



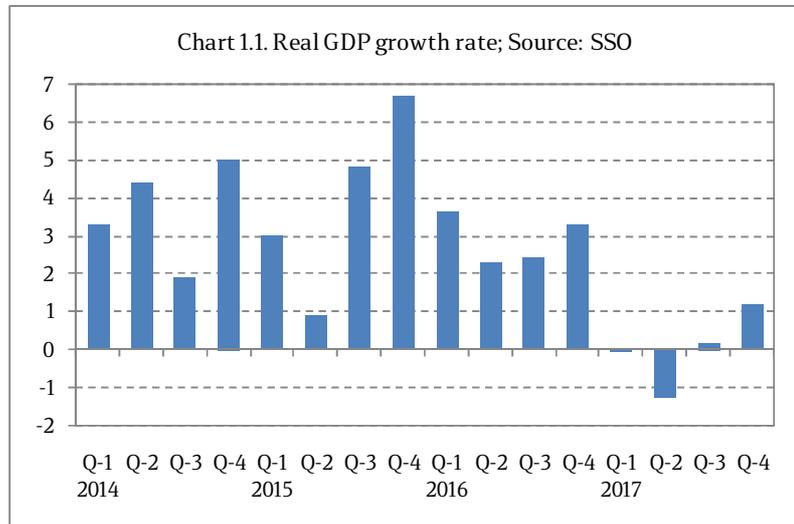
Summary

- **Gross Domestic Product** in Q4 2017 compared to the same quarter in 2016 increased by 1.2% in real terms;
- Number of **employed persons** in Q4 2017 was higher by 1.9% compared to the same quarter in 2016. Number of **unemployed persons** dropped by 4.9%, which resulted in reduction of **unemployment rate** to 21.9% in Q4 2017;
- **Inflation rate** was 2.2% in Q4 2017 on annual basis, measured according to CPI.
- Average **gross wage** amounted to Denar 34,454 in Q4 2017, increasing by 3.1% in nominal terms, i.e. surging by 0.9% in real terms, compared to the gross wage in Q4 2016;
- Total **budget revenues** were higher by 11.9% in Q4 2017, while total **budget expenditures** surged by 8.1% compared to the same quarter of 2016;
- Total **deposit potential** of banks increased by 5.7% in Q4 2017 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q4 2017 grew by 4.1% on quarterly basis;
- Macedonian Stock Exchange Index **MBI-10** declined by 5.6% in December 2017 compared to September 2017. Total turnover on the stock exchange grew by 30.8% in Q4 2017 compared to the previous quarter;
- In Q4 2017, increase of both **export of goods** by 16.1% and **import of goods** by 13.2% was registered on annual basis, whereby total **foreign trade** expressed in euros, surged by 14.4%.

1. Macroeconomic Trends and Real Sector

Gross Domestic Product in Q4 2017, compared to the same quarter in 2016, grew by 1.2% in real terms, following the 0.2% growth in the third quarter, by which 0.7% drop of economic activity in the first half of the year was fully neutralized. Nominal GDP growth in Q4 2017 amounted to 4.4% on annual basis, while GDP deflator accounted for 3.2%.

Analyzed by sectors, economic growth in Q4 2017 was a result of the positive performance in the services, industrial and agricultural sectors, while construction sector had negative contribution to growth.

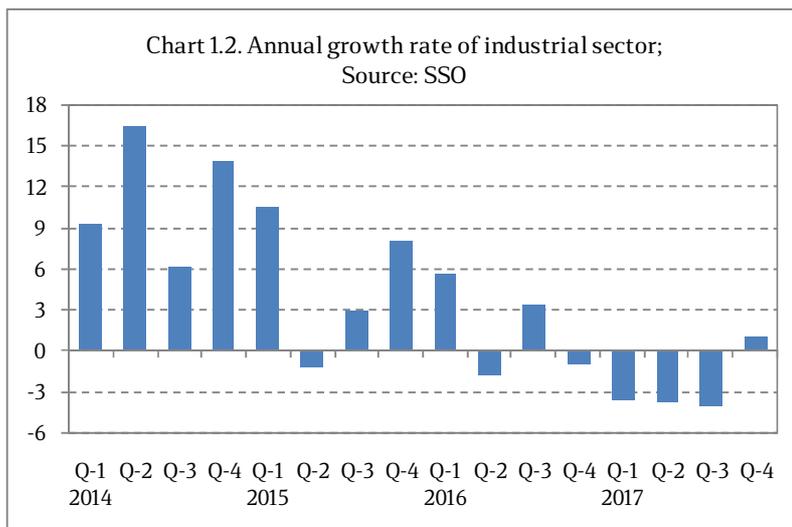


Growth in the services sector amounted to 3.3%, being a result of the increased activity in Trade, transportation and catering by 15.6%, while drop of activity was recorded in all other sectors: Arts, entertainment, recreation and other services by 5.6%, Professional, scientific, technical and administrative activities by 4.6%, Public administration and defense, education and health by 2.7%, Financial and insurance activities by 1.2%, Real estate activities by 0.6% and Information and communications by 0.3%.

Growth in the agricultural sector continued with the similar intensity, as in the previous quarter, amounting to 4.0%. Industrial sector picked up by 1.1%, as a result of the growth in Manufacturing by 2.3%. In accordance with the monthly data on **industrial production**, favourable trends at Manufacturing in Q4 2017 were seen at: manufacture of electrical equipment (54.2%), manufacture of other transport equipment (41.4%), manufacture of fabricated metal products (36.3%), manufacture of machinery and equipment (23.6%), manufacture of furniture (20.3%), manufacture of motor vehicles (10.5%), manufacture of leather (9.4%), manufacture of pharmaceutical products and preparations (8.4%), manufacture of rubber and plastic products (6.6%), manufacture of chemicals and chemical products (6.3%), manufacture of other non-metallic mineral products (4.6%) and manufacture of textile (2.9%). Hence, annual positive growth was registered at 12 branches, comprising 43.6% of the industrial production. On the other hand, drop was observed at the following: manufacture of wood and of products of wood and cork (44.4%), manufacture of tobacco products (40.1%), manufacture of base metals (22.6%), manufacture of beverages (18.1%), repair and installation of machinery and equipment (16.3%), manufacture of wearing apparel (12.4%), printing and reproduction of recorded media (5.8%), manufacture of food products (3.6%), manufacture of computer,

electronic and optical products (2.7%), manufacture of paper and paper products (2.3%) and other manufacturing (30.3%).

