

Republic of Macedonia  
Ministry of Finance

# QUARTERLY ECONOMIC REPORT

## Q3 2015

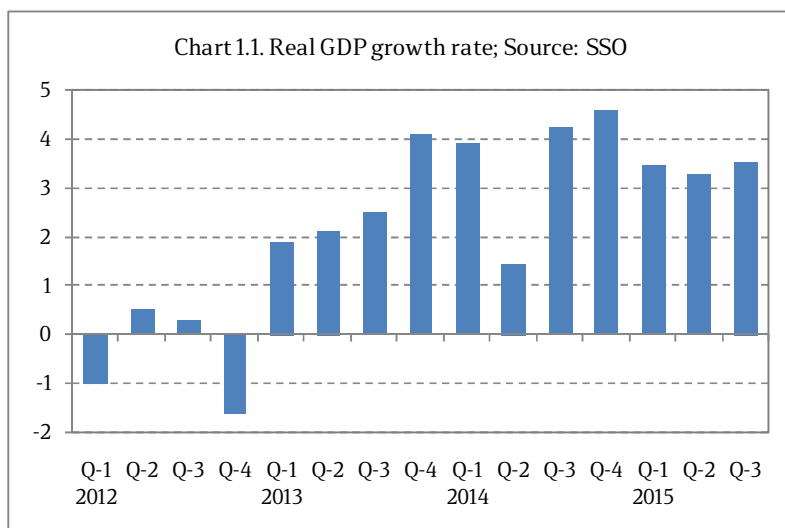
### Summary

- In Q3 2015, compared to the same quarter of 2014, **GDP** experienced 3.5% **real growth**, hence GDP growth in the first three quarters of 2015 amounted to 3.4%;
- **Number of employed persons** in Q3 2015 was higher by 3% compared to the same quarter of the previous year; **Number of unemployed persons** dropped by 9%, which resulted in reduction of **unemployment rate** to 25.5% in Q3 2015;
- **Inflation rate** in Q3 2015, measured according to CPI, dropped by 0.2%, compared to the same quarter of 2014;
- Average **gross salary** amounted to Denar 32,205 in Q3 2015, increasing by 3.3% in nominal terms, i.e. surging by 3.5% in real terms, compared to the gross salary in Q3 2014;
- Total **budget revenues** were higher by 9.2% in Q3 2015, while total **budget expenditures** surged by 12.8% compared to the same quarter of 2014;
- Total **deposit potential** of banks increased by 0.6% in Q3 2015 on quarterly basis;
- **Credit activity** of banks to non-government sector experienced 1.2% increase in Q3 2015 on quarterly basis;
- **Macedonian Stock Exchange Index MSEI -10** surged by 3.9% in September 2015 compared to June 2015; Total turnover on the stock exchange declined by 41.7% in Q3 2015 compared to the previous quarter;
- In Q3 2015, **export** grew by 1.6%, while **import** dropped by 1.0% on annual basis, whereby total **foreign trade**, expressed in euros, grew by 0.1%;

## 1. Macroeconomic Trends and Real Sector

In Q3 2015, compared to the same quarter of 2014, **GDP** experienced 3.5% real growth, hence GDP real growth in the first three quarters of 2015 amounted to 3.4%. Nominal GDP growth in Q3 2015 amounted to 9.9% on annual basis, while GDP deflator was 6.2%.

Analyzed according to the **production side of GDP**, economic growth in Q3 2015 came mainly from the construction sector, which experienced high growth of the construction activity of 29.4%. Services sector experienced 3.4% growth in



Q3 2015. Within the services, the sector Trade, transportation and catering, growing by 7%, had the biggest contribution to the economic activity growth, followed by the sectors: Professional, scientific, technical and administrative activities (15.9%), Financial and insurance activities (11.7%), Real estate activities (1.9%) and Information and communication (3.4%), while drop was seen in the sectors Public administration and defense, education and human health (3.1%) and Arts, entertainment, recreation and other service activities (13.6%). Industrial production registered 1.1% growth in Q3 2015, in conditions of growth of manufacturing (1.5%), while agricultural production experienced 4.6% decline.

