

Q4 2015

Republic of Macedonia
Ministry of Finance

QUARTERLY ECONOMIC REPORT Q4 2015

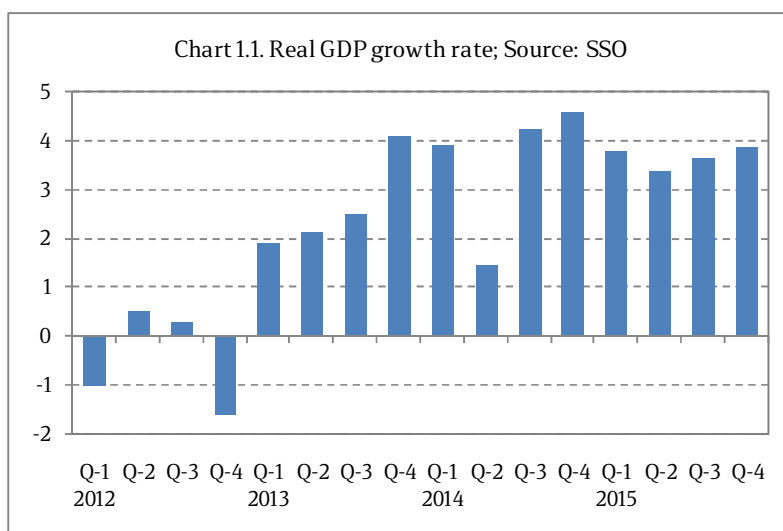
Summary

- In Q4 2015, compared to the same quarter of 2014, **GDP** experienced 3.9% **real growth**, hence GDP growth in 2015 amounted to 3.7%;
- **Number of employed persons** in Q4 2015 was higher by 2.8% compared to the same quarter of 2014. **Number of unemployed persons** dropped by 11.9%, which resulted in reduction of **unemployment rate** to 24.6% in Q4 2015;
- **Inflation rate** in Q4 2015, measured according to CPI, dropped by 0.4% compared to the same quarter of 2014;
- Average **gross salary** amounted to Denar 32,721 in Q4 2015, increasing by 2.0% in nominal terms, i.e. surging by 2.4% in real terms, compared to the gross salary in Q4 2014;
- Total **budget revenues** were higher by 5.8% in Q4 2015, while total **budget expenditures** surged by 7.1% compared to the same quarter of 2014;
- Total **deposit potential** of banks increased by 4.6% in Q4 2015 on quarterly basis;
- **Credit activity** of banks to non-government sector experienced 4.2% increase in Q4 2015 on quarterly basis;
- **Macedonian Stock Exchange Index MSEI-10** increased by 7.6% in December 2015 compared to September 2015. Total turnover on the stock exchange registered an accelerated growth in Q4 2015, experiencing 2.3-fold increase compared to the previous quarter;
- In Q4 2015, both **export** and **import** grew by 6.8% and by 7.9% respectively on annual basis, whereby total **foreign trade**, expressed in euros, grew by 7.5%;

1. Macroeconomic Trends and Real Sector

In Q4 2015, compared to the same quarter of 2014, GDP experienced 3.9% real growth, hence GDP growth in 2015 amounted to 3.7%¹. Nominal GDP growth in 2015 amounted to 6.6%, while GDP deflator was 2.8%.

Analysed according to the **production side of GDP**, economic growth in Q4 2015 came mainly from the construction sector, which experienced high growth of 33.7%, corresponding to the



increased execution of budget capital expenditures. Services sector experienced 3.4% growth in Q4 2015. Within the services, the sector Trade, transportation accommodation and food service activities, growing by 8.5%, had the biggest contribution to the economic activity growth, followed by the sectors: Financial and insurance activities (14.9%), Professional, scientific, technical and administrative activities (14.3%), Information and communication (3.6%) and Real estate activities (1.9%). The sectors Public administration and defense, education and human health and Arts, entertainment, recreation and other service activities experienced drop of 3.7% and 22.1% respectively. Industrial production registered 1.9% growth in Q4 2015, amid increase in manufacturing, and agricultural production experienced 1.2% increase.

Growth of **industry** in Q4 2015, according to the monthly data on industrial production, amounted to 11.7%, being a result of the realized positive trends at: manufacture of wood and of products of wood and cork (160.2%), manufacture of motor vehicles (67.1%), manufacture of tobacco products (31.1%), manufacture of fabricated metal products (25.8%), manufacture of machinery and equipment (25.7%), manufacture of textiles (22.3%), manufacture of food products (21.7%), manufacture of wearing apparel (21.6%), mining of coal and lignite (19.3%), manufacture of paper and paper products (18.3%), manufacture of beverages (17.8%), manufacture of rubber and plastic products (17.6%), other mining and quarrying (14.6%), manufacture of furniture (11.9%), manufacture of basic metals (8.8%), manufacture of chemicals and chemical products (8.4%), manufacture of other non-metallic mineral products (4.1%), manufacture of leather (2.3%) and manufacture of basic pharmaceutical products and preparations (0.3%).

¹ State Statistical Office simultaneously revised the GDP real growth rates for the previous three quarters. Thus, real GDP growth in Q1 was revised to 3.8% from the previous 3.5%, growth in Q2 was revised to 3.4% from the previous 3.3%, while growth in Q3 was revised to 3.6% from the previous 3.5%.