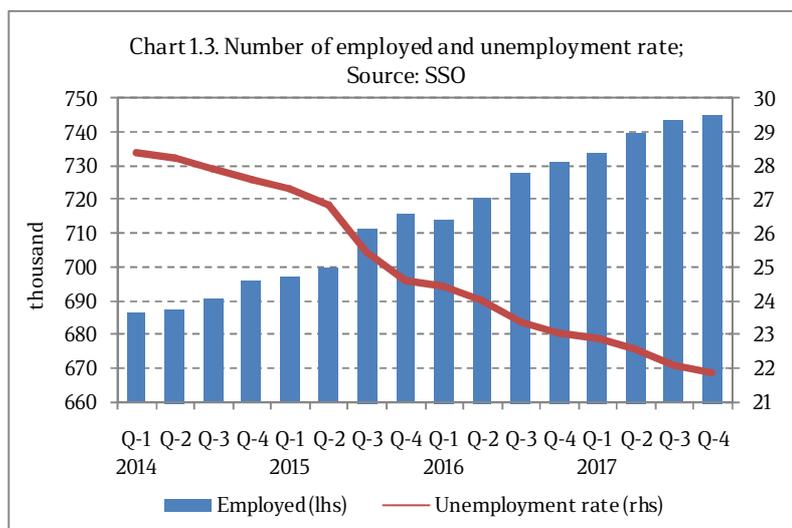
Construction activity in Q4 dropped by 19.5% in real terms, in conditions of drop of the value of performed construction works, as regards both civil engineering structures and buildings.



Analyzed according to the **expenditure side of GDP**, economic growth in Q4 2017 was driven by growth of both export and private consumption. Growth of export of goods and services accounted for 12.1% in real terms, mainly as a result of the growth of export by the production capacities in the free economic zones, in conditions of favourable trends of the economic activity in the EU. Import of goods and services surged by 9.0% in real terms.

Domestic demand, unlike the previous quarter, in Q4 2017 had positive contribution to the growth of economic activity, as a result of the increase of consumption by 1.7%, in conditions of significant slowdown of the drop of gross investments. Increased consumption was due to the growth of private consumption by 2.7%, mostly as a result of the growth of the household disposable income amid increase of both employment and wages in the economy, also supported by the crediting to households. Public consumption declined by 2.1% in real terms amid decreased public expenditures for goods and services. Gross investments were lower by 1.0% in real terms, being a result of the reduced construction activity (in line with the data on GDP by sectors), as well as the increased execution of budget capital expenditures in Q4 2017.

Positive trends on the **labour market** continued in Q4 2017 as well.



According to the Labour Force Survey, number of employed persons was higher by 1.9% compared to the same quarter in 2016, being accompanied by the decrease of the number of unemployed persons by 4.9% on annual basis. The number of active population grew by 0.4%.

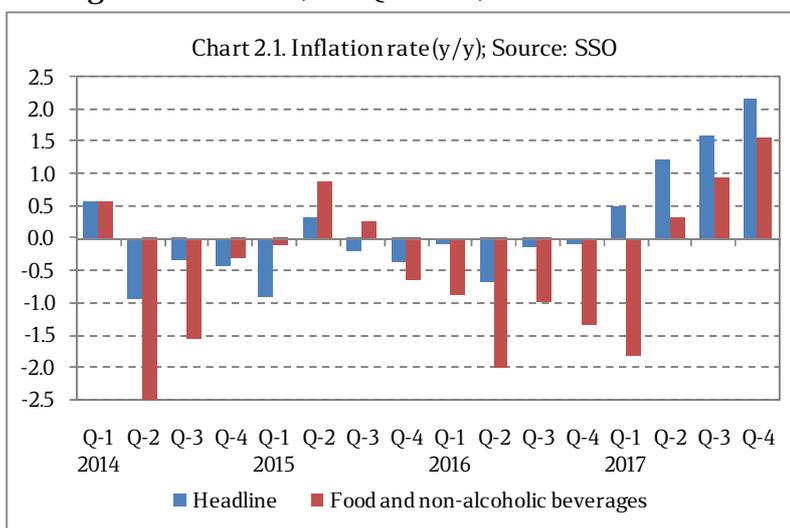
Such trends on the labour market caused for the unemployment rate in Q4 2017 to reduce to 21.9%, i.e. by 1.2 p.p. compared to the same quarter in 2016, while in relation to the previous quarter, it was lower by 0.2 p.p.. Employment rate in Q4 2017 amounted to 44.3%, being higher by 0.8 p.p. compared to the same quarter in 2016. Active population accounted for 56.8% of total working age population, being higher by 0.2 p.p. on annual basis.

2. Prices, Costs and Productivity

Inflation rate, measured according to CPI index, in Q4 2017, amounted to 2.2% on annual basis, following the 1.6% growth registered in Q3 2017. Growth of consumer prices in Q4 2017 was a result of the higher prices in the following categories:

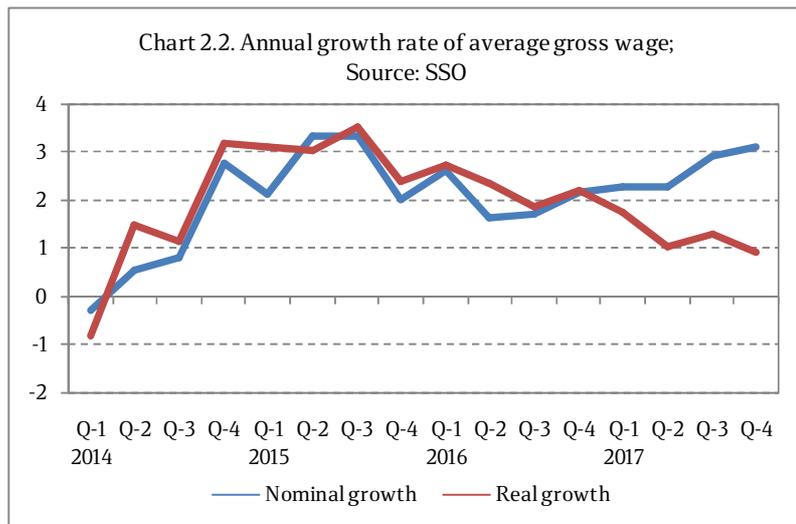
Communications by 9.5%, Transport by 7.9%, Alcoholic beverages, tobacco and narcotics by 6.8%, Restaurants and hotels by 4.1%, Recreation and culture

by 2.6%, Food and non-alcoholic beverages by 1.6%, Clothing and footwear by 0.2% and Housing, water, electricity, gas and other fuels by 0.1%, while prices in the category Furnishings, household equipment and routine maintenance of the house remained unchanged. Price decline in Q4 2017 was recorded at the following categories: Health and Education by 0.2% each and Miscellaneous goods and services by 0.7%.