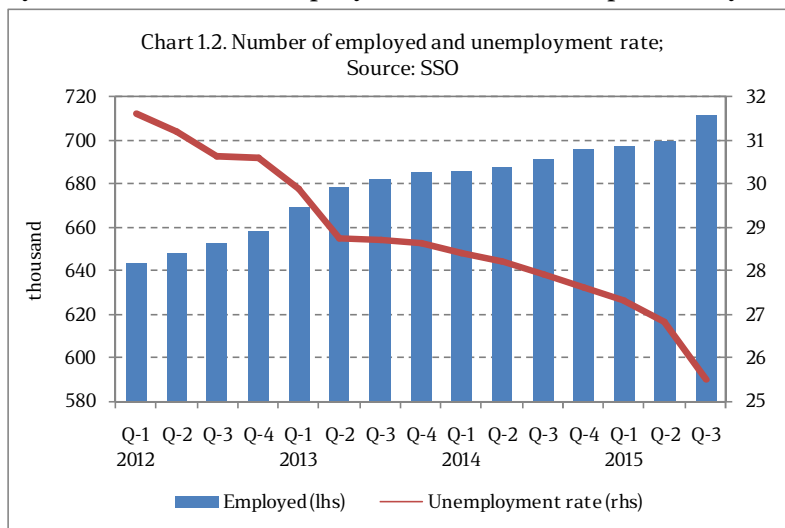
Growth of **industry** in Q3 2015, according to the monthly data on industrial production, accounted for 6.2%, being a result of the realized positive trends at: manufacture of machinery and equipment (31.5%), other mining and quarrying (22.1%), manufacture of textiles (19.9%), manufacture of fabricated metal products (19.8%), manufacture of chemicals and chemical products (15.6%), manufacture of furniture (11.9%), manufacture of other non-metallic mineral products (10.7%), manufacture of food products (9.1%), manufacture of beverages (7.9%), mining of coal and lignite (6.8%), electricity, gas, steam and air conditioning supply (5.7%), manufacture of wearing apparel (5.6%), manufacture of basic metals (3.2%), manufacture of basic pharmaceutical products (2.5%), manufacture of paper and paper products (2.4%), mining of metal ores (1.1%) and manufacture of motor vehicles (0.3%). Hence, annual positive growth was registered at 17 branches, comprising 81.7% of the industrial production.

Drop was seen at<sup>1</sup>: manufacture of leather (38.2%), repair and installation of machinery and equipment (16.7%), manufacture of wood and of products of wood and cork (7.0%), manufacture of rubber and plastic products (6.0%), manufacture of electrical equipment (5.7%), manufacture of tobacco products (3.9%), manufacture of other transport equipment (2.0%), printing and reproduction of recorded media (1.9%) and other manufacturing (20.8%).

Analyzed according to the **expenditure side of GDP**, growth in Q3 2015 was driven by final consumption, experiencing real growth of 6.3%. Growth of consumption was a result of the growth of both private consumption and public consumption. Private consumption experienced 4.3% real growth, as a result of the increase of employment, salaries, as well as higher growth of household credits, while public consumption surged by 15.4% in real terms. Export and investments had positive contribution to the GDP growth in Q3 2015. Growth of export of goods and services amounted to 3.1% 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 lower growth compared to export, amounted to 1.6% in real terms, hence net export positively contributed to the economic growth. Gross investments grew by 2.8%, as a result of the investments in construction works.

Positive trends on the **labour market** continued in Q3 2015 as well. According to the Labour Force Survey, number of employed persons was higher by 3% compared to the same quarter of the previous year. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 9% on annual basis. Number of active population declined by 0.4%.

Such trends on the labour market caused for the unemployment rate in Q3 2015 to drop to 25.5%, i.e. by 2.4 percentage points (p.p.) compared to the same quarter of the previous year, while in relation to

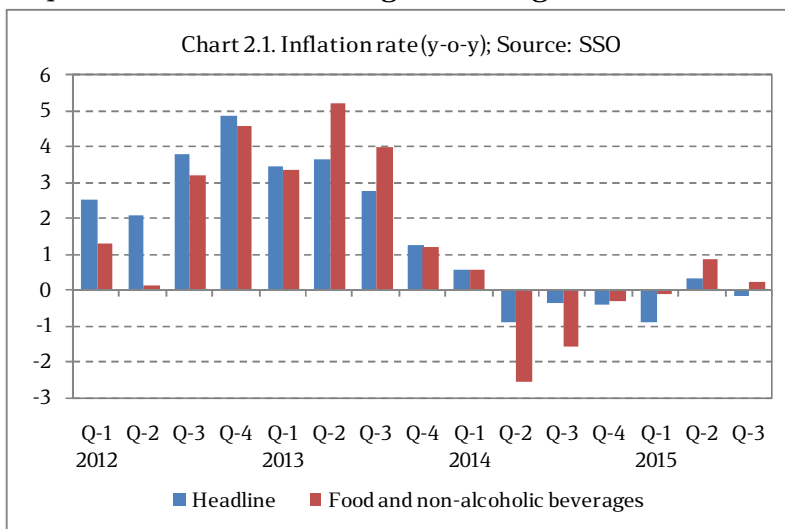


the previous quarter, it was lower by 1.3 p.p.. Employment rate in Q3 2015 amounted to 42.4%, being higher by 1.1 p.p. compared to the same quarter of the previous year. Active population accounted for 56.9% of the total working-age population, decreasing by 0.4 p.p. compared to the same quarter of the previous year.

<sup>1</sup> No production was registered in manufacture of coke and refined oil products, i.e. the index equals zero.

