



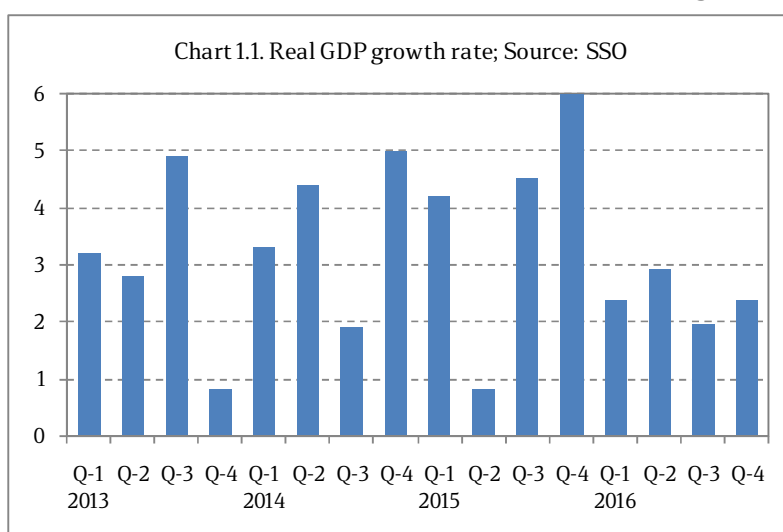
Summary

- **GDP** in Q4 2016, compared to the same quarter in 2015, experienced 2.4% **real growth**, driven by the growth registered at both export and consumption;
- **Number of employed persons** in Q4 2016 was higher by 2.1% compared to the same quarter of 2015. **Number of unemployed persons** dropped by 6,3%, which resulted in reduction of **unemployment rate** to 23.1% in Q4 2016;
- **Inflation rate** in Q4 2016, measured according to CPI, amounted to -0.1% on annual basis;
- Average **gross salary** amounted to Denar 33,425 in Q4 2016, increasing by 2.1% in nominal terms, i.e. surging by 2.2% in real terms, compared to the gross salary in Q4 2015;
- Total **budget revenues** were lower by 0.5% in Q4 2016 compared to the same quarter in 2015, while total **budget expenditures** were higher by 2.4%;
- Total **deposit potential** of banks increased by 6.3% in Q4 2016 on quarterly basis;
- **Credit activity** of banks to non-government sector experienced 2.7% increase in Q4 2016 on quarterly basis;
- **Macedonian Stock Exchange Index MSEI-10** increased by 9.2% in December 2016 compared to September 2016. Total turnover on the stock exchange surged by 61.8% in Q4 2016 compared to the previous quarter;
- In Q4 2016, both **export** and **import** grew by 8.2% and by 3.7% respectively on annual basis, whereby total **foreign trade**, expressed in euros, grew by 5.5%;

1. Macroeconomic Trends and Real Sector

In Q4 2016, compared to the same quarter of 2015, **GDP** experienced 2.4% real growth, hence GDP growth in 2016 amounted to 2.4%¹.

Analyzed according to the **production side of GDP**, positive performance in Q4 2016 was observed in several sectors. Economic growth was driven by the construction sector, which experienced a growth of 28.5%. Favourable trends in the agriculture continued in Q4 2016, reaching 1.8%



growth. Industry picked up by 0.4%, as a result of the growth in the activity Electricity and gas supply, amid a decline in Manufacturing by 1.3%.

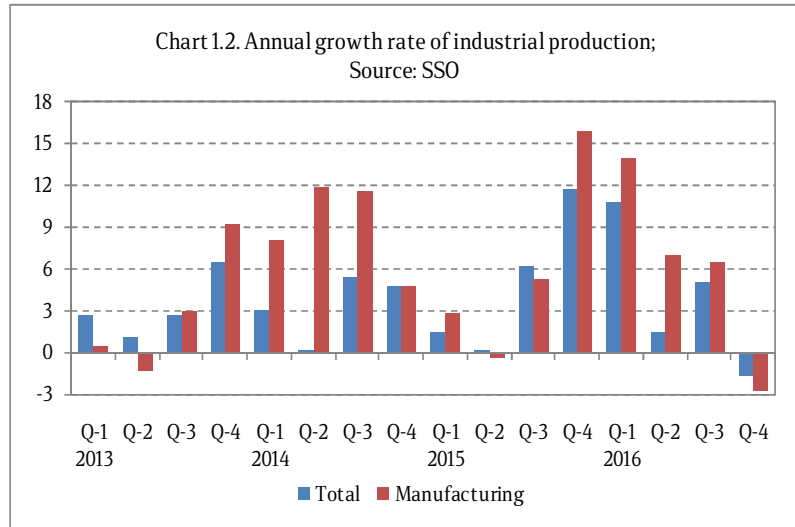
Services sector in Q4 2016 had neutral contribution to the economic growth. Thereby, within the services, the following sectors experienced growth: Professional, scientific, technical and administrative activities (9.8%), Financial and insurance activities (1.1%), Information and communications (0.3%) and Trade, transportation and food accommodation services (0.2%). On the other hand, the following sectors experienced decline: Arts, entertainment, recreation and other service activities (2.6%), Real estate activities (2%) and Public administration and defence, education and health (1.4%).

