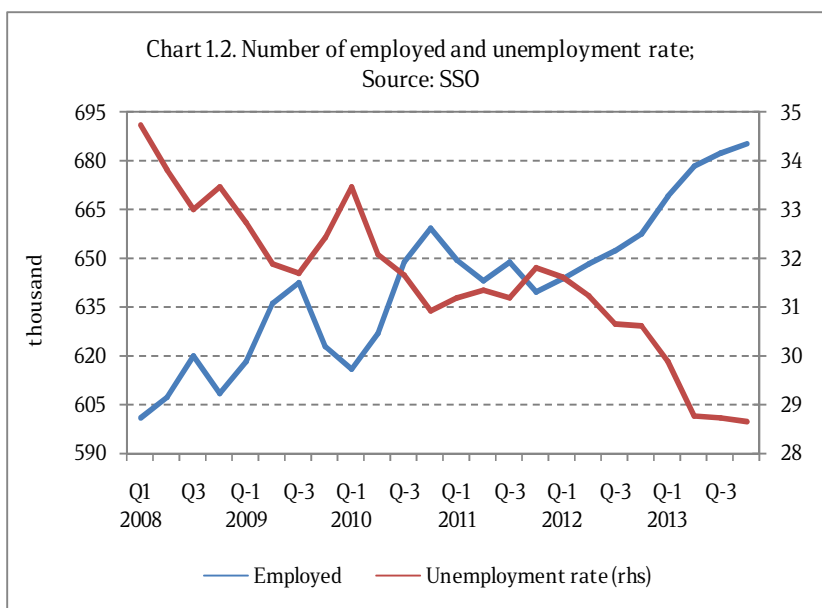
Growth in the **industrial production**¹ of 6.5% in Q4 2013 was mainly a result of the realized positive rates at: other mining and quarrying (39.6%), production of food products (3.3%), production of beverages (23.5%), production of tobacco products (9.8%), production of textile (68.6%), production of clothing (5.1%), production of leather (14.3%), printing and production of recorded media (55.5%), production of chemicals and chemical products (18.4%), production of rubber products (18.4%), production of other non-metal products (16.8%), production of metals (8.1%), manufacture of electrical equipment (40.7%), production of machines and devices (34.7%), production of other transportation equipment (5.3%), production of furniture (42.9%) and repair and installation of machines and equipment (3.0%). From the point of view of the structure of industrial production index, 68.4% of the branches experienced growth.

¹ Calculated on the basis of monthly release of Industrial Production Index.

On the other hand, drop was observed at the following: mining of coal and lignite (8.0%) production of metal ore (12.6%), production of wood and wood products (43.8%), production of paper (6.2%), production of coke and refined oil products (98.0%), production of pharmaceutical products (8.6%), production of fabricated metal products (21.9%), production of motor vehicles, trailers and semi-trailers (12.5%), other production industry (4.7%) and electricity, gas, steam and air-conditioning supply (0.5%).

Analyzed according to the **expenditure side of GDP**, GDP growth in Q4 2013 was driven by export of goods and services, experiencing real growth of 8.4%. Increase in export is partially a result of both the recovery of European economy and the increased export potential of the country. On the other hand, import of goods and services did not accompany the export growth and experienced slight decrease by 0.8%, by which net export positively and significantly contributed to the GDP growth. Domestic demand, unlike net export, had negative contribution to GDP growth, mainly as a result of the drop of gross investments by 3.6%. Thereby, in Q4 2013, there was significant slow down of the drop of gross investments compared to the rate in the previous quarter. Final consumption in Q4 2013 increased by 0.5%, being a result of the increase of personal consumption by 1.4%, while public consumption dropped by 3.2%.

Positive trends continued on the labour market in Q4 2013. According to the **Labour Force Survey**, number of employed persons in Q4 2013 was higher by 4.2% compared to the same quarter in the previous year. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 5.2% on

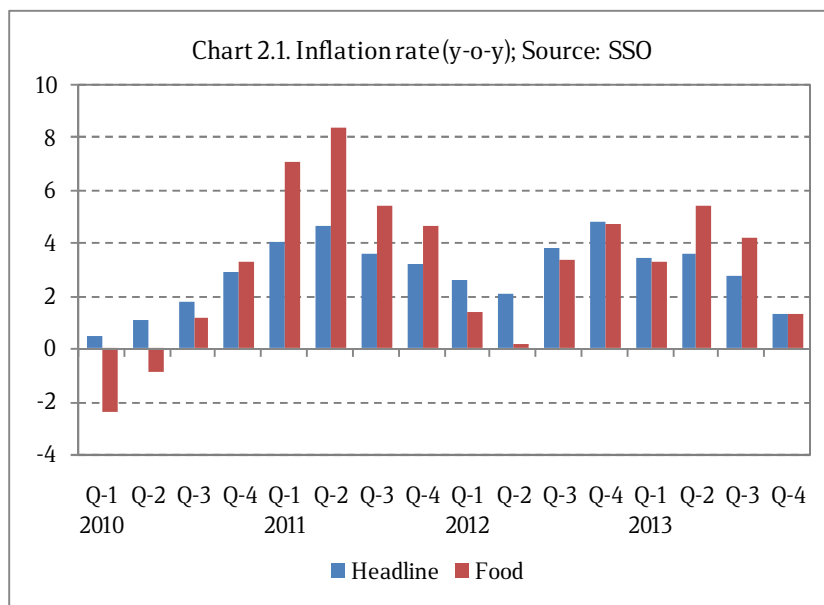


annual basis. Number of active population in Q4 2013 was higher by 1.3% on annual basis. Such trends on the labour market caused for the unemployment rate in Q4 2013 to reduce to 28.6%, i.e. by 2 p.p. compared to the same quarter in the previous year, while in relation to the previous quarter, it was lower by 0.1 p.p.. Employment rate in Q4 2013 amounted to 40.9%, being higher by 1.6 p.p. compared to the same quarter in the previous year. Active population in Q4 2013 accounted for 57.3% of total working-age population, increasing by 0.6 p.p. compared to the same quarter in the previous year.

