



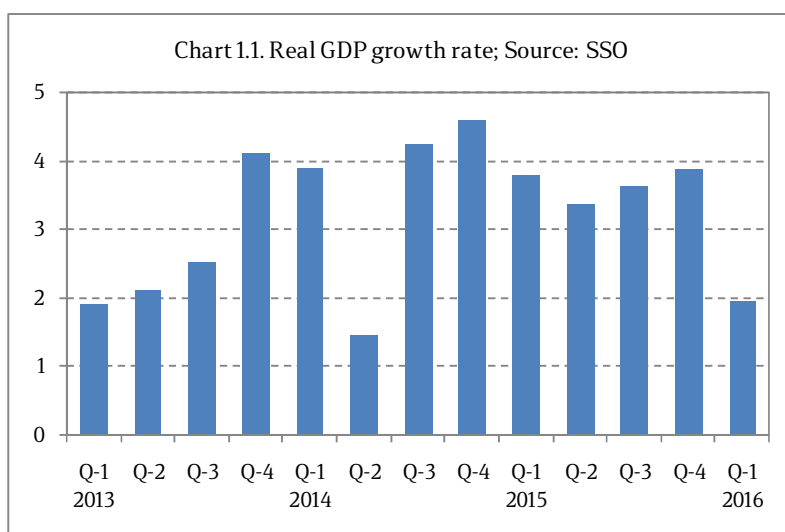
Summary

- **GDP** in Q1 2016, compared to the same quarter in 2015, experienced 2.0% **real growth**, driven by the growth registered at both export and consumption;
- **Number of employed persons** in Q1 2016 was higher by 2.5% compared to the same quarter of 2015. **Number of unemployed persons** dropped by 11.7%, which resulted in reduction of **unemployment rate** to 24.5% in Q1 2016;
- **Inflation rate** in Q1 2016, measured according to CPI, dropped by 0.1%, compared to the same quarter of 2015;
- Average **gross salary** amounted to Denar 32,369 in Q1 2016, increasing by 2.6% in nominal terms, i.e. surging by 2.7% in real terms, compared to the gross salary in Q1 2015;
- Total **budget revenues** were higher by 7.4% in Q1 2016, while total **budget expenditures** surged by 4.9% compared to the same quarter of 2015;
- Total **deposit potential** of banks increased by 0.1% in Q1 2016 on quarterly basis;
- **Credit activity** of banks to non-government sector experienced 0.1% increase in Q1 2016 on quarterly basis;
- **Macedonian Stock Exchange Index MSEI -10** declined by 2.8% in March 2016 compared to December 2015. Total turnover on the stock exchange declined by 43.8% in Q1 2016 compared to the previous quarter;
- In Q1 2016, both **export** and **import** grew by 5.7% and by 3.7% respectively on annual basis, whereby total **foreign trade**, expressed in euros, grew by 4.5%;

1. Macroeconomic Trends and Real Sector

In Q1 2016, compared to the same quarter of 2015, **GDP** experienced real growth of 2.0%. Nominal GDP growth in Q1 2016 amounted to 8.7% on annual basis, while GDP deflator was 6.6%.

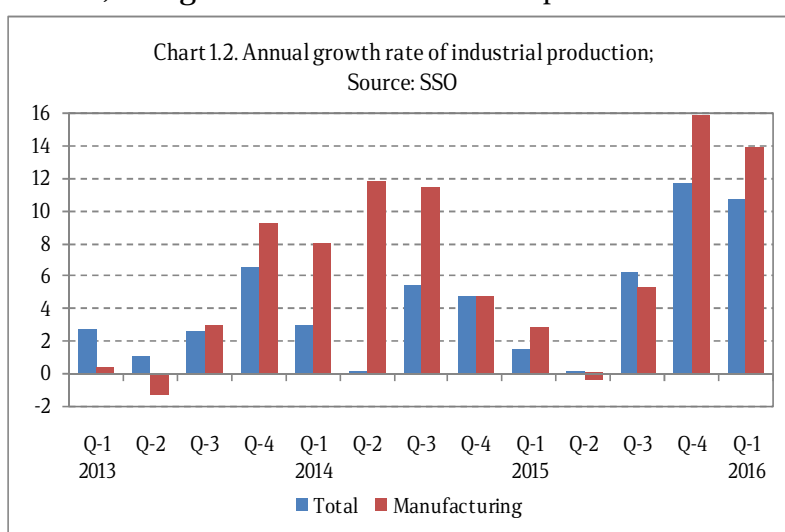
Analyzed according to the **production side of GDP**, positive performance was observed in several sectors in Q1 2016. Favourable trends in the construction



sector continued in Q1 2016, reaching growth of 7.7%. Agriculture sector experienced 3.2% growth, following the 0.7% decline in 2015. Services sector experienced 2.7% growth in Q1 2016. Within the services, the sector Trade, transportation, food and accommodation services, growing by 5.7%, had the biggest contribution to the economic activity growth, followed by the sectors: Financial and insurance activities (13.3%), Professional, scientific, technical and administrative activities (11.7%), Real estate activities (2.2%) and Information and communications (0.2%). Following sectors Public administration and defense, education and health and Arts, entertainment, recreation and other service activities experienced drop of 1.3% and 17.3% respectively. Industry registered 3.4% drop in Q1 2016, amid 7.0% decline in Manufacturing.