Retail prices in Q4 2017, compared to the same quarter in 2016, surged by 4.6% following their 3.7% growth in Q3 2017. Prices of goods in Q4 2017 increased by 2.3%, while prices of services picked up by 8.3% compared to the same quarter in 2016. Within Goods category, prices of agricultural products surged by 5.0%, while prices of industrial products picked up by 2.0%. Increase of prices of industrial products were a result of the higher prices of: tobacco by 9.4%, food industrial products by 2.3% and non- food industrial products by 1.5% while retail price of beverages decreased by 0.1%.

Average monthly **net wage** in Q4 2017 amounted to Denar 23,468, being higher by 3.1% in nominal terms compared to the same quarter in 2016. Net wage increased by 0.9% in real terms. Average **gross wage** amounted to Denar 34,454, increasing by 3.1% in nominal terms, i.e. surging by 0.9% in real terms.



Labour productivity in Q4

2017 decreased by 0.7%, following the 1.9% drop in the previous quarter, as a result of the higher growth of employment than the production growth.

3. Fiscal Sector

3.1. Budget revenues according to the economic classification

In Q4 2017, the share of total budget revenues accounted for 29.4% of the realized quarterly GDP, being higher by 11.9% compared to the same quarter in 2016, due to the higher collection of tax revenues and social contributions by 7.1%, while the collection of non-tax revenues was lower by 1.6%. Thereby, as for tax revenues, higher collection was recorded at value added tax, excise duties, personal income tax, as well as revenues on the basis of customs duties, while revenues on the basis of profit tax and other taxes experienced lower collection.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 46.5% of total tax revenues in Q4 2017, being higher by 12.0% compared to the same quarter of the previous year. As for VAT structure, VAT share was the biggest when importing, followed by VAT collected on the basis of sales in the country. Excise revenues were higher by 8.5% compared to the same quarter of 2016, while collection of customs duties grew by 13.5%.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 6.3%, while profit tax revenues declined by 14.2% compared to the same quarter of the previous year, as a result of the lower additional payments on the basis of tax balances.

Collection of indirect taxes in Q4 2017 was higher by 11.0%, while collection of direct taxes was lower by 1.4% compared to Q4 2016. From the point of view of structural share in GDP, the share of revenues on the basis of direct taxes decreased by 0.2 p.p., i.e. from

4.2% of quarterly GDP in Q4 2016 to 4.0% in Q4 2017, while the share of revenues on the basis of indirect taxes was higher by 0.7 p.p., accounting for 11.9% of GDP in Q4 2016.

Collection of **social contributions** was higher by 7.1%, whereby higher collection was recorded at all contributions, i.e. pension and disability

insurance by 7.5%, employment contributions by 6.4% and health insurance contributions by 6.2%.

Collection of **non-tax revenues**, accounting for 2.1% of the quarterly GDP, was lower by 1.6% in Q4 2017 compared to the same quarter of 2016.

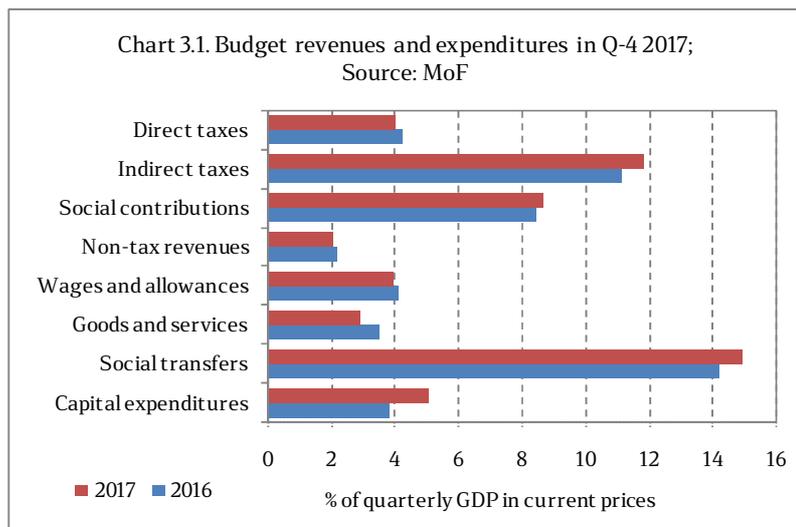
Capital revenues, including revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends, were lower by 23.4% on annual basis in Q4 2017. Revenues on the basis of foreign donations picked up by 215.2%.

3.2. Revenues by Budget Users¹

Budget revenues and inflows in the Central Budget are performed mainly through the **Ministry of Finance - Functions of the State**, amounting to Denar 38.8 billion, i.e. 93.5% of revenues and inflows of all budget users in Q4 2017, accounting for 25.5% of the annual projections of this budget user. Within the Ministry of Finance - Functions of the State, tax revenues accounted for the most, i.e. 67.5% of total revenues and inflows to this budget user, whereby their collection reached 25.2% of the annual projections in the fourth quarter. Inflows on the basis of domestic borrowing in this period amounted to Denar 6.9 billion, accounting for 17.7% of the total amount of this budget user.

Ministry of Education and Science has collected revenues in the amount of Denar 672 million, i.e. 1.6% of the revenues and inflows of all budget users, most of which, i.e. 82.8% of the total amount are non-tax revenues, mainly on the basis of fees and charges.

Next budget user having the largest revenues and inflows is the **Ministry of Transport and Communications**, the total revenues and inflows of which amount to Denar 342 million, i.e. 0.8% of the revenues and inflows of all budget users, which are almost the revenues on the basis of loans, i.e. realized on the basis of foreign borrowing.



¹ Data also include the inflows and they are not consolidated.

Ministry of Health, in Q4 2017, collected revenues in the amount of Denar 288 million or 0.7% of the revenues and inflows of all budget users. Most of it, i.e. 52.0% of the total amount, is on the basis of tax revenues.

The remaining budget users collectively generated revenues, accounting for 3.4% of total revenues and inflows. Detailed data on each budget user are shown in the statistical annex attached to the report.

As for **budget funds**, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 17.4 billion in Q4 2017, which accounts for 26.8% of the Fund's annual projections.

3.3. Budget expenditures according to the economic classification

In Q4 2017, total budget expenditures, accounting for 32.9% of the quarterly GDP, were higher by 8.1% compared to the same quarter of 2016.