2. Prices, Costs and Productivity

Inflation rate, measured according to CPI, was 1.3% in Q4 2013 compared to the same quarter in 2012, being slowed down growth intensity compared to the inflation rate of 2.8% registered in the previous quarter. Highest price increase by 5.2% was seen at the hygiene and health category, followed by the increase in the categories tobacco and beverages by 3.9% and clothing and footwear by 3.8%. As for restaurants and hotels category, prices surged by 3.3%, while the price increase in the category food, participating the most in the general price level, accounted for 1.3% compared to the same quarter in 2012.

Increase of prices in the food category were to a great extent due to the increase of prices of fresh vegetables, fresh and processed milk and meat. Prices in the categories administrative and financial services and culture and entertainment increased by 0.7% and 0.1% respectively.



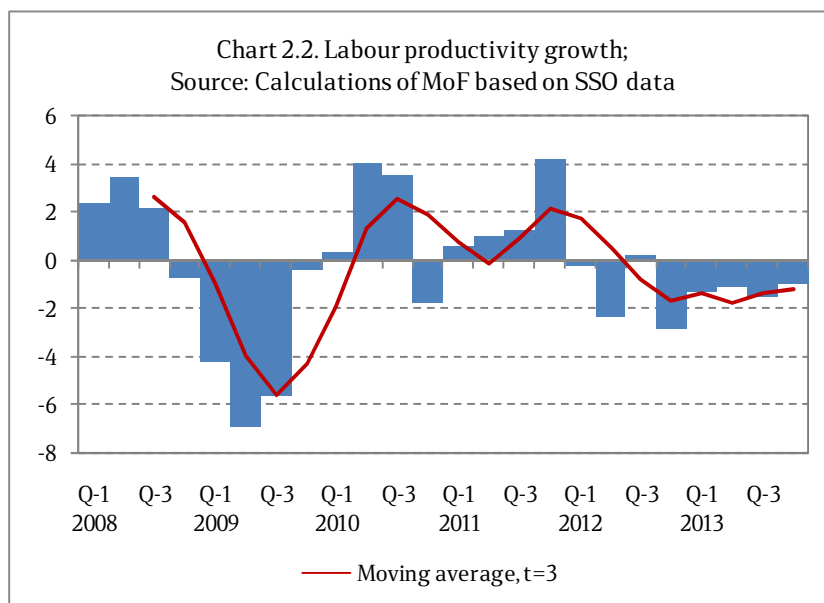
Prices in housing category reduced by 1.9%, as a result of the drop in prices for heating and electricity and lighting by 3.8% and 3.1% respectively.

Core inflation (which excludes the effect of food and energy) was 2.9% in Q4 2013, being lower by 0.4 p.p. compared to the core inflation in the previous quarter (3.3%).

Retail prices in Q4 2013 experienced slowed down increase by 0.6% compared to the same quarter in 2012. Prices of category goods, which surged by 0.6%, contributed the most with 0.4 p.p. to the total increase of retail prices. Within this category, most significant contribution to the price increase was seen at agricultural products, surging by 5.3%. Industrial goods grew by 0.2%. Retail price of industrial food products increased by 0.6%, prices of beverages surged by 3.5% and prices of tobacco grew by 2.9%. Retail prices of non-food and industrial products dropped by 0.5%. Retail prices in the category services in Q4 2013 increased by 0.6%.

Average **net salary** in Q4 2013 amounted to Denar 21,267, being higher by 0.7% in nominal terms compared to net salary in Q4 2012. Net salary experienced a drop of 0.6% in real terms. Average **gross salary** amounted to Denar 31,209, increasing by 0.7% in nominal terms, i.e. dropping by 0.5% in real terms, compared to the gross salary in Q4 2012.

Increase of economic activity in Q4 2013 was accompanied by higher annual increase in the number of employees, resulting in decrease of **labour productivity** by 0.9%, following the drop of 1.5% in the previous quarter. Chart 2.2 shows the annual labour productivity increase.