Growth of **industry** in Q1 2016, according to the monthly data on industrial production, accounted for 10.7% on annual basis, being a result of the realized positive trends at:

manufacture of wood and products of wood and cork (226.0%), manufacture of motor vehicles (95.9%), manufacture of machinery and equipment (48.4%), manufacture of other transport equipment (34.0%), manufacture of computer, electronic and optical products (29.8%), manufacture of other non-metallic mineral products



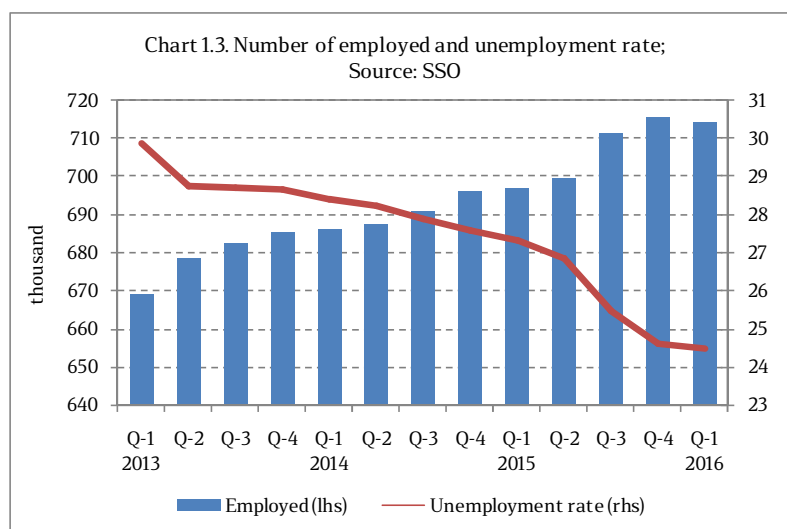
(24.2%), manufacture of textiles (22.5%), mining of coal and lignite (21.1%), manufacture of rubber and plastic products (19.8%), manufacture of fabricated metal products (13.3%), repair and installation of machinery and equipment (12.9%), manufacture of electrical equipment (10.0%), manufacture of food products (9.2%), manufacture of leather (9.2%), manufacture of beverages (9.1%), manufacture of pharmaceutical products and preparations (4.4%) and other mining and quarrying (1.3%). Hence, annual positive growth was registered at 17 branches, comprising 57.9% of the industrial production.

Drop was seen at: manufacture of chemicals and chemical products (28.0%), manufacture of furniture (27.2%), manufacture of metals (13.3%), printing and reproduction of recorded media (12.6%), mining of metal ores (9.7%), electricity and gas supply (7.0%), manufacture of wearing apparel (3.6%), manufacture of paper and paper products (1.5%), manufacture of tobacco products (1.2%) and other manufacturing (8.1%).

Analyzed according to the **expenditure side of GDP**, economic growth in Q1 2016 was a result by growth of export and consumption. Growth of export of goods and services amounted to 14.7% 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 external demand. Import of goods and services experienced almost twice lower growth compared to export, i.e. 7.6% growth in real terms, hence net export had positive contribution to the economic growth.

Final consumption registered 3.6% growth in real terms, as a result of the growth of both private consumption and public consumption. Private consumption experienced 3.5% growth as a result, above all, of the increase of household disposable income, in conditions of increase of employment and salaries, and was also supported by increased crediting to households. Public consumption surged by 4.2%. Gross capital formation experienced 9.1% decline in real terms, despite the sound growth of construction activity and increased import of capital goods, as indicators of the growth of gross fixed capital formation.

Positive trends on the **labour market** continued in Q1 2016 as well. According to the Labour Force Survey, number of employed persons was higher by 2.5% compared to the same quarter of 2015. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 11.7% on



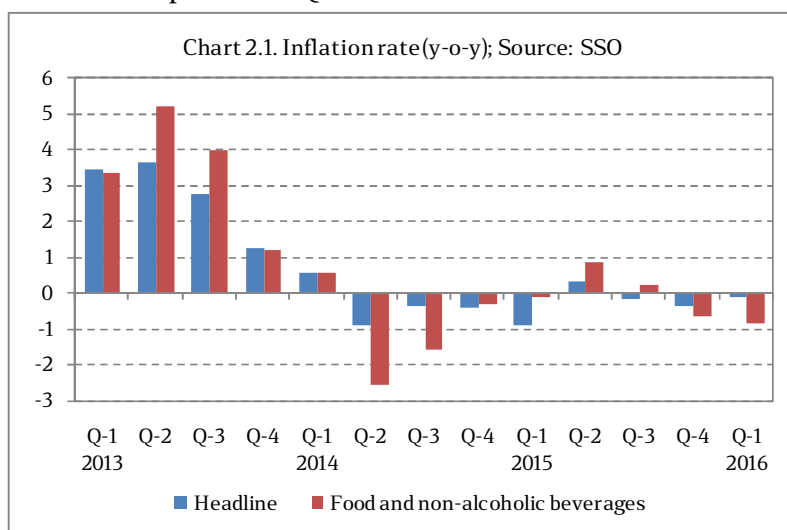
annual basis. Number of active population declined by 1.4%.

Such trends on the labour market caused for the unemployment rate in Q1 2016 to drop to 24.5%, i.e. by 2.8 percentage points (p.p.) compared to the same quarter of the previous year, while in relation to Q4 2015, it was lower by 0.1 p.p.. Employment rate in Q1 2016 amounted to 42.6%, being higher by 1.0 p.p. compared to the same quarter of 2015. Active population accounted for 56.4% of the total working-age population, decreasing by 0.9 p.p. compared to the same quarter of 2015.