According to the monthly data, production in **Manufacturing** in Q4 2016 dropped by 2.7% on annual basis, as a result of the decline in the following branches: manufacture of other transport equipment (40.8%), manufacture of leather and related products (28.3%), manufacture of chemicals and chemical products (28.1%), manufacture of fabricated metal products (26.5%), manufacture of metals (17.2%), manufacture of food products (9.4%), manufacture of wearing apparel (9.3%), manufacture of furniture (9.0%), manufacture of electrical equipment and other manufacturing (0.2% each).

On the other hand, growth was seen at: repair and installation of machinery and equipment (96.5%), manufacture of computer, electronic and optical products (56.1%), manufacture of other non-metallic mineral products (26.2%), manufacture of tobacco

¹ SSO simultaneously revised the GDP real growth rates for the previous three quarters. Thus, real GDP growth in Q1 2016 was revised to 2.4% from the previous 2.6%, growth in Q2 2016 was revised to 2.9% from the previous 3.1%, while growth in Q3 2016 was revised to 2% from the previous 2.4%.

products (24.8%), manufacture of pharmaceutical products and preparations (19.2%), manufacture of motor vehicles (15.1%), manufacture of machinery and equipment (9.9%), manufacture of wood and products of wood and cork (8.1%), manufacture of beverages (6.4%), printing and production of recorded

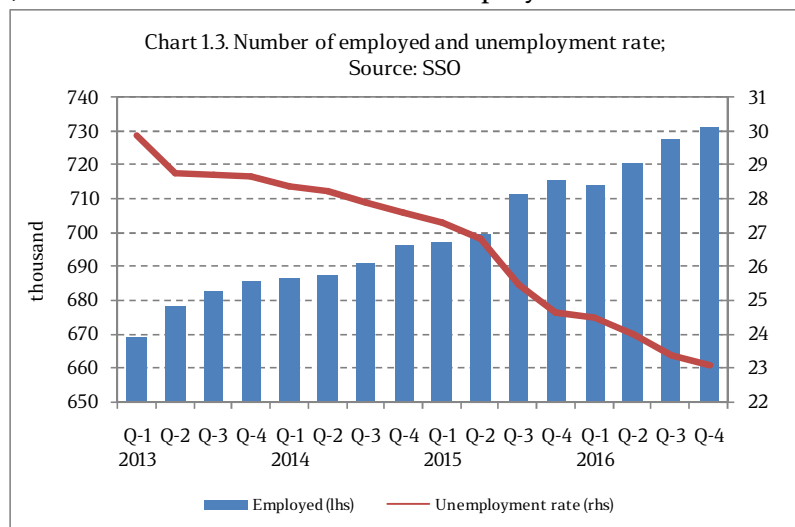


media (5.3%), manufacture of paper and paper products and manufacture of textiles (4.6% each), manufacture of rubber and plastic products (1.1%). Hence, annual positive growth was registered at 15 branches, comprising 48.4% of the industrial production.

Analyzed according to the [expenditure side of GDP](#), economic growth in Q4 2016 was driven by the growth of export and consumption. Growth of export of goods and services amounted to 11.2% 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, i.e. the sound growth of economic activity in the EU, as the most important destination to export the Macedonian products. Import of goods and services experienced more than twice lower growth compared to export, i.e. 5.3% growth in real terms, hence net export had positive contribution to the economic growth.

Final consumption in Q4 2016 registered a 4.8% growth in real terms, as a result of the growth of both private consumption and public consumption. Private consumption experienced a 5.1% growth in real terms as a result, above all, of the increase of household disposable income, in conditions of increase of employment and salaries. Public consumption surged by 3.4% in real terms. Gross capital formation in Q4 2016 declined by 10.4% in real terms, despite the high growth of construction activity in the country.

Positive trends on the [labour market](#) continued in Q4 2016 as well. According to the Labour Force Survey, number of employed

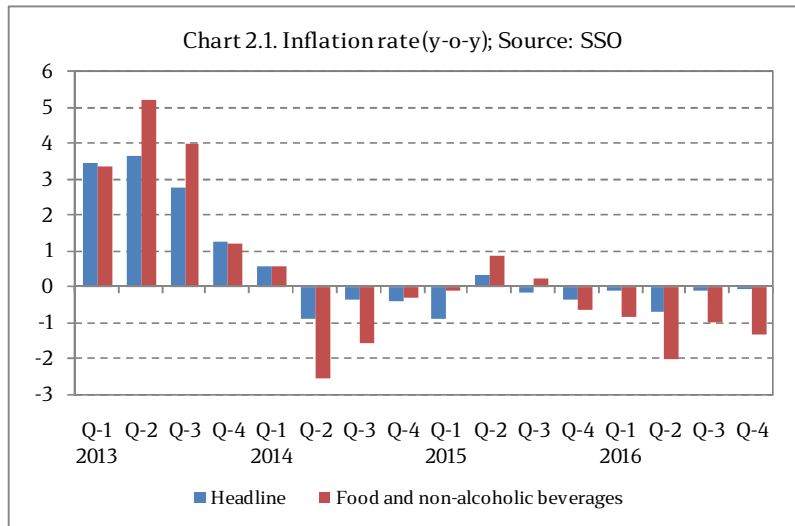


persons was higher by 2.1% compared to the same quarter of 2015. Increase of employment was accompanied by the drop of the number of unemployed persons, decreasing by 6.3% on annual basis. Number of active population grew by 0.1%.

Such trends on the labour market caused for the unemployment rate in Q4 2016 to reduce to 23.1%, i.e. by 1.5 percentage points (p.p.) compared to the same quarter in 2015, while compared to the previous quarter, it was lower by 0.3 p.p. Employment rate in Q4 2016 amounted to 43.5%, being higher by 0.8 p.p. compared to the same quarter of 2015. Active population accounted for 56.6% of total working age population, remaining the same compared to the same quarter of 2015.