Current expenditures, accounting for 27.9% of the quarterly GDP, participated with 84.7% in the total expenditures and experienced 4.2% higher execution on annual basis. As for current expenditures, the expenditures for goods and services were lower by 13.8%, while expenditures related to wages and allowances were executed in almost the same amount compared to the same quarter last year.

Funds for transfers, which participated with 60.2% in the total expenditures, were higher by 8.8% on annual basis. Social transfers surged by 9.6%, accounting for 45.4% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 6.4%, accounting for 27.1% of the total expenditures. The category other transfers, which includes transfers to local government units, accounted for 13.7% in the total expenditures, i.e. they surged by 7.3% compared to the fourth quarter in 2016. Block and earmarked grants to local government units surged by 0.8%, while subsidies and transfers were higher by 14.7%.

Interest-related expenditures decreased by 1.3% on annual basis, whereby domestic debt interest-related expenditures surged by 6.7% and expenditures related to interest on foreign debt dropped by 6.2%.

Capital expenditures, which account for 5.0% of the quarterly GDP, compared to the same quarter in 2016, were higher by 36.6%, i.e. they participated with 15.3% in the total expenditures.

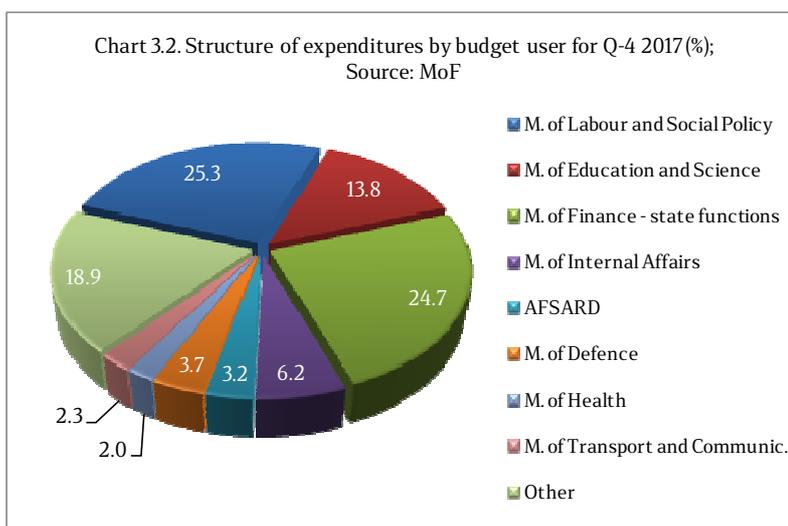
3.4. Expenditures by Budget Users²

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

² Data also include the outflows and they are not consolidated.

Ministry of Labour and Social Policy, in Q4 2017, executed expenditures in the amount of Denar 10.9 billion or 25.7% of the total budget for 2017. Thereby, most of the expenditures (73.7%) in this period were intended for current transfers to extra-budgetary funds, for which Denar 8.0 billion was spent or 25.8% of the funds intended for 2017. The second highest expenditure category was social benefits, participating with 18.5% in the total expenditures. As for this purpose, 25.0% (Denar 2.0 billion) of the expenditures projected for 2017 were executed.

Ministry of Education and Science, in Q4 2017, realized budget funds in the amount of Denar 5.9 billion, i.e. 24.9% of the total budget for 2017. Current transfers to local government units account for most of the expenditures (54.8%), for which Denar 3.3 billion was spent or 25.0% of total projected funds. Expenditures related to goods and services were the second highest expenditure category, accounting for 18.5% of the total expenditures, with funds in the amount of Denar 1.1 billion being executed therefore, i.e. 25.2% of total projected ones. As for wages and allowances, accounting for 13.8% of the total expenditures of this budget user, Denar 818 million was realized, accounting for 24.4% of the total funds projected for the year.



In Q4 2017, Denar 10.6 billion was spent through the organizational code **Ministry of Finance – Functions of the State**³, accounting for 26.8% of its annual budget. Capital expenditures accounted for the most in the total expenditures with 39.1%, Denar 4.1 billion being spent therefore, i.e. 47.7% of the funds projected for this purpose. Repayment of principal accounted for 30.9% of the total expenditures, Denar 3.3 billion being spent therefore or 18.0% of the projected funds. The third highest expenditure category was the interest payments accounting for 18.6%, with Denar 2.0 billion being spent therefore or 24.6% of the annual projections.

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

In Q4 2017, **Ministry of Internal Affairs** spent a total amount of Denar 2.7 billion, accounting for 26.1% of its 2017 budget. Wages and allowances were the highest expenditure category, accounting for 70.0%, with Denar 1.9 billion being spent therefore or 25.9% of the projected ones. The second highest expenditure category was goods and services, participating with 16.3%, funds in the amount of Denar 438 million being executed therefore or 25.4% of the annual projections.

Agency for Financial Support in Agriculture and Rural Development spent funds in the amount of Denar 1.4 billion in Q4 2017, accounting for 16.6% of the funds projected for the current year. Subsidies and transfers were the highest expenditure category, accounting for 74.0%, with funds in the amount of Denar 1.0 billion being executed therefore or 15.1% of the projected ones. Capital expenditures accounted for 24.2% of the total expenditures, with funds in the amount of Denar 333 million being executed therefore or 22.3% of the annual projections.

Ministry of Defense, in Q4 2017, spent budget funds in the amount of Denar 1.6 billion, i.e. 28.6% of its total budget for 2017. Wages and allowances accounted for the most with 54.8%, for which Denar 867 million was realized, accounting for 24.8% of the total funds projected for the current year. Expenditures related to goods and services accounted for 19.8% of total expenditures, with Denar 314 million being spent therefore during the analyzed period, i.e. 23.2% execution of the total projected funds.

Ministry of Health, in Q4 2017, spent budget funds in the amount of Denar 842 million, accounting for 14.2% of its 2017 budget. Expenditures related to goods and services accounted for the most in the expenditures with 52.4%, Denar 442 million being executed therefore or 23.4% of the funds projected for 2017. Capital expenditures were the second highest expenditure category, accounting for 26.4% of the total expenditures, with funds in the amount of Denar 223 million being executed therefore in the analyzed period, i.e. 14.9% of total projected ones. Current transfers to extra-budgetary funds accounted for 17.0% of the total expenditures, for which, in this period, Denar 143 million was spent or 5.9%.