2. Prices, Costs and Productivity

Inflation, measured according to the Consumer Price Index, experienced drop of 0.1% in Q1 2016 compared to the same quarter of 2015, following the 0.4% drop recorded in the previous quarter. Decrease of consumer prices in Q1 2016 was a result of the reduced prices in the categories:

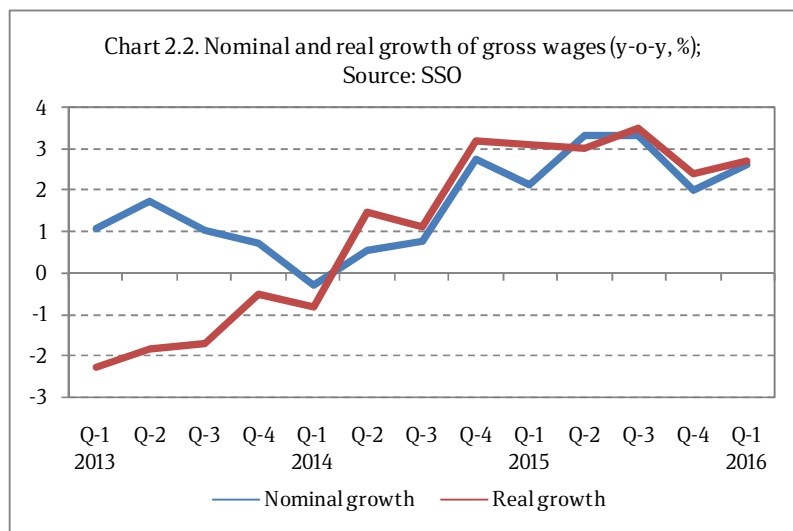
Transport by 3.7%, Communications by 1.5%, Housing, water, electricity, gas and other fuels by 1.0% and Food and non-alcoholic beverages by 0.9%. Category Furnishings, household equipment and routine maintenance of the house experienced the highest price increase in Q1 2016, followed by the categories:



Alcoholic beverages, tobacco and narcotics and Recreation and culture (3.7% each), Health (2.0%), Restaurants and hotels (1.6%), Clothing and footwear (1.1%), Education (0.4%) and Miscellaneous goods and services (0.8%).

Retail prices in Q1 2016 decreased by 0.5% compared to the same quarter of 2015, following the 0.8% drop observed in the previous quarter. Drop of retail prices in this period was due to the decreased prices of both goods by 0.7% and services by 0.1% on annual basis. Within Goods category, prices of agricultural products dropped by 4.7%, while prices of industrial products declined by 0.3%. Reduced prices of industrial products were a result of the lower prices of non-food industrial products by 1.4%, while as regards other groups of products, prices increased. Hence, retail price of tobacco was higher by 5.5%, price of food industrial products surged by 0.9%, while price of beverages picked up by 0.8%.

Average monthly **net salary** in Q1 2016 amounted to Denar 22,040, being higher by 2.8% in nominal terms compared to Q1 2015. Net salary increased by 2.9% in real terms. Average monthly **gross salary** amounted to Denar 32,369, increasing by 2.6% in nominal terms, i.e. surging by 2.7% in real terms.



Labour productivity in Q1

2016 dropped by 0.5% as a result of the lower growth of economic activity than the increase of the number of employees in the economy.

3. Fiscal Sector

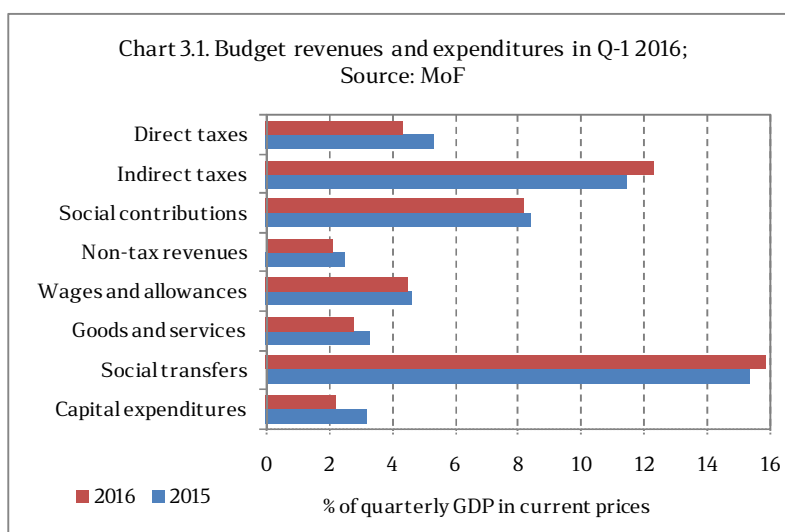
Total budget revenues experienced higher performance by 7.4% in Q1 2016 compared to same quarter of 2015, accompanied by 4.9% lower increase of budget expenditures. This caused for **budget deficit** to amount to Denar 5,635 million in Q1 2016 or 4.0% of GDP realized in this quarter (central budget deficit amounted to Denar 5,105 million, i.e. 3.6% of quarterly GDP).

Share of total **budget revenues** accounted for 28.7% of the realized quarterly GDP, being higher by 7.4% compared to the same quarter of 2015, mostly due to the higher performance of tax revenues by 8.1% and higher collection of contributions by 6.0%, while performance of non-tax revenues dropped by 9.1%. Thereby, as for tax revenues, higher collection was recorded at personal income tax, value added tax and customs duties, while revenues on basis of excise duties experienced lower collection.

