



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department



SHORT-TERM ECONOMIC
TRENDS

August 2018

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SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

August 2018

- Industrial production grew by 2.1% in August 2018 compared to August 2017;
- Consumer prices in August 2018 increased by 1.5% compared to August 2017, following the annual increase of prices by 1.7% in July 2018. Average inflation rate in the period January - August of 2018 amounted to 1.5%.
- Export in the period January - August 2018 surged by 14.9%, while import grew by 11.8%, resulting in increase of the trade deficit by 3.4% compared to the same period in 2017;
- In the first eight months in 2018, total budget revenues amounted to Denar 121,634 million, i.e. 18.3% of GDP, which was higher performance by 4.8% compared to the same period in 2017;
- In the first eight months in 2018, total budget expenditures were executed in the amount of Denar 128,472 million, i.e. 19.4% of GDP, being higher by 1.3% compared to same period last year;
- Total credits of banks in August 2018 grew by 6.2% compared to August 2017, while total deposit potential of banks surged by 11.4%.

1. REAL SECTOR

Industrial Production

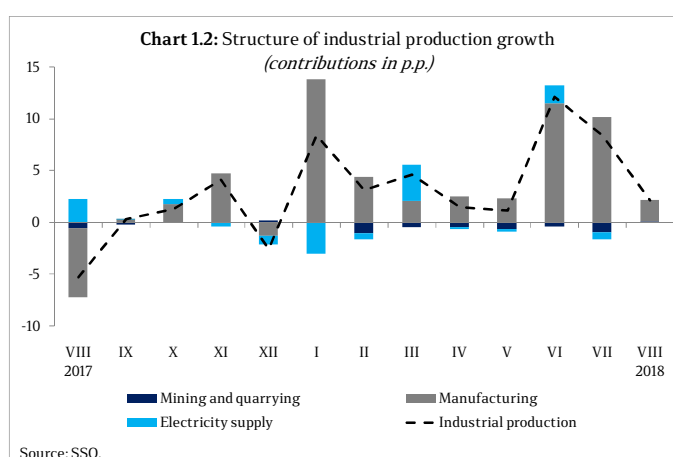
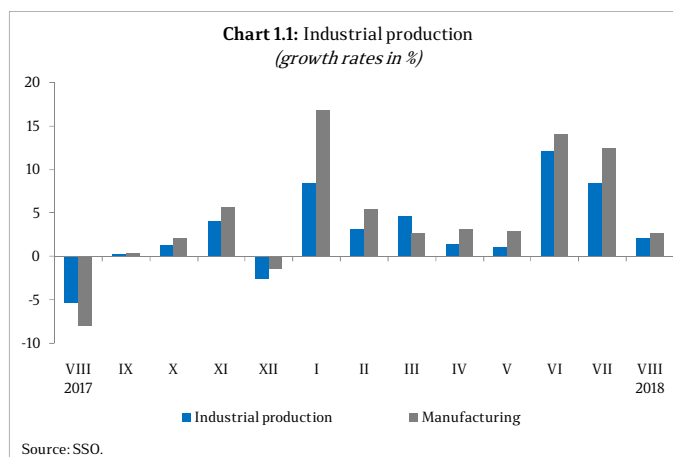
Industrial production grew by 2.1% in August 2018 compared to August 2017. Growth was a result of the positive trends in Manufacturing, where production picked up by 2.6% and the contribution to growth accounted for 2,1 p.p., being underpinned by the 1.0% growth in Mining and quarrying sector, which contribution to growth accounted for 0.1 p.p.. Electricity, gas, steam and air-conditioning sector dropped by 0.8%, whereby the negative contribution to the industrial production growth accounted for 0.1 p.p..

In August, growth of production was registered at 13 out of 27 industrial branches, comprising 52.9% of the total production structure, thus, high growth was seen at the branches with more significant share. As regards higher value-added branches, Manufacture of machinery and equipment

continued to dominantly contribute thereto, observing 32.5% growth in August, which contribution to total production accounted for 4.2 p.p., however, regarding the branches: Manufacture of motor vehicles, Manufacture of electrical equipment and Manufacture of fabricated metal products, also being driving forces of the growth in this month, experienced drop. Manufacture of food products has experienced growth for the third month in a row, intensifying in August 2018 when it accounted for 11.6%, by which the contribution of this branch to total growth accounted for 1.3 p.p..

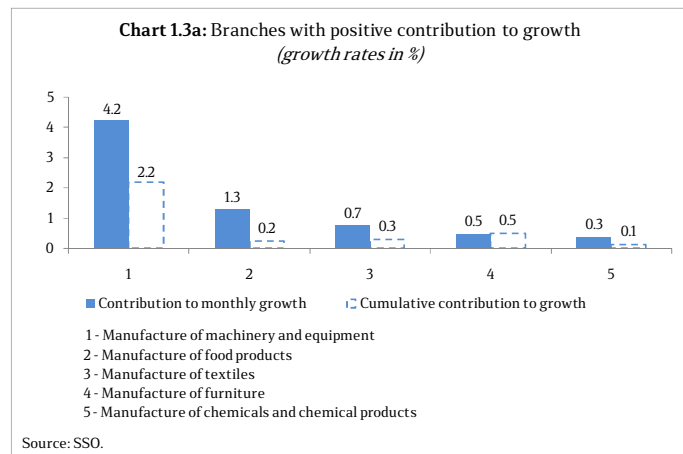
According to the data by target group, growth was registered at the following groups: Capital goods surging by 8.3% (contribution of 1.8 p.p.), Non-durable consumer goods industry picking up by 1.5% (contribution of 0.5 p.p.), Durable consumer goods industry increasing by 12.8% (contribution of 0.3 p.p.) and Energy experiencing 1.9% growth (contribution of 0.2 p.p.), while drop in the production was registered at the Intermediary goods, except energy by 2.0% (contribution of -0.6 p.p.).

As per the cumulative data, production in the first eight months in 2018, experienced 5.1% growth, which was fully a result of the increased production in Manufacturing by 7.2% and contribution of 5.9 p.p., being mitigated by the drop in Mining and quarrying by

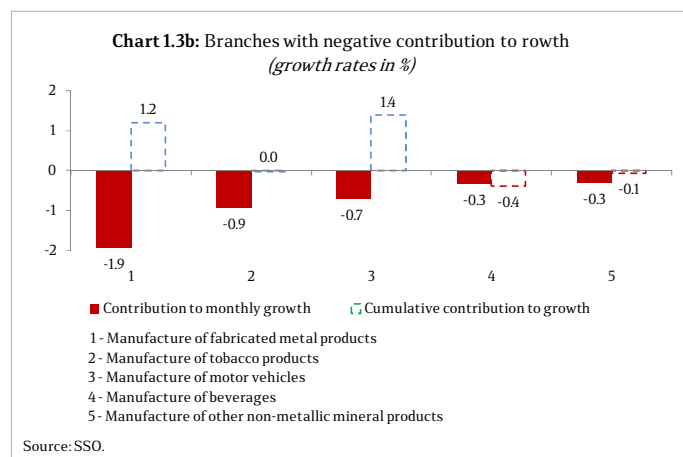


5.8% and negative contribution of 0.5 p.p., as well as Electricity, gas, steam and air-conditioning supply sector by 2.5% and negative contribution of 0.3 p.p..

Data from the analysis by branches shows that growth was registered at 14 out of 27 branches, accounting for 52.5% of industrial production structure. Branches with two-digit share in the structure, experiencing growth, were Manufacture of machinery and equipment, increasing by 16.8% (contribution of 2.2 p.p.) and Manufacture of food products, surging by 2.0% (contribution of 0.2 p.p.), while drop was only seen at Electricity, gas, steam and air conditioning supply, declining by 2.5% (contribution of -0.3 p.p.).