2. Prices, Costs and Productivity

Inflation rate in Q4 2016, measured according to CPI, amounted to -0.1% on annual basis, as it was in the previous quarter. Decrease of consumer prices in Q4 2016 was a result of the reduced prices in the categories: Food and non-alcoholic beverages by 1.3%, Health by 1.0%, Housing, water, electricity, gas and other fuels by 0.5%, Recreation and culture by 0.4%, Education by 0.1% and Miscellaneous goods and services by 1.7%. Category Alcoholic beverages, tobacco and narcotics experienced the highest price increase of 4.9% in Q4 2016, followed by the categories: Furnishings, household equipment and routine maintenance of the house by 3.6%, Clothing and footwear by 1.4%, Communications by 1.2%, Restaurants and hotels by 1.0% and Transport by 0.9%.

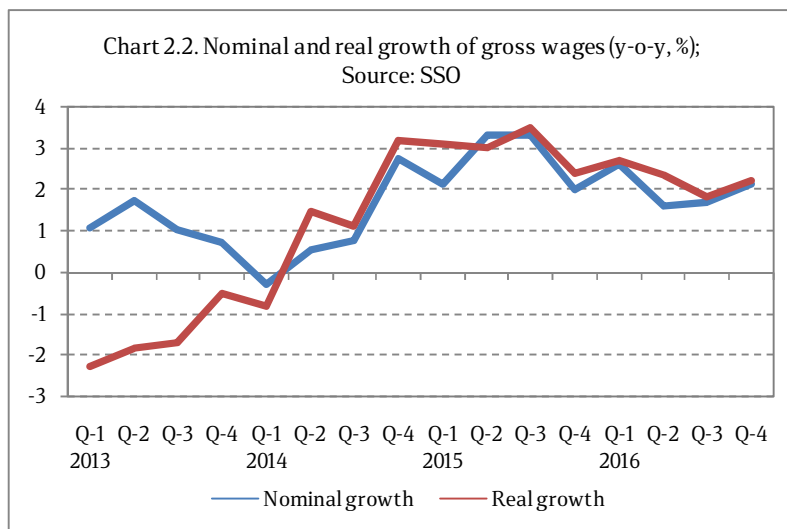


Retail prices in Q4 2016 increased by 0.3% compared to the same quarter of 2015, following the same level observed in the previous quarter. Prices of services in Q4 2016 experienced 0.5% growth, while prices of goods surged by 0.1% compared to the same quarter in 2015. Within Goods category, prices of industrial products grew by 0.5%, while prices of agricultural products dropped by 3.8%. Increased prices of industrial products were a result of the higher prices of tobacco by 6.1%, non-food industrial products by 0.5% and beverages by 0.1%, while retail price of food industrial products was lower by 0.5%.

Average monthly **net salary** in Q4 2016 amounted to Denar 22,765, while average monthly **gross salary** amounted to Denar 33,425. Compared to the same quarter in 2015, net/gross salary experienced 2.1% growth in nominal terms, i.e. 2.2% growth in real terms.

Labour productivity in Q4 2016 grew by 0.2% as a

result of the higher growth of economic activity than the increase of the number of employees in the economy.



3. Fiscal Sector

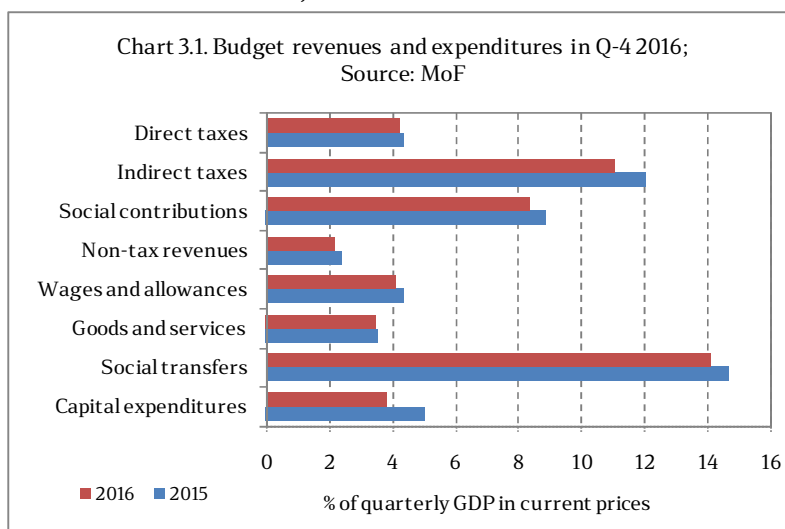
Total budget revenues experienced lower performance by insignificant 0.5% in Q4 2016, compared to the same quarter of 2015, accompanied by 2.4% higher budget expenditures. This caused for **consolidated budget deficit** to amount to Denar 6,982 million in Q4 2016 or 4.4% of GDP realized in this quarter (central budget deficit amounted to Denar 5,843 million, i.e. 3.6% of quarterly GDP).

Share of total **budget revenues** accounted for 27.2% of the realized quarterly GDP, being lower by 0.5% compared to the same quarter of 2015, due to the lower performance of non-tax revenues. Tax revenues increased by 2.7%, while social contributions grew by 3.8%. As regards the tax revenues, higher collection was recorded at personal income tax, excise duties, customs duties, profit tax and revenues on basis of other taxes, while value added tax experienced lower collection.

