

Republic of Macedonia
Ministry of Finance

QUARTERLY ECONOMIC REPORT
Q1/2013

Summary

- In Q1 2013 compared to the same quarter in 2012, **GDP** experienced real growth of 2.9%, being significant acceleration of the economic activity following the growth of 0.2% in the second half of the previous year;
- According to the Labour Force Survey, **number of employed persons** in Q1 2013 was higher by 3.9% compared to the same quarter in the previous year. **Number of unemployed persons** dropped by 4.2% on annual basis, which resulted in reduction of **unemployment rate** by 29.9% in Q1 2013;
- **Inflation rate** in Q1 2013 experienced intensified growth of 3.5% compared to the same quarter in 2012, measured according to the Consumer Price Index;
- Average **gross salary** in Q1 2013 amounted to Denar 30,973 and compared to the gross salary in Q1 2012, it was higher by 1.1% in nominal terms, i.e. being lower by 2.3% in real terms;
- Total **budget revenues** were lower by 5.9% in Q1 2013 compared to the same quarter in 2012, while total **budget expenditures** surged by 13.8%;
- Total **deposit potential** of banks increased by 1.4% in Q1 2013 on quarterly basis.
- **Credit activity** of banks to non-government sector experienced intensified growth rate of 0.7% in Q1 2013 on quarterly basis.
- **Macedonian Stock Exchange Index MSEI -10** increased by 3.5% in March 2013 compared to December 2012;
- In Q1 2013, **growth of export** by 0.6% and drop of **import** by 2.4% was registered on annual basis, whereby total **foreign trade** expressed in euros dropped by 1.2%;

1. Macroeconomic Trends and Real Sector

In Q1 2013 compared to the same quarter in 2012, **GDP** experienced real growth of 2.9%, being significant acceleration of the economic activity following the growth of 0.2% in the second half of the previous year.

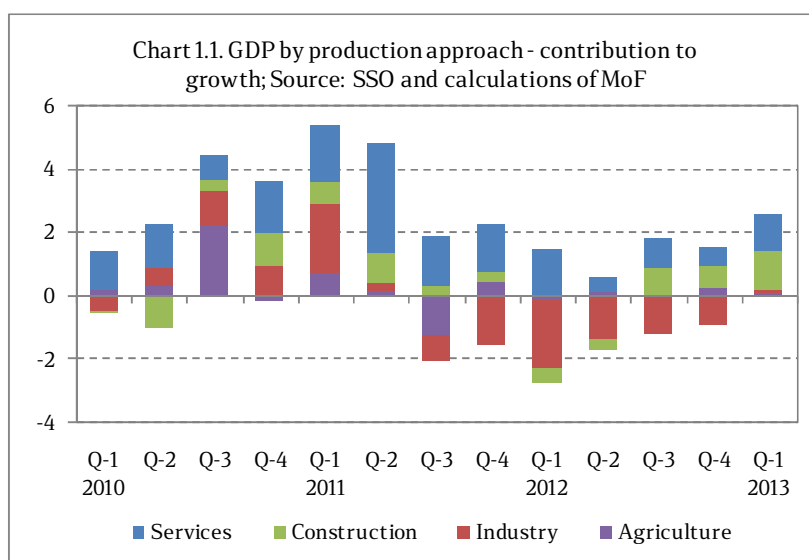
Nominal GDP growth in Q1 2013 accounted for 2.5% compared to the same quarter last year, implying that GDP deflator was negative, amounting to -0.4%.

Analyzed according to the **GDP production side**, in Q1 2013 positive growth was observed in all sectors. Construction sector contributed the most to the overall economic growth, registering high activity growth of 36.8%, following the growth of 12.5% in the second half of the previous year. Positive developments continued in the financial intermediation sector, experiencing 2.5% growth in Q1 2013. Transport, storage and communications sector also experienced growth of 2.5%, following the drop of 1.7% in the previous quarter. Domestic trade surged by 2.3%, being a result of the positive trends in both retail trade and wholesale trade. Hotels and restaurants sector increased by 1.6% and agriculture sector grew by 1%. Industrial production, following a period of six quarters, experienced positive growth of 0.7% in Q1 2013. Growth in public administration sector accounted for 0.5%.

Growth in the **industrial production**¹ of 2.7% in Q1 2013 was mainly a result of the realized positive

rates at: mining of coal and lignite (7.0%), mining of metal ore (14.6%), other mining and quarrying (35.2%), production of food products (1.8%), production of beverages (0.6%), production of tobacco products (68.7%), production of textile (83.1%), production of clothing (12.1%), production of leather (2.2%), production of pharmaceutical products (6.8%), production of rubber products (1.6%). production of other non-metal products (2.5%), production of machines and devices (22.4%), production of furniture (18.7%), repair and installation of machines and equipment (31.3%) and electricity, gas, steam and air conditioning supply (4.9%). From the point of view of the structure of industrial production index, 78.8% of the branches experienced growth.

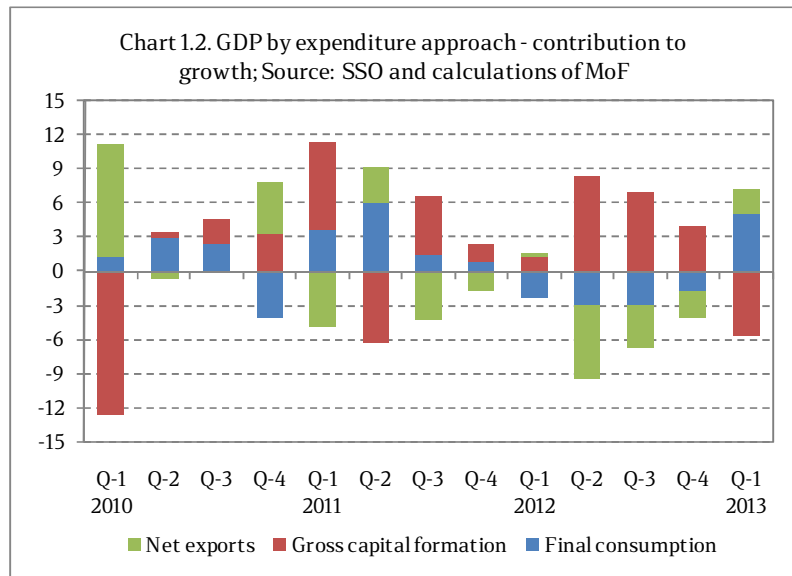
On the other hand, drop was observed at the following: processing of wood and wood products (26.6%), production of paper (22.9%), printing and production of recorded media (27.8%), production of coke and refined oil products (40.8%), production of chemicals and chemical products (28.5%), production of metals (22.8%), production of fabricated metal