Ministry of Transport and Communications, in Q4 2017, spent budget funds in the amount of Denar 989 million, i.e. 22.7% of the 2017 total budget. Capital expenditures accounted for the most in the total expenditures with 72.1%, while their execution in this period accounted for 20.4%, i.e. Denar 712 million was spent. Subsidies and transfers accounted for 23.8% of total expenditures, their execution accounting for 37.3%, i.e. Denar 235 million being spent therefore.

For the purpose of **financing the activities in the field of culture**⁴, funds in the amount of Denar 1.7 billion were spent in Q4 2017, i.e. 34.5% of the total budget for 2017.

⁴ Financing activities in the area of culture support the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural events, museum and film library activities, international cooperation in the area of culture, support to young talents, organizations in the field of

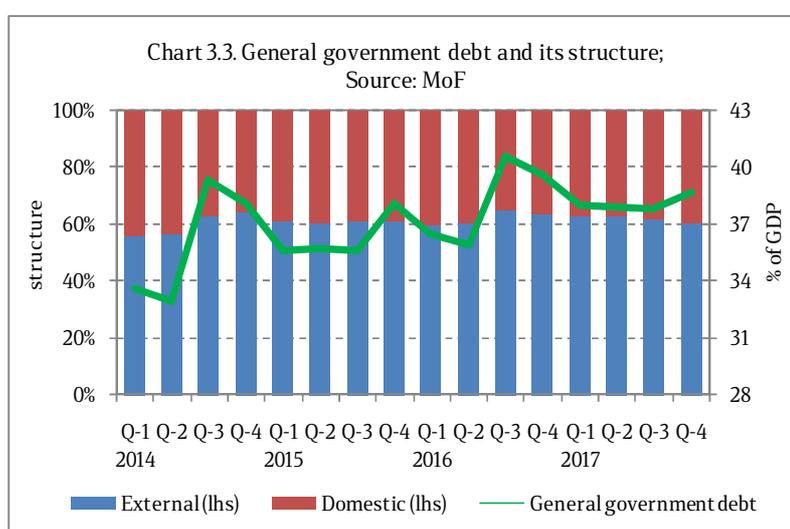
Capital expenditures accounted for the most in the total expenditures with 63.4%, while their execution in this period accounted for 51.4%, i.e. Denar 1.1 billion was spent. Wages and allowances accounted for 15.2% in the total expenditures, whereby Denar 257 million or 24.7% of the projected funds were spent for this purpose. Subsidies and transfers accounted for 18.9% of total funds projected for the current year, whereby Denar 248 million or 14.7% of the total expenditures were spent therefore.

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

3.5. Budget deficit and government debt

In the fourth quarter of 2017, the **consolidated budget deficit** amounted to Denar 5,843 million or 3.5% of GDP realized in this quarter, while central budget deficit amounted to Denar 4,453 million, i.e. 2.7% of quarterly GDP.

Total **government debt** at the end of Q4 2017 accounted for 38.7% of GDP, increasing by 0.9 p.p. compared to Q3 2017. The share of the external debt in the total government debt decreased by 1.3 p.p. compared to Q3 2017 and accounts for 60.0%. Share of domestic debt respectively grew to 40.0% of the total government debt.



4. Monetary and Financial Trends

In the fourth quarter of 2017, National Bank of the Republic of Macedonia retained the **reference interest rate** at 3.25%, amid further stabilization of economic fundamentals and absence of imbalances in the economy. In fact, there were no pressures on the foreign currency market, savings of households in the banks continued to grow, and the confidence of economic entities was retained. Interest rate on available 7-day deposits amounted to 0.5 p.p. in December 2017, and compared to the previous quarter, it remained the same.

Primary money⁵ in Q4 2017 increased by 4.2% on quarterly basis (0.6% growth was recorded in the previous quarter) as a result of the increase of both currency in

culture, decentralization and more intensive realization of capital projects.

⁵ It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement

circulation by 3.9% and total liquidity of banks by 4.6%. Compared to Q4 2016, primary money surged by 6.3% (compared to 4.3% growth in Q3 2017), as a result of the increase of both currency in circulation by 5.2% and total liquidity of banks by 7.6%.

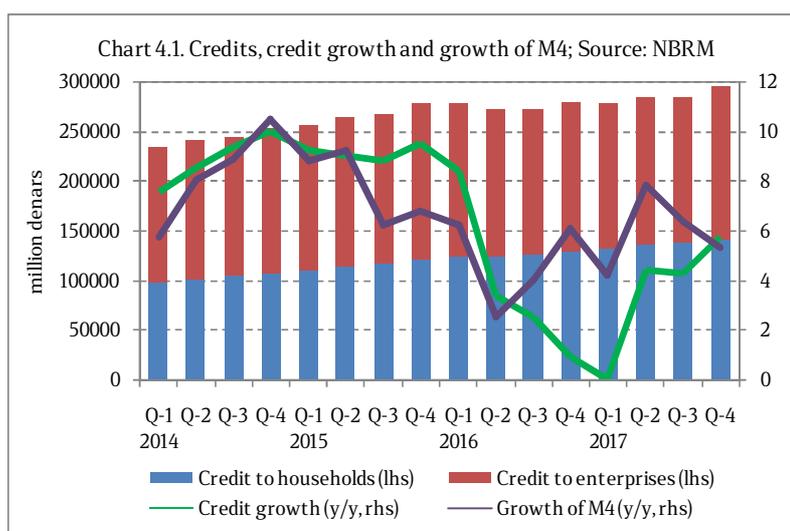
In Q4 2017, the narrowest money supply M1⁶ experienced 9.3% increase compared to the previous quarter. Monetary aggregate M2 surged by 5.6%, while the widest monetary aggregate M4 increased by 5.5%.

Total **deposit potential**⁷ of banks in Q4 2017 increased by 5.7% on quarterly basis, compared to the previous quarter when the deposit potential grew by 0.8%. From the point of view of sectors, deposits of enterprises increased by 12.5%, while deposits of households grew by 4.1%. From currency point of view, Denar and foreign currency deposits, compared to the previous quarter, surged by 6.9% and 4.0% respectively. Level of euroization dropped by 0.6 p.p. compared to the previous quarter, i.e. to 40.4%, 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 Q4 2017 decreased by 0.1 p.p. compared to the previous quarter, reaching 27.7% (accounting for 27.8% in Q3 2017), despite the increase of long-term deposits by 5.3% in relation to the previous quarter. Short-term deposits grew by 2.8% in the analyzed period.