VAT revenues predominated, accounting for 44.6% of the total tax revenues in Q4 2016, being lower by 0.7% compared to the same quarter of 2015. As for VAT revenue structure, the highest share was on the basis of import, followed by VAT revenues collected on the basis of sales in the country. Excise revenues were higher by 4.6%, while customs revenues increased by 4.4%.

As for direct taxes, collection of revenues on the basis of personal income tax increased by 8.2%, while profit tax revenues increased by 4.2% compared to the same quarter of 2015, whereby one should take into account that the increased revenues on the basis of this tax were mainly a result of the additional payments on the basis of tax balances, as well as monthly advance payments.

From the point of view of structural share in GDP, the share of revenues collected on the basis of direct taxes dropped by 0.1 p.p. on annual basis (4.2% of quarterly GDP), while the share of revenues collected on the basis of indirect taxes dropped by 0.9 p.p., i.e. it accounted for 11.1% of GDP in Q4 2016. Collection of indirect taxes in the fourth quarter of 2016 increased by 1.2%, while direct taxes collection experienced 6.7% increase compared to Q4 2015.



Collection of social contributions was higher by 3.8%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 3.6%, health insurance contributions by 4.1%, and employment contributions by 4.2%. Collection of non-tax revenues, accounting for 2.1% of the quarterly GDP, was lower by 2.2% compared to the same quarter of 2015.

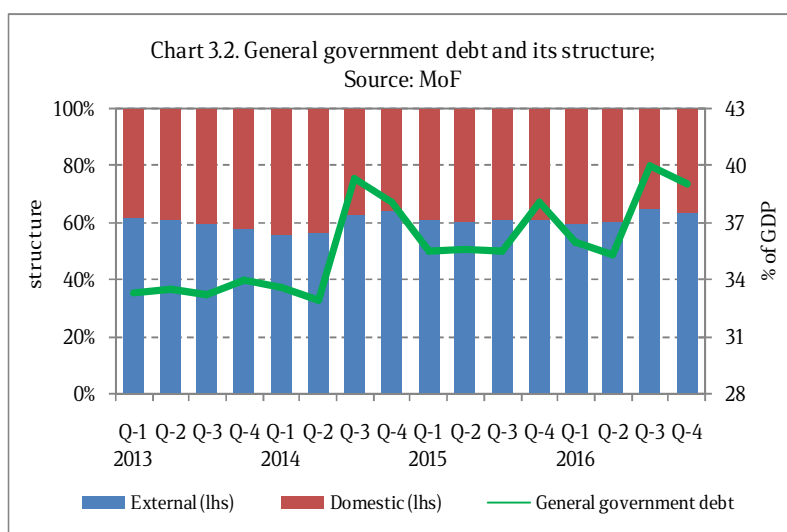
Capital revenues performance in the second quarter of 2016 was lower by 5.1% on annual basis (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends), while revenues on the basis of foreign grants declined by 51.6%.

In Q4 2016, total **budget expenditures**, accounting for 31.5% of the quarterly GDP, were higher by 2.4% compared to Q4 2015. Current expenditures, accounting for 27.7% of the quarterly GDP, participated with 87.9% in the total expenditures and experienced 5.7% higher execution on annual basis. As for the current expenditures, expenditures for goods and services were higher by 9.6%, while expenditures related to wages and allowances increased by 4.3%. Transfers, accounting for 59.8% of the total expenditures, were higher by 3.8%. Social transfers surged by 5.5%, accounting for 44.7% of the total expenditures. Transfers to the Pension and Disability Insurance Fund, accounting for the most of the social transfers, surged by 6.3%, accounting for 27.5% of the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 13.8% of the total expenditures, i.e. they dropped by 1.9%. Block and earmarked grants to local government units reduced by 1.7%, while subsidies and transfers were lower by 2.5% compared to Q4 2015.

Interest-related expenditures grew by 36.2% on annual basis, whereby domestic debt interest-related expenditures increased by 18.8%, and expenditures related to interest on foreign debt surged by 49.3%.

Execution of capital expenditures, accounting for 3.8% of the quarterly GDP in Q4 2016, dropped by 16.5% compared to the same quarter of 2015, i.e. they accounted for 12.1% of the total expenditures.

Total **government debt** at the end of Q4 2016 accounted for 39.1% of GDP, decreasing by 0.9 p.p. compared to Q3 2016 as a result of the regular settlement of state liabilities towards foreign creditors. Share of the external debt in the total government debt, compared to Q3 2016, was lower by 1.4 p.p., accounting for 63.5% of the total government debt. Share of domestic debt increased to 36.5% of the total government debt.



4. Monetary and Financial Trends

In the fourth quarter of 2016, National Bank of the Republic of Macedonia reduced the reference interest rate by 0.25 p.p., from 4.0% to 3.75%, which was due to stabilization of the expectations of the economic agents, as well as the significantly higher structural liquidity of the banking sector, as well as the more favourable trends on the foreign currency market as a result of NBRM's purchase of foreign currency for six months in a row. Interest rate on available 7-day deposits amounted to 0.5% in December 2016 and, compared to the previous quarter, it remained unchanged.

Primary money in Q4 2016 increased by 2.2% on quarterly basis (1.4% growth was recorded in the previous quarter) in conditions of increase of currency in circulation by 8.4%, while total liquidity of banks dropped by 3.8%. Compared to Q4 2015, primary money surged by 7.1% (as opposed to 6.2% growth in Q3 2016), as a result of the increase of currency in circulation by 7.8% and increase of total liquidity of banks by 6.3%.