VAT revenues predominated, accounting for 49.3% of the total tax revenues, surging by 25.6% in Q1 2016 compared to the same quarter of 2015. As for VAT revenue structure, the highest share was on the basis of import, followed by VAT revenues collected on the basis of sales in the country. Excise revenues were lower by 1.1% compared to the same quarter of 2015.

As for direct taxes, collection of revenues on the basis of personal income tax increased by 9.1%, while profit tax revenues were lower by 26.1% compared to the same quarter of 2015, whereby one should take into account that such revenue decline at this tax was mainly a result of the reduced payments on the basis of tax balances.

From the point of view of structural share in GDP, share of in GDP dropped by 1 p.p. on annual basis (4.3% of quarterly GDP), while as regards indirect taxes, their share in GDP surged by 0.9 p.p., i.e. accounting for 12.3% in Q1 2016. Collection of indirect taxes in Q1 2016 picked up by 16.9%, while direct taxes collection experienced 10.9% decline in relation to Q1 2015.



Collection of social contributions was higher by 6.0%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance contributions by 6.1%, health insurance contributions by 5.7% and employment contributions by 6.0%.

Collection of non-tax revenues, accounting for 2.1% of the quarterly GDP, was lower by 9.1% compared to the same quarter of 2015. Capital revenues performance in Q1 2016 was by around 3 times higher compared to Q1 2015 (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends), while revenues on the basis of foreign grants were higher by 4.0%.

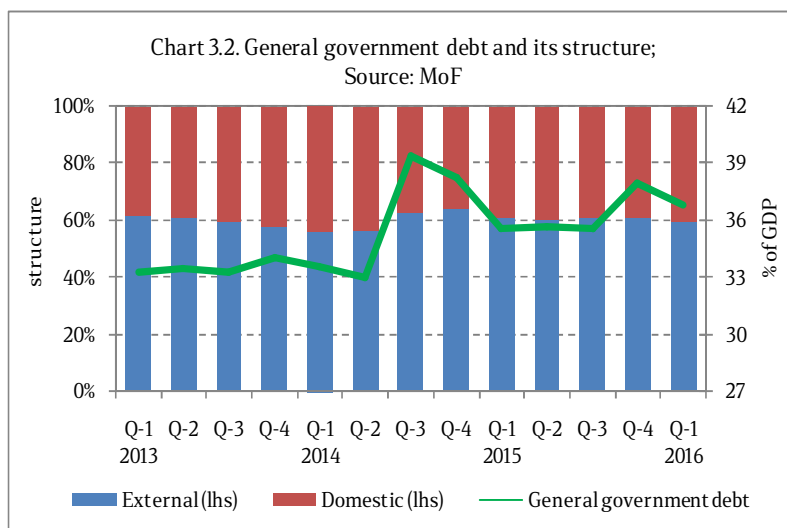
In Q1 2016, total **budget expenditures**, accounting for 32.7% of the quarterly GDP, were higher by 4.9% compared to the same quarter of 2015. Current expenditures, accounting for 30.5% of the quarterly GDP, participated with 93.2% in the total expenditures and experienced 7.9% higher execution on annual basis.

As for current expenditures, expenditures for goods and services were lower by 8.4%, while expenditures related to salaries and allowances increased by 6.4% compared to the same quarter of 2015. Transfers, accounting for 68.0% of the total expenditures, were higher by 11.4% compared to the same quarter of 2015. Social transfers surged by 12.3%, accounting for 48.5% of the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most of the social transfers, surged by 13.3%, accounting for 30.2% of the total expenditures. Category Other transfers, which includes transfers to local government units, accounted for 18.8% of the total expenditures, i.e. it surged by 10.1% compared to the same quarter of 2015. Block and earmarked grants to local government units reduced by 1.4%, while subsidies and transfers were higher by 18.2%.

Interest-related expenditures dropped by 6.7% on annual basis, whereby domestic debt interest-related expenditures declined by 9.9%, and expenditures related to interest on foreign debt reduced by 3.1%.

Execution of capital expenditures, accounting for 2.2% of the quarterly GDP, dropped by 24.2% compared to the same quarter of 2015, i.e. they accounted for 6.8% of the total expenditures.

Total **government debt** at the end of Q1 2016 accounted for 36.8% of GDP, increasing by 1.2 p.p. compared to Q4 2015. Share of the external debt in the total government debt decreased by 1.0 p.p. compared to Q4 2015, accounting for 59.7% of total government debt. Share of domestic debt increased to 40.3% of the total government debt.



4. Monetary and Financial Trends

In the first quarter of 2016, NBRM retained the reference interest rate at 3.25%, given that no significant changes occurred in the ambient of conducting the monetary policy. Interest rate on available 7-day deposits amounted to 0.5% in March 2016 and, compared to the previous quarter, it remained unchanged.

Primary money¹ in Q1 2016 increased by 0.3% on quarterly basis (1.4% growth was recorded in the previous quarter), due to an increase of total liquidity of banks by 3.4%, while currency in circulation dropped by 2.6%. Compared to Q1 2015, primary money surged by 7.6% (compared to 0.6% growth in Q4 2015), as a result of the increase of currency in circulation by 10.2% and increase of total liquidity of banks by 5.1%.

In Q1 2016, the narrowest money supply **M1** experienced quarterly decline of 1.8% compared to Q4 2015. **Monetary aggregate M2** dropped by 0.7%, while the broadest **monetary aggregate M4** declined by 0.1%.