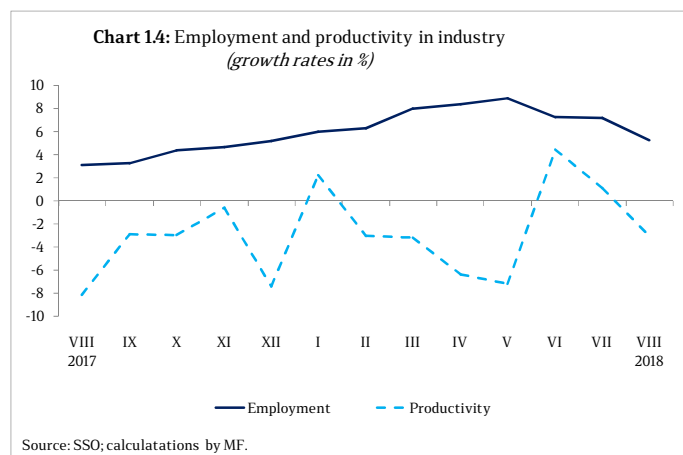
As for target groups, growth was mainly a result of the increased production at Capital goods by 20.6% (contribution of 4.4 p.p.) being underpinned by the increase of production at Durable consumer goods industry by 37.4% (contribution of 0.9 p.p.), as well as Intermediary goods, except energy by 2.1% (contribution of 0.6 p.p.). Growth was mitigated by the drop of production at the following groups: Energy by 4.0% (contribution of -0.5%), and Non-durable consumer goods industry by 0.9% (contribution of -0.3 p.p.)



Number of Employees in the Industry

In August 2018, number of employees in the industry increased by 5.3% annually. Growth was mainly a result of the increased number of employees in Manufacturing by 5.7%, being underpinned by the growth in both Mining and quarrying sector by 1.9% and Electricity, gas, steam and air-conditioning supply sector by 1.7%.

Data on the number of employees in the industry by target groups in



August 2018, compared to the same period last year, showed increase in the number of employees at the following groups: Capital goods by 21.5%, Intermediary goods industry, except energy by 8.3%, Energy by 0.4% and Durable consumer goods industry by 0.2%. Decline of 1.4% was observed only at Durable consumer goods industry group.

Number of employees in the period January - August 2018 grew by 7.2%, which was mainly a result of the increased number of employees in Manufacturing by 8.0%, as well as in Mining and quarrying sector by 1.4%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.1%.

In the first eight months of 2018, number of employees increased in the following target groups: Capital goods by 22.8%, Intermediary goods, except energy by 13.2%, and Non-durable consumer goods industry by 1.3%, while drop of the number of employees was seen at the following groups: Energy decreasing by 0.7% and Durable consumer goods industry declining by 0.1%.

Business Tendencies in Manufacturing

Economic situation of business entities in August 2018 was more favourable compared to July 2018, as well as in relation to the same month in 2017.

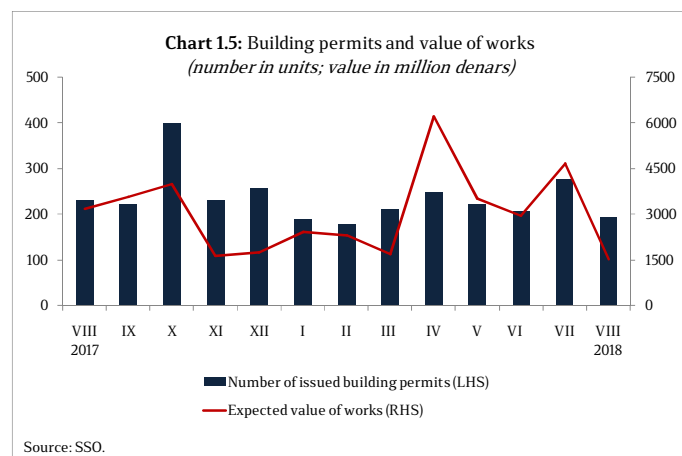
Average utilization of capacities of business entities in August accounted for 68.0%, being an increase compared to the previous month, when it accounted for 67.9%. On annual basis, utilization of the capacities was higher by 2.5 p.p.

Shortage of skilled labour with 23.3%, insufficient domestic demand with 17.2%, insufficient foreign demand with 17.1%, uncertain economic environment with 11.1%, financial problems with 9.7% and competitive import with 6.0% limited the most the production volume in August.

As regards the volume of production orders in August 2018, it was more favourable compared to July 2018, it is expected for the production volume in the next three months to be more favourable compared to the previous month, while stocks of finished products increased on monthly basis.

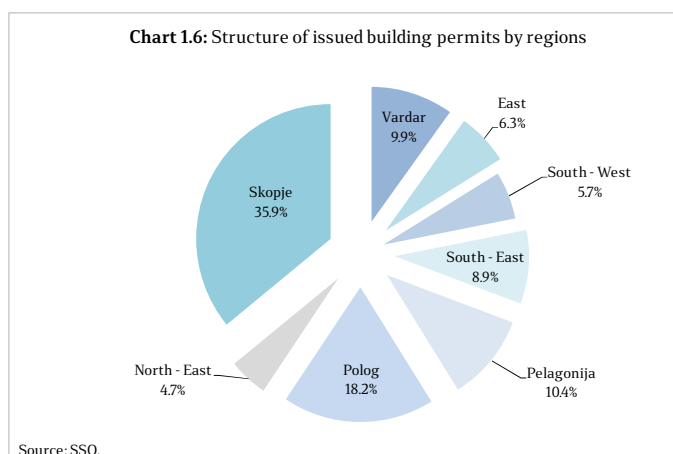
Number of Issued Building Permits and Expected Value of Works

In August 2018, 192 building permits were issued, dropping by 17,2% compared to the same month in 2017. Compared to July 2018, when 276 permits were issued, number of issued building permits declined by 30.4%. Expected value of works, according to the issued building permits compared to August 2017 decreased by 52.4%. Value of works dropped by 67.6% on monthly basis.



Analyzed by types of constructions, out of the total number of issued building permits, 102 (or 53.1%) were intended for buildings, 30 (or 15.6%) for civil engineering structures and 60 (or 31.3%) for reconstruction.

Analyzed by types of investors, out of the total 192 facilities for which building permits were issued, natural persons were investors in 127 facilities (or 66.1%), while business entities were investors in 65 facilities (or 33.9%).

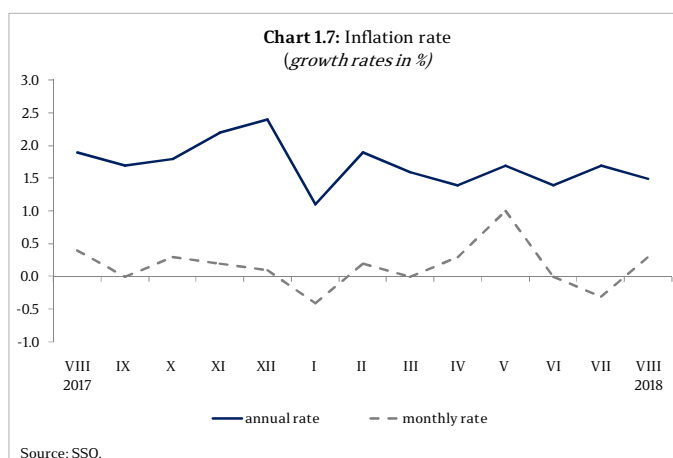


In August 2018, construction of 285 flats was envisaged, with total usable area of 24,783 m². Number of flats envisaged for construction declined by 56.0% compared to the previous month, decreasing by 49.0% on annual basis.