## 2. Prices, Costs and Productivity

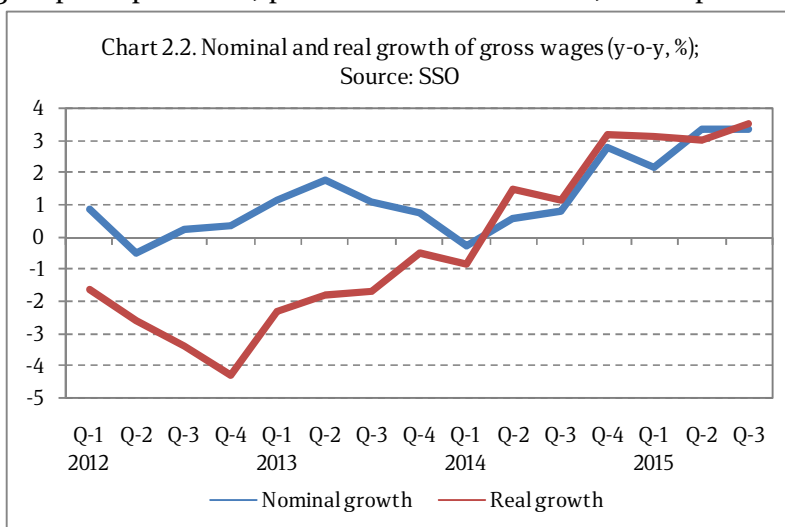
**Inflation**, measured according to the Consumer Price Index, experienced drop of 0.2% in Q3 2015 compared to the same quarter of 2014, following the 0.3% growth recorded in the previous quarter. The decrease of consumer prices was a result of the reduced prices in the categories Transport and Communication by 9.5% and 4.0%, respectively. Prices remained the same at the category Education. The highest growth of 5.3% of prices in Q3 2015 was recorded in the category Alcoholic beverages and tobacco, followed by the following categories: Furnishings, household equipment and routine maintenance of the house by 3.1%, Recreation and culture by 2.3%, Restaurants and hotels and Health by 2.0% each, Housing, water, electricity, gas and other fuels and Clothing and footwear by 0.4% each, Food and non-alcoholic beverages by 0.3% and Miscellaneous goods and services by 0.1%.



to tobacco, followed by the following categories: Furnishings, household equipment and routine maintenance of the house by 3.1%, Recreation and culture by 2.3%, Restaurants and hotels and Health by 2.0% each, Housing, water, electricity, gas and other fuels and Clothing and footwear by 0.4% each, Food and non-alcoholic beverages by 0.3% and Miscellaneous goods and services by 0.1%.

**Retail prices** in Q3 2015 decreased by 1.1% compared to the same quarter of 2014, following the 0.7% drop observed in the previous quarter. Drop of retail prices in this period was due to the decreased prices of goods by 2.1%, while prices of services surged by 0.5% on annual basis. Within Goods category, prices of industrial products dropped by 2.6%, while prices of agricultural products picked up by 2%. Reduced prices of industrial goods were a result of the lower prices of non-food industrial products by 4.9%, while as regards other groups of products, prices increased. Hence, retail price of tobacco was higher by 7.2%, price of beverages surged by 0.9%, while price of food products picked up by 0.6%.

Average **net salary** in Q3 2015 amounted to Denar 21,922, being higher by 3.0% in nominal terms compared to net salary in Q3 2014. Net salary grew by 3.2% in real terms. Average **gross salary** amounted to Denar



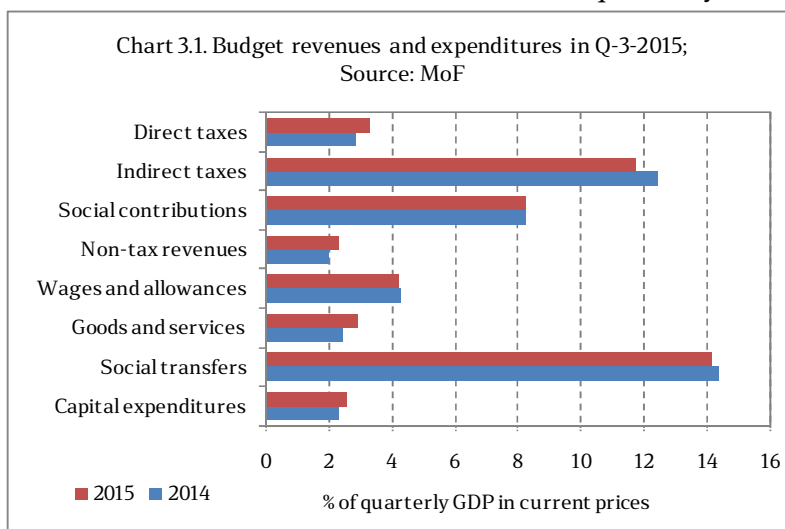
32,205, increasing by 3.3% in nominal terms, i.e. surging by 3.5% in real terms, compared to the gross salary in Q3 2014.

**Labour productivity** in Q3 2015 increased by 0.5% as a result of the higher growth of economic activity than the increase of the number of employed in the economy, by which the trend of positive growth of productivity continues.

### 3. Fiscal Sector

Total budget revenues experienced higher performance by 9.2% in the third quarter of 2015, compared to same quarter of 2014, accompanied by 12.8% higher budget expenditures. **Budget deficit** amounted to Denar 4,353 million in Q3 2015 or 3.0% of GDP realized in this quarter (central budget deficit amounted to Denar 3,852 million, i.e. 2.6% of quarterly GDP).

Share of total **budget revenues** accounted for 26.8% of the realized quarterly GDP, which increased by 9.2% compared to the same quarter of 2014, mostly due to the higher performance of tax revenues by 7.6%, higher performance of non-tax revenues by 30.0%, as well as higher collection of contributions by 9.7%. Thereby, as for tax revenues, higher collection was recorded for excise duties, personal income tax, profit tax, value added tax and customs duties, while revenues on basis of other taxes experienced lower collection.