Hence, annual positive growth was registered at 19 branches, comprising 77.5% of the industrial production.

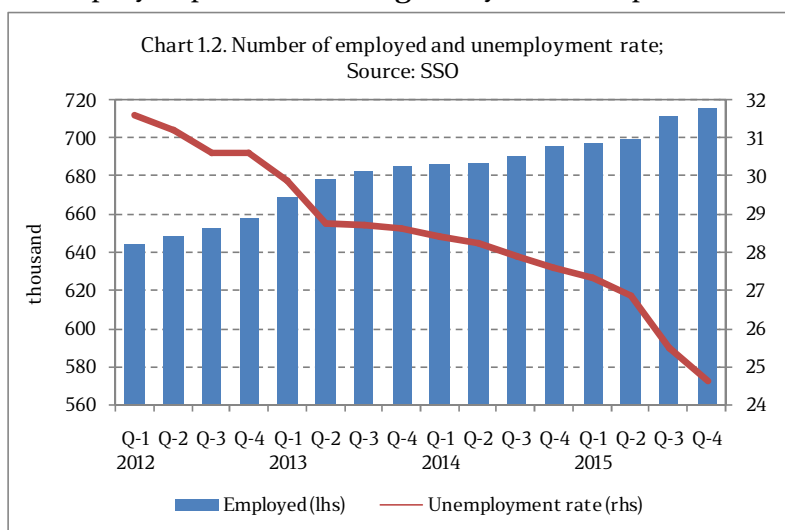
Drop was seen at²: repair and installation of machinery and equipment (56.5%), manufacture of other transport equipment (17.2%), mining of metal ores (13.0%), manufacture of electrical equipment (10.7%), electricity, gas, steam and air conditioning supply (7.9%), printing and reproduction of recorded media (6.8%) and other manufacturing (9.4%).

Analysed according to the **expenditure side of GDP**, economic growth in Q4 2015 was a result of the domestic demand. Gross investments experienced 5.5% real growth, in conditions of increased activity in the construction sector, increased import of capital goods, as well as the intensified growth of long-term credits to enterprises. Consumption registered 4.8% growth in real terms, as a result of the growth of both private consumption and public consumption. Private consumption experienced 3.6% growth, as a result, above all, of the increase of household disposable income, in conditions of increase of employment and salaries, while public consumption surged by 9.7%. Growth of export of goods and services amounted to 4.1% 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 higher growth compared to export, amounting to 8.3% in real terms, hence net export had negative contribution to the economic growth.

Positive trends on the **labour market** continued in Q4 2015 as well. According to the Labour Force Survey, number of employed persons was higher by 2.8% compared to the same quarter of 2014.

Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 11.9% on annual basis. Number of active population declined by 1.2%. Such trends on the labour market caused for the unemployment rate in Q4 2015 to drop to 24.6%, i.e. by 3.0 percentage points

(p.p.) compared to the same quarter of the previous year, while in relation to the previous quarter, it was lower by 0.9 p.p.. Employment rate in Q4 2015 amounted to 42.7%, being higher by 1.2 p.p. compared to the same quarter of 2014. Active population



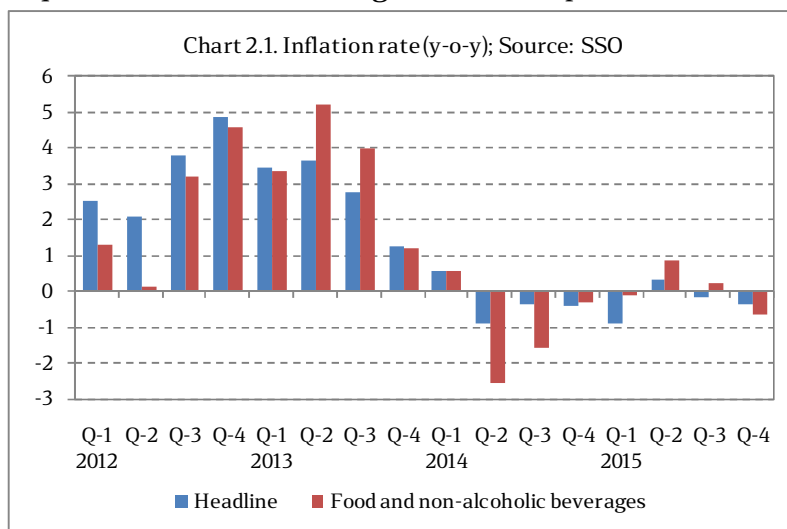
² No production was registered in the manufacture of coke and refined petroleum products, i.e. the index equals zero.

accounted for 56.6% of total working-able population, decreasing by 0.8 p.p. compared to the same quarter of 2014.