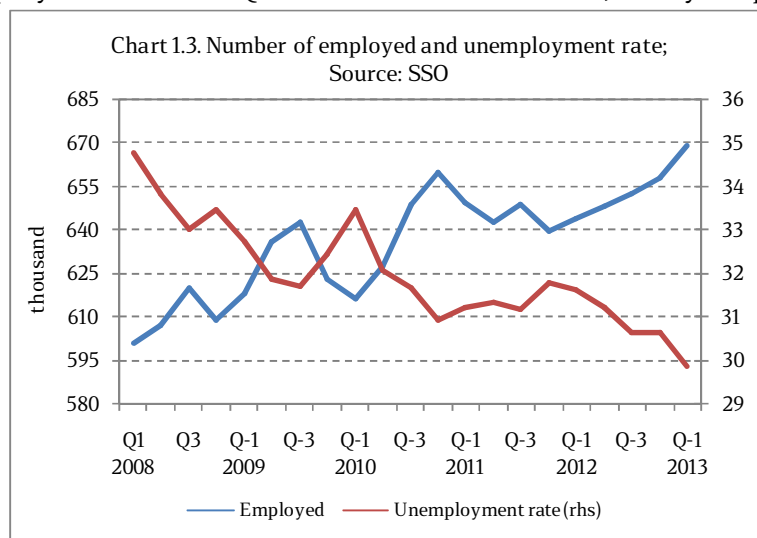
¹ Calculated on the basis of monthly releases of Industrial Production Index.

products (28.7%), manufacture of electrical equipment (5.7%), production of motor vehicles, trailers and semi-trailers (66.4%), and other production industry (12.4%).

Analyzed according to the **expenditure side of GDP**, in Q1 2013, growth was instigated by gross investments, increasing by 9.4%. Growth of investments corresponds to the high growth in the construction sector, as well as the growth of the domestic production of capital goods. Final consumption in Q1 2013 experienced slight decrease by 0.4%, being mainly a result of the drop of public consumption of 1.5%, while personal consumption experienced minimum drop of 0.1%. Drop of economic activity in the EU countries and appropriately to the external demand, resulted in the decline of foreign trade of the country. Thereby, export of goods and services declined by 0.3%, while import dropped by 3.7%. As a result of the higher drop of import compared to export, net import had positive contribution to the total economic growth.



Positive trends continued on the labour market in Q1 2013. According to the **Labour Force Survey**, number of employed persons in Q1 2013 was higher by 3.9% compared to the same quarter in the previous year. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 4.2% on annual basis. Number of active population in Q1 2013 was higher by 1.4%. Such trends on the labour market caused for the unemployment rate in Q1 2013 to reduce to 29.9%, i.e. by 1.7 p.p. compared to the same quarter in the previous year, while in relation to the previous quarter, it was lower by 0.7 p.p.. Employment rate in Q1 2013 amounted to 40%, being higher by 1.4 p.p. compared to the same quarter in the previous year, while compared to the previous quarter, it was higher by 0.6 p.p.. Active population in Q1 2013 accounted for 57% of total working-able population.



2. Prices, Costs and Productivity

Inflation rate, measured according to CPI, was 3.5% in Q1 2013 compared to the same quarter in 2012, being lower growth compared to the previous quarter, when the growth accounted for 4.9%. Highest increase of prices was seen at the category clothing and footwear by 10.3%, followed by the increase at the category hygiene and health by 4.8% and housing by 4.5%. Compared to the previous quarter, increase of prices in the housing category experienced significantly reduced intensity by 5.1 p.p..

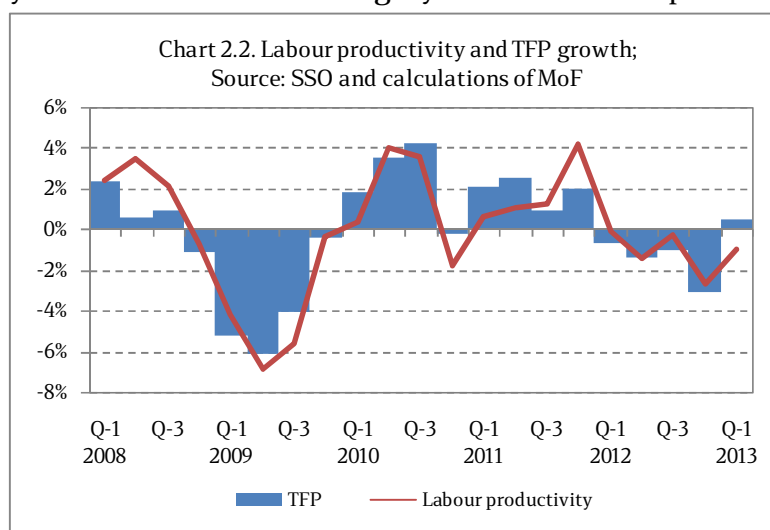
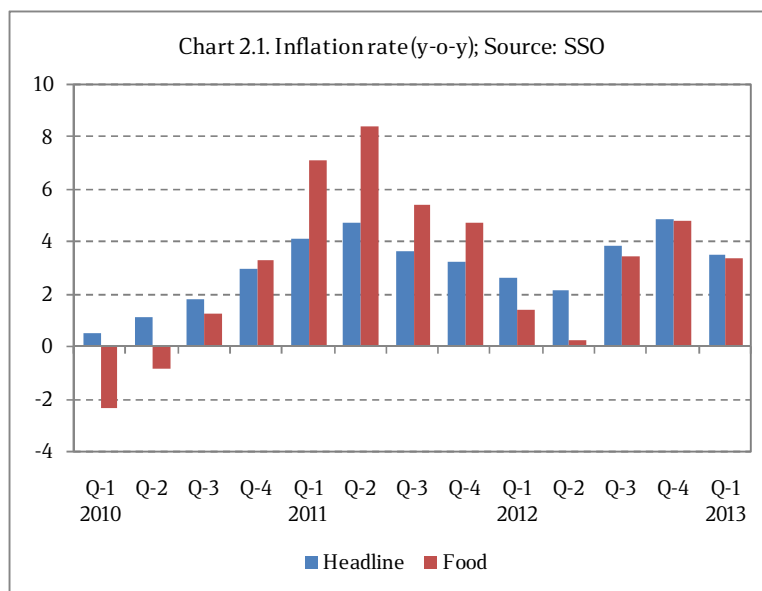
Increase of prices in the category restaurants and hotels increased by 4.2%, while increase of prices in the category food in Q1 2013 amounted to 3.3% compared