VAT revenues predominated, accounting for 48.8% of the total tax revenues, surging by 1.0% in Q3 2015, compared to the same quarter of 2014. As for VAT structure, the share of VAT revenues on the basis of import is the largest, followed by VAT collected on the basis of sales in the country.

Excise revenues were higher by 7.0% compared to the same quarter of 2014. As for direct taxes, collection of revenues on the basis of personal income tax increased by 0.2%, while on the basis of profit tax, revenues experienced 2.2-fold increase (115.0%) 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 0.4 p.p. on annual basis (3.3% of quarterly GDP), while as regards indirect taxes, their share in GDP decreased by 0.7 p.p., i.e. accounting for 11.8% of GDP in the third quarter.

Collection of indirect taxes in Q3 2015 surged by 3.6%, while direct taxes collection picked up by 27.1% in relation to Q3 2014.

Collection of social contributions was higher by 9.7%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 9.8%, health insurance contributions by 9.5%, and employment contributions by 9.1%. Collection of non-tax revenues, accounting for 2.3% of the quarterly GDP, was higher by 30.0% compared to the same quarter of 2014.

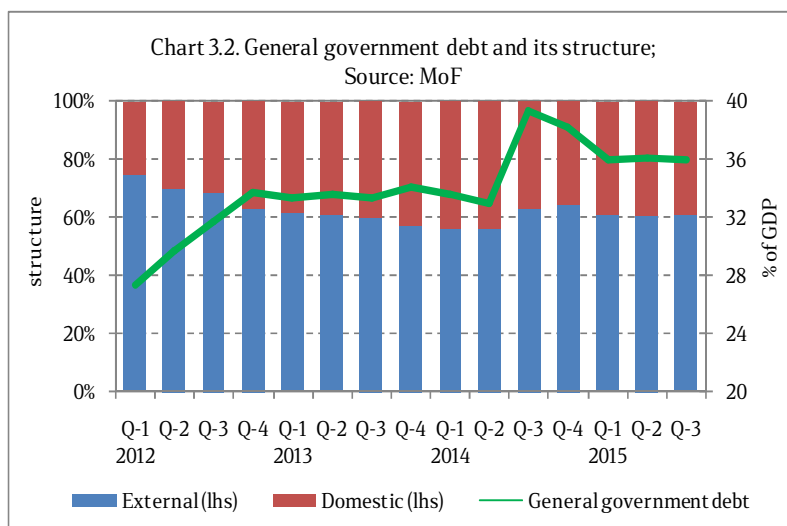
Capital revenues performance in Q3 2015 was lower by 4.6% on annual basis (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends). Budget revenue on the basis of grants dropped by 20.6% compared to Q3 2014.

In Q3 2015, execution of total **budget expenditures**, accounting for 29.7% in the quarterly GDP, was higher by 12.8% compared to the same quarter of 2014. Current expenditures, accounting for 27.2% of the quarterly GDP, participated with 91.4% in the total expenditures and experienced 12.2% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 31.1%, while expenditures related to salaries and allowances increased by 9.3% compared to the same quarter last year. Transfers, accounting for 61.7% in the total expenditures, were higher by 6.2% compared to the same quarter of 2014. Social transfers surged by 8.4%, accounting for 47.7% in the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most of the social transfers, surged by 1.9%, accounting for 28.6% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 13.3% of the total expenditures, i.e. it dropped by 2.5% compared to the same quarter of 2014. Block grants to local government units grew by 10.2%.

Interest-related expenditures increased by 101.0%, whereby domestic debt interest-related expenditures surged by 5.0% and expenditures related to interest on foreign debt surged by 187.7% compared to Q3 2014.

Execution of capital expenditures, accounting for 2.6% of the quarterly GDP, compared to the same quarter of 2014, increased by 19.1%, i.e. they accounted for 8.6% of the total expenditures.

Total **government debt** at the end of Q3 2015 accounted for 36.0% of GDP, decreasing by 0.1 p.p. compared to Q2 2015. Share of the external debt in the total debt increased by 0.5 p.p. compared to Q2 2015, accounting for 60.9% of total government debt. Share of domestic debt dropped to 39.1% of the total government debt.



## 4. Monetary and Financial Trends

In the third quarter of 2015, NBRM kept 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 September 2015 and, compared to the previous quarter, it remained unchanged.

**Primary money**<sup>2</sup> in Q3 2015 increased by 4.5% on quarterly basis (1.2% growth was recorded in the previous quarter) in conditions of increase of total liquidity of banks by 7.0% and increase of currency in circulation by 2.0%. Compared to Q3 2014, primary money surged by 7.4% (compared to 5.8% growth in Q2 2015), as a result of the increase of currency in circulation by 11.7% and total liquidity of banks by 3.6%.

During the third quarter of 2015, the narrowest money supply **M1** picked up by 1.6% compared to Q2 2015. **Monetary aggregate M2** surged by 0.5%, while the broadest **monetary aggregate M4** increased by 0.8%.