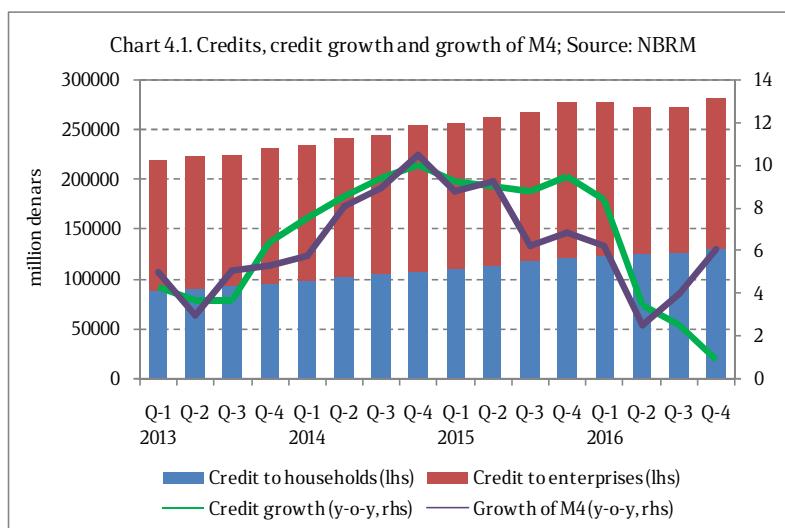
In Q4 2016, the narrowest money supply M1 experienced quarterly increase of 11.9% compared to the previous quarter. Monetary aggregate M2 surged by 7.8%, while the widest monetary aggregate M4 increased by 6.6%.

Total **deposit potential** of banks in Q4 2016 increased by 6.3% on quarterly basis, compared to the previous quarter when the deposit potential grew by 2.3%. Sector analysis showed that deposits of enterprises and deposits of households increased by 15.8% and 3.7% respectively. Analyzed by currency, compared to the previous quarter,

Denar deposits grew by 8.1%, while foreign currency deposits surged by 3.8%. Level of euroization increased by 1.0 p.p. compared to the previous quarter, i.e. to 41.1%, measured through the share of foreign currency deposits in the total deposit potential.

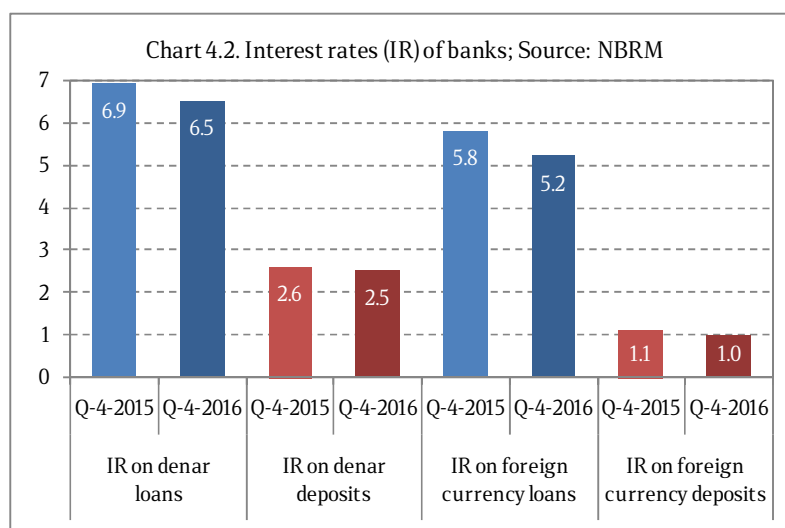
As regards maturity, share of long-term deposits in total deposit potential in Q4 2016 decreased compared to the previous quarter, reaching 26.6% (accounting for 27.4% in Q3 2016), while long-term deposits increased by 2.9% in relation to the previous quarter. Short-term deposits increased by 5.2% in the analyzed period.

Credit activity of banks to non-government sector in Q4 2016 experienced growth of 2.7 % on quarterly basis (compared to 0.2% growth in the previous quarter), in conditions of growth of credits to households and credits to private enterprises by 2.2% and 2.6%, respectively. From currency point of view, Denar credits grew by 3.9%,



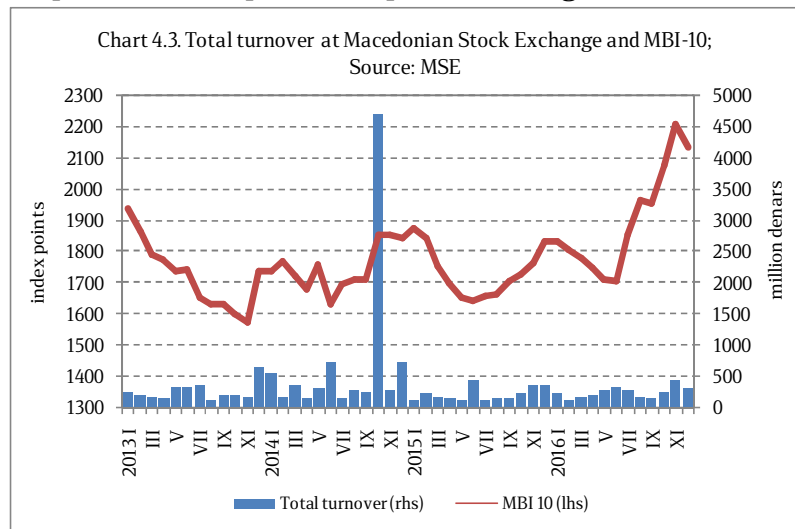
while foreign currency credits registered 2.7% drop in Q4 2016 compared to the previous quarter. From maturity point of view, in Q4 2016, long-term credits experienced 2.4% growth in relation to the previous quarter, while short-term credits surged by 7.5%.