to the increase by 4.8% in the previous quarter. Increase of prices in the culture and entertainment category accounted for 1.7%, followed by the increase of prices in the category tobacco and beverages by 1.6%. Prices in the category administrative and financial services increased by 0.3%. Prices in the category means of transport and services reduced by 0.7% as a result of the drop of traffic and Postal, Telephone and Telegraph (PTT) services by 3.1%.

Core inflation (which excludes the effect of food and energy) was 3.3% in Q1 2013, being higher by 0.4 p.p. compared to the core inflation in the previous quarter (2.9%).

Retail prices in Q1 2013

experienced slowed down increase by 1.7% compared to the same quarter in 2012. Prices of industrial products, which surged by 2.9%, contributed the most with 1.6 p.p. to the total increase of the retail prices. Within this category, most significant contribution to growth was seen at non-food products, increasing by 2.7%. Prices of food products surged by 3.9%. Retail price of beverages increased by 2.9%. Retail prices in agricultural products category increased by 1.2%.



Average **net salary** in Q1 2013 amounted to Denar 21,130, being higher by 1.1% in nominal terms compared to net salary in Q1 2012. Net salary experienced a drop of 2.3% in real terms. Average **gross salary** amounted to Denar 30,973, being higher by 1.1% in nominal terms, i.e. being lower by 2.3% in real terms, compared to the gross salary in Q1 2012.

Increase of economic activity in Q1 2013 was accompanied by higher annual increase in the number of employees, resulting in slight decrease of **labour productivity** by 1%, following the drop of 2.7% in the previous quarter. Physical capital in Q1 2013 increased by 0.4%. Such tendencies of growth factors caused for **total factor productivity (TFP)** to slightly increase by 0.5% in Q1 2013, followed by the drop of 3.1% in the previous quarter. Chart 2.2 shows TFP and labour productivity trends.

3. Fiscal Sector

Lower performance of total budget revenues was observed in Q1 2013, compared to same quarter in 2012, accompanied by relatively higher budget expenditures. This contributed to increasing the Budget deficit on both quarterly and annual basis. However, the budget deficit remains at controlled level.

Counter-cyclical fiscal policy continued to be implemented in the first quarter of this year, aimed at mitigating the consequences from the global economic crisis on Macedonian economy and maintaining macroeconomic stability. Thereby, fiscal sustainability of public finance was not jeopardized.

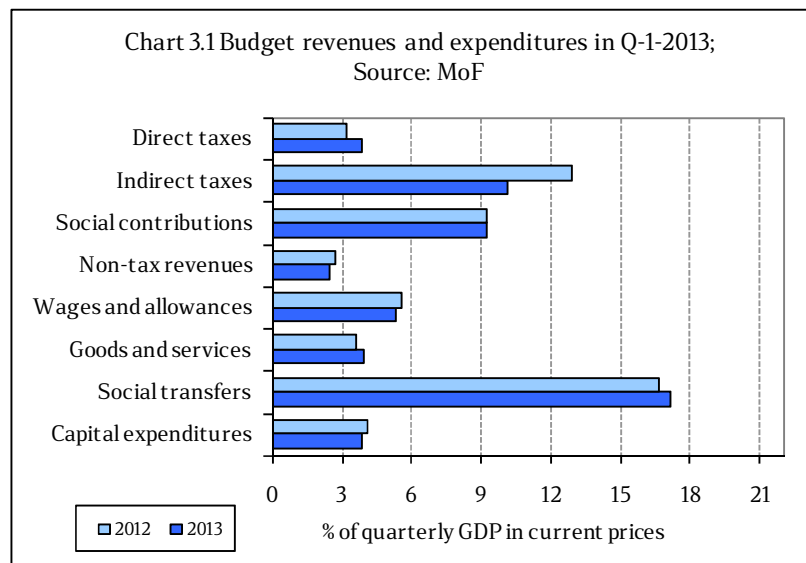
Total **budget revenues** were lower by 5.9% compared to the same quarter in 2012, being mostly due to the lower performance of tax revenues, as well as non-tax revenues, while contributions surged by 2.9%. Thereby, there was significantly lower collection of value added tax and excises, i.e. so-called indirect taxes, while personal income tax, profit tax and revenues on the basis customs duties experienced growth. VAT revenues dominated, accounting for 45.1% of the total tax revenues, however, they were lower by 24.1% in Q1 2013 compared to the same quarter of 2012, i.e. they experienced higher decline by 5.4 p.p. compared to the performance in the previous quarter. Regarding the structure of gross VAT revenues, there was decrease in VAT collection on the basis of import by 12.9%, while VAT on the basis of sales in the country surged by 14.2% in line with the trade sales, and dynamics of VAT refund increased by 36.5% (also additionally contributing to the reduction of VAT revenues in this quarter). Excise revenues were lower by 6.8% compared to the same quarter in 2012. As for direct taxes, profit tax increased by even 67.7%, while compared to the previous quarter, revenues on the basis of profit tax surged by 2.3 times (one should take into account that the revenues for this tax is mainly a result of the tax collected on the basis of paid dividends and other distribution of profit and withheld tax paid to foreign legal entities). Revenues on the basis of personal income tax surged by 6.0% compared to the first quarter in the previous year. From the point of view of structural share in GDP, direct taxes on annual basis increased their share in GDP by 0.7 p.p.. (3.9% of GDP), while the share of indirect taxes decreased by 2.8 p.p. (10.1% of GDP).