2. Prices, Costs and Productivity

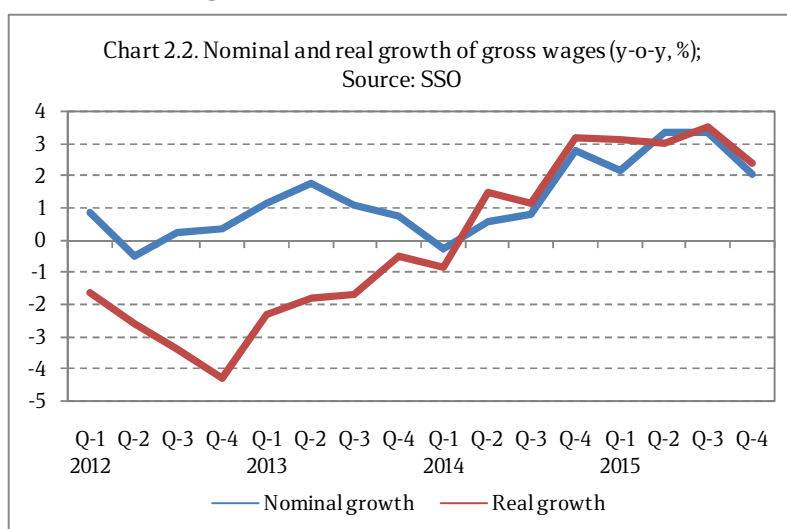
Inflation, measured according to the Consumer Price Index, experienced drop of 0.4% in Q4 2015 compared to the same quarter of 2014, following the 0.2% drop recorded in the

previous quarter. Decrease of consumer prices in Q4 2015 was a result of the reduced prices in the categories: Transport by 7.9%, Communication by 4.1% and Food and non-alcoholic beverages by 0.6%. Category Alcoholic beverages and tobacco experienced the highest price increase of 5.2% in Q4 2015, followed by the



categories: Recreation and culture (3.1%), Health (2.7%), Furnishings, household equipment and routine maintenance of the house (2.3%), Restaurants and hotels (1.5%), Clothing and footwear (0.5%), Housing, water, electricity, gas and other fuels and Miscellaneous goods and services (0.4% each) and Education (0.3%).

Retail prices in Q4 2015 decreased by 0.8% compared to the same quarter of 2014, following the 1.1% drop observed in the previous quarter. Drop of retail prices in this period was due to the decreased prices of goods by 1.6%, while prices of services surged by 0.3% on annual basis. Within Goods category, prices of industrial products dropped by 1.5%, while prices of agricultural products declined by 1.9%. Reduced prices of industrial products were a result of the lower prices of non-food industrial products by 3.3%, while as regards other groups of products, prices increased. Hence, retail price of tobacco was higher by 7.2%, price of beverages surged by 9%, while price of



food industrial products picked up by 0.5%.

Average monthly **net salary** in Q4 2015 amounted to Denar 22,301, being higher by 1.8% in nominal terms compared to Q4 2014. Net salary increased by 2.2% in real terms. Average monthly **gross salary** amounted to Denar 32,721, increasing by 2.0% in nominal terms, i.e. surging by 2.4% in real terms, compared to Q4 2014.

Labour productivity in Q4 2015 picked up by 1.0% as a result of the higher growth of economic activity than the increase of the number of employees in the economy, hence the trend of positive growth of productivity continues.

3. Fiscal Sector

Total budget revenues experienced higher performance by 5.8% in the fourth quarter of 2015, compared to same quarter of 2014, accompanied by 7.1% higher budget expenditures. This caused for **budget deficit** to amount to Denar 5,551 million in Q4 2015 or 3.9% of GDP realized in this quarter (central budget deficit amounted to Denar 4,511 million, i.e. 3.1% of quarterly GDP).

Share of total **budget revenues** accounted for 30.5% of the realized quarterly GDP, being higher by 5.8% compared to the same quarter of 2014, mostly due to the higher performance of non-tax revenues by 18.7% and higher collection of contributions by 7.6%, while tax revenues experienced almost the same performance, i.e. a slight decline of 0.1%. Thereby, as for tax revenues, higher collection was recorded at excise duties, personal income tax, profit tax and customs duties, while revenues on basis of value added tax and other taxes experienced lower collection.

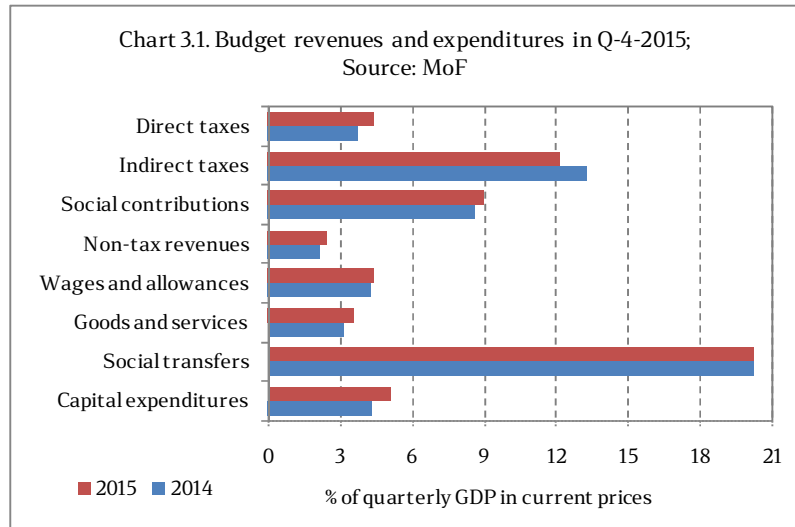
VAT revenues predominated, accounting for 46.2% of the total tax revenues, being lower by 11.0% in Q4 2015 compared to the same quarter of 2014. As for VAT revenue structure, the highest share was on the basis of import, followed by VAT revenues collected on the basis of internal trade.