**Total deposit potential**<sup>3</sup> of banks in Q3 2015 increased by 0.6% on quarterly basis, compared to the previous quarter when the deposit potential grew by 0.8%. Sector analysis shows that deposits of enterprises decreased by 2.9%, while deposits of households grew by 0.7%. From currency point of view, Denar and foreign currency deposits, compared to the previous quarter, surged by 0.9% and 0.3% respectively. Level of euroization dropped by 0.1 p.p. compared to the previous quarter, i.e. to 41.0%, measured through the share of foreign currency deposits in the total deposit potential.

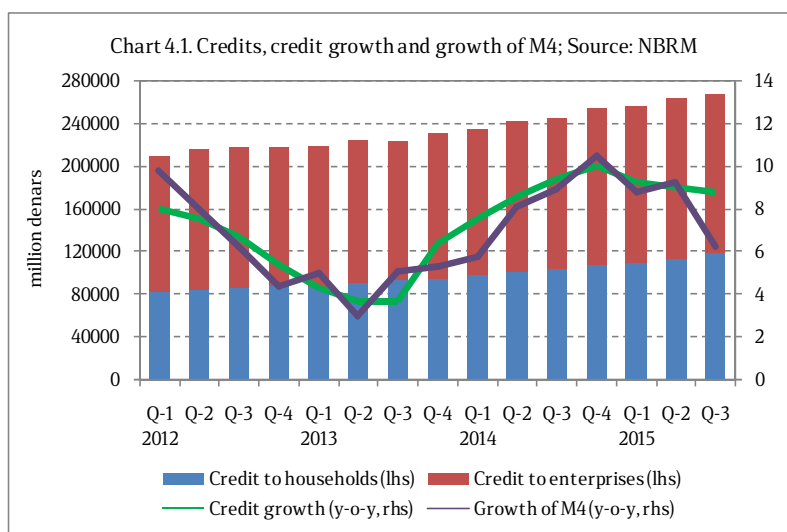
As regards maturity, share of long-term deposits in total deposit potential in Q3 2015 increased compared to the previous quarter, reaching 27.6% (accounting for 27.3% in Q2

<sup>2</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).

<sup>3</sup> Deposits also include calculated interest.

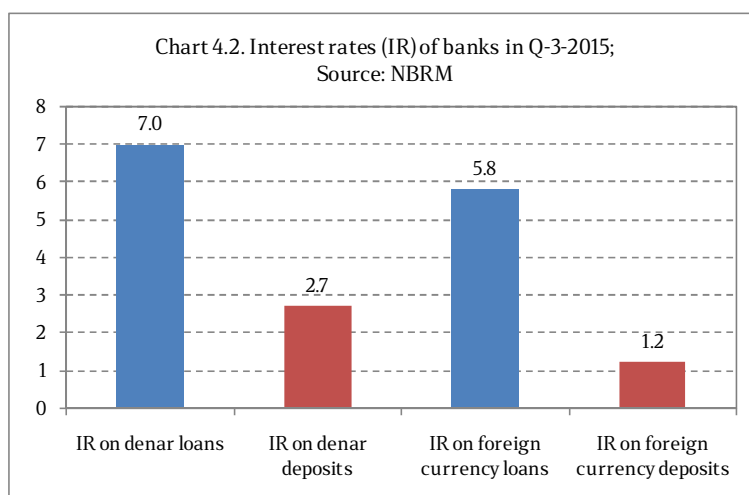
2015), as a result of the increase of long-term deposits by 1.6% in relation to the previous quarter. Short-term deposits dropped by 0.4% in the analyzed period.

**Credit activity** of banks to non-government sector in Q3 2015 experienced growth of 1.2% (compared to 2.7% growth in the previous quarter), in conditions of growth of credits to households by 3.3% and growth of credits to private enterprises by 0.2% compared to the previous quarter. From currency point of view, Denar credits



grew by 2.0% in Q3 2015, while foreign currency credits registered 1.6% drop on quarterly basis. From maturity point of view, long-term credits in Q3 2015 experienced 1.9% growth compared to the previous quarter, while short-term credits were lower by 1.7%.

In Q3 2015, **interest rate**<sup>4</sup> on Denar credits amounted to 7.0%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency credits also dropped by 0.1 p.p. in Q3 2015, accounting for 5.8%. In Q3 2015, interest rate on Denar deposits amounted to 2.7%, decreasing by 0.3 p.p. compared to the previous quarter. Interest rate on foreign currency deposits dropped by 0.1 p.p., accounting for 1.2%.



In Q3 2015, interest rate on newly granted Denar credits amounted to 6.5%, 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 1.8% and 1.3% respectively.