Collection of social contributions was higher by 2.9%, whereby higher collection was recorded at all contributions, i.e. pension insurance contributions - 2.5%, health insurance contributions - 3.8% and employment contributions - 2.7%. Non-tax revenues, accounting for 2.5% of total quarterly GDP, were lower by 6.1% compared to the same period in 2012.

Capital revenues in Q1 2013 were lower by 59.9% on annual basis (these revenues include revenues on the basis of lease of construction land, as well as sale of flats and revenues on the basis of dividends). Revenues on the basis of grants were higher by 62.9%, compared to Q1 2012.

Total **budget expenditures** in Q1 2013 were higher by 13.8% compared to the same quarter in 2012. Current expenditures, accounting for 90.2% of the total expenditures, increased by 16.2% on annual basis. Capital expenditures,

participating with 9.8% in the total expenditures, were higher by 4.0% compared to first quarter in 2012. As for current expenditures, expenditures for goods and services increased by 9.9%, while expenditures related to salaries and allowances experienced a drop by 1.1% compared to the same

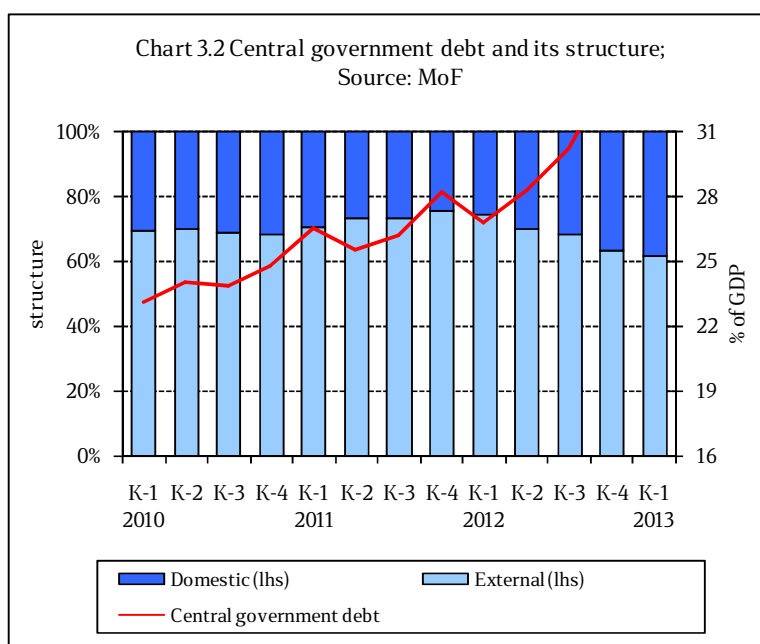


quarter last year. Funds for transfers, participating with 63.9% in the total expenditures, were higher by 19.2% on annual basis, while the share of the category „Other Transfers“ in the total expenditures accounted for 20.0% (including transfers to local government - block and earmarked grants, as well as other subsidies and transfers). Transfers to the Pension and Disability Insurance Fund, accounting for 26.5% in total expenditures, were higher by 8.5% compared to the same quarter in 2012, i.e. they were higher by 6.2% compared to Q4 2012. Expenditures for interest payments experienced two-fold increase on annual basis, while compared to Q4 2012 they were lower by 10.1%. Expenditures on the basis of interests on domestic debt surged by 28.5% on annual basis, while compared to the previous quarter, they were lower by 27.0%. Interests on foreign debt also increased on annual basis, while compared to Q4 2012, they decreased by 1.8%.

Fiscal burden, measured as participation of the budget revenues² in relation to nominal GDP, was 24.5% in Q1 2013, surging by 0.7 p.p. in relation to Q4 2012. Total budget expenditures accounted for 39.5% of quarterly GDP, which was by 6.2 p.p. higher compared to Q4 2012, increasing by 4.0% on annual basis.

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

Total central government **debt** at the end of Q1 2013 accounted for 33.9% of GDP, increasing by 0.1 p.p. compared to Q4 2012. Share of central government external debt in the total central government debt decreased by 1.5 p.p. compared to Q4 2012, while share of central government domestic debt in the total central government debt surged by the same amount of percentage points. Hence, share of central government



domestic debt increased to 38.1% of the total central government debt. Such trends point out that additional borrowing, which is inevitable for conducting more expansive fiscal policy, whether externally or internally, would not jeopardize fiscal sustainability, whereby coordination with monetary policy is needed. Sound fiscal policy is one of the Maastricht Criteria for convergence, having the limits set at budget deficit of 3% of GDP and government debt of 60% of GDP.

4. Monetary and Financial Trends

In conditions of reduced inflationary risks, favourable trends at foreign currency reserves, slowdown of the activity on the credit market, the Central Bank decided to reduce the maximum interest rate on central bank bills by 0.25 percentage points, i.e. to 3.5%, which is expected to contribute to facilitating the crediting requirements and intensified economic activity.

Primary money³ in Q1 2013 dropped by 1.2% on quarterly basis in conditions of decline of total liquidity of banks by 3.5%. Ready money in circulation increased by 1.9%.