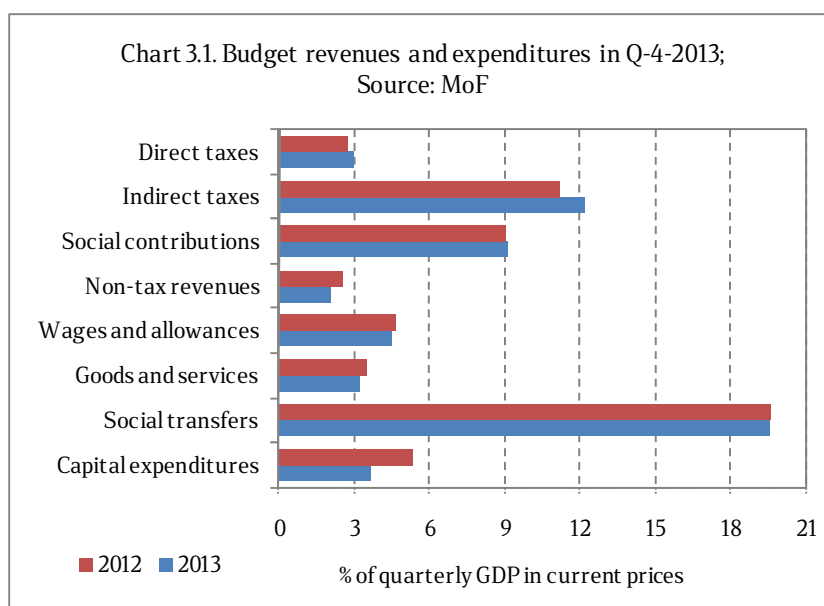


3. Fiscal Sector

Higher performance of total budget revenues by 4.3% was observed in the fourth quarter of 2013, compared to same quarter in 2012, accompanied by lower budget expenditures by 1.8%. **Budget deficit** was in the amount of Denar 3,483 million in Q4 2013, being 2.7% of GDP realized in this quarter (central budget deficit amounted to Denar 4,634 million, i.e. 3.6% of GDP).

Counter-cyclical fiscal policy continued to be conducted in the fourth quarter of 2013 as well, aimed at mitigating the consequences of the global economic crisis on Macedonian economy and maintaining macroeconomic stability. Thereby, fiscal sustainability of public finances was not jeopardized.

Total **budget revenues** participated with 29.1% of the realized GDP, being higher by 4.3% compared to the same quarter in 2012, being mostly due to the higher performance of tax revenues by 10.5%, contributions by 5.6% while non-tax revenues decreased by 12.8%. Thereby, higher collection was recorded at value added tax, personal income tax and profit tax, while excise duties experienced lower collection. VAT revenues dominated, accounting for 54.0% of total tax revenues. They in Q4 2013 were higher by 23.0%, compared to the same quarter in 2012. Regarding the structure of gross VAT revenues,



there was decrease in VAT collection on the basis of import by significant 11.1%, while VAT on the basis of sales in the country grew by 32.4% in line with the trade sales. In addition, dynamics of VAT refund reduced by 42.2%. Excise revenues were lower by 1.9% compared to the same quarter in 2012. As for direct taxes, profit tax increased by 18.7%, whereby one should take into account that the revenues for this tax is mainly a result of the tax collected on the basis of paid dividends and other distribution of profit and withheld tax paid to foreign legal entities. Revenues on the basis of personal income tax surged by 11.5% compared to the same quarter in the previous year.

From the point of view of structural share in GDP, direct taxes on annual basis increased their share in GDP by 0.2 p.p. (2.9% of GDP), while the share of indirect taxes increased by 1.1 p.p. (12.2% of GDP).

Collection of social contributions was higher by 5.6%, whereby higher collection was recorded at all contributions, i.e. pension insurance contributions - 6.2%, health insurance contributions - 4.5% and employment contributions - 3.4%. Non-tax revenues, accounting for 2.1% of total quarterly GDP, were lower by 12.8% compared to the same period in 2012.

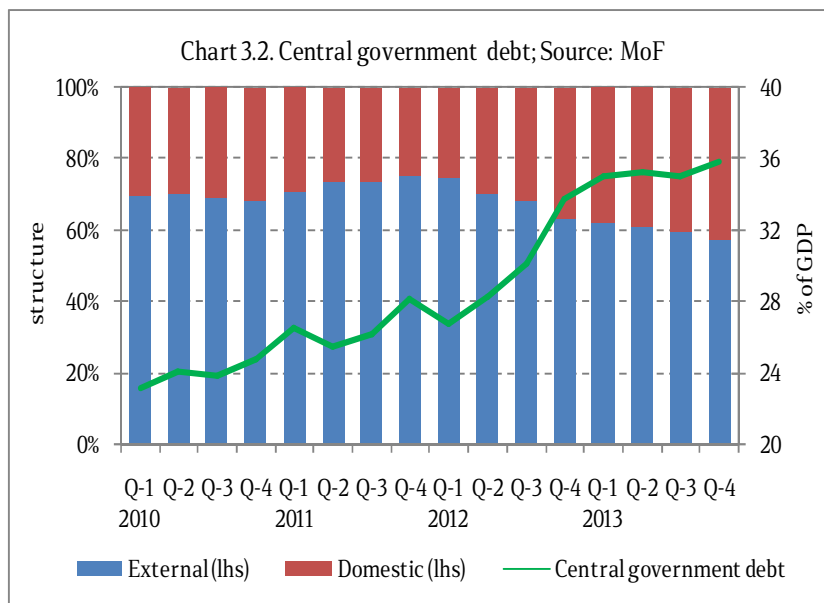
Capital revenues in Q4 2013 were lower by 10.6% on annual basis (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends). Revenues on the basis of grants were lower by 34.1%, compared to Q4 2012.