Excise revenues were higher by 5.1% compared to the same quarter of 2014. As for direct taxes, collection of revenues on the basis of personal income tax increased by 4.7%, while profit tax revenues increased by 65.4% compared to the same quarter of the previous year, whereby one should take into account that the revenues on the basis of this tax were mainly a result of the tax collected on the basis of tax balances, monthly advance payments and paid dividends and other distribution of profit.

From the point of view of structural share in GDP, direct taxes increased their share in GDP by 0.7 p.p. on annual basis (4.4% of quarterly GDP), while as regards indirect taxes, their share in GDP decreased by 1.1 p.p., i.e. accounting for 12.2% of GDP in Q4 2015.

Collection of indirect taxes in Q4 2015 dropped by 5.6%, while direct taxes collection picked up by 21.9% in relation to Q4 2014.

Collection of social contributions was higher by 7.6%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance contributions by 7.5%, health insurance contributions by 7.6%, and employment contributions by 8.0%. Collection of non-tax revenues, accounting for 2.4% of the quarterly GDP, was higher by 18.7% compared to the same quarter of 2014.



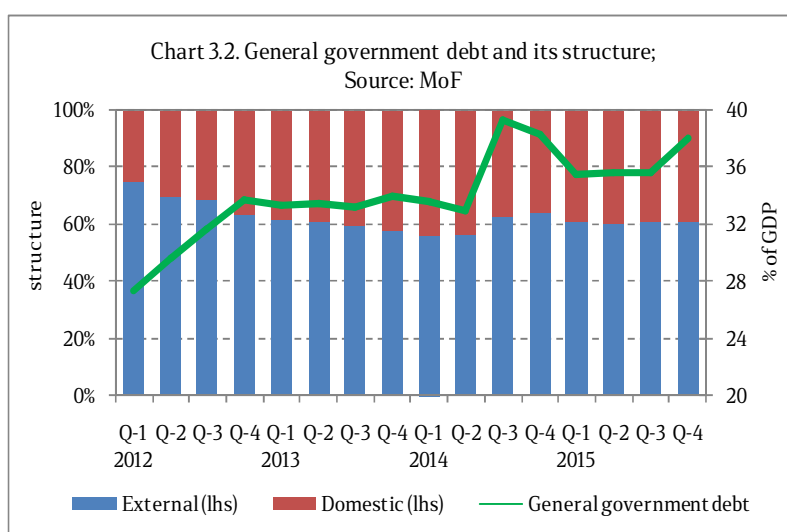
Capital revenues performance in Q4 2015 was lower by 4.5% on annual basis (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends). Revenues on the basis of foreign grants were higher by 69.6% compared to Q4 2014.

In Q4 2015, total **budget expenditures**, accounting for 34.4% of the quarterly GDP, were higher by 7.1% compared to the same quarter of 2014. Current expenditures, accounting for 29.3% of the quarterly GDP, participated with 85.2% in the total expenditures and experienced 5.0% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 16.2%, while expenditures for salaries and allowances increased by 6.9% compared to the same quarter of 2014. Transfers, accounting for 59.0% of the total expenditures, were higher by 3.4% compared to the same quarter of 2014. Social transfers surged by 4.0%, accounting for 43.4% of the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most of the social transfers, surged by 8.6%, accounting for 26.5% of the total expenditures. Category Other transfers, which includes transfers to local self-government units, accounted for 14.4% of the total expenditures, i.e. it dropped by 1.9% compared to the same quarter of 2014. Block and earmarked grants to local self-government units decreased by 4.2%, while subsidies and transfers were higher by 6.1%.

Interest-related expenditures dropped by 6.4% on annual basis, whereby domestic debt interest-related expenditures declined by 8.2%, and expenditures related to interest on foreign debt reduced by 5.0%.

Execution of capital expenditures, accounting for 5.1% of the quarterly GDP, increased by 21.2% compared to the same quarter of 2014, i.e. they accounted for 14.8% of the total expenditures.

Total **government debt** at the end of Q4 2015 accounted for 38.0% of GDP, increasing by 2.4 p.p. compared to Q3 2015. Share of the external debt in the total government debt decreased by 0.2 p.p. compared to Q3 2015, accounting for 60.7% of total government debt. Share of domestic debt increased to 39.3% of the total government debt.



4. Monetary and Financial Trends

In the fourth quarter of 2015, NBRM retained the reference interest rate unchanged at 3.25%, given that no significant changes in the ambient of conducting the monetary policy occurred. Interest rate on available 7-day deposits amounted to 0.5% in December 2015 and, compared to the previous quarter, it remained unchanged.

Primary money³ in Q4 2015 increased by 1.4% on quarterly basis (4.5% growth was recorded in the previous quarter) in conditions of increase of currency in circulation by 8.5%, while total liquidity of banks dropped by 5.4%. Compared to Q4 2014, primary money surged by 0.6% (compared to 7.4% growth in Q3 2015), as a result of the increase of currency in circulation by 13.8% and drop of total liquidity of banks by 10.7%.