During the first quarter of 2013, narrowest money supply **M1** experienced quarterly growth of 0.4% compared to Q4 2012. **Monetary aggregate M2**, in Q1 2013 surged by 0.2%, while the widest **monetary aggregate M4** increased by 1.6%.

Total deposit potential⁴ of banks increased by 1.4% in Q1 2013 on quarterly basis. Thereby, from the aspect of the sector, deposits of households slowed down the quarterly growth to 2% compared to 2.3% in the previous quarter, while deposits of private enterprises following the growth in the previous quarter, of 5.7% again observed quarterly drop of 2%.

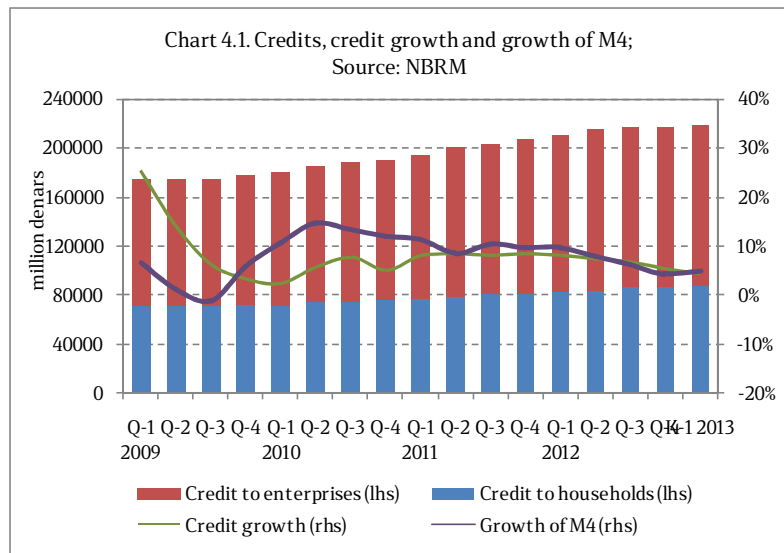
³ It includes ready money in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars)

⁴ Deposits also include calculated interest.

From currency point of view, Denar deposits, which increased by 1.6% on quarterly basis, had dominant contribution to growth of total deposits, while foreign currency deposits grew by 1.2%, resulting in further reduction of the euroization degree by 0.1 p.p., i.e. 45.4% measured through the share of foreign currency deposits in the total deposit potential.

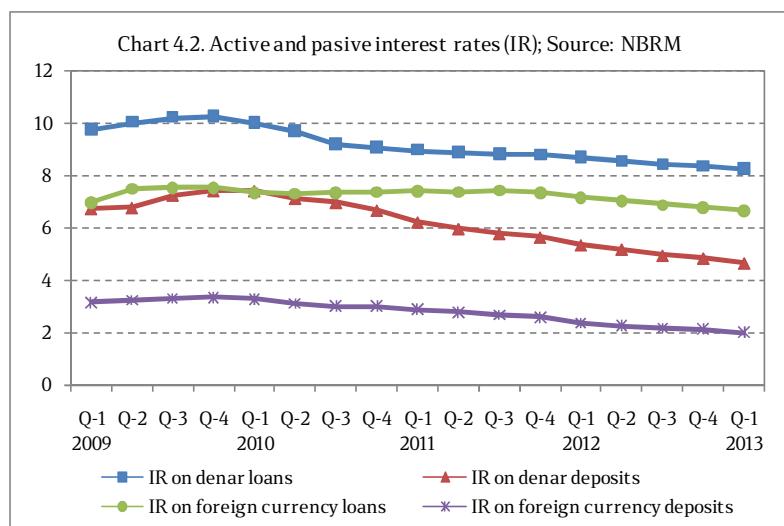
From maturity point of view, in the past period, there was continuous growth of the share of long-term deposits in the total deposit potential, reaching 22.1% in Q1 2013. These trends are in line with the quarterly increase of long-term deposits by 8.3% in Q1 2013 (5.7% in Q4 2012), during simultaneous drop of short-term deposits of 0.2%.

Credit activity of banks to non-government sector in Q1 2013 experienced intensified growth rate of 0.7% on quarterly basis, in conditions of intensified credit growth to households sector by 1.1% and increase of crediting to corporate sector by 0.4%.



From currency point of view, foreign currency credits, following the drop in the last quarter, surged by 1.1% on quarterly basis, while Denar credits surged by 0.6% on quarterly basis in Q1 2013, thus driving the growth of total credits.

From maturity point of view, long-term credits experienced quarterly drop of 0.9% (compared to the growth of 1.9% in Q4 2012), while short-term credits reduced by 0.5% (compared to the drop of 1.8% in Q4 2012).



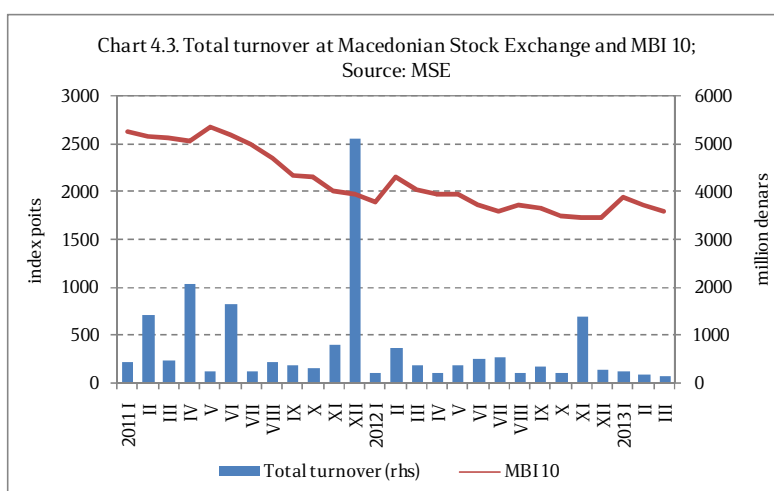
At the beginning of the first quarter of 2013, NBRM reduced the **interest rate on CB bills** by 0.25 p.p., i.e. from 3.75% to 3.5%. Interest rates of deposit banks in Q1 2013 experienced certain downward swings on quarterly basis. In fact, interest rate on Denar credits of deposit banks reduced by 0.1 p.p. compared to the previous quarter, amounting to 8.2%. Thus, the downward trend of this interest rate, which started at the beginning of 2010, continued. Interest rate on foreign currency credits reduced from 6.8% to 6.7%. Interest rate on

Denar deposits declined by 0.2 p.p. on quarterly basis, while interest rate on foreign currency deposits reduced by 0.1%.