In Q4 2013, total **budget expenditures** were lower by 1.8% compared to the same quarter in 2012. Current expenditures, accounting for 28.2% of quarterly GDP, were realized by 3.0% more on annual basis. Capital expenditures accounted for 3.6% of quarterly GDP. As for current expenditures, expenditures for goods and services decreased by 3.8%, while expenditures related to salaries and allowances surged by 0.1% compared to the same quarter last year. Funds for transfers, which participated with 61.1% in the total expenditures, were higher by 4.5% on annual basis. Share of the category „Other Transfers“ in the total expenditures accounted for 13.8% (including transfers to local government - block and earmarked grants, as well as other subsidies and transfers). Transfers to the Pension and Disability Insurance Fund were higher by 10.5% compared to the same quarter of 2012. Expenditures for interest payments increased by 10.7% on annual basis, while compared to Q3 2013 they were higher by 28.7%. Expenditures on the basis of interests on domestic debt surged by 49.8% on annual basis, and growth was also seen on quarterly basis. Interests on foreign debt decreased by 8.5% on annual basis, while compared to Q3 2013, they decreased by 28.9%.

Fiscal burden, measured as participation of the budget revenues² in relation to nominal GDP, was 25.8% in Q4 2013, surging by 0.4 p.p. in relation to Q3 2013. Total budget expenditures accounted for 31.8% of quarterly GDP, which was by 0.2 p.p. higher compared to Q3 2013, decreasing by 2.2 p.p. on annual basis.

² It included tax revenues, social contributions and administrative fees and duties.

Total **central government debt** at the end of Q4 2013 experienced increase of its share in GDP by 0.8 p.p., compared to Q3 2013. Share of central government external debt in the total central government debt decreased by 1.9 p.p. compared to Q3 2013, while share of central government domestic debt in the total central government debt surged by the same amount of percentage points. Hence, share of central government domestic debt increased to 42.3% of the total central government debt. Such



trends point out that additional borrowing, whether externally or internally, would not jeopardize fiscal sustainability, whereby coordination with monetary policy is needed. Sound fiscal policy is one of the Maastricht Criteria for convergence, having the limits set at budget deficit of 3% of GDP and government debt of 60% of GDP.

4. Monetary and Financial Trends

In the fourth quarter, in conditions of stable movements, the National Bank retained the reference interest rate at the existing 3.25%.

New Decision on Central Bank Bills was adopted, introducing methodology for determining potential demand for central bank bills. In line with the established mechanism, if the demand exceeds the potential at the level of the overall banking system, the banks bidding higher amounts of own liquidity potential will be required to place the difference above the potential in seven-day deposits. Under the new decision, it is expected for the supply and demand for central bank bills to be aligned and to appropriately target excess liquidity towards the banking system in the Republic of Macedonia.

In line with the novelties at the Decision on Central Bank Bills, there were amendments to the Decision on Available Deposits, under which it is enabled for the funds to be deposited within maturity period of seven days in conditions of demand of central bank bills higher than the potential one.

Primary money³ in Q4 2013 registered quarterly growth of 2.3% (decrease by 2.1% in Q3 2013) in conditions of increase of ready money in circulation by 4.2% and total liquidity

³ It includes ready money in circulation (including cash in hand of banks), denar and foreign currency reserve requirement

of banks by 0.7%. Compared to December 2013, primary money reduced by 4.4% as a result of the decrease of total liquidity of banks by 11%.

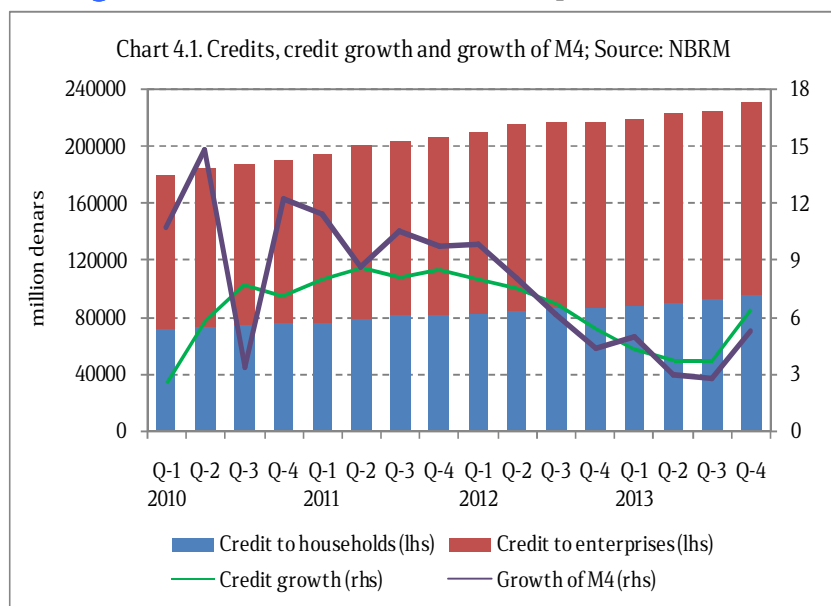
During the fourth quarter of 2013, narrowest money supply **M1** experienced quarterly growth of 5.3% compared to Q3 2013. **Monetary aggregate M2**, in Q4 2013 surged by 1.8%, while **the widest monetary aggregate M4** increased by 2.4%. Increase of money supply mainly arises from deposit money and long-term deposits.

Total deposit potential of banks⁴ in Q4 2013 surged by 2.3% on quarterly basis, which from point of view of sectoral structure was mainly due to the increase of deposits of households by 2.4%. At the same time, deposits of private enterprises grew by 5.7% on quarterly basis.

From currency point of view, Denar deposits and foreign currency deposits had positive contribute thereto, increasing by 3.6% and 0.6% respectively compared to the previous quarter. Therefore, the level of euroization measured through the share of foreign currency deposits in the total deposit potential reduced by 0.7 p.p., i.e. by 43.1%.