Total deposit potential² of banks in Q1 2016 increased by 0.1% on quarterly basis, compared to the previous quarter when the deposit potential grew by 4.6%. Sector

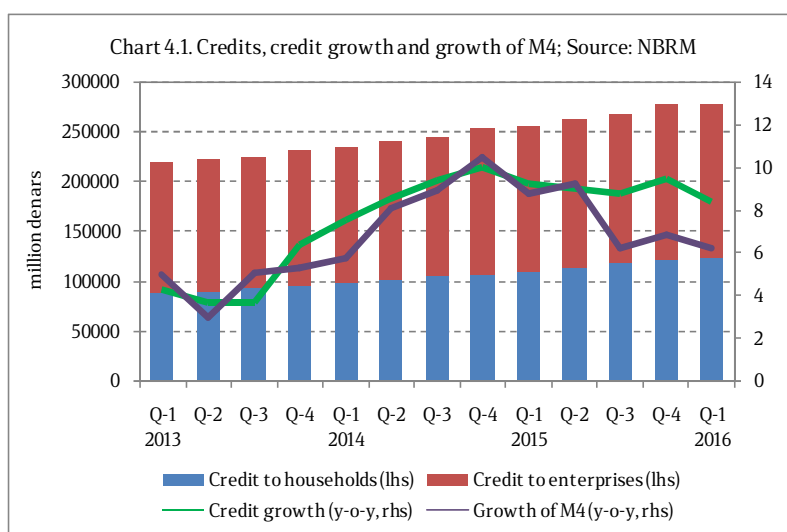
¹ It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

² Deposits also include calculated interest.

analysis showed that deposits of enterprises decreased by 2.1%, while deposits of households grew by 0.8%. Analyzed by currency, compared to the previous quarter, Denar deposits dropped by 0.7%, while foreign currency deposits surged by 1.2%. Level of euroization increased by 0.5 p.p. compared to Q4 2015, i.e. to 40.7%, measured through the share of foreign currency deposits in the total deposit potential.

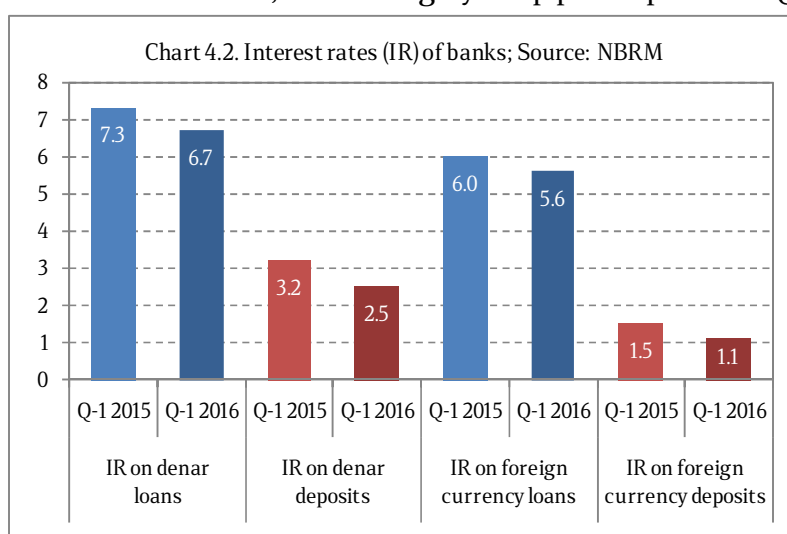
As regards maturity, share of long-term deposits in total deposit potential in Q1 2016 increased compared to Q4 2015, reaching 27.2% (accounting for 26.7% in Q4 2015), as a result of the increase of long-term deposits by 1.8% in relation to Q4 2015. Short-term deposits increased by 0.1% in the analyzed period.

Credit activity of banks to non-government sector in Q1 2016 experienced growth of 0.1% on quarterly basis (compared to 4.2% growth in Q4 2015), in conditions of growth of credits to households by 2.5%, while credits to private enterprises dropped by 1.9%. From currency point of view, Denar credits grew by 0.8%, while foreign currency



credits registered 2.8% drop, in Q1 2016. From maturity point of view, in Q1 2016, long-term credits experienced 1.5% growth in relation to the previous quarter, while short-term credits dropped by 4.5%.

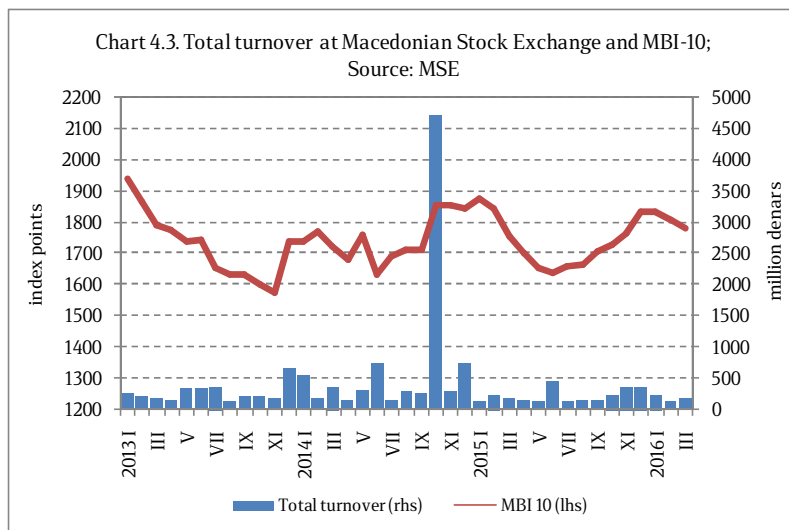
In Q1 2016, interest rates experienced downward swings on quarterly basis. In Q1 2016, **interest rate** on Denar credits amounted to 6.7%, decreasing by 0.2 p.p. compared to Q4 2015. Interest rate on foreign currency credits was 5.6% in Q1 2016, dropping by 0.2 p.p. compared to the previous quarter. In Q1 2016, interest rate on foreign currency deposits declined by 0.1 p.p. on quarterly basis, amounting to 2.5% Interest rate on foreign currency deposits remained unchanged on quarterly



basis, accounting for 1.1%.