As regards the **capital market**, total turnover on the Stock Exchange experienced 41.7% drop in Q3 2015 compared to the previous quarter, being a result of the reduced turnover realized through classical trading by 44.4%. As for the turnover realized from block

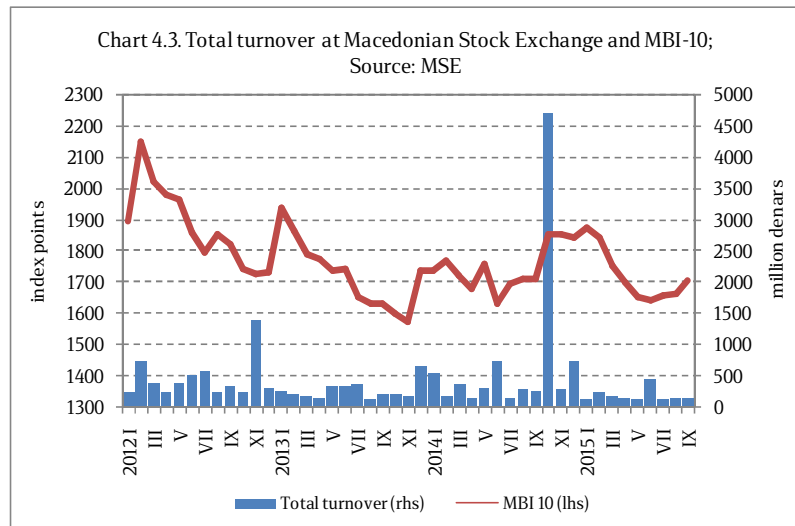
<sup>4</sup> Starting January 2015, NBRM has changed the methodology for calculating the interest rates, as a result of the full adjustment to the European standards.



transactions, it increased by 11.3% on quarterly basis. In July 2015, public offer of stock market auctions amounted to around Denar 2.5 million.

Compared to the same quarter of the previous year, total turnover dropped by 39.2% in conditions of reduced turnover through traditional trading and turnover realized through block transactions by 33.6% and 62.4% respectively.

Macedonian Stock Exchange Index MSEI -10, as aggregate indicator of stock market trends at the end of the third quarter amounted to 1,704.46 index points, increasing by 3.9% compared to June 2015, while compared to September 2014, the index dropped by 0.5%.



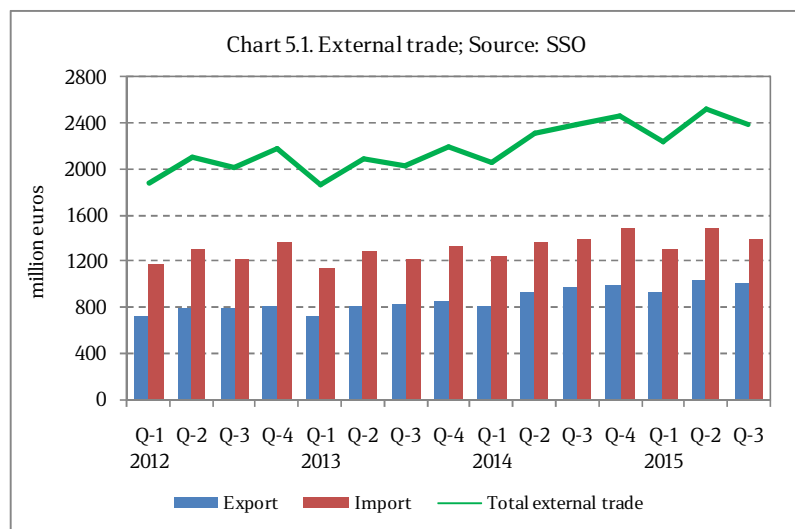
## 5. External Sector

### 5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,386.5 million in Q3 2015, increasing by 0.1% compared to the same quarter of 2014.

In Q3 2013, **export** of goods amounted to EUR 998.8 million, whereby compared to the same quarter of the previous year, it surged by 1.6%, while compared to the previous quarter, it dropped by 3.5%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q3 2015, compared to the same quarter of 2014, were registered at the following:



- o machinery and transport equipment, increasing by 21.4% (within which export grew at the following categories: industrial machinery and spare parts by 50.9% or EUR 43.8 million and road vehicles by 12.9% or EUR 2.5 million);

- chemical products, increasing by 13.4% (chemical materials and products by 16.1% or EUR 26.0 million);

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

- miscellaneous manufactured articles, dropping by 12.5% (clothing by 15.4% or EUR 19.8 million and footwear by 24.6% or EUR 4.7 million);
- manufactured goods classified by material, dropping by 9.4% (iron and steel by 12.4% or EUR 17.6 million);
- mineral fuels and lubricants, decreasing by 43.2% (oil and oil products decreased by 43.5% or EUR 7.6 million and electricity by 60.4% or EUR 1.0 million);
- crude materials, except fuels, dropping by 12.9% (metal ore and metal scrap by 13.0% or EUR 5.0 million);
- food products, declining by 0.5% (fruit and vegetables by 4.2% or EUR 2.2 million);
- beverages and tobacco, decreasing by 5.6% (beverages by 14.9% or EUR 1.9 million and tobacco and tobacco products by 2.2% or EUR 0.8 million).

In Q3 2015, observed by **economic purpose**, following products were the most exported: goods for industrial procurement (46.9%), followed by consumer goods (17.1%), products for investments without transport equipment (16.5%), food and beverages (10.0%), transport equipment (8.4%) and fuels and lubricants (1.1%).

**Import of goods** in Q3 2015 amounted to EUR 1,387.7 million, dropping by 1.0% compared to Q3 2014, while in relation to the previous quarter, it decreased by 6.3%.