During the fourth quarter of 2015, the narrowest money supply **M1** picked up by 11.2% compared to Q3 2015. **Monetary aggregate M2** surged by 5.6%, while the broadest **monetary aggregate M4** increased by 4.5%.

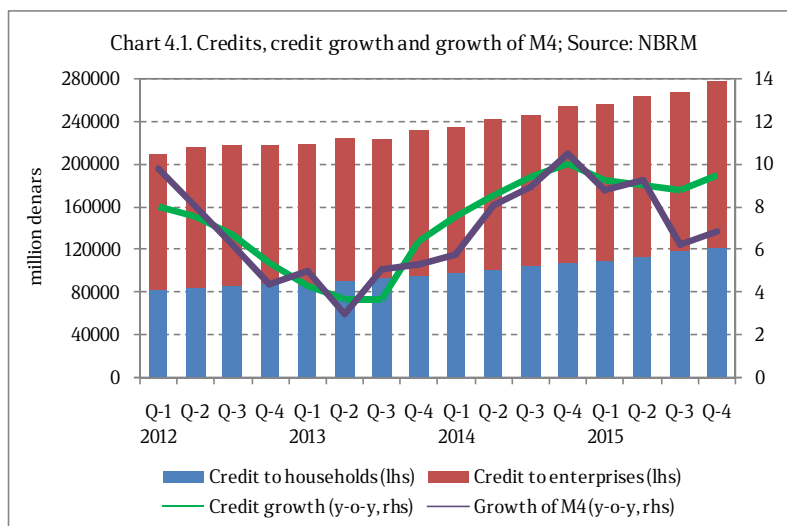
Total deposit potential⁴ of banks in Q4 2015 increased by 4.6% on quarterly basis, compared to the previous quarter when the deposit potential grew by 0.6%. Sector analysis shows that deposits of enterprises surged by 13.1%, while deposits of households grew by 2.3%. Analysed by currency, Denar and foreign currency deposits, surged by 5.9% and 2.8% respectively compared to the previous quarter. Level of euroization dropped by 0.7 p.p. compared to the previous quarter, i.e. to 40.3%, measured through the share of foreign currency deposits in the total deposit potential.

³ 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).

⁴ Deposits also include calculated interest.

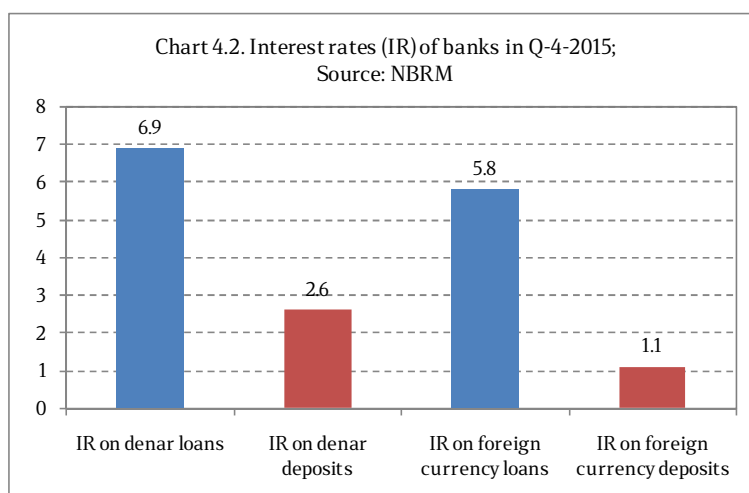
As regards maturity, share of long-term deposits in total deposit potential in Q4 2015 dropped compared to the previous quarter, reaching 26.7% (accounting for 27.6% in Q3 2015). Long-term deposits increased by 1.2% in relation to Q3 2015, while short-term deposits grew by 2.2% in the analyzed period.

Credit activity of banks to non-government sector experienced growth of 4.2% in Q4 2015 (compared to 1.2% growth in the previous quarter), in conditions of growth of credits to households and credits to private enterprises by 2.5% and 5.5% respectively. From currency point of view, both Denar credits and foreign currency credits grew by 4.7% and 2.7% respectively in Q4 2015. From maturity point of view, in Q4 2015, long-term credits experienced 4.4% growth in relation to the previous quarter, while short-term credits surged by 8%.



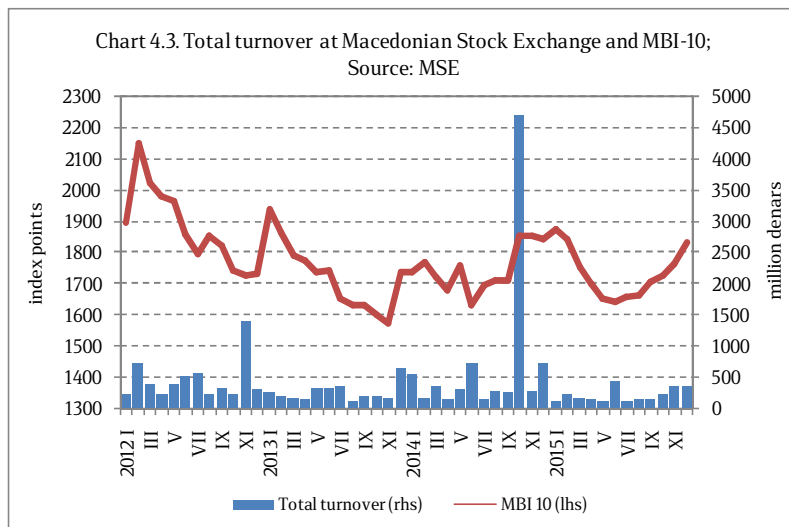
In Q4 2015, **interest rate**⁵ on Denar credits amounted to 6.9%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 5.8% in Q4 2015, remaining unchanged compared to the previous quarter. In Q4 2015, interest rate on Denar deposits amounted to 2.6%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency deposits also dropped by 0.1 p.p., accounting for 1.1%.