In Q1 2016, interest rate on newly granted Denar credits amounted to 6.2%, while interest rate on newly approved foreign currency credits accounted for 5.2%. Interest rates on newly received Denar and foreign currency deposits accounted for 2% and 1.1% respectively.

As regards the **capital market**, in Q1 2016, total turnover on the Stock Exchange experienced a 43.8% drop compared to Q4 2015, being a result of the reduced turnover realized through block transactions by 83.5%, as well as reduced turnover realized through trading in best by 13.6%. Compared to the same quarter of the previous year, total turnover dropped by 3.3% in conditions of reduced turnover realized through trading in best and turnover realized through block transactions by 2.2% and 10.3% respectively.



Macedonian Stock Exchange Index MSEI-10,

as aggregate indicator of stock exchange trends at the end of the first quarter, amounted to 1,781.03 index points, decreasing by 2.8% compared to December 2015, while compared to March 2015, the index was higher by 1.5%.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,339.3 million in Q1 2016, surging by 4.5% compared to the same quarter of 2015.

In Q1 2016, **export** of goods amounted to EUR 983.2 million, whereby compared to Q1 2015, it surged by 5.7%, while compared to Q4 2015, it dropped by 6.8%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q1 2016, compared to the same quarter of 2015, were registered at the following:

- o machinery and transport equipment, increasing by 29.7% (within which export grew at the following categories: electrical machinery, apparatus and appliances by 37.6%

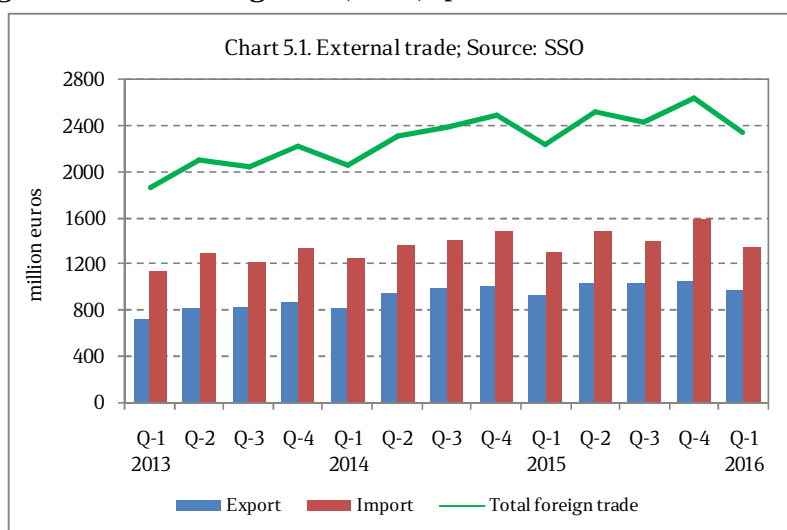
- or EUR 29.3 million; industrial machinery and machine parts by 18.3% or EUR 18.4 million and road vehicles by 66.8% or EUR 17.1 million);
- chemical products, increasing by 25.4% (chemical materials and products by 29.2% or EUR 48.7 million);
- food products by 18.1% (fruit and vegetables by 56.2% or EUR 11.6 million).

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

- manufactured goods classified chiefly by material, dropping by 31.1% (export of iron and steel dropped by 42.6% or EUR 59.3 million);
- miscellaneous manufactured articles, dropping by 1.4% (clothing by 8.9% or EUR 11.5 million);
- crude materials, inedible, except fuels, dropping by 17% (metal ores and metal scrap by 23.3% or EUR 9.5 million);
- beverages and tobacco, decreasing by 10.4% (tobacco and tobacco products by 21.5% or EUR 5.2 million).
- mineral fuels and lubricants, decreasing by 13% (petroleum and petroleum products by 28.5% or EUR 1.7 million).

In Q1 2016, observed by **economic purpose**, the most exported were industrial supplies (45.2%), followed by the categories: consumer goods (17.5%), products for investments without transport equipment (15.1%), transport equipment (12.6%), food and beverages (8.6%) and fuels and lubricants (0.9%).

Import of goods in Q1 2016 amounted to EUR 1,356.2 million, surging by 3.7% compared to Q1 2015, while in relation to the previous quarter, it decreased by 14.9%.