Interest rate on newly approved Denar credits reduced by 0.6 p.p. on quarterly basis, amounting to 7.3%, while, interest rate on newly approved foreign currency credits, surged by 0.1 p.p., accounting for 6.5%. Interest rate on newly received Denar deposits dropped by 0.2 p.p. compared to Q4 2012, accounting for 2.7%, while interest rate on newly received foreign currency deposits amounted to 0.6%, by 0.1 p.p. lower than the previous quarter.

Drop of the total turnover of the Stock Exchange by 67% compared to Q4 2012 was seen on the **capital market** in the first quarter of the year. Turnover realized on the basis of traditional trading decreased by 23.5% in relation to the previous quarter, while compared to the same quarter in the previous year, it declined by 39.2%.

Macedonian Stock Exchange Index MSEI -10, as aggregate indicator of stock exchange trends at the end of the first quarter, amounted to 1,792.09 index points, increasing by 3.5% compared to December 2012, while compared to March 2012, the index was lower by 11.5%.



5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office in Q1 2013, total foreign trade amounted to Denar 1,857.5 million, contracting by 1.2% compared to the same quarter in 2012.

In Q1 2013, **export** of goods amounted to EUR 720.3 million and, compared to the same quarter in the previous year, it surged by 0.6%, while compared to the previous quarter, it contracted by 11.0%.

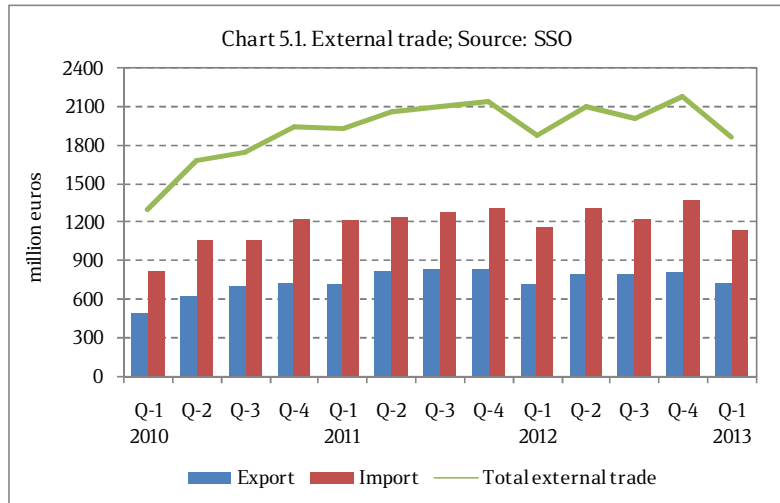
Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the **export** in Q1 2013 compared to the same quarter of 2012 were registered at the following:

- o machines and transport equipment by 21.1% (within which export as regards the category of industrial machines and spare parts surged by 38.8% or EUR 12.4 million);

- chemical products by 9.7% (chemical materials and products increased by 10.1% or EUR 10.3 million);
- raw materials, except fuel, by 18.0% (whereby export as regards the category metal ore and metal scrap surged by 22.5% or EUR 8.2 million); and
- food products by 8.6% (cereals and cereal preparations surged by 15.2% or EUR 1.5 million; fruit and vegetables by 7.9% or EUR 1.4 million).

On the other hand, decline in export was seen at the following:

- mineral oils and lubricants by 56.0% (within which category oil and oil products reduced by 55.4% or EUR 24.2 million);
- products classified by material by 8.2% (iron and steel by 14.4% or EUR 22.5 million); and
- beverages and tobacco by 8.8% (tobacco by 8.7% or EUR 2.2 million).



In Q1 2013, observed by **economic purpose**, following products were most exported: goods for industrial procurement (51.7%), followed by consumer goods (24.3%), products for investments without transport equipment (9.8%), food and beverages (9.6%), fuels and lubricants (2.9%) and transport equipment (1.6%).

Import of goods in Q1 2013 amounted to EUR 1,137.1 million, decreasing by 2.4% compared to Q1 2012, while in relation to the previous quarter, it decreased by 16.9%.

Analyzed by **SITC sectors**, highest growth of **import** in Q1 2013, compared to Q1 2012, was seen at:

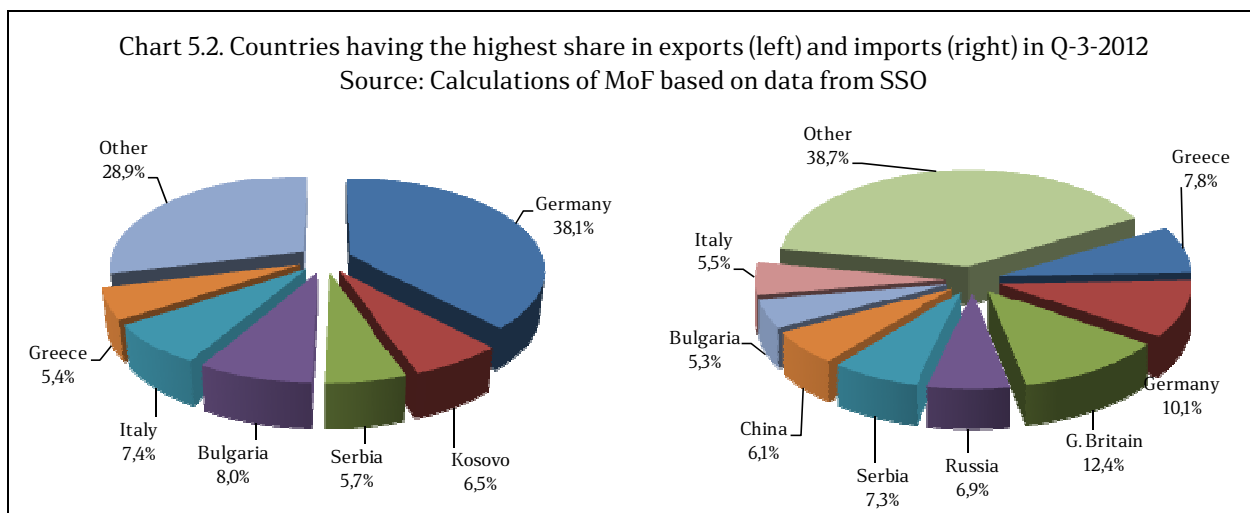
- products classified according to the material by 33.7% (whereby increase was seen at the following categories: non-ferrous metals by 89.6% or EUR 51.7 million; iron and steel by 38.3% or EUR 21.0 million);
- machines and transport equipment by 4.9% (electrical machines, devices and spare parts by 33.9% or EUR 10.4 million; and industrial machines and spare parts by 25.4% or EUR 6.8 million); and
- chemical products by 19.0% (products for colouring and tanning by 45.9% or EUR 7.6 million; and inorganic chemical products by 50.8% or EUR 6.2 million).

Highest decline of import was seen at the following:

- mineral oils and lubricants by 38.0% (whereby decrease was seen at the following categories: oil and oil products by 41.7% or EUR 82.8 million; and electricity by 43.2% or EUR 32.0 million);
- raw materials, except fuel, by 36.0% (metal ore and metal scrap declined by 44.3% or EUR 22.7 million);
- food products by 4.4% (cereals and cereal preparations by 24.9% or EUR 5.8 million); and
- beverages and tobacco by 4.2% (tobacco by 13.1% or EUR 1.2 million).

Observed by **economic purpose** in Q1 2013, the following products were most imported: goods for industrial procurement (45.5%), followed by fuels and lubricants (17.3%) investment goods without transport equipment (11.8%), food and beverages (11.0%), consumer goods (9.7%) and transport equipment (4.7%).

In Q1 2013, foreign trade of the Republic of Macedonia with the European Union (EU 27), in relation to Q1 2012, surged by 7.8%, whereby share of trade with EU in the total foreign trade increased by 5.0 p.p. compared to the first quarter in 2012, accounting for 62.5%, whereby export of goods participated with 72.4% and import of goods accounted for 56.3%.

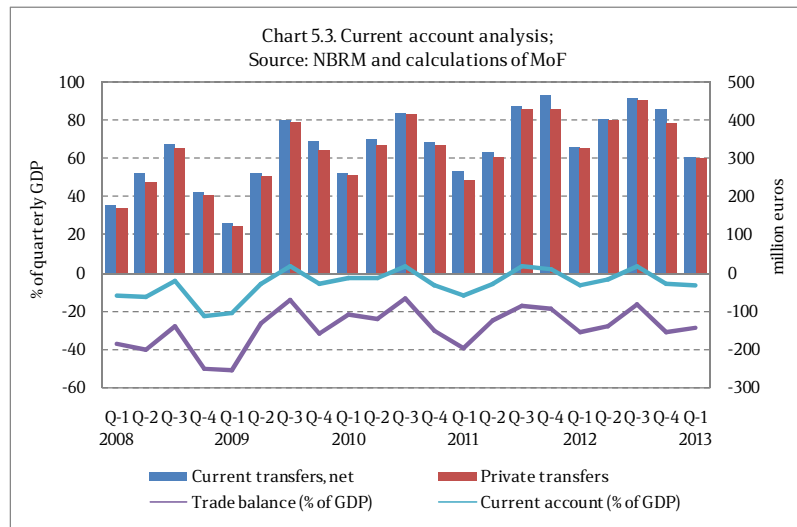


As a result of the structural changes in the trade with abroad, in the first quarter of 2013, 83.0% of the trade deficit of the country was a result of the trade deficit with Great Britain, Russia, China, Greece and Serbia, while the rest of the deficit was a result of the trade with: Turkey, Switzerland, Slovenia, India, Romania, etc. Surplus was realized in the trade with Germany, Kosovo, Bosnia and Herzegovina and the Netherlands.

5.2. Balance of payments

In the first quarter of the year, current account deficit in the amount of EUR 113.1 million was recorded, showing improvement compared to the previous quarter, being a result of the reduced trade deficit gap. Decreased import in Q1 2013 compared to the previous quarter, which had greater dynamics compared to the export reduction contributed to narrowing the negative current account balance. In addition, the surplus on the service accounts also contributed to narrowing the current account gap.

Analyzed on annual basis, the deficit was widened by 3.9%, being mainly a result of the reduced inflows on the basis of current transfers and the increased outflows on the basis of income. Surplus on the service account of EUR 7.4 million unlike Q1 2012 when deficit was realized, as well as the narrowing of the current account deficit by 6.8%, having big share in the current account, acted in opposite direction.



Capital account and financial account in Q1 2013 experienced surplus and the balance amounted to Denar 109.6 million, increasing by 12.7% compared to Q1 2012 (or by EUR 12.4 million). Compared to the previous quarter, the balance reduced by 11.1% being a result of the reduction of the balance of the financial account and the capital account.