In Q4 2015, interest rate on newly granted Denar credits amounted to 6.1%, while interest rate on newly approved foreign currency credits accounted for 5.3%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.9% and 1.3% respectively.



⁵ Starting January 2015, NBRM has changed the methodology for calculating the interest rates, as a result of the full adjustment to the European standards.

As regards the **capital market**, in Q4 2015, there was accelerated growth of total turnover on the stock exchange, i.e. it experienced 2.3-fold surge compared to the previous quarter, being a result of both the 8.8-fold increase of turnover realized through block transactions and the increase of the turnover realized through trading in



best by 46.5%. In addition, public auctions surged by 45.5% compared to the previous quarter.

Compared to the same quarter of the previous year, total turnover dropped by 83.2% in conditions of reduced turnover realized through trading in best and turnover realized through block transactions by 25.3% and 39.9% respectively.

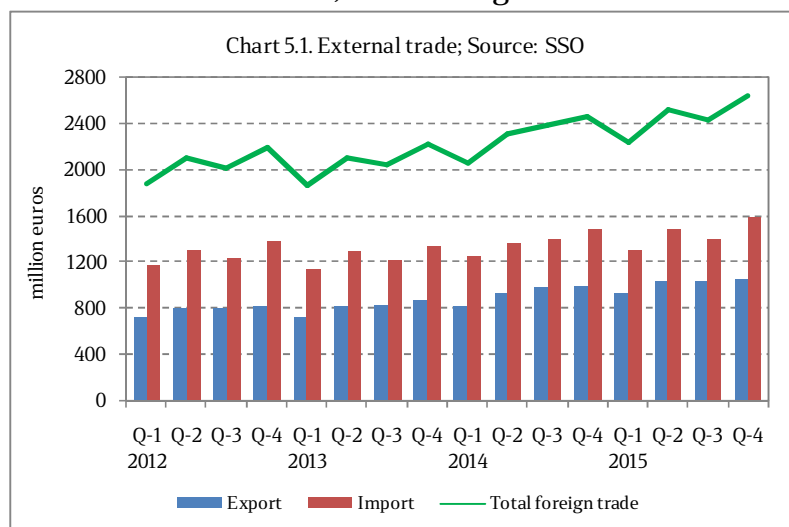
Macedonian Stock Exchange Index MSEI-10, as aggregate indicator of stock market trends at the end of the fourth quarter, amounted to 1,833.26 index points, increasing by 7.6% compared to September 2015, while compared to December 2014, the index dropped by 0.6%.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,647.6 million in Q4 2015, surging by 7.5% compared to the same quarter of 2014.

In Q4 2015, **export** of goods amounted to EUR 1,054.4 million, whereby compared to the same quarter of 2014, it surged by 6.8%, while compared to the previous quarter, it increased by 2.2%.



Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q4 2015, compared to the same quarter of 2014, were registered at the following:

- machinery and transport equipment, increasing by 21.5% (within which export grew at the following categories: industrial machinery and spare parts by 20.8% or EUR 19.9 million; electrical machinery, devices and spare parts by 17.4% or EUR 16.7 million; and road vehicles by 35.9% or EUR 9.3 million);
- chemical products, increasing by 11.8% (chemical materials and products by 13.2% or EUR 24.4 million);
- food products, increasing by 16.0% (fruit and vegetables by 37.4% or EUR 15,3 million);
- miscellaneous manufactured articles, increasing by 5.5% (furniture and parts thereof, bedding, mattresses, cushions and similar stuffed furnishings by 42.1% or EUR 9.8 million).

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

- manufactured goods classified chiefly by material, dropping by 7.3% (iron and steel by 18.8% or EUR 24.0 million);
- crude materials, inedible, except fuels, dropping by 16.3% (metal ore and metal scrap by 26.1% or EUR 10.7 million);
- mineral fuels and lubricants, decreasing by 39.2% (oil and oil products by 31.3% or EUR 4.3 million and electricity by 73.0% or EUR 3.5 million);
- beverages and tobacco, decreasing by 3.3% (beverages by 27.3% or EUR 5.4 million).

In Q4 2015, observed by **economic purpose**, the most exported were industrial supplies (45.1%), followed by the categories: consumer goods (17.7%), products for investments without transport equipment (14.7%), transport equipment (10.8%), food and beverages (10.6%) and fuels and lubricants (1.1%).

Import of goods in Q4 2015 amounted to EUR 1,593.2 million, surging by 7.9% compared to Q4 2014, while in relation to the previous quarter, it increased by 14.3%.