Credit activity of banks to non-government sector in Q4 2017 increased by 4.1 % on quarterly basis (compared to 0.2% growth in the previous quarter), in conditions of growth of credits to private enterprises by 5.9%, while credits to households surged by 1.6%

From currency point of view, in Q4 2017, Denar credits grew by 4.8%, while foreign currency credits registered 0.7% growth compared to the previous quarter. From maturity point of view, long-term credits in Q4 2017 experienced 2.9% growth compared to the previous quarter, while short-term credits were higher by 9.7%.

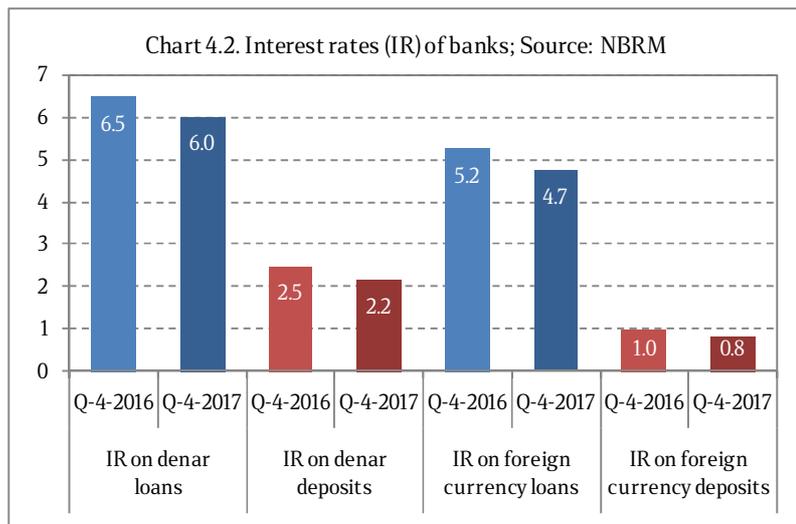


and the surplus of liquid assets over the reserve requirement (in denars).

⁶ Monetary aggregate M1 includes currency in circulation and demand deposits. Monetary aggregate M2 is composed of monetary aggregate M1 and short-term deposits, while the monetary aggregate M4 is composed of monetary aggregate M2 and long-term deposits.

⁷ Deposits also include calculated interest.

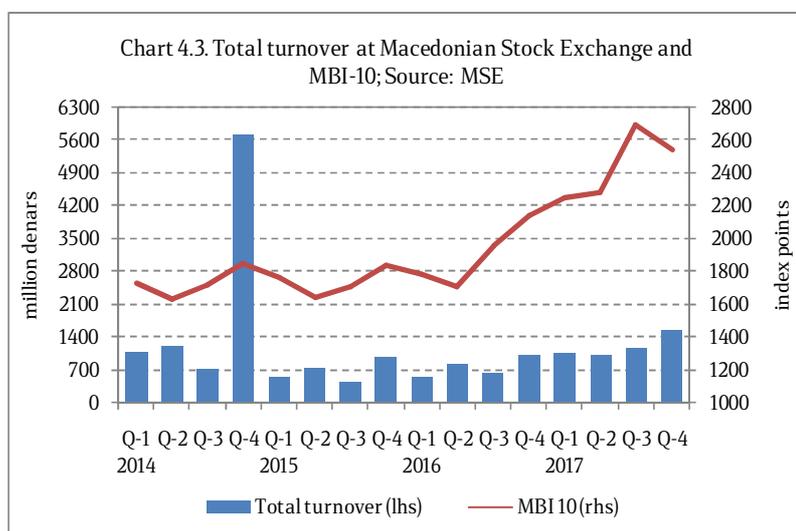
In Q4 2017, **interest rate** on Denar credits amounted to 6.0%, decreasing by 0.2 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.7% in Q4 2017, dropping by 0.2 p.p. compared to the previous quarter. Interest rate on Denar deposits increased by 0.1 p.p., accounting for 2.2% in Q4 2017 compared to the



previous quarter, while interest rate on foreign currency deposits remained the same compared to the previous quarter, accounting for 0.8%. In Q4 2017, interest rate on newly granted Denar credits amounted to 5.1%, while interest rate on newly approved foreign currency credits accounted for 4.1%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.6% and 0.8% respectively.

As regards the **capital market**, in Q4 2017, total turnover on the Stock Exchange experienced 30.8% increase compared to the previous quarter, being a result of the increase of the turnover realized through block transactions by 182.4%, while the turnover realized through trading in best dropped by 30.7%. Compared to the same quarter in 2016, total turnover surged by 49.6%, in conditions of decrease of the turnover realized through trading in best by 24.9%, while turnover realized through block transactions grew by 3.3 times (331.5%).

Macedonian Stock Exchange Index MBI-10, as aggregate indicator of stock exchange trends at the end of the fourth quarter amounted to 2,538.86 index points, decreasing by 5.6%



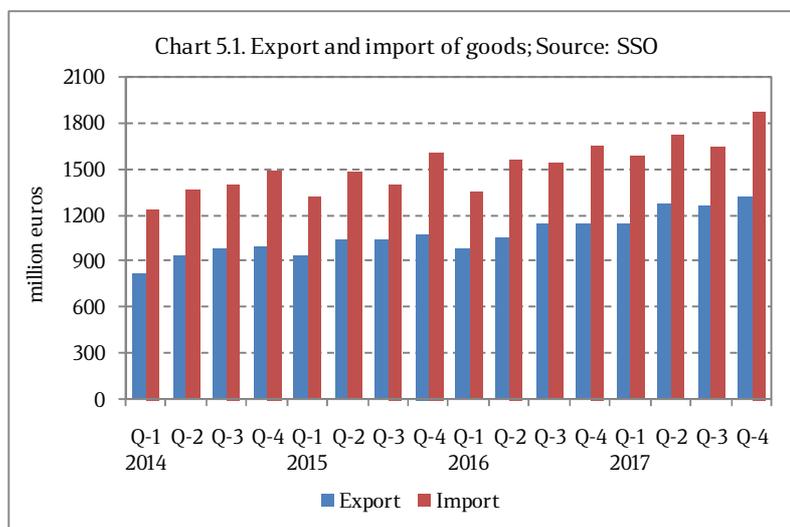
compared to September 2017, while compared to December 2016, the index was higher by 18.9%.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,195.2 million in Q4 2017, increasing by 14.4% compared to the same quarter of 2016.

In Q4 2017, **export of goods** amounted to EUR 1,324.7 million, whereby compared to Q4 2016, it surged by 16.1%, while compared to the previous quarter, it increased by 4.9%.