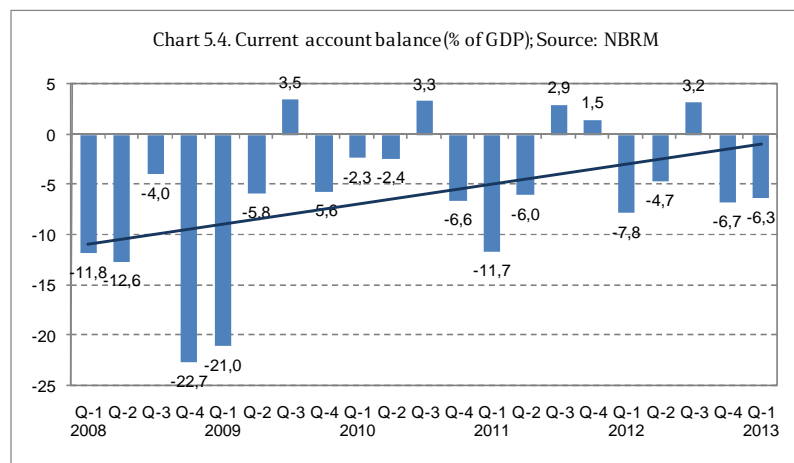
Positive payment and balance trends were recorded at direct investments, amounting to EUR 80.5 million in Q1 2013, increasing by 79.9% compared to the previous quarter, i.e. surging by 8.6% on annual basis.

In addition, in Q1 2013, inflows on the basis of trade credits in the amount of EUR 34.7 million were recorded, being a result of the accumulated trade credits taken in the previous quarter (EUR 113.6 million in Q4 2012). On annual basis, in Q1 2013, trade credits experienced negative balance (outflow of funds).

In Q1 2013, additional growth of foreign currency reserves was recorded, whereby they are at adequate level.

5.2.1. Current account

In the first quarter of the year, the current account deficit amounted to EUR 113.1 million or 6.3% of GDP and it was deepened by 3.9% on annual basis, while in relation to the previous quarter, it experienced improvement by 6.0%.



Narrowing of the current account deficit compared to Q4 2012 was mostly due to the narrowing of the trade deficit and the surplus on the net service account,

while reduced inflows on the basis of net current transfers and the increased outflow of net income acted in opposite direction.

Increased outflow of net income (by 39.8% on annual basis) and the reduced inflows of net current transfers (registered reduction by 8.8%) contributed the most to the deepening of the current account deficit compared to Q1 2012.

When narrowing the negative balance, import in relation to the registered slight increase of export, trade account narrowed by 6.8% on annual basis.

Surplus in the amount of EUR 7.4 million was registered on the service account in Q1 2013, showing improvement in relation to Q1 2012, when deficit in the amount of EUR 4.3 million was observed.

Deficit on income account in Q1 2013 experienced deepening by EUR 14.1 million on annual basis, which also deepened the current account balance.

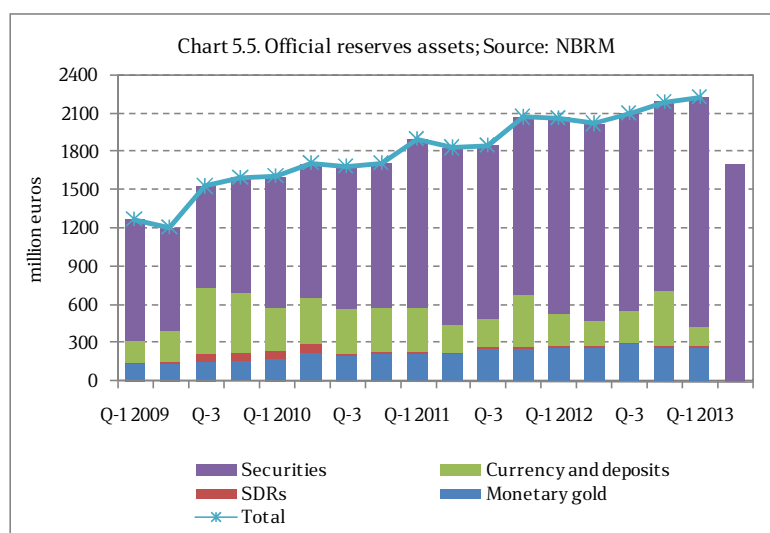
Trade openness of the Republic of Macedonia in Q1 2013 amounted to 105.8%, reducing by 4.2 p.p. compared to the same quarter in 2012, when it accounted for 110%.

In Q1 2013 trade balance (-21.9% of GDP) experienced increase compared to both the previous quarter and the same quarter of last year.

Net current transfers in Q1 2013 amounted to EUR 304.2 million, being lower by EUR 29.4 million or by 8.8% compared to Q1 2012. Drop is due to the private transfers, which decreased by 9.2% and participated with 97.8% in the total net transfers. Private transfers in Q1 2013 amounted to EUR 297.4 million. According to their structure, other transfers (87.4%) had dominant share in the private transfers, declining by 9.8% on annual basis and amounting to EUR 260 million, while remittances from employees dropped by 5.0% compared to Q1 2012, amounting to EUR 37.4 million.

Compared to the previous quarter, net current transfers dropped by 29.8% or by EUR 129.1 million, mainly due to the decline of private transfers by 24.3% or EUR 95.7 million.

Coverage of trade deficit with private transfers in Q1 2013 accounted for 79.3%, decreasing by 2 p.p. on annual basis.



5.2.2 Capital account and Financial Account

Capital account and financial account, in Q1 2013, experienced surplus of EUR 109.6 million and compared to Q1 2012, more capital inflows by 12.7% (or by EUR 12.4 million) were registered. Higher inflows on the financial account on annual basis were mainly a

result of the increased foreign borrowing by the state intended for budget support and enhancement of competitiveness of the Macedonian economy.

In the first quarter, the due Eurobond was paid, which was reflected in the outflow of funds in the loans item in the financial account.

At the end of Q1 2013, official foreign currency reserves amounted to EUR 2,230.4 million, being higher by 7.9% compared to Q1 2012. Foreign currency reserves, i.e. securities, had dominant share in the official reserves, participating with 80.8% or EUR 1,801.2 million, followed by monetary gold which participated with 12.2% or EUR 272.9 million, while currencies and deposits participated with 6.9% or EUR 154.4 million.

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