In Q4 2016, **interest rate** on Denar credits amounted to 6.5%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 5.2% in Q4 2016, dropping by 0.2 p.p. compared to the previous quarter. Interest rates on Denar and foreign currency deposits in Q4 2016 remained unchanged on



quarterly basis, accounting for 2.5% and 1.0% respectively. In Q4 2016, interest rate on newly granted Denar credits amounted to 5.7%, while interest rate on newly approved foreign currency credits accounted for 4.6%. Interest rates on newly received Denar and foreign currency deposits accounted for 2.0% and 1.1% respectively.

As regards the **capital market**, in Q4 2016, total turnover on the Stock Exchange experienced 61.8% increase compared to the previous quarter, being a result of the increase of the turnover realized through trading in best, as well as the turnover realized through block transactions by 60.3% and 44% respectively. Compared to the same quarter in 2015, total turnover surged by 6.5% in conditions of increase of the turnover realized through trading in best by 39.6%, while turnover realized through block transactions dropped by 43.7%.



Macedonian Stock Exchange Index MSEI -10, as aggregate indicator of stock exchange trends at the end of the fourth quarter, amounted to 2,134.91 index points, increasing by 9.2% compared to September 2016, while compared to December 2015, the index was higher by 16.5%.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,793.5 million in Q4 2016, surging by 5.5% compared to the same quarter of 2015.

In Q4 2016, **export of goods** amounted to EUR 1,141.1 million, whereby compared to Q4 2015, it surged by 8.2%, while compared to the previous quarter, it decreased by 0.7%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q4 2016, compared to the same quarter of 2015, were registered at the following:

- machinery and transport equipment, increasing by 15.7% (within which export grew at the following categories: industrial machinery, equipment and machine parts by 18.2% or EUR 21 million; electrical machinery, apparatus and appliances by 11.2% or EUR 12.6 million; and road vehicles by 28.4% or EUR 9.9 million);
- chemical products by 12.7% (chemical materials and products by 12.8% or EUR 26.8 million);

- crude materials, inedible, except fuels by 18.1% (metal ores and metal scrap by 16.3% or EUR 4.9 million and crude fertilizers and minerals by 25.9% or EUR 1.7 million);
- beverages and tobacco by 13.1% (beverages by 21.6% or EUR 3.1 million and tobacco and tobacco products by 8.2% or EUR 2.1 million);
- mineral fuels and lubricants by 38.6% (petroleum and petroleum products by 30.2% or EUR 2.9 million and electricity by more than two times or EUR 1.8 million);
- miscellaneous manufactured articles by 1.3% (furniture and parts thereof, bedding, mattresses and similar by 10.6% or EUR 3.5 million) and
- manufactured goods classified chiefly by material by 0.7% (iron and steel by 2.7% or EUR 2.8 million).

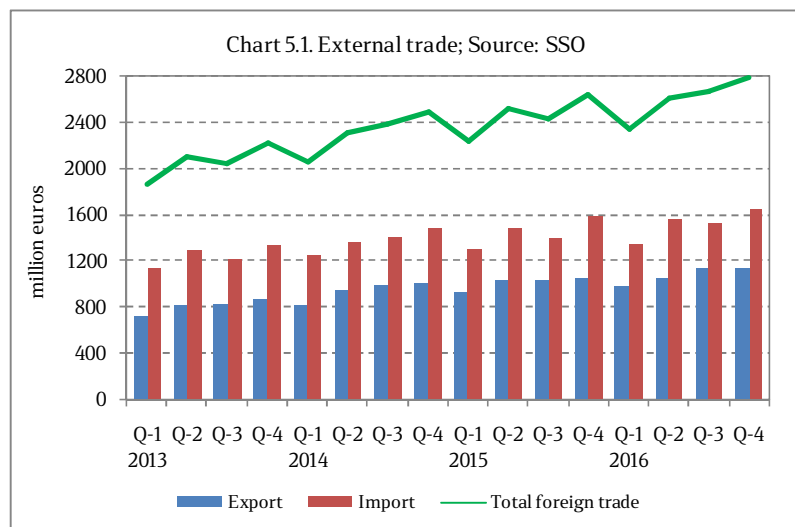
On the other hand, negative export trends were seen at:

- food products, dropping by 8.6% (within which fruit and vegetables category dropped by 17.5% or EUR 9.8 million).

In Q4 2016, observed **by economic purpose**, the largest share in export had industrial supplies (45.6%), followed by the categories: consumer goods (16.5%), products for investments without transport equipment (15.1%), transport equipment (12.1%), food and beverages (9.1%) and fuels and lubricants (1.3%).

Import of goods in Q4 2016 amounted to EUR 1,652.4 million, surging by 3.7% compared to Q4 2015, while in relation to the previous quarter, it increased by 7.3%.