Analyzed by SITC⁸ sectors, positive trends in the export in Q4 2017, compared to the same quarter of 2016, were registered at the following:

- o machinery and transport equipment, increasing by 27.2% (within which highest increase was seen at the following categories: electrical machinery, apparatus and appliances surging by EUR 62.4 million or 49.9% and road vehicles by EUR 16.5 million or 36.6%);
- o chemical products, increasing by 16.1% (chemical materials and products by EUR 39.9 million or 16.9%);
- o miscellaneous manufactured articles, surging by 15.4% (furniture and parts thereof, bedding, mattresses and similar by EUR 19.4 million or 52.8% and apparel by EUR 4.2 million or 3.6%);
- o crude materials, inedible, except fuel, picking up by 45.5% (metal ores and metal scrap by EUR 17.5 million or 49.7%);
- o manufactured goods classified chiefly by material, growing by 1.7% (manufactures of metals by EUR 5.3 million or 25.4%, non-metallic mineral manufactures by EUR 4.1 million or 42.4%) and
- o mineral fuels and lubricants, surging by 30.6% (electricity by EUR 5.3 million or an increase by almost three times).

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

⁸ Standard International Trade Classification

- food products, decreasing by 6.3% (wherein fruit and vegetables experienced the highest drop by EUR 8.6 million or 18.4%);
- beverages and tobacco, decreasing by 0.3% (beverages by EUR 2.6 million or 14.7%) and
- animal and vegetable oils, dropping by 35.5% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 1.1 million or 40.0%).

In Q4 2017, observed by **economic purpose**, the largest share in export had industrial supplies (46.0%), followed by the categories: products for investments without transport equipment (15.6%), consumer goods (15.4%), transport equipment (14.1%), food and beverages (7.2%) and fuels and lubricants (1.5%).

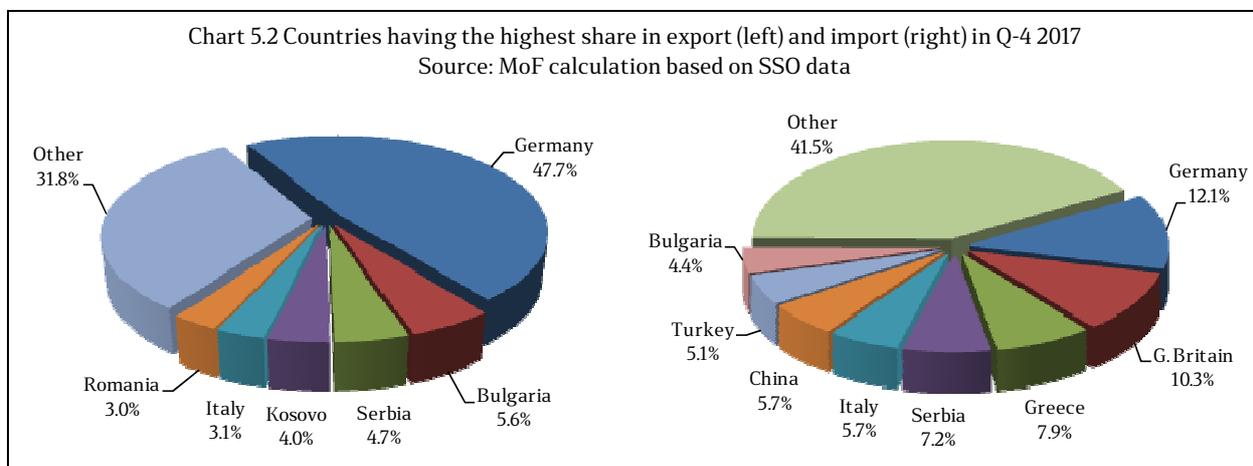
Import of goods in Q4 2017 amounted to EUR 1,870.6 million, growing by 13.2% compared to Q4 2016, while in relation to the previous quarter, it increased by 13.4%.

Analyzed by SITC **sectors**, increase of import in Q4 2017, compared to Q4 2016, was seen at:

- machinery and transport equipment, increasing by 18.1% (within which highest increase was seen at the following categories: electrical machinery, apparatus and appliances surging by EUR 40.5 million or 35.4% and road vehicles by EUR 15.7 million or 22.7%);
- manufactured goods classified chiefly by material, surging by 14.9% (non-ferrous metals by EUR 31.5 million or 13.8%, non-metallic mineral manufactures by EUR 23.3 million or 28.5% and iron and steel by EUR 19.4 million or 24.4%);
- mineral fuels and lubricants, picking up by 9.7% (electricity by EUR 8.7 million or 42.6% and petroleum and petroleum products by EUR 6.7 million or 5.9%);
- chemical products, increasing by 12.5% (chemical materials and products by EUR 8.6 million or 22.5% and medical and pharmaceutical products by EUR 5.9 million or 14.3%);
- food products by 8.4% (cereals and cereal preparations by EUR 4.3 million or 19.5% and meat and meat preparations by EUR 2.8 million or 8.7%);
- miscellaneous manufactured articles, increasing by 8.2% (professional, scientific and controlling instruments and apparatus by EUR 3.2 million or 20.0% and furniture and parts thereof, bedding, mattresses and similar by EUR 2.8 million or 19.8%);
- crude materials, except fuel, increasing by 14.1% (metal ores and metal scrap by EUR 3.1 million or 24.2%) and
- beverages and tobacco, increasing by 0.7% (beverages by EUR 0.1 million or 0.8%).

Decline of import was only seen at animal and vegetable oils by 12.7% (wherein highest drop was seen at the category: fixed vegetable fats and oils, crude, refined or fractionated by EUR 1.7 million or 13.9%).

In Q4 2017, observed by **economic purpose**, the largest share in export had industrial supplies (49.8%), followed by the categories: products for investments without transport equipment (14.7%), consumer goods (10.3%), food and beverages (9.7%), fuels and lubricants (9.3%) and transport equipment (6.0%).



In Q4 2017, foreign trade of the Republic of Macedonia with the European Union (EU28), in relation to Q4 2016, surged by 22.3%, whereby share of trade with the EU28 in the total foreign trade increased by 4.6 p.p. compared to the fourth quarter in 2016, accounting for 71.1%. Thereby, in Q4 2017, export of goods accounted for 80.9%, while share of import of goods was 64.2%.