Inflation

Consumer prices in August 2018 increased by 1.5% compared to August 2017, following the annual increase of prices by 1.7% in July 2018. Average inflation rate in the period January - August of 2018 amounted to 1.5%.

Prices in the Food and non-alcoholic beverages category, having the largest share in the CPI index, remained the same in August on annual basis.



Highest annual increase of prices in August 2018 was observed at the Transport category by 10.9%, followed by the increase in prices at the following categories: Alcoholic beverages, tobacco and narcotics by 5.1%, Recreation and culture by 3.6%, Restaurants and hotels by 2.2%, Communications by 1.0%, Furnishings, household equipment and routine maintenance of the house by 0.5%, Clothing and Footwear and Health by 0.4% each and Housing, water, electricity, gas and other fuels by 0.2%.

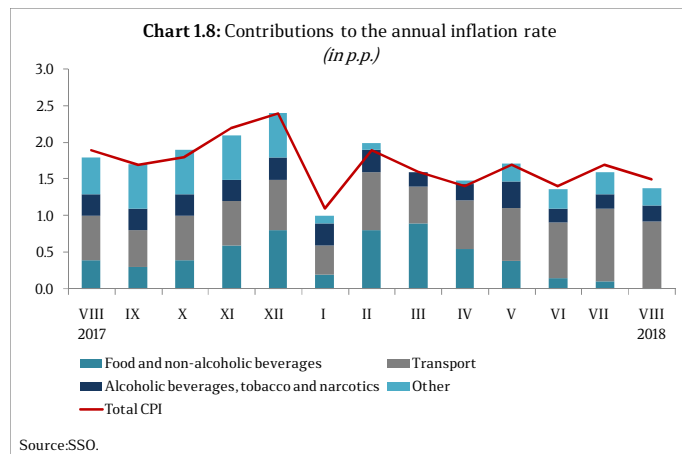
Annual drop in prices in August 2018 was registered at Miscellaneous goods and services category by 0.2%. Prices at Education category remained the same.

Consumer prices in August 2018 increased by 0.3% compared to the previous month. Thereby, increase of prices on monthly basis was recorded in the following categories: Transport by 2.8%, Recreation and culture by 0.8%, Alcoholic beverages, tobacco and narcotics and Restaurants and hotels by 0.4% each and Health by 0.1%.

Monthly drop of prices was recorded at the following categories: Furnishings, household equipment and routine maintenance of the house by 0.5%, Clothing and footwear by 0.2% and Miscellaneous goods and services by 0.1%.

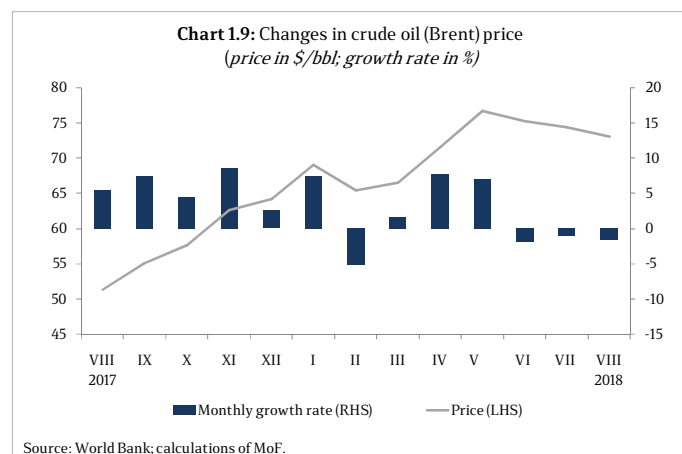
Prices in the following categories: Housing, water, electricity, gas and other fuels, Food and non-alcoholic beverages, Communications and Education remained the same.

Retail prices in August 2018 were higher by 3.3% compared to the same month last year, while on monthly basis, retail prices were increased by 0.9%. In the period January - August 2018, retail price were higher by 3.0%.

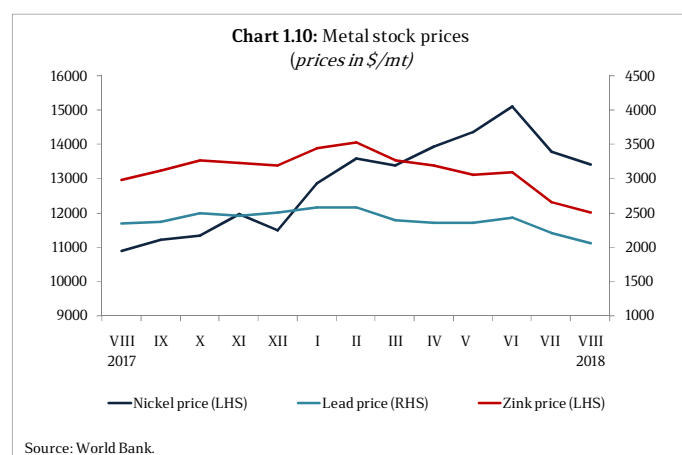


Stock Market Prices

In August 2018, crude oil price (Brent) on the global stock markets dropped by 1.7% compared to the previous month, reaching the price of US\$ 73.1 per barrel. Oil price surged by 42.3% on annual basis. Price of natural gas in August 2018 increased by 3.7% compared to July 2018.



As regards metal products, nickel, as an important export product, was traded at an average price of US\$ 13,411 for a metric ton (\$/mt) in August 2018, being a price decline by 2.8% compared to the previous month. Compared to August 2017, nickel price increased by 23.1%. In addition to nickel, prices of other base metals in August 2018 decreased compared to the previous month. Thus, price of lead decreased by 6.9%, price of zinc declined by 5.4%, price of copper dropped by 3.2%, price of tin decreased by 2.5%, while price of aluminum was lower by 1.4%. Price of iron ore in August grew by 4.0% on monthly basis.



As regards prices of precious metals, they dropped in August

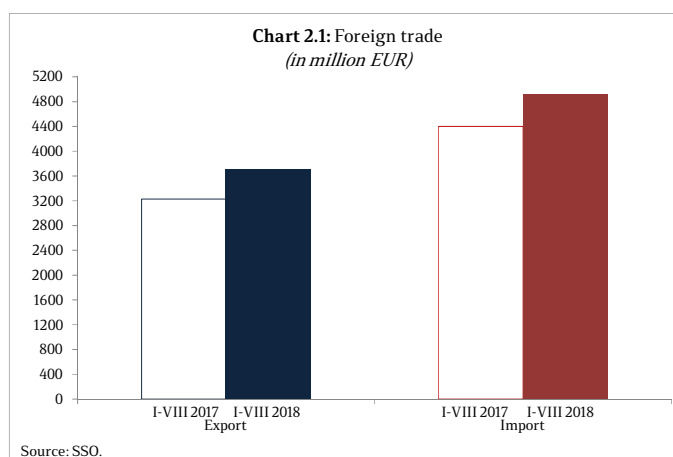
2018 on monthly basis. Hence, price of gold decreased by 2.9%, price of platinum declined by 3.2% and price of silver dropped by 4.5%.

In August 2018, compared to July 2018, price of wheat on global stock markets grew by 5.1%, while price of maize surged by 3.8%.

2. FOREIGN TRADE

Total foreign trade in the first eight months in 2018 amounted to EUR 8,611.9 million, increasing by 13.1% compared to the same period last year.

Foreign trade of the Republic of Macedonia with the European Union (EU 28) participated the most in the total foreign trade in the period January – August 2018, accounting for 71.5%, being an increase by 1.1 p.p. in relation to the same period last year.