Analyzed by **SITC sectors**, the highest increase of import in Q3 2015, compared to Q3 2014, was seen at:

- manufactured goods classified by material, surging by 0.7% (whereby export grew at the category Items from non-metal minerals by 51.7% or EUR 24.6 million);
- machinery and transport equipment, surging by 8.4% (electrical machinery, devices and spare parts by 14.0% or EUR 10.8 million; industrial machinery and spare parts by 19.7% or EUR 7.3 million and road vehicles by 8.6% or EUR 5.2 million);
- chemical products, increasing by 3.0% (chemical materials and products by 29.8% or EUR 6.9 million);
- food products, increasing by 6.9% (meat and meat products by 9.1% or EUR 2.8 million and cereals and cereal preparations by 15.5% or EUR 2.8 million);
- miscellaneous manufactured articles, surging by 7.5% (footwear by 15.0% or EUR 1.2 million and prefabricated buildings and sanitary plumbing by 26.4% or EUR 1.2 million);

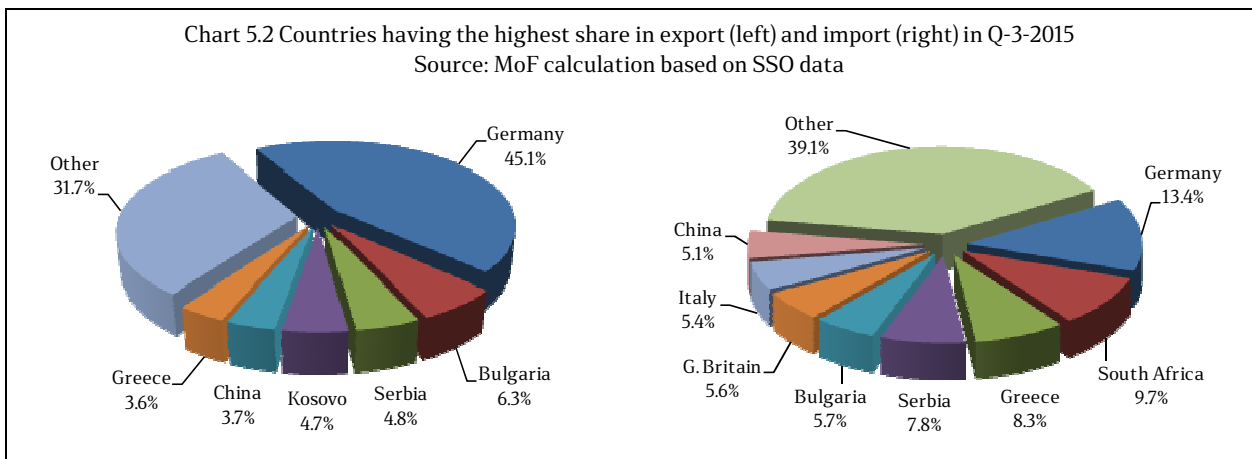
- o beverages and tobacco, increasing by 14.3% (beverages by 15.8% or EUR 1.3 million).

Highest decline of import was seen at the following:

- o mineral fuels and lubricants, decreasing by 25.8% (oil and oil products by 25.8% or EUR 39.5 million);
- o crude materials, except fuels, dropping by 15.0% (metal ore and metal scrap by 28.1% or EUR 11.0 million).

Observed by **economic purpose**, following products accounted for the most in the import in Q3 2015: goods for industrial procurement (48.5%), followed by products for investments without transport equipment (12.6%), fuels and lubricants (11.0%), food and beverages (10.8%), consumer goods (10.6%) and transport equipment (6.3%).

In Q3 2015, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q3 2014, decreased by 42.5%, whereby share of trade with the EU in the total foreign trade decreased by 0.9 p.p. compared to the third quarter of 2014, accounting for 67.2%. Thereby, export of goods accounted for 76.0%, while share of import of goods was 60.7%.



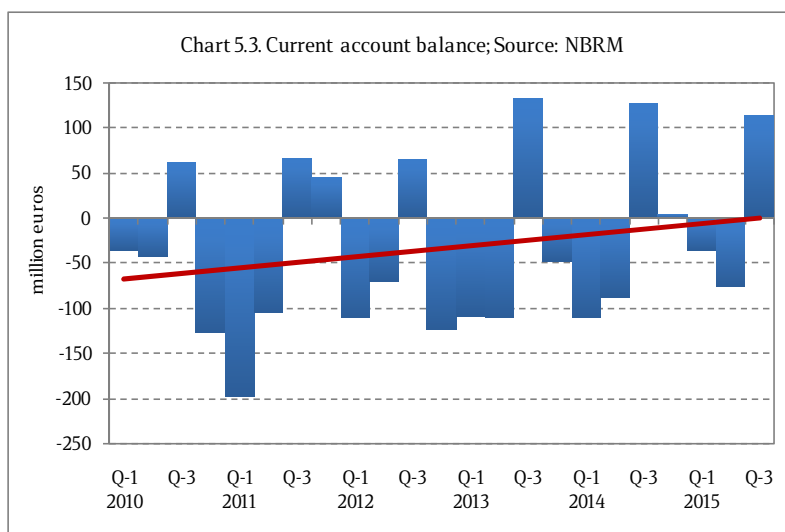
As a result of the structural changes in the trade with abroad, in the third quarter of 2015, 89.7% of country's trade deficit was a result of the trade deficit with South Africa, Greece, Great Britain and Serbia, while the rest of the deficit was a result of the trade with: Turkey, Italy, China, Romania, Austria, etc. Surplus was realized in the trade with Germany, Kosovo, Belgium, Bosnia and Herzegovina and Spain.