Analyzed by **SITC sectors**, the highest increase of import in Q4 2015, compared to Q4 2014, was seen at:

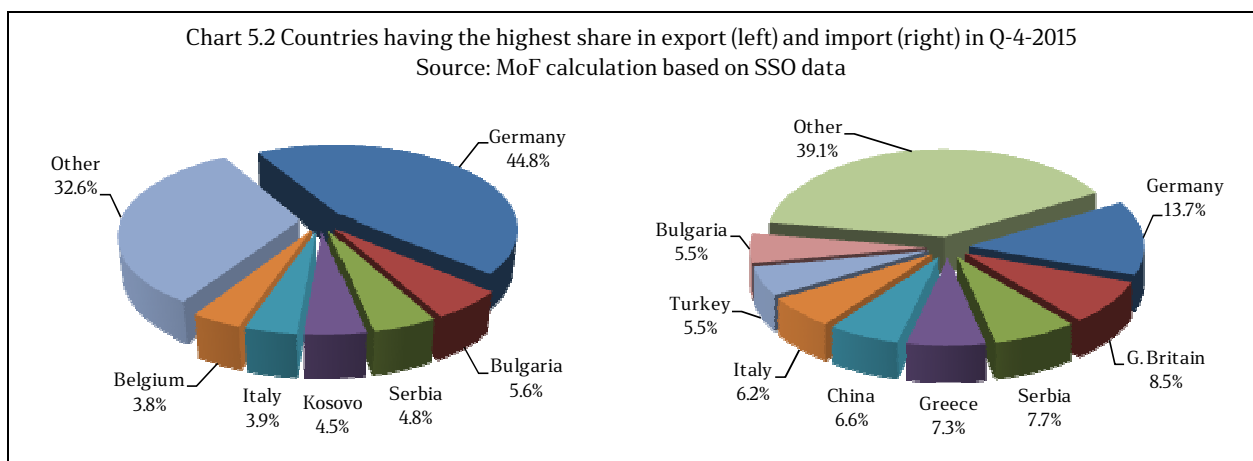
- machinery and transport equipment, surging by 15.9% (whereby, increase was registered at the following categories: electrical machinery, devices and spare parts by 29.2% or EUR 25.0 million; industrial machinery and spare parts by 28.4% or EUR 12.6 million and road vehicles by 13.4% or EUR 8.0 million);

- manufactured goods classified chiefly by material, surging by 9.4% (items from non-metal minerals by 50.4% or EUR 25.6 million);
- chemical products, increasing by 9.1% (chemical materials and products by 52.0% or EUR 12.7 million and plastics in primary forms by 42.8% or EUR 7.9 million);
- food products, increasing by 7.5% (cereals and cereal preparations by 32.4% or EUR 6.6 million and coffee, tea, cocoa, herbs and products thereof 12.4% or EUR 2.3 million);
- miscellaneous manufactured articles, increasing by 21.4% (clothing by 26.5% or EUR 4.2 million; prefabricated buildings and sanitary plumbing by 47.9% or EUR 2.9 million and furniture and parts thereof, bedding, mattresses, cushions and similar stuffed furnishings by 22.1% or EUR 2.3 million).

The highest decline of import was seen at the following:

- mineral fuels and lubricants, decreasing by 15.6% (oil and oil products by 19.5% or EUR 23.1 million);
- crude materials, inedible, except fuels, dropping by 2.9% (metal ore and metal scrap by 19.6% or EUR 4.8 million);
- beverages and tobacco, decreasing by 5.9% (tobacco and tobacco products by 27.7% or EUR 2.5 million).

Observed by **economic purpose**, the most imported in Q4 2015 were industrial supplies (48.5%), followed by the categories: products for investments without transport equipment (14.6%), food and beverages (10.8%), consumer goods (10.7%), fuels and lubricants (9.1%) and transport equipment (6.2%).



In Q4 2015, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q4 2014, surged by 23.2%, whereby share of trade with the EU in the total foreign trade increased by 1.2 p.p. compared to the fourth quarter of 2014, accounting

for 68.2%. Thereby, export of goods accounted for 78.0%, while share of import of goods was 61.5%.

As a result of the structural changes in the trade with abroad, 71.4% of the trade deficit of the country in Q4 2015 was a result of the trade deficit with Great Britain, China, Greece and Serbia, while the rest of the deficit was a result of the trade with: Turkey, Italy, South Africa, Bulgaria, Austria, etc. Surplus was realized in the trade with Germany, Kosovo, Belgium, Spain and Bosnia and Herzegovina.

5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, deficit in the amount of EUR 129.6 million was recorded on the balance of payments **current account** in Q4 2015, accounting for 5.6% of GDP⁶, as opposed to the surplus of 0.2% of GDP registered in the same quarter of 2014.