Analyzed by **SITC sectors**,

the highest increase of import in Q1 2016, compared to Q1 2015, was seen at:

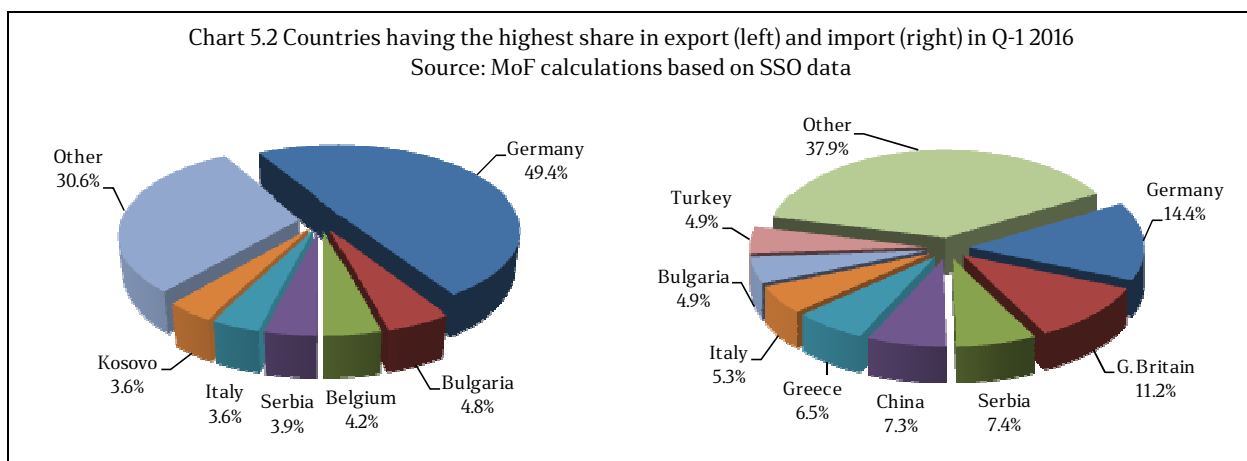
- manufactured goods classified chiefly by material, surging by 1% (within which import grew at the following categories: non-metallic mineral manufactures by 72.3% or EUR 28.5 million; and textile yarn, fabrics and made-up articles by 8.8% or EUR 7.4 million);
- machinery and transport equipment, surging by 25.5% (electrical machinery, apparatus and appliances by 33.5% or EUR 22.9 million; road vehicles by 43.1% or EUR 21.3 million);

- chemical products, increasing by 6.5% (chemical materials and products by 61.7% or EUR 17.1 million);
- miscellaneous manufactured articles, increasing by 26% (professional, scientific and controlling instruments and apparatus by 44.3% or EUR 4.2 million, and clothing by 19.4% or EUR 2.8 million).
- food products, increasing by 5.3% (cereals and cereal preparations by 18% or EUR 3 million; sugar and sugar preparations and honey by 20.5% or EUR 1.7 million and coffee, tea, cocoa, spices and products thereof by 11.4% or EUR 1.6 million);
- beverages and tobacco, picking up by 23.8% (tobacco and tobacco products by 30.6% or EUR 1.8 million).

The highest decline of import was seen at the following:

- mineral fuels and lubricants, decreasing by 25.2% (within which import dropped at the following categories: petroleum and petroleum products by 23% or EUR 20.5 million; natural and manufactured gas by 33.1% or EUR 11 million and electricity by 26.3% or EUR 9.8 million);
- crude materials, inedible, except fuel, dropping by 38.6% (metal ores and metal scrap by 69.2% or EUR 20.8 million).

Observed by **economic purpose**, the most imported in Q1 2016 were industrial supplies (48.5%), followed by the categories: products for investments without transport equipment (13.2%), consumer goods (11.3%), food and beverages (10.2%), fuels and lubricants (8.8%) and transport equipment (7.8%).



In Q1 2016, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q1 2015, surged by 8.7%, whereby share of trade with the EU in the total foreign trade increased by 2.7 p.p. compared to the first quarter of 2015, accounting for 71.7%. Thereby, export of goods accounted for 82.8%, while share of import of goods was 63.7%.

5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, surplus in the amount of EUR 0.4 million was recorded on the balance of payments **current account** in Q1 2016, accounting for 0.02% of GDP³, as opposed to the deficit of 2.2% of GDP registered in the same quarter of last year.

Analyzed on annual basis, current account balance in Q1 2016 improved by EUR 46.9 million, being a result of the reduced deficit on the goods account by 4.4%, increased surplus on the secondary income account by 8.9% and higher surplus on the services account by 5.7%. Widened deficit on the primary income account by 12.6% had the opposite effect.

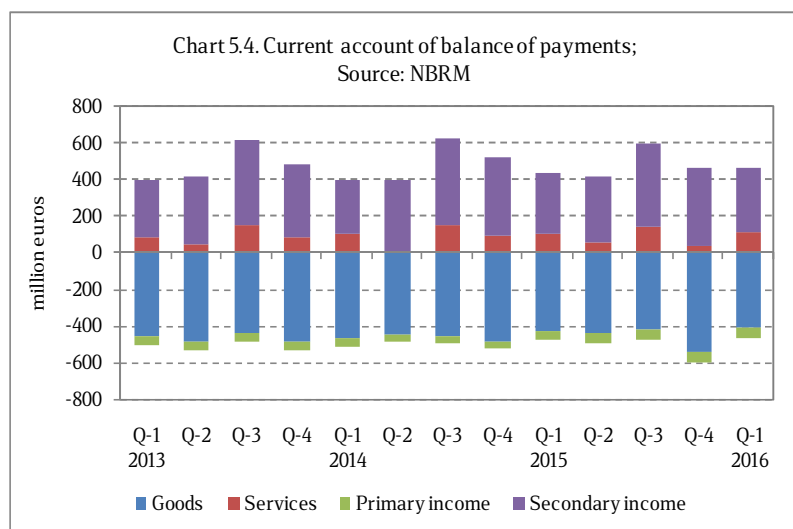
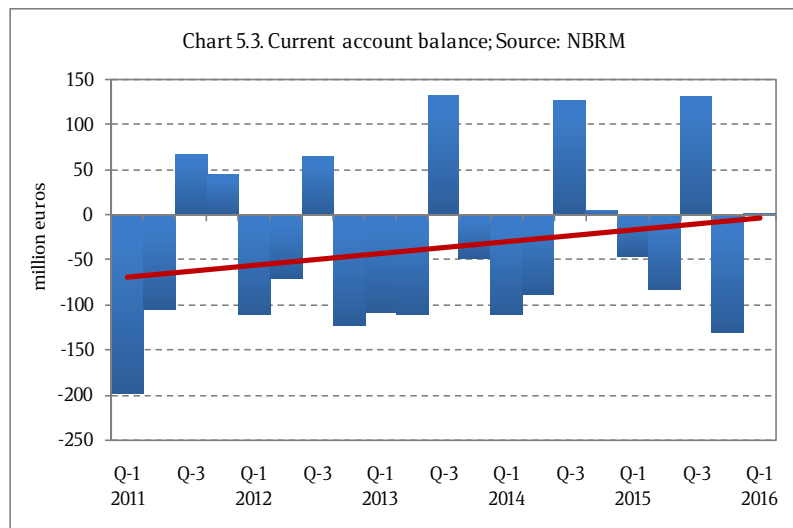
In Q1 2016, in conditions of greater increase of import compared to export of goods, **trade deficit** narrowed by EUR 18.6 million on annual basis, accounting for 17.8% of quarterly GDP, being by 2.4 p.p. lower than the deficit in the same quarter of 2015.