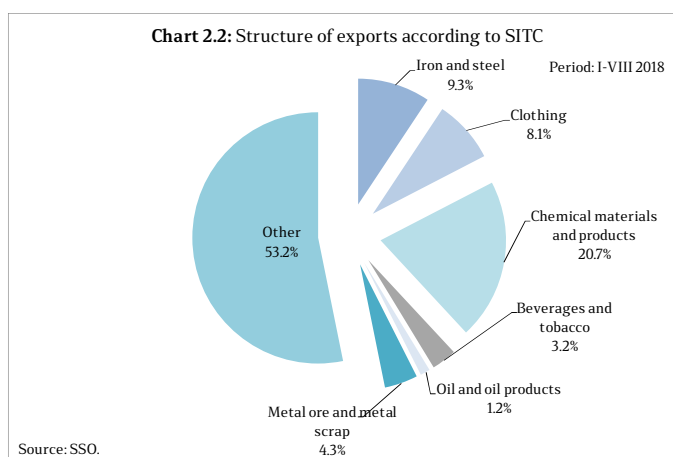


Export

In the period January - August 2018, value of exported goods amounted to EUR 3,699.9 million, surging by 14.9% (EUR 479.6 million) compared to the same period in 2017, while physical output of export grew by 4.4%.

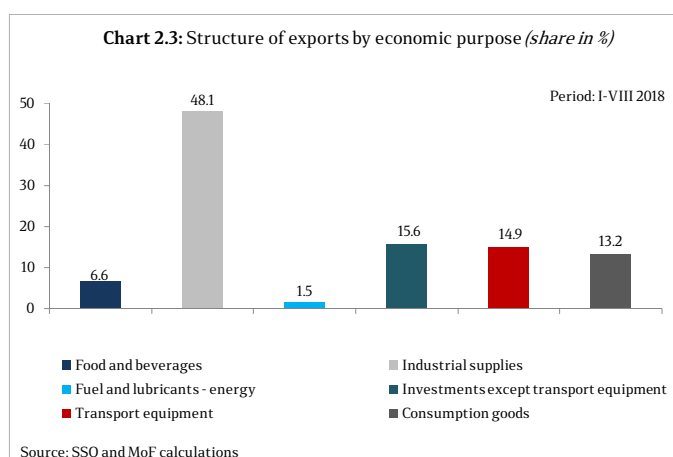
Value of exported goods amounted to EUR 452.1 million in August 2018, increasing by 17.4% (EUR 67.2 million) compared to the same month of the previous year, while physical output of export dropped by 2.3%.

Analyzed on monthly basis, in August 2018, export dropped by 6.0% (EUR 28.7 million), compared to the previous month and, should export be seasonally adjusted, it registered monthly increase of 1.4%.



Main groups of products (according to SITC) being the most exported in the period January – August 2018 were the following: chemical materials and products, iron and steel, clothing, metal ore and metal scrap, beverages and tobacco and oil and oil products. These six groups of products comprised 46.8% of the total export of the country.

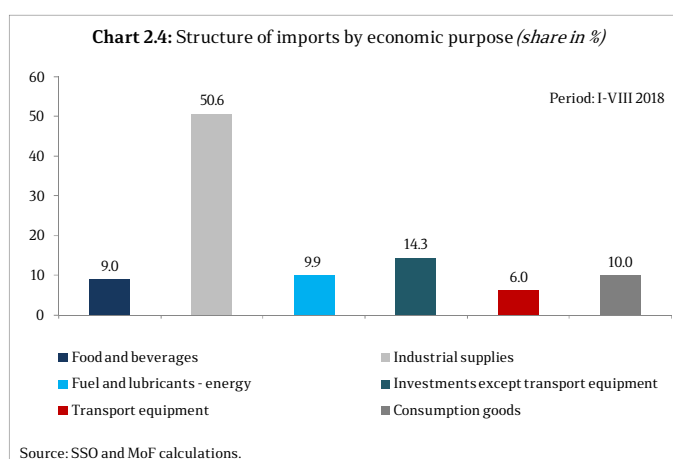
Analyzed according to economic groups of countries, in the period January – August 2018, compared to the same period in 2017, export grew at the following groups: EU 28, EFTA, Organization of Petroleum Exporting Countries, Western Balkan Countries and North American Free Trade Agreement, while drop was recorded at the following groups: Asia-Pacific Economic Cooperation and Commonwealth of Independent States. Export to EU 28 grew by 17.1% annually, while export to Western Balkan countries increased by 7.1%, whereby export of goods to EU 28 and the Western Balkan countries accounted for 82.7% and 10.7% respectively in the total export from the Republic of Macedonia.



Import

In the period January – August 2018, value of imported goods amounted to EUR 4,911.9 million, surging by 11.8% (EUR 518.9 million) compared to the same period in 2017, while physical output of import dropped by 3.1%.

In August 2018, import value amounted to EUR 597.5 million, surging by 11.2% (EUR 60.0 million) compared to the same month in 2017, while imported quantities of goods grew by 4.9%.



Analyzed on monthly basis, in August 2018, import dropped by 6.8% (EUR 43.5 million), compared to the previous month, and, should import be seasonally adjusted, it registered monthly increase of 0.7%.

Table 2.1. Review of export and import of selected groups of products

Export of oil and oil products*)					Import of oil and oil products*)				
	I - VIII - 2017	I - VIII - 2018	Balance	% rate		I - VIII - 2017	I - VIII - 2018	Balance	% rate
000 T	80,4	94,7	14,3	17,8	.000 T	687,4	668,6	-18,9	-2,7
EUR mil.	32,1	45,1	13,0	40,4	EUR mil.	290,6	348,2	57,6	19,8
\$ mil.	35,7	53,8	18,2	51,0	\$ mil.	321,5	415,3	93,9	29,2
*)Previous data					*)Previous data				
Export of chemical products*)					Import of chemical products*)				
	I - VIII - 2017	I - VIII - 2018	Balance	% rate		I - VIII - 2017	I - VIII - 2018	Balance	% rate
000 T	28,3	17,1	-11,1	-39,3	.000 T	19,4	20,6	1,2	6,3
EUR mil.	662,7	765,7	103,0	15,5	EUR mil.	117,1	139,6	22,4	19,1
\$ mil.	731,9	915,3	183,4	25,1	\$ mil.	129,0	167,2	38,2	29,6
*)Previous data					*)Previous data				

Export of iron and steel*)					Import of iron and steel*)				
	I - VIII - 2017	I - VIII - 2018	Balance	% rate		I - VIII - 2017	I - VIII - 2018	Balance	% rate
000 T	464,1	499,6	35,5	7,6	.000 T	484,7	551,3	66,6	13,7
EUR mil.	303,4	345,2	41,8	13,8	EUR mil.	246,1	304,0	57,9	23,5
\$ mil.	336,3	412,0	75,7	22,5	\$ mil.	272,2	365,1	92,9	34,1

*)Previous data

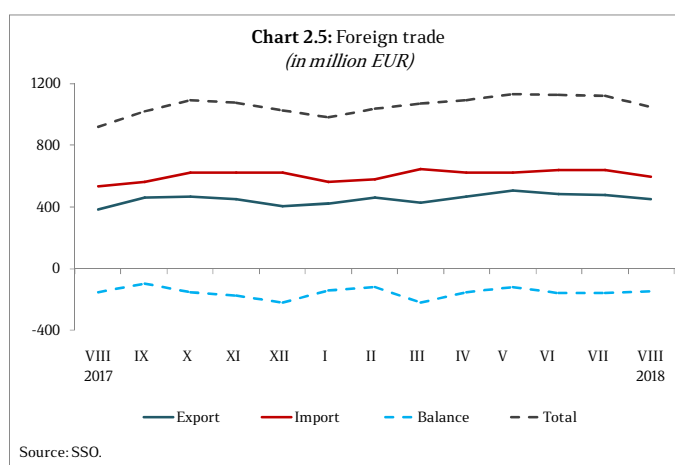
*)Previous data

Trade Balance

In the period January - August 2018, trade deficit increased by 3.4%, i.e. by EUR 39.4 million, compared to the same period last year.