From maturity point of view, in the past period, there was continuous growth of share of long-term deposits in total deposit potential, reaching 24.9% in Q4 2013, being in line with the quarterly increase of long-term deposits by 4.7% (6.6% in Q3 2013). Short-term deposits grew by 0.1%.

Credit activity of banks to non-government sector in Q4 2013 experienced intensified growth of 3% on quarterly basis, in conditions of growth of credits to private enterprises by 3.2%, compared to the drop in the past quarter and intensified growth of credits to households by 2.8%. Thus, downward trend of the share of credits to private enterprises in total credits, which started in the second quarter of 2012, was interrupted.



and the surplus of liquid assets over the reserve requirement (in denars).

⁴ Deposits also include calculated interest.

From currency point of view, Denar credits which were driving force of the increase of total credits grew by 3.9% on quarterly basis, while foreign currency credits in Q4 2013 registered quarterly growth of 0.4%.

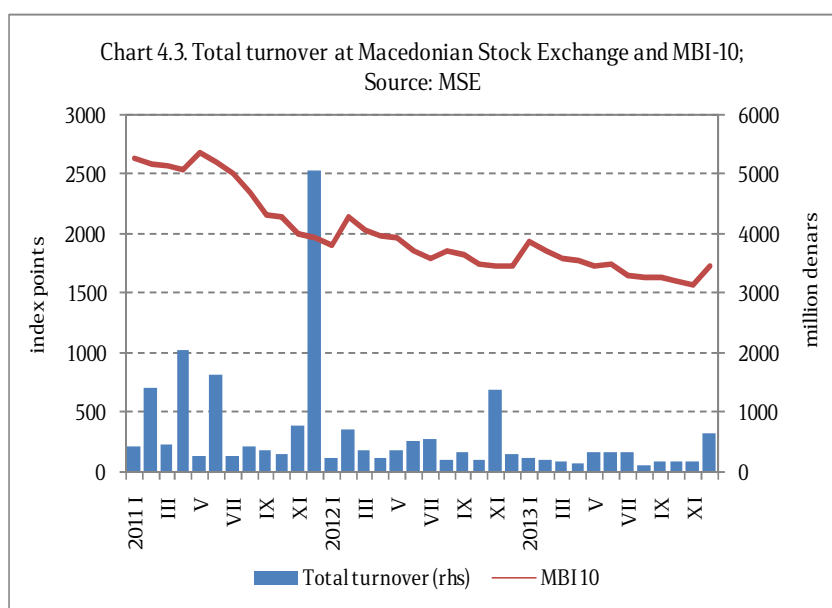
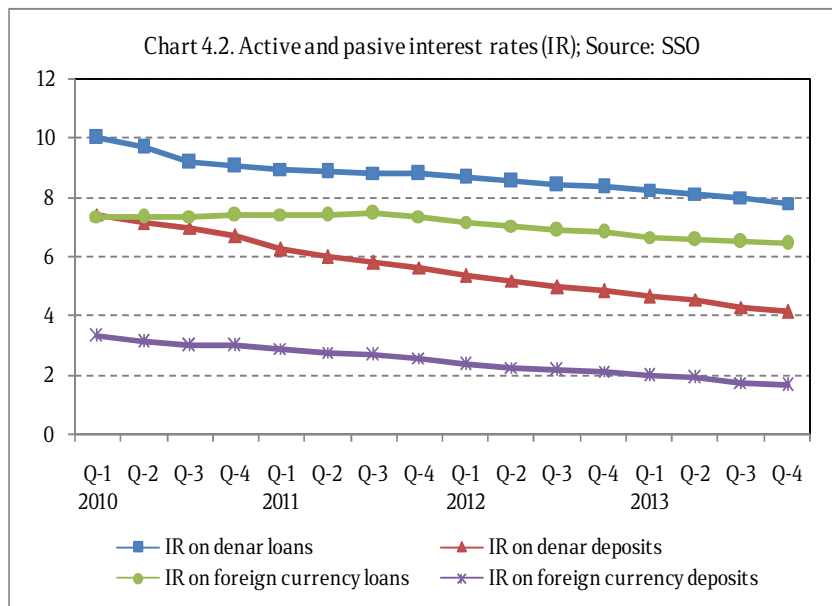
From maturity point of view, long-term credits in Q4 2013 experienced quarterly growth of 3.6%, while short-term credits grew by 2.8% compared to the drop of 1.8% in the past quarter.

In the fourth quarter of 2013, NBRM retained the **interest rate on CB bills** at 3.25%. Interest rates of deposit banks in Q4 2013

experienced downward swings on quarterly basis. In fact, interest rate on Denar credits reduced by 0.2 p.p. compared to the previous quarter, amounting to 7.8%. Thus, the downward trend of this interest rate, which started at the beginning of 2010, continued. Interest rate on total foreign currency deposits reduced by 0.1 p.p., amounting to 6.4% in the fourth quarter of 2013. Interest rate on Denar deposits reduced from 4.3% in Q3 2013 to 4.1% in Q4 2013, while interest rate on foreign currency deposits reduced from 1.8% to 1.6% in the analyzed period.

Interest rate on newly approved Denar credits in Q4 2013 also reduced on quarterly basis, amounting to 6.9% (7.2% in the third quarter), while interest rate on newly approved foreign currency credits reduced from 0.2 p.p. to 6.3%. Interest rate on newly received Denar deposits remained the same on quarterly basis, accounting for 2.4%, while interest rate on newly received foreign currency deposits amounted to 0.5%, by 0.1 p.p. lower than the previous quarter.