Analyzed **by SITC sectors**, increase of import in Q4 2016, compared to Q4 2015, was seen at:



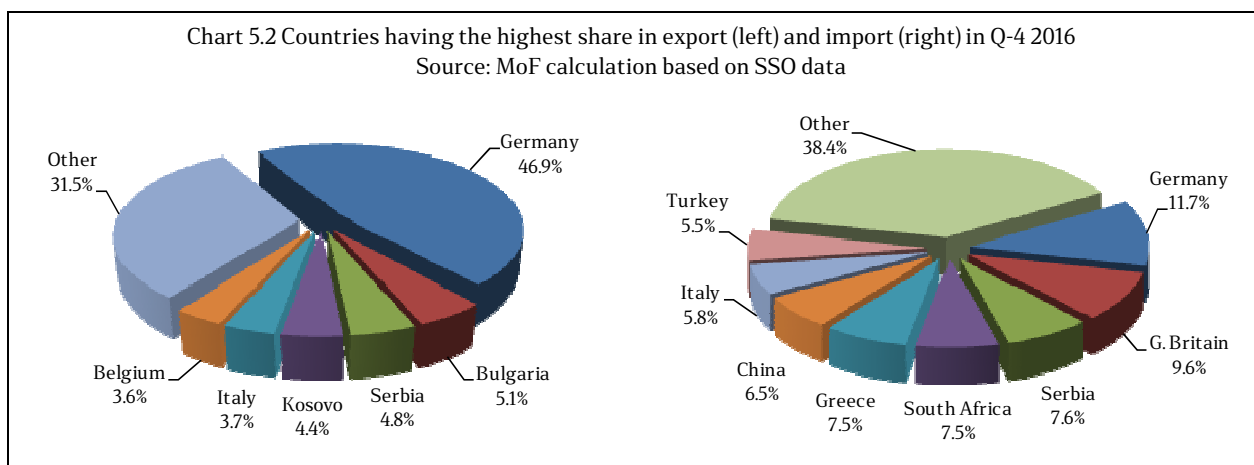
- manufactured goods classified chiefly by material, surging by 7.6% (within which import grew at the category non-ferrous metals by 18.2% or EUR 35.1 million);
- mineral fuels and lubricants by 9.1% (petroleum and petroleum products by 19.3% or EUR 18.3 million);
- machinery and transport equipment by 1.1% (electrical machinery, apparatus and appliances by 3.4% or EUR 3.7 million and machinery specialized for particular industries by 4.8% or EUR 1.5 million);

- chemical products by 1.9% (medical and pharmaceutical products by 19.4% or EUR 6.7 million);
- beverages and tobacco by 12.9% (tobacco and tobacco products by 20.5% or EUR 1.4 million) and
- miscellaneous manufactured articles by 1.6% (furniture and parts thereof, bedding, mattresses and similar by 11.5% or EUR 1.5 million and clothing by 5.6% or EUR 1.1 million).

Decline of import was seen at the following:

- food products dropping by 0.3% (within which drop was seen at the following categories: cereals and cereal preparations by 19.0% or EUR 5.1 million and feeding stuff for animals by 25.1% or EUR 2.1 million) and
- crude materials, inedible, except fuel by 17.6% (metal ores and metal scrap by 33.5% or EUR 6.5 million).

Observed **by economic purpose**, the largest share in import in Q4 2016 had industrial supplies (48.9%), followed by the categories: products for investments without transport equipment (14.3%), consumer goods (11.1%), food and beverages (10.4%), fuels and lubricants (9.4%) and transport equipment (5.8%).

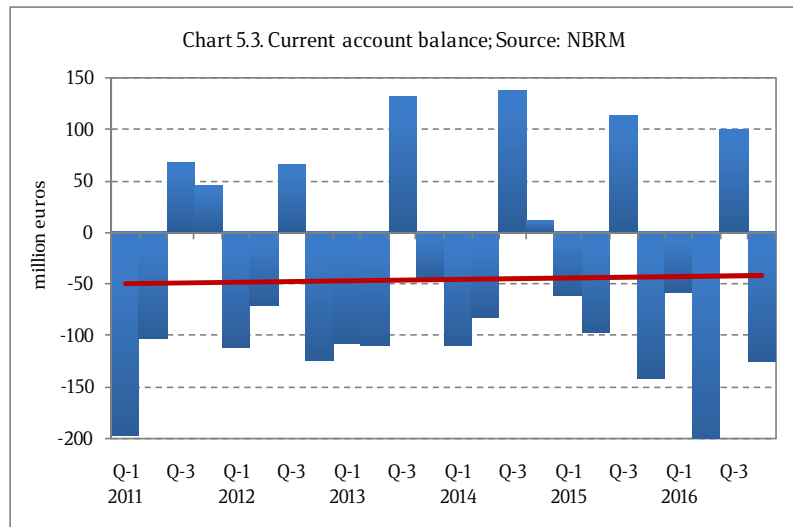


In Q4 2016, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q4 2015, surged by 2.2%, whereby share of trade with the EU in the total foreign trade decreased by 1.4 p.p. compared to the fourth quarter of 2015, accounting for 66.5%. Thereby, in Q4 2016, export of goods accounted for 78.3%, while share of import of goods was 58.3%.

5.2. Balance of payments

According to the data from the National Bank of the Republic of Macedonia, deficit in the amount of EUR 125.6 million was recorded on the balance of payments **current account** in Q4 2016, accounting for 4.8% of quarterly GDP, as opposed to the deficit of 6.0% of GDP registered in the same quarter of 2015.