In August 2018, trade deficit decreased by 4.7%, i.e. EUR 7.2 million compared to August 2017.

If we analyze the balance of export and import of goods by economic purpose, deficit increase was a result of widening of negative balance in the trade of industrial supplies, investment goods without transport equipment, fuels and lubricants and food and beverages, as well as narrowing of positive balance in the trade of consumer goods. On the other hand, widening of positive balance in the trade of transport equipment contributed to reducing the deficit.



In the period January – August 2018, 94.6% of the trade deficit of the country was realized in the trade with Great Britain, Greece, China and Serbia, followed by: Turkey, Italy, South Africa, the USA, Poland and others. Surplus was realized in the trade with Germany, Kosovo, Belgium and Spain.

Currency Structure

Observed by currency structure, 87.7% of the trade in the period January – August 2018 was realized in euros and, compared to the same period in 2017, it surged by 0.5 p.p.. On export and import side, euro accounted for 93.1% and 83.6%, respectively, whereby share of the euro in export was higher by 0.5 p.p., while increase of the share of the euro in import accounted for 0.4 p.p. compared to the period January–August 2017.

import	I - VIII - 2017					I - VIII - 2018					absolute change in currency value	relative change in currency value (in %)
	currency	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar	structure in %	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar		
EUR	2.937,7	3.656.249.079	61,5894	225.186.187.012	83,2	2.915,3	4.106.172.540	61,5198	252.610.913.413	83,6	449.923.461	12,3
USD	1.232,0	772.182.877	55,9211	43.181.315.898	16,0	1.122,0	908.799.888	51,3768	46.691.230.090	15,5	136.617.011	17,7
GBP	3,1	14.274.841	70,8507	1.011.382.499	0,4	4,3	19.542.242	69,6777	1.361.658.454	0,5	5.267.400	36,9
EUR+USD+GBP	4.172,8			269.378.885.409	99,2	4.041,5			300.663.801.957	99,5		
tot. import	4.182,1			270.584.802.831	100,0	4.052,8			302.182.122.315	100,0		11,7

Source: SSO and NBRM

3. FISCAL SECTOR

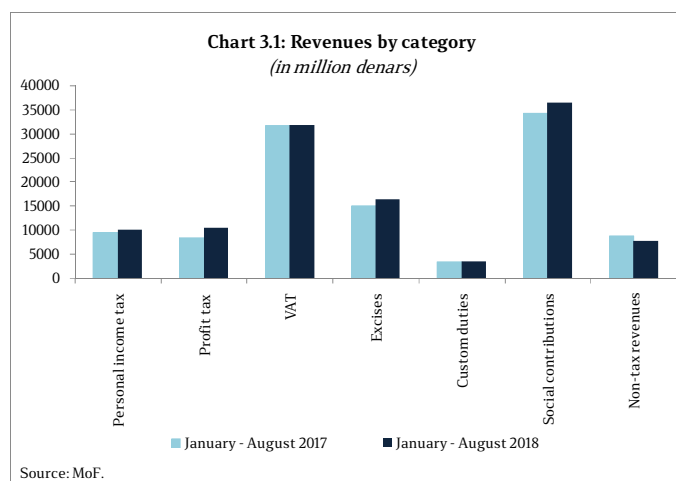
Budget Revenues According to the Economic Classification

In the first eight months in 2018, total budget revenues were collected in the amount of Denar 121,634 million, i.e. 18.3% of GDP, which was higher performance by 4.8% compared to the same period in 2017.

Tax revenues in this period were collected in the amount of Denar 73,197 million, being higher by 7.0% in relation to the same period last year.

Revenues on the basis of value added tax were collected in the amount of Denar 31,954 million, increasing by 0.6% in relation to last year, whereby share of VAT in total tax revenues was dominant, accounting for 43.7%. Thereby, VAT collection amounted to Denar 48,547 million on gross basis, out of which Denar 16,593 million was refunded to taxpayers (gross collection was higher by 8.1%, while VAT refund was higher by 26.2% compared to the same period in 2017). As for VAT structure, collection of VAT when importing accounted for the most, increasing by 12.6%, while VAT revenues collected on the basis of sales in the country dropped by 1.1%.

Revenues on the basis of excises were collected in the amount of Denar 16,550 million (participating with 22.6% in the tax revenues), surging by 9.9%. Hence, revenues collected on the basis of these two indirect taxes amounted to Denar 48,504 million, i.e. 66.3% of the total tax revenues in this period.



PIT revenues were collected in the amount of Denar 10,198 million, increasing by 6.4% on annual basis, whereby revenues on the basis of tax on salaries and other personal earnings accounted for 67.4% of the personal income tax, capital revenues accounted for 8.7%, revenues on the basis of contractual agreement accounted for 6.6%, revenues on the basis of games of chance and award games accounted for 6.0% and revenues on the basis of property and property rights accounted for 3.7%. Profit tax revenues in these eight months were collected in the amount of Denar 10,503 million, increasing by 25.2% compared to the same period in the previous year, being mainly a result of the tax collected on the basis of monthly advance payments (23.5% increase), additional payments on the basis of tax balances (36.9% increase), as well as withholding tax for foreign legal entities (39.2% increase).

Revenues on the basis of customs duties were collected in the amount of Denar 3,660 million, increasing by 9.0%. Collection of revenues on the basis of other taxes, amounting to Denar 332 million, surged by 18.6% compared to last year.

Social contributions were collected in the amount of Denar 36,566 million, being higher by 7.0% compared to the same period in 2017, whereby collection of pension and disability insurance contributions grew by 6.8%, while collection of employment contributions and health insurance contributions experienced 7.3% growth each.

Non-tax revenues were collected in the amount of Denar 7,866 million and, in relation to the same period in 2017, they were lower by 10.8% (these revenues include revenues on the basis of profit realized by the public institutions, revenues collected on the basis of administrative fees and fines, concessions, etc.).

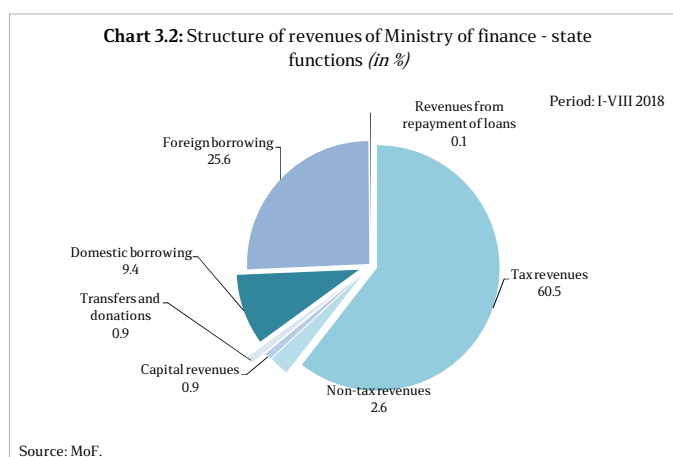
Capital revenues realized on the basis of sale of construction land, flats and dividends reached Denar 1,007 million, increasing by 76.4% compared to last year.

Revenues collected on the basis of foreign donations from international and bilateral cooperation amounted to Denar 1,791 million, decreasing by 39.9% compared to the same period last year.

Revenues by budget users

Budget revenues, i.e. inflows to the Central Budget, are generated mainly through the Ministry of Finance – Functions of the State, which amounted to Denar 119,445 million in the period January - August 2018, i.e. 94.6% of the revenues of all budget users, accounting for 75.3% of the annual projections of this budget user.