Surplus on **services account** amounted to EUR 114.4 million in Q1 2016 and, compared to the same quarter of 2015, it surged by EUR 6.2 million.

Trade openness of the Republic of Macedonia accounted for 109.2% of the quarterly GDP in Q1 2016, being higher by 0.6 p.p. compared to the same quarter of 2015.

Primary income account experienced EUR 60.4 million deficit in Q1 2016, widening by EUR 6.8 million on annual basis.

Surplus on the **secondary income** account amounted to EUR 354.1 million in Q1 2016, increasing by EUR 28.9 million on annual basis. Such increase was a result of the increase of both



³ Calculation is based on estimated GDP for the first quarter of 2016, published by the State Statistical Office.

private⁴ and official⁵ net transfers, whereby private transfers surged by EUR 13.1 million, accounting for 91% of the secondary income account, while the official transfers picked up by EUR 15.8 million.

Balance on the **capital account** amounted to EUR 2.1 million in Q1 2016 and, compared to the same quarter of 2015, it surged by EUR 0.3 million, mostly due to the increased inflow of capital transfers.

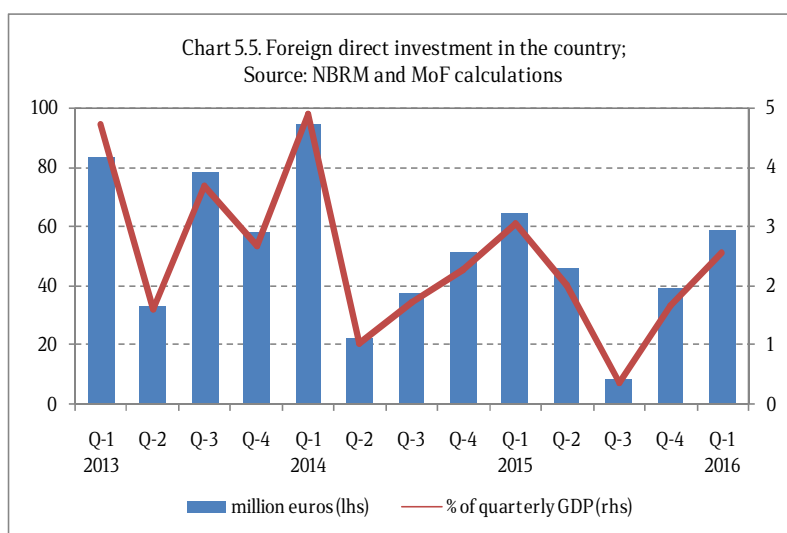
Net lending⁶ of the country amounted to EUR 2.5 million in Q1 2016, increasing by EUR 47.3 million on annual basis.

Direct investments in the country amounted to EUR 58.7 million in Q1 2016 and, compared to Q1 2015, they dropped by 8.3% or EUR 5.3 million. Inflow of direct investments in this period was on the basis of equity and reinvested profit.

Portfolio investments amounted to EUR 8.3 million in Q1 2016, being an increase in the balance by EUR 19.8 million in relation to Q1 2015.

Other investments amounted to EUR 39.7 million in Q1 2016, dropping by EUR 185.7 million in relation to Q1 2015. As regards the category Other investments, currency and deposits amounted to EUR 59.7 million, trade credits amounted to EUR 36.3 million, while loans experienced a negative balance in the amount of EUR 56.2 million.

Reserves assets amounted to EUR 2,266 million at the end of the first quarter of 2016, dropping by 3.8% compared to the same quarter of 2015. At the end of Q1, reserve assets provided for 4.5-month coverage of import of goods and services in the previous 12-month period, being an adequate level of reserve assets.



⁴ Private transfers mean transfers to the sector Financial corporations, non-financial corporations, households and non-profit institutions serving households, including the items Personal Transfers (current transfers between resident and non-resident households) and 2.2/ Other Current Transfers.

⁵ Official transfers mean transfers to the General Government sector.

⁶ Net lending (+), i.e. net borrowing (-) is a sum of the current account and the capital account.