Analyzed on annual basis, current account deficit in Q4 2016 narrowed by 11.8% (EUR 16.8 million), being a result of the increased surplus on the services account by 45.5%, and narrowing of the deficit on the goods account by 6.9%. Widened deficit on the primary income account by 46.7% and the reduction of the positive balance on the secondary income account by 1.2% had the opposite effect.

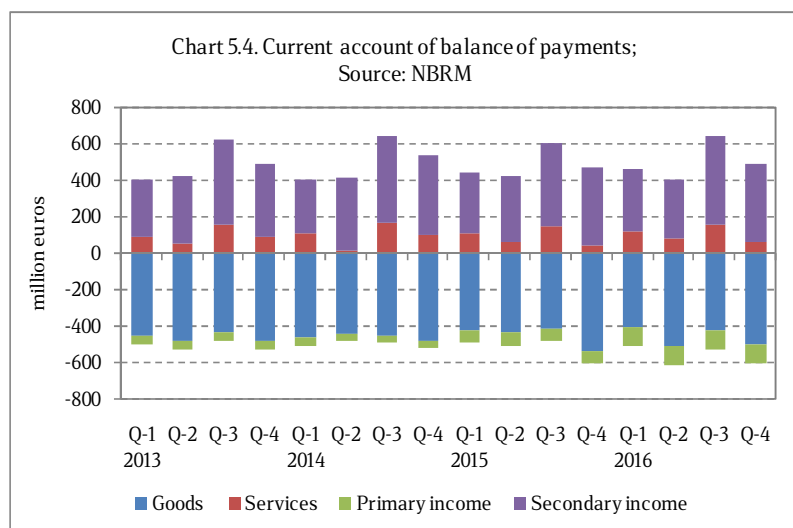


In Q4 2016, in conditions of greater increase of export compared to import of goods, **trade deficit** narrowed by EUR 37.2 million on annual basis, accounting for 19.3% of quarterly GDP, being by 3.6 p.p. lower than the deficit in the same quarter of 2015. Surplus on **services account** amounted to EUR 60.6 million in Q4 2016 and, compared to the same quarter of 2015, it surged by EUR 18.9 million.

Trade openness of Macedonia in Q4 2016 accounted for 114.3% of quarterly GDP, decreasing by 5.7 p.p. compared to Q4 2015.

Primary income account experienced EUR 106.7 million deficit in Q4 2016, widening by EUR 34.0 million on annual basis, being a result of the increased net outflow of income on the basis of investments.

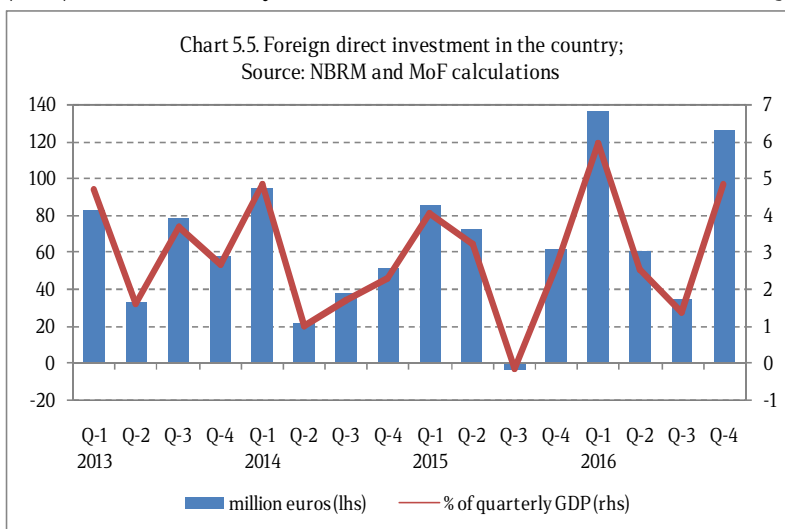
Surplus on the **secondary income** account amounted to EUR 423.5 million in Q4 2016, dropping by EUR 5.4 million on annual basis. Such drop was a result of the decline of private transfers by EUR 10.2 million, accounting for 93.3% of the secondary income account, while the official net transfers, accounting for 6.7% of the secondary income account, picked up by EUR 4.8 million.



Balance on the **capital account** in Q4 2016 was negative, amounting to EUR 0.2 million, unlike the same

quarter of 2015, when the balance on the capital account was positive, i.e. it amounted to EUR 2.4 million.

Foreign direct investments (FDI) in the country amounted to EUR 126.1 million in Q4 2016 and, compared to Q4 2015, they grew by EUR 64.1 million. Most of the FDI in this period, i.e. 53.1% was in a form of reinvested profit and on the basis of equity, while the remaining part was on the basis of debt instruments. Observed by activity, most of FDI in this period, as well as during the previous quarter, were in the industrial sector, particularly in Manufacturing.



Portfolio investments amounted to EUR 2.5 million in Q4 2016, as opposed to the negative value in the amount of EUR 93.0 million in the same quarter in 2015. **Other investments** in Q4 2016 amounted to EUR 124.8 million. As regards the category Other investments, currencies and deposits amounted to EUR 126.6 million, loans amounted to EUR 20.1 million, while trade credits experienced a negative balance in the amount of EUR 21.8 million.

Foreign exchange reserves amounted to EUR 2,613.4 million at the end of the fourth quarter of 2016, surging by 15.5% compared to the same quarter of 2015. Foreign exchange reserves provided for 5-month coverage of import of goods and services in the previous 12-month period, being a significant level of foreign exchange reserves for coping with any possible shocks.