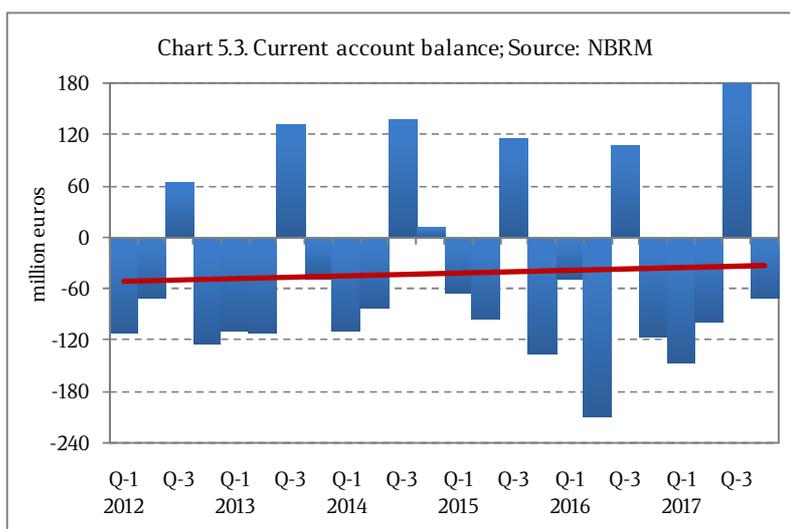
5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, deficit in the amount of EUR 69.6 million was recorded on the balance of payments **current account** in Q4 2017, accounting for 2.6% of quarterly GDP, as opposed to the deficit of 4.5% of GDP registered in the same quarter of 2016.

Analyzed on annual basis, current account deficit decreased by EUR 46.0 million in Q4 2017, being a result of the increase of the positive balance on the secondary income account by 11.6% and the services account by 68.8%.

Widened deficit on the primary income account by

6.2% and the increased deficit on the goods account by 4.9% had the opposite effect.



In Q4 2017, **trade deficit** increased by EUR 23.4 million on annual basis, accounting for 18.7% of quarterly GDP, being by 0.1 p.p. higher than the deficit in the same quarter of 2016.

Surplus on **services account** amounted to EUR 63.4 million in Q4 2017 and, compared to the same quarter of 2016, it surged by EUR 25.9 million.

Trade openness of Macedonia in Q4 2017 amounted to 124.5% of quarterly GDP, being higher by 9.2 p.p. compared to Q4 2016.

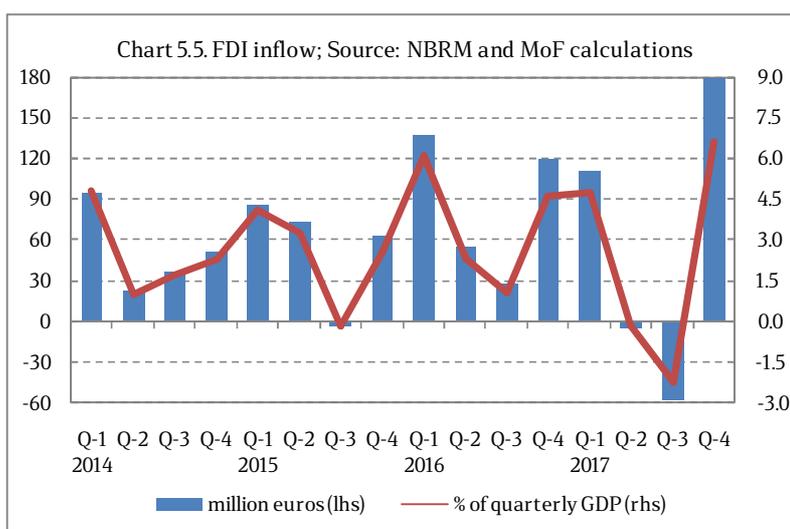
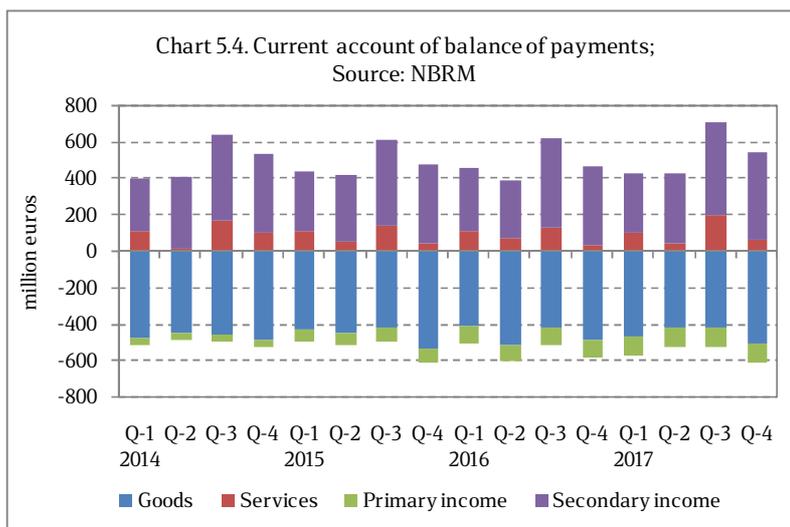
Primary income account experienced EUR 103.0 million deficit in Q4 2017, widening by EUR 6.0 million on annual basis.

Surplus on the **secondary income** account in Q4 2017 amounts to EUR 475.5 million, growing by EUR 49.6 million on annual basis. Growth was mostly a result of the private transfers, increasing by

EUR 27.8 million, accounting for 89.0% in the secondary income account. Official transfers increased by EUR 21.7 million, accounting for 11.0% in the secondary income account.

Balance on the **capital account** amounted to EUR 2.9 million in Q4 2017 and, compared to the same quarter of last year, it grew by EUR 2.7 million, which is fully due to the increased inflow of capital transfers.

Foreign Direct Investments (FDIs) in the country in Q4 2014 amounted to EUR 179.0 million, increasing by EUR 60.3 million compared to Q4 2016. Increase mainly arose from the reinvested earnings (EUR 80.1 million), as well as the inflow on the basis of debt instruments (EUR 49.9 million) and the equity (EUR 49.0 million).



Portfolio investments were negative, amounting to EUR 8.0 million in Q4 2017, as opposed to the positive value in the amount of EUR 2.5 million in the same quarter in 2016.

Other investments in Q4 2017 amounted to EUR 29.1 million, under which, currencies and deposits amounted to EUR 36.5 million, trade credits and advance payments amounted to EUR 7.4 million, while the balance on the account of the loans was negative, amounting to EUR 14.7 million.

Reserve assets amounted to EUR 2.3 billion at the end of the fourth quarter of 2017, decreasing by 10.6% compared to Q4 2016. At the end of Q4 2017, reserve assets provided for 4-month coverage of import of goods and services in the previous 12-month period.