Within the organizational code Ministry of Finance – Functions of the State, tax revenues accounted for the most – 60.5% of total revenues and inflows to this budget user, whereby their collection reached 64.8% of the annual projections by August.



Inflows on the basis of foreign borrowing in this period amounted to Denar 30,529 million, accounting for 25.6% of the total amount of this budget user.

Next budget user, having the highest revenues and inflows, is the Ministry of Education and Science that collected revenues in the amount of Denar 1,905 million, i.e. 1.5% of the revenues and inflows of all budget users, most of which, i.e. 80.8% were non-tax revenues, collected mainly on the basis of fees and charges.

Ministry of Health collected revenues in the amount of Denar 851 million, i.e. 0.7% of the revenues and inflows of all budget users, while 43.6% of that amount were inflows on the basis of tax revenues. The remaining budget users collectively generated revenues, accounting for 3.2% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/693>).

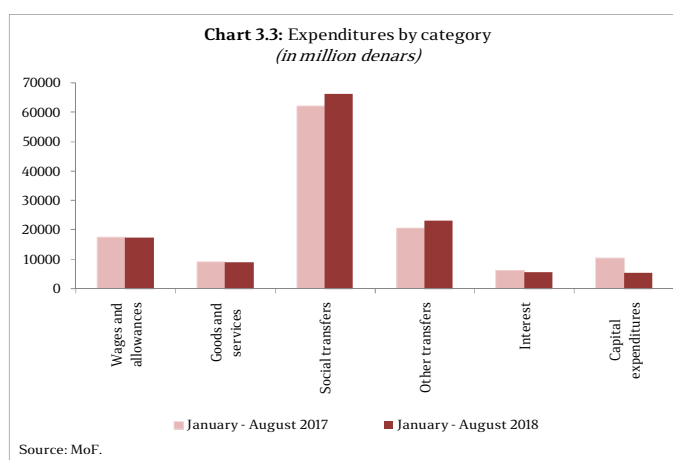
As for budget funds, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 45,062 million in the period January – August 2018, accounting for 66.3% of the Fund’s annual projections. Health Insurance Fund of Macedonia in this period collected revenues in the amount of Denar 19,641 million, i.e. 68.3% of the Fund’s annual projections. Employment Agency of the Republic of Macedonia in the first eight months of 2018 collected revenues in the amount of Denar 1,575 million, accounting for 67.6% of the annual projections.

Budget Expenditures According to the Economic Classification

In the first eight months in 2018, total budget expenditures were executed in the amount of Denar 128,472 million, i.e. 19.4% of GDP, being higher by 1.3% compared to same period last year.

With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 122,867 million, accounted for 95.6% and they increased by 5.6% in relation to the same period in 2017.

Expenditures related to wages and allowances were executed in the amount of Denar 17,463 million, dropping by 0.1% in relation to the same period in the previous year, accounting for 13.6% of the total budget expenditures.



Expenditures related to goods and services amounted to Denar 9,064 million, increasing by 0.1% compared to the same period in 2017.

Funds allocated for transfers amounting to Denar 90,598 million accounted for the most in the current expenditure items. Such expenditures grew by 8.2% compared to the same period in 2017, participating with 70.5% in the total expenditures.

Funds allocated for social transfers amounted to Denar 66,389 million, increasing by 7.0% and accounting for 51.7% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 40,319 million, increasing by 5.1% compared to the same period in 2017 and accounting for 31.4% of the total expenditures. Category “other transfers”, which includes transfers to local government units, accounted for 18.1% of the total expenditures, i.e. they grew by 13.0%, amounting to Denar 23,313 million. Block grants to local government units, amounting to Denar 10,423 million, grew by 4.1% compared to the same period in the previous year. Expenditures related to subsidies and transfers amounted to Denar 11,418 million, being higher by 23.9% compared to last year.

Interest payments expenditures amounted to Denar 5,742 million, being lower by 6.7% compared to the same period in 2017. Costs related to interest on the basis of domestic

borrowing increased by 0.2%, while the ones on the basis of foreign borrowing dropped by 9.5%.

During the analyzed period, funds for capital expenditures were executed in the amount of Denar 5,605 million, participating with 4.4% in the total expenditures (0.8% of GDP), i.e. decreasing by 46.2% compared to the same period last year.

Expenditures by Budget Users

Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 88.6% of the total budget of all budget users.

In the period January – August 2018, Denar 33,023 million was spent through the organizational code Ministry of Finance – Functions of the State¹, accounting for 84.2% of the annual Budget. Repayment of principal accounted for most of the expenditures or 71.3%, Denar 23,559 billion being spent therefore in the period January– August 2018, i.e. 104.7% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 17.4% of the total expenditures, Denar 5,750 million being spent therefore or accounting for 66.4% of the projected interest payments.

In the period January – August 2018, Ministry of Labour and Social Policy executed funds in the amount of Denar 28,922 million or 66.3% of its total 2018 budget. Thereby, most of the expenditures (73.2%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 21,159 million was spent or 66.8% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 18.9% in the total expenditures. As for this purpose, 67.8% (Denar 5,453 million) of the expenditures projected for 2018 was executed.

In the period January – August 2018, Ministry of Education and Science executed budget funds in the amount of Denar 14,264 million, i.e. 56.7% of its total 2018 budget. Current transfers to LGUs accounted for the most of the expenditures (63.2%), Denar 9,010 million being spent therefore or 65.3% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 15.5%, Denar 2,216 million being spent therefore, i.e. 63.3% of the total projected funds. As for goods and services (accounting for 13.1% of the total expenditures), Denar 1,869 million was spent, accounting for 44.7% of the total funds projected for this year.

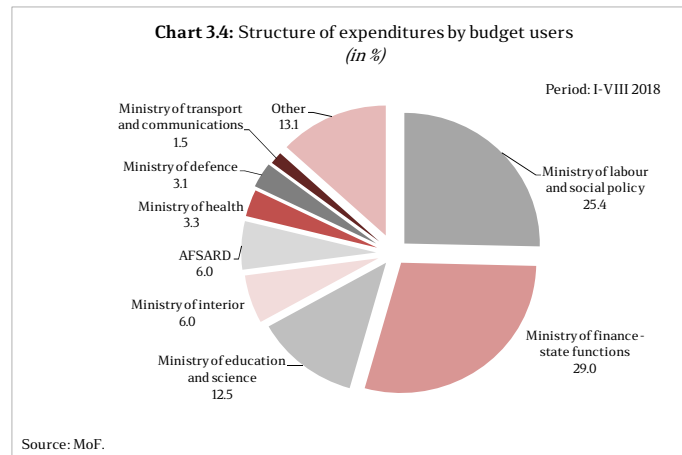
In the first eight months in 2018, Agency for Financial Support in Agriculture and Rural Development (AFSARD) executed expenditures in the amount of Denar 6,838 million, accounting for 79.3% of the funds projected for the current year. During the analyzed

¹ As regards the Organizational Code "*Functions of the State*", the 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.

period, subsidies and transfers were the highest expenditure category (accounting for 93.0%), funds in the amount of Denar 6,359 million being spent therefore or accounting for 93.8% of the projected ones.

In the period January – August 2018, Ministry of Internal Affairs executed expenditures in the total amount of Denar 6,832 million, accounting for 66.3% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with 71.0%, Denar 4,849 million being spent therefore, or accounting for 66.4% of the projected ones. The second highest expenditure item was goods and services, participating with 15.8%, funds in the amount of Denar 1,077 million being spent therefore, or accounting for 63.5% of the annual projections.

In the first eight months in 2018, Ministry of Health executed budget funds in the amount of Denar 3,806 million, accounting for 57.2% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 60.0%, for which



Denar 2,283 million was spent in the period January-August 2018 or 81.8% of the funds projected for 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 30.4% of the total expenditures, funds in the amount of Denar 1.157 million being executed therefore in the analyzed period, i.e. 57.8% of total projected ones. Capital expenditures (participating with 7.8% in the total expenditures) were executed in the amount of Denar 297 million or 17.1%.