On the **capital market** in



the fourth quarter of the year, total turnover of the Stock Exchange experienced growth of 53.8% compared to the previous quarter, being a result of the growth of 89.4% registered at block transactions and 17.2% growth of traditional trading turnover.

Compared to the same quarter in the previous year, total turnover dropped by 44.8% in conditions of reduced traditional trading by 21.4% and the turnover realized through block transactions by 66.3%.

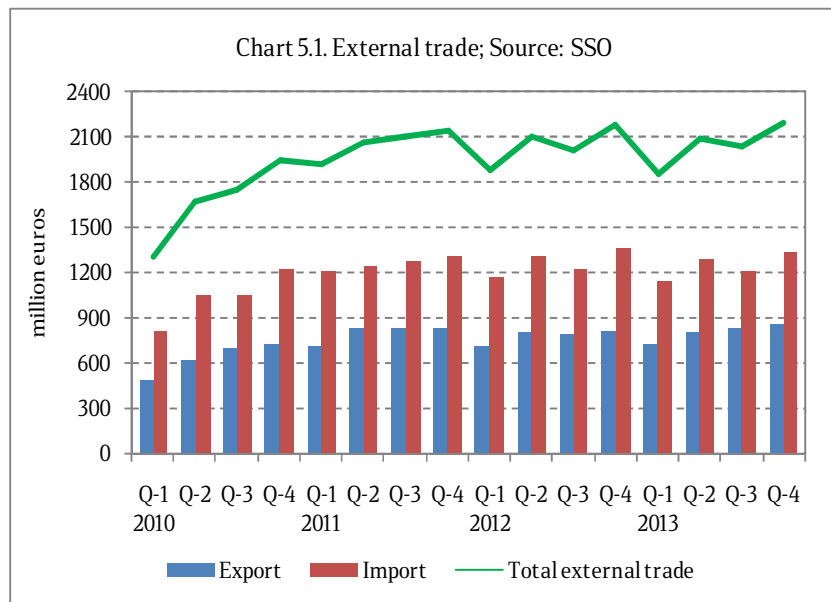
Macedonian Stock Exchange Index MSEI -10, as aggregate indicator of stock exchange trends at the end of the fourth quarter, amounted to 1,738.86 index points, increasing by 6.4% compared to September 2013, while compared to December 2012, the index was higher by 0.4%.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office in Q4 2013, total foreign trade amounted to EUR 2,194.1 million, increasing by 0.8% compared to the same quarter in 2012.

In Q4 2013, **export** of goods amounted to EUR 861.3 million whereby compared to the same quarter in the previous year, it surged by 6.5%, while compared to the previous quarter, it grew by 4.3%.



Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the **export** in Q4 2013 compared to the same quarter of 2012 were registered at the following:

- machines and transport equipment by 60.0% (within which category electrical machines and spare parts grew by 95.2% or EUR 24.2 million; and industrial machines and spare parts by 45.1% or EUR 19.9 million);
- chemical products by 18.3% (chemical materials and products increased by 26.0% or EUR 28.3 million);
- beverages and tobacco by 13.0% (tobacco and tobacco products by 37.2% or EUR 9.4 million); and

- products classified by the material by 7.7% (iron and steel by 11.3% or EUR 16.1 million).

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

- mineral oils and lubricants by 68.2% (within which, oil and oil products decreased by 65.2% or EUR 26.1 million and electricity reduced by 94.5% or EUR 4.5 million);
- raw materials, except fuel, by 12.8% (metal ore and metal scrap dropped by 18.0% or EUR 8.4 million);

food products by 3.8% (fruit and vegetables by 7.8% or EUR 3.2 million); Observed by **economic purpose**, in Q4 2013, the following products were most exported: goods for industrial procurement (51.7%), followed by consumer goods (21.2%), food and beverages (11.2%), products for investments without transport equipment (11.1%), transport equipment (3.3%) and fuels and lubricants (1.5%).

Import of goods in Q4 2013 amounted to EUR 1,332.8 million, decreasing by 2.6% compared to Q4 2012, while in relation to the previous quarter, it increased by 10.3%.

Analyzed by **SITC sectors**, highest growth of **import** in Q4 2013 compared to Q4 2012 was seen at:

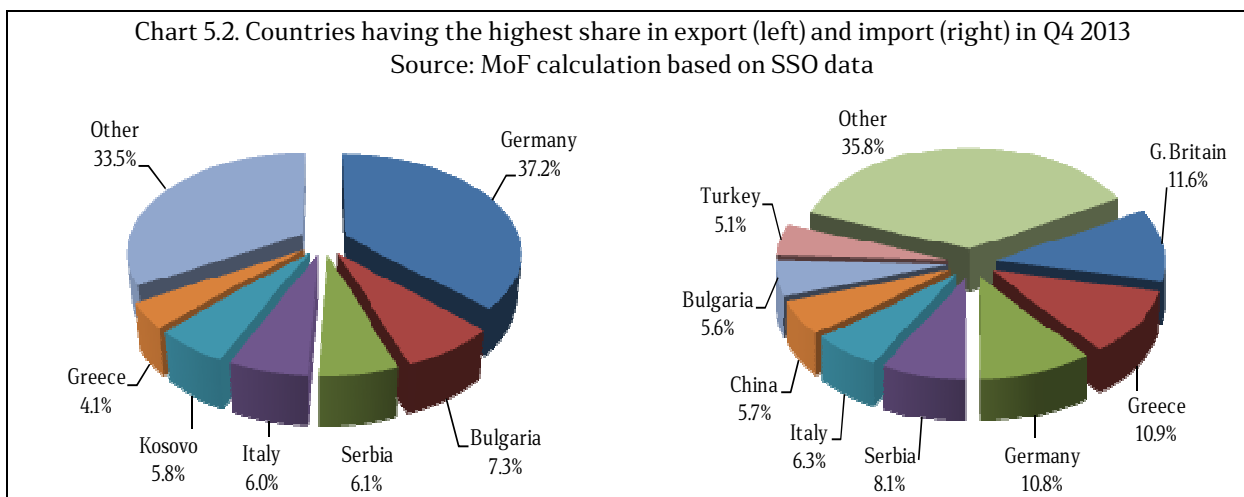
- chemical products by 9.0% (products for colouring and tanning increased by twice or EUR 15.3 million);
- products classified by material by 7.7% (non-ferrous metals surged by 38.6% or EUR 35.6 million);
- machines and transport equipment by 4.4% (operating machines and devices increased by more than 4 times or EUR 19.3 million; electrical machines, devices and spare parts by 25.0% or EUR 11.4 million);

Highest decline of import was seen at the following:

- mineral oils and lubricants by 27.9% (oil and oil products by 34.0% or EUR 74.6 million and electricity by 23.5% or EUR 10.7 million);
- raw materials, except fuel by 6.9% (metal ore and metal scrap dropped by 11.4% or EUR 3.4 million);
- beverages and tobacco by 4.3% (beverages by 5.9% or EUR 0.5 million, and tobacco and tobacco products by 2.8% or EUR 0.2 million);
- food products by 3.2% (cereals and cereal preparations by 14.8% or EUR 3.5 million);

Observed by **economic purpose** in Q4 2013, the following products were most imported: goods for industrial procurement (44.9%), followed by fuels and lubricants (15.3%), products for investments without transport equipment (13.0%), food and beverages (11.8%), consumer goods (10.2%) and transport equipment (4.8%).

In Q4 2013, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q4 2012, dropped by 3.4%, whereby share of trade with the EU in the total foreign trade decreased by 6.7 p.p. compared to the fourth quarter in 2012, accounting for 67.4%, whereby export of goods participated with 72.2% and import of goods accounted for 64.2%.

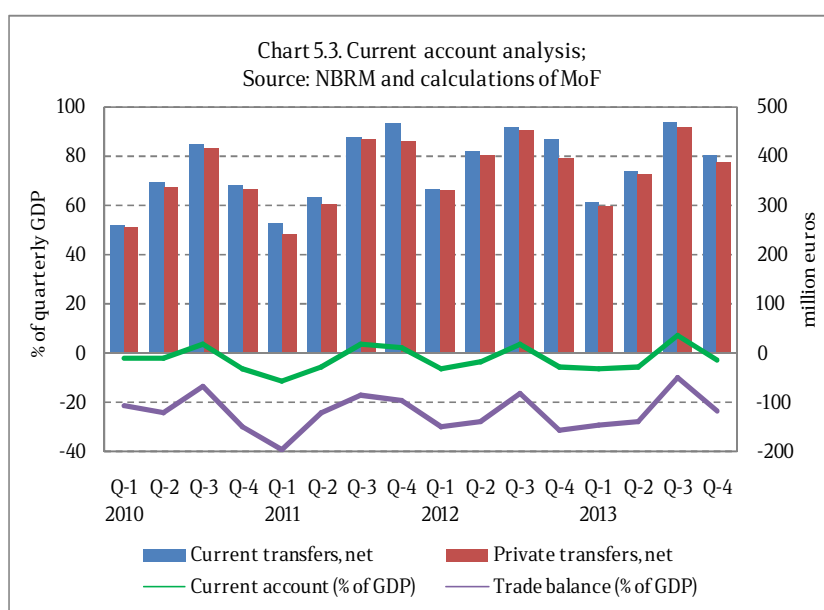


As a result of the structural changes in the trade with abroad, in the fourth quarter of 2013, 87.3% of the trade deficit of the country was a result of the trade deficit with: Great Britain, Greece, Serbia, Turkey and China, while the rest of the deficit was a consequence of the exchange with: Italy, Slovenia, Austria, Switzerland, Poland, Bulgaria, etc. Trade surplus was realized with: Germany, Kosovo and Bosnia and Herzegovina.

5.2. Balance of payments

According to the National Bank data, in the fourth quarter in 2013, BOP current account balance experienced deficit in the amount of EUR 56.3 million, decreasing by 64.1 million on annual basis (current account deficit amounted to EUR 120.4 million in Q4 2012). Compared to Q3 2013, BOP current account balance deteriorated by EUR 190.0 million (identically like in 2012 when in Q4 2012, it deteriorated by EUR 190.2 million, compared to Q3 2012).

Capital account and financial account in Q4



2013 experienced surplus by EUR 43.3 million, decreasing by EUR 80.0 million compared to Q4 2012.