## 5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, in the third quarter of 2015, surplus in the amount of EUR 114.3 million was recorded on the

balance of payments **current account**, accounting for 4.8% of GDP<sup>5</sup> and, compared to the same quarter of 2014, it narrowed by 1.1 p.p..

Analyzed on annual basis, current account surplus in Q3 2015 is reduced by 10.3%, being a result of the reduced surplus on the services account by 17.8, lowered surplus on the secondary income account by 1.2%, increased deficit on the primary income account by 22.0%, while narrowing of the trade account deficit by 6.5% acted in opposite direction.



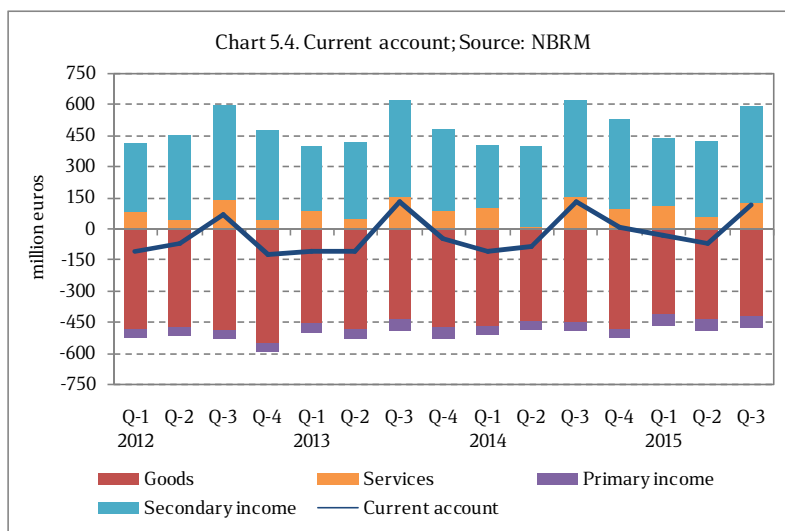
In Q3 2015, in conditions of greater absolute increase of export compared to import of goods, **trade deficit** narrowed by EUR 29.6 million on annual basis, accounting for 17.7% of quarterly GDP.

In conditions of greater absolute increase of import compared to export of services, in Q3 2015, surplus on **services account** decreased by EUR 27.7 million on annual basis.

**Trade openness** of the Republic of Macedonia in the third quarter of 2015, compared to the same quarter of the previous year, decreased by 6.9 p.p., accounting for 108.1% of quarterly GDP.

**Primary income** account experienced EUR 53.1 million deficit in Q3 2015, deepening by EUR 9.6 million on annual basis.

Balance on the **secondary income** account in Q3 2015 amount to EUR 462.8 million, dropping by EUR 5.5 million on annual basis. Such drop was a result of the reduction of the income of the “general government sector” by EUR 12.4 million, accounting for 0.3% of the secondary income account,



<sup>5</sup> Calculation also included GDP for the third quarter of 2015, announced by the State Statistics Office.

while income of the "financial corporations, non-financial corporations, households, and NPISHs"<sup>6</sup> increased by EUR 6.9 million, accounting for 99.7% of the secondary income account.

Balance on the **capital account** was negative in Q3 2015, amounting to EUR 0.1 million, and, compared to the same quarter of the previous year, it dropped by EUR 1.8 million, mostly due to the reduced outflow of capital transfers.

**Net borrowing** in the country in Q3 2015 amounted to EUR 114.3 million, reducing by 9.0% on annual basis.

**Direct investments** in the country amounted to EUR 10.4 million in Q3 2015, reducing by 72.1% or by EUR 26.9 million on annual basis, due to the net assets on the basis of debt instruments which, unlike the same quarter of the previous year, were negative, amounting to EUR 35.2 million in Q3 2015. Increased inflows on the basis of equity (4.5-fold increase or by EUR 43.6 million), as well as decreased outflows on the basis of reinvested profit (decline by 75.3% or by EUR 31.9 million), acted in opposite direction.

**Portfolio investments** amounted to EUR 9.9 million in Q3 2015, as opposed to the negative value in the amount of EUR 496.2 million in the same quarter of the previous year.

**Other investments** amounted to EUR 140.4 million in Q3 2015, being higher by 18.0% compared to Q3 2014. As regards the category Other Investments, currencies and deposits amounted to EUR 88.1 million, loans experienced negative balance in the amount of EUR 41.4 million, while balance on trade credit and advances account amounted to EUR 93.8 million.

**Reserve assets** amounted to EUR 2187.4 million at the end of the third quarter of 2015, dropping by 10.2% compared to the same quarter of 2014.

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<sup>6</sup> 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.