In the period January – August 2018, Ministry of Defense executed budget funds in the amount of Denar 3,580 million, i.e. 55.0% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 69.0%, Denar 2,470 million being spent therefore in the first eight months, accounting for 65.3% of the total funds projected for the current year. Expenditures related to goods and services accounted for 21.6% of total expenditures, with Denar 774 million being spent therefore during the analyzed period, i.e. 45.0% execution of the total projected funds.

As regards “Financing the activities in the field of culture”² in the period January – August 2018, funds in the amount of Denar 2,016 million were spent, accounting for 54.2% of its total 2018 budget. Wages and allowances accounted for the most in the total expenditures with 33.7%, while their execution in this period accounted for 64.7%,

² 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 and artistic events, museum and film library activities, international cooperation in the area of culture, support to young talents, organizations in the field of culture, decentralization and more intensive realization of capital projects.

i.e. Denar 680 million was spent therefore. Expenditures related to subsidies and transfers accounted for 33.6%, Denar 677 million being spent therefore or 55.4% of the projected funds. Capital expenditures were executed in the amount of Denar 388 million, accounting for 40.5% of total funds projected for the current year, whereby this expenditure item accounted for 19.2% of the total expenditures.

In the first eight months of 2018, Ministry of Transport and Communications executed funds in the amount of Denar 1,720 million, i.e. 28.4% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 68.6%, while their execution in the period January–August 2018 accounted for 22.7%, i.e. Denar 1,180 million was spent. Expenditures related to subsidies and transfers accounted for 25.3% of the total budget of this user, for which purpose Denar 435 million was spent.

Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/693>).

Budget Balance

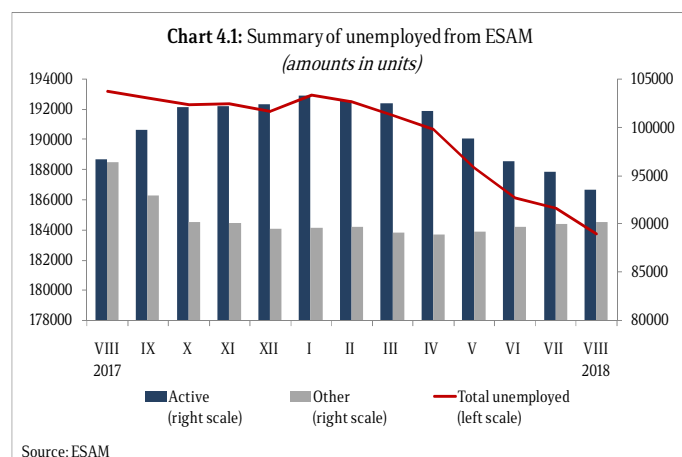
In the period January–August 2018, the budget deficit of the Republic of Macedonia reached the amount of Denar 6,838 million, accounting for 1.03% of GDP, while central budget deficit amounted to Denar 6,626 million or 1.0% of GDP.

4. SOCIAL SECTOR

Number of Newly Employed and Registered Unemployed Persons in EARM

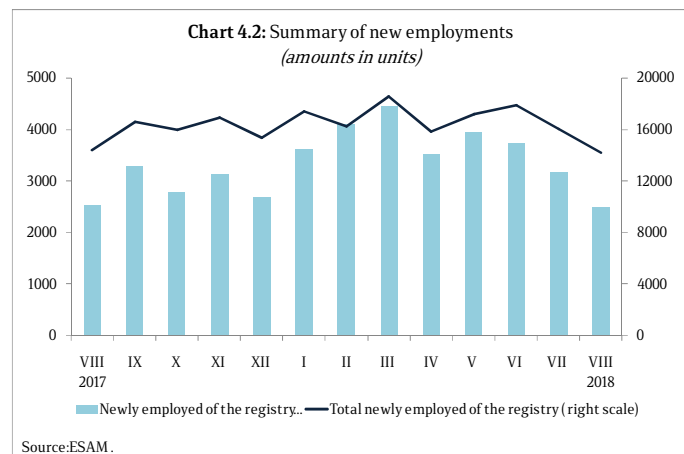
In the period January– August 2018, Employment Agency of the Republic of Macedonia registered total of 133,207 new employments. Total number of newly employed persons in this period was higher by 10.6% compared to the same period in 2017.

As regards the total number of newly employed, 41.7% was engaged on permanent basis, while the rest of the employed were engaged on temporary basis and as seasonal workers. In August 2018, as regard the total number of newly employed persons, 17.5% was from the unemployed records.



Total number of unemployed persons in August 2018 was 183,739, out of which 93,522 persons were active job seekers, while 90,217 persons were from the category “other unemployed”. Compared to the same month last year, total number of unemployed persons was lower by 4.9%.

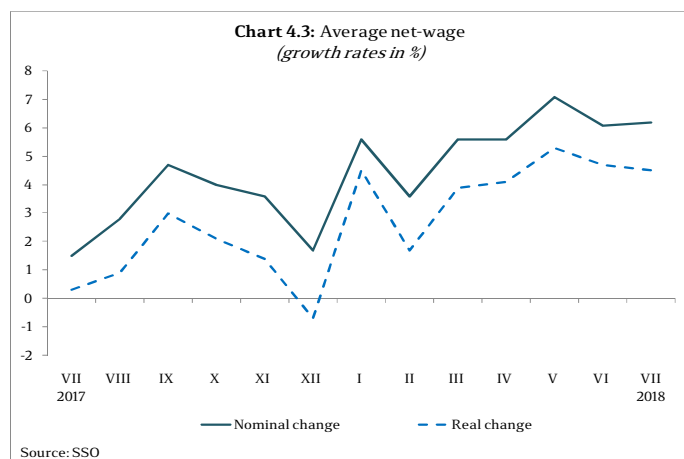
Major percentage of the unemployed (66.8%) came from urban areas (cities), whereby 57.9% were men. Analyzed by the level of education, major part, i.e. 57.2% of the unemployed persons, were with incomplete secondary education or less, 28.0% were with completed secondary education, while 14.8% of the unemployed persons were with completed community college or higher education level.



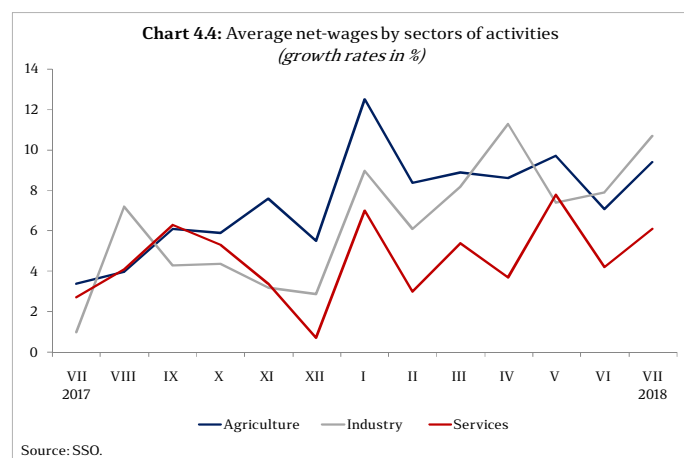
Observed by age, majority of the unemployed persons or 48.0% fall in the category of 25-49 years of age. According to the time they waited for a job, 49.8% of the unemployed persons wait for employment from 1 to 7 years, while 8.4% wait for employment for 8 years and more.