5.2.1. Current account

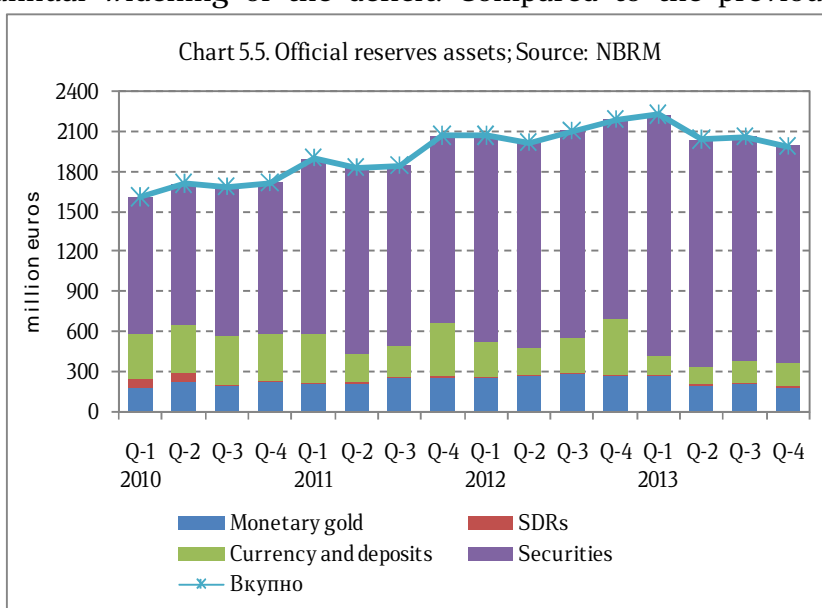
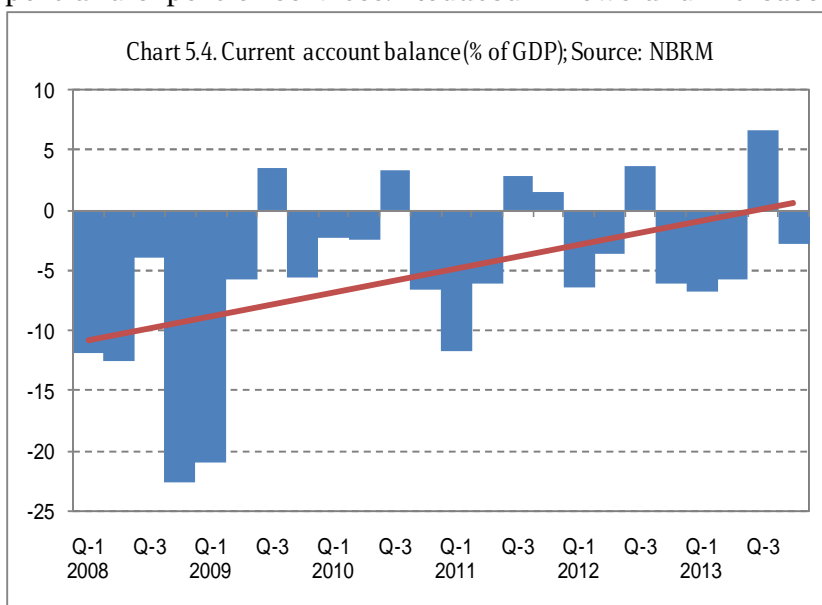
Registered reduced current account deficit compared to Q4 2012 was mainly due to the improved balance on the basis of import and export of goods and the improved positive balance on the basis of import and export of services. Reduced inflows and increased outflows at current transfers acted in opposite direction.

In Q4 2013, there was increase of export of goods and reduction of import of goods on annual basis. As for services, export reached EUR 234.4 million, i.e. it grew by 12.2% on annual basis or it increased by 10.4% compared to the previous quarter. Import of services on annual

basis decreased by 0.7%, while it reduced by 3.2% on quarterly basis. These trends lead to trade surplus of services by EUR 19.0 million.

Deficit on the net income account in Q4 2013 compared to the same quarter last year, widened by 15.3%, while compared to the previous quarter, the deficit surged by 3.8%. Reduction of the inflows of incomes by 11.6% and the increase of outflows of income by 2.0% had effects on the annual widening of the deficit. Compared to the previous quarter, inflows reduced by 6.4%, while the decrease of outflows accounted for 0.8%.

Current transfers amounted to EUR 402.0 million in Q4 2013, which compared to Q4 2012 dropped by 7.2%. They decreased by 14.0% on quarterly basis. Private transfers in Q4 2013 amounted to EUR 385.9 million (reduction of only



EUR 1.8 million compared to Q4 2012).

5.2.2. Capital Account and Financial Account

Capital account and financial account in Q4 2013 experienced surplus, which decreased by EUR 80.0 million on annual basis. Reduction of surplus on capital and financial account on annual basis is mainly due to the reduced positive balance of the financial account. According to the financial account, in Q4 2013, there was inflow of net direct investments in the amount of EUR 66.0 million, being an increase by EUR 47.6 million compared to Q4 2012, i.e. decrease by EUR 12.8 million compared to Q3 2013.

At the end of Q4 2013, official foreign currency reserves amounted to EUR 1,993.8 million, being lower by EUR 71.8 million compared to the end of Q3 2013. Foreign currency reserves, i.e. securities, had dominant share in the official reserves, participating with 81.7% followed by monetary gold which participated with 9.6% while currencies and deposits participated with 8.6%.

**Ministry of Finance
Macroeconomic Policy Department**

Report was prepared by:

Angela Vasovska
Aneta Dudeska
Ana Nikolova
Koprinka Sapunova
Nedjati Kurtishi

Controlled by:

Sanja Kikovska-Georgievska, Ph.D.

Approved by:

Jordan Trajkovski

Jordan.Trajkovski@finance.gov.mk

Skopje, April 2014