Analyzed on annual basis, current account balance in Q4 2015 deteriorated by EUR 133.6 million, being a result of the reduced surplus on the services account by 54.0%, lowered surplus on the secondary

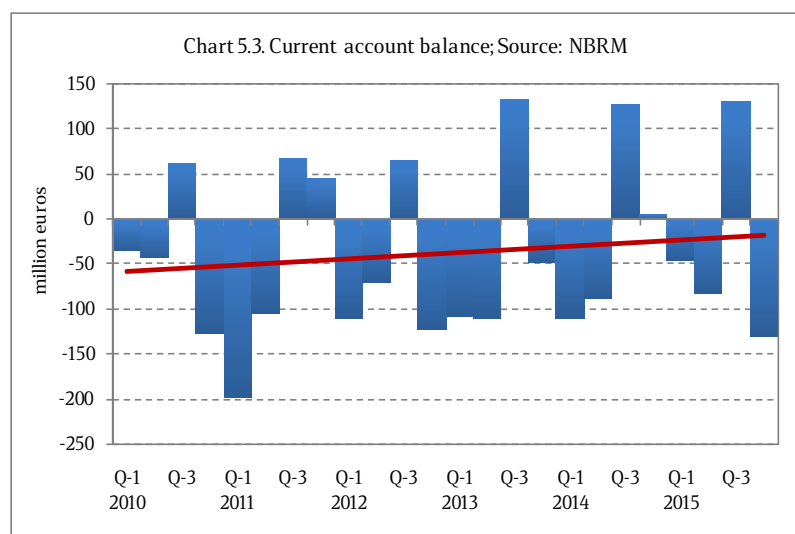
income account by 1.7%, higher deficit on the primary income account by 54.0% and the widened trade account deficit by 11.8%.

In Q4 2015, in conditions of greater absolute increase of import compared to export of goods, **trade deficit** widened by EUR 56.9 million on annual basis, accounting for 23.2% of the quarterly GDP.

In conditions of greater absolute increase of import compared to export of services, in Q4 2015, surplus on **services account** amounted to EUR 41.6 million in Q4 2015 and, compared to the same quarter of 2014, it dropped by EUR 48.9 million.

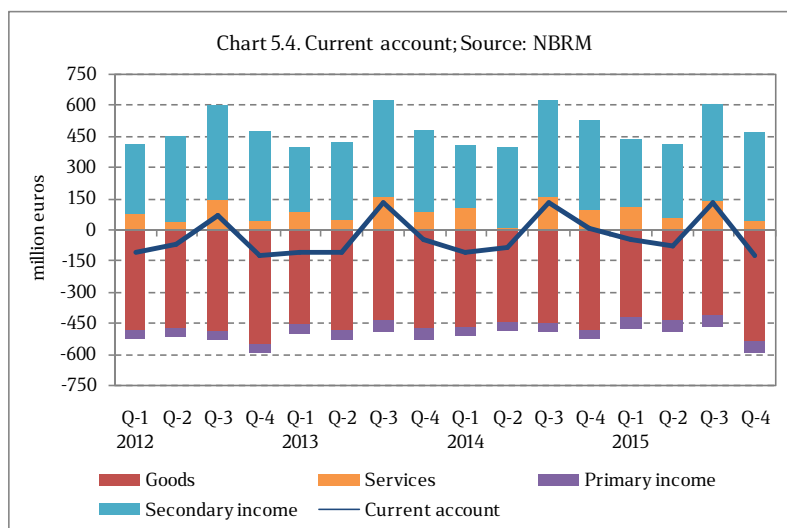
Trade openness of the Republic of Macedonia accounted for 121.9% of the quarterly GDP in Q4 2014, being higher by 8.2 p.p. compared to the same quarter of 2014.

Primary income account experienced EUR 58.2 million deficit in Q4 2015, widening by EUR 20.4 million on annual basis.



⁶ Calculation also included GDP for the fourth quarter of 2015, announced by the State Statistics Office.

Surplus on the **secondary income** account amounted to EUR 427.1 million in Q4 2015, dropping by EUR 7.4 million on annual basis. Such drop was a result of the reduction of the income of the “general government sector” by EUR 25.4 million, accounting for 5.2% of the secondary income account, while income of the “financial corporations,



non-financial corporations, households, and NPISHs”⁷ increased by EUR 18.0 million, accounting for 94.8% of the secondary income account.

Balance on the **capital account** amounted to EUR 1.0 million in Q4 2015 and, compared to the same quarter of 2014, it dropped by EUR 3.3 million, mostly due to the reduced inflow of capital transfers.

Net borrowing of the country amounted to EUR 128.6 million in Q4 2015, increasing by EUR 136.9 million on annual basis.

Direct investments in the country amounted to EUR 38.9 million in Q4 2015 and, compared to Q4 2014, they dropped by 24.0% or EUR 12.3 million as a result of the reduced equity. On the other hand, inflow on the basis of debt instruments and re-invested profit increased.

Portfolio investments were negative in Q4 2015, amounting to EUR 94.4 million.

Other investments were also negative in Q4 2015, amounting to EUR 68.2 million, as opposed to the positive balance in the amount of EUR 72.6 million in the same quarter of 2014. As regards the category Other investments, currencies and deposits amounted to EUR 64,2 million, loans experienced a negative balance in the amount of EUR 29.7 million, as well as the balance on trade credit account, amounting to EUR -102.7 million.

Reserve assets amounted to EUR 2,261.8 million at the end of the fourth quarter of 2015, dropping by 7.2% compared to the same quarter of 2014.

⁷ Secondary income account includes the incomes from the sectors 1. General government and 2. Financial corporations, non-financial corporations, households and NPISHs, including 2.1/ Personal transfers (current transfers between resident and non-resident households) and 2.2/ Other current transfers.