Wages

In July 2018, average net wage increased by 6.2% in nominal terms on annual basis, and it was lower by 0.5% in relation to the previous month. The highest increase of average net wage was observed at the following sectors: Mining and quarrying (26.6%), Information and communications (15.1%) and Accommodation and food service activities (12.6%). In July, wages grew by 4.5% in real terms on annual basis.



In July 2018, average gross wage increased by 6.0% in nominal terms on annual basis, and it was lower by 0.6% in relation to the previous month. The highest increase of average gross wage was observed at the following sectors: Mining and quarrying (25.1%), Information and communications (15.6%) and Accommodation and food service activities (12.0%). Real gross wage surged by 4.3% annually.

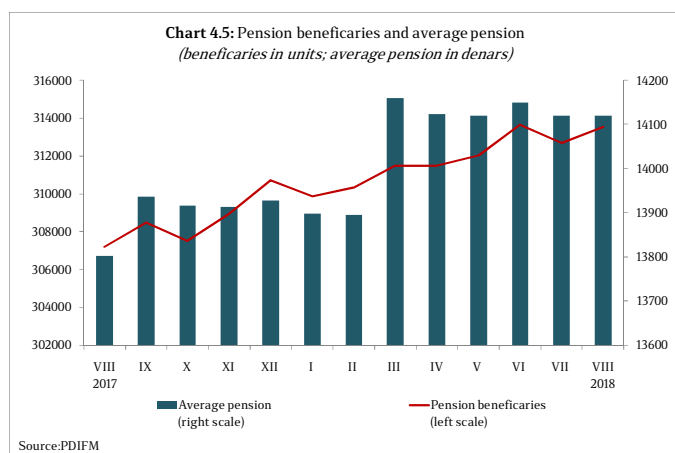


Pensions

In August 2018, Pension and Disability Insurance Fund registered 313,566 pensioners, increasing by 2.1% compared to the same period last year. Number of pension beneficiaries increased on monthly basis, amounting to 863 persons. As regards the total number of pensioners, 64.2% were beneficiaries of old-age pension, 24.3% of survival pension and 11.5% of disability pension.

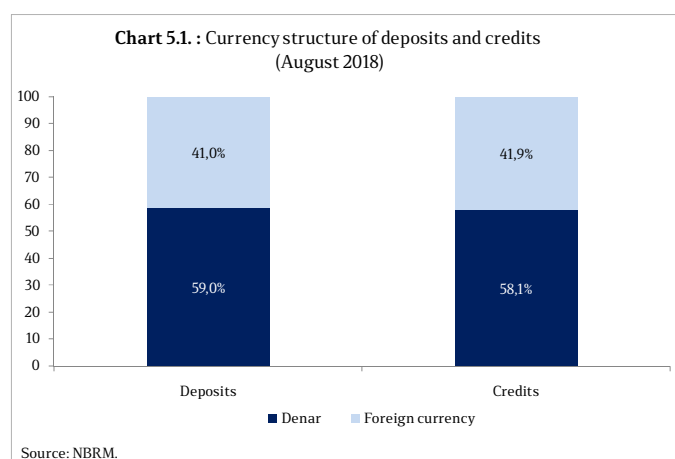
Average pension in August 2018 amounted to Denar 14,121, being higher by 2.3% compared to the same month last year. Ratio between the average pension and the average paid wage in July 2018 (the most recent available data) was 58.7%.

Average old-age pension in August amounted to Denar 15,414, average disability pension amounted to Denar 12,801, while average survival pension amounted to Denar 11.331. In August 2018, Denar 4,338.49 million was spent for payment of pensions, accounting for 52.1% of the total social transfers.



5. MONETARY AND FINANCIAL SECTOR

In August 2018, National Bank of the Republic of Macedonia reduced the reference interest rate from 3.0% to 2.75% as a result of the continuous favourable trends on the foreign currency market, as a result of the solid external position and stable expectations of the economic agents. Developments in the deposit base of banks were also favourable, being also a signal for stable expectations and confidence. Interest rate on available 7-day deposits remained unchanged compared to previous month, accounting for 0.3%.



Primary Money

In August 2018, primary money grew³ by 4.1% on annual basis, in conditions of increase of both total liquid assets of banks by 2.1% and currency in circulation by 5.9%.

³Primary money is calculated as a sum of currency in circulation (including cash in hand), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

On monthly basis, primary money dropped by 5.7%, as a result of decrease of total liquid assets of banks and currency in circulation by 10.3% and 1.0%, respectively.

Deposit Potential⁴

In August 2018, total deposits of banks increased by 1.4% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises grew by 3.6%, while deposits of households surged by 0.4%.

Analyzed by currency, in August 2018, compared to the previous month, Denar deposits increased by 1.8%, while foreign currency deposits picked up 1.0%.

Total deposit potential in August 2018 grew by 11.4% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 12.7% and 9.7% respectively.

From sector point of view, this month, deposits of enterprises grew by 11.7%, and deposits of households increased by 8.8%, on annual basis.

According to maturity, short-term deposits increased by 5.6%, while long-term deposits surged by 14.9%, on annual basis.

Currency structure of deposits remained stable, whereby share of domestic currency deposits in the deposit base was higher, accounting for 59.0%.

Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (August 2018)	Denar million	Monthly change	Annual change
Deposit Potential	359,404	1.4%	11.4%
Denar	212,156	1.8%	12.7%
Foreign currency	147,248	1.0%	9.7%
Short-term	161,482	0.5%	5.6%
Long-term	99,905	1.2%	14.9%
Credits to private sector	307,855	0.2%	6.2%
Denar	179,004	0.4%	8.7%
Foreign currency	128,851	0.0%	2.9%
Short-term	56,138	0.4%	6.3%
Long-term	232,965	0.3%	8.6%
Doubtful and contested claims	15,633	0.0%	-17.7%

Source: NBRM

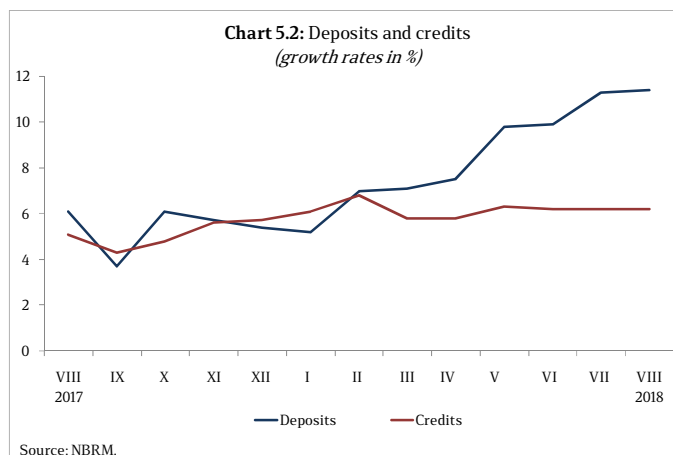
⁴ NBRM published the data from the monetary statistics, statistics of other financial corporations and the statistics of interest rates according to the new methodology. Methodologic changes were made for the purpose of harmonization with the recommendations under the newly published IMF Monetary and Financial Statistics Manual and Compilation Guide as of 2016 (MFSMCG – IMF, 2016) and the IMF Technical Mission in the field of monetary and financial statistics in NBRM as of 2015.

Bank Credits

In August 2018, total credits of banks to the private sector surged by 0.2% compared to the last month. Sector analysis showed that, in August 2018, credits to enterprises experienced a decline of 0.1%, while credits to households increased by 0.6%. Analyzed by currency, in August 2018, Denar credits grew by 0.4%, while foreign currency credits remained unchanged, on monthly basis.

On annual basis, total credits grew by 6.2% in August 2018, in conditions of growth of both credits to households of 9.9% and credits to enterprises of 2.6%. Denar credits surged by 8.7%, while foreign currency credits increased by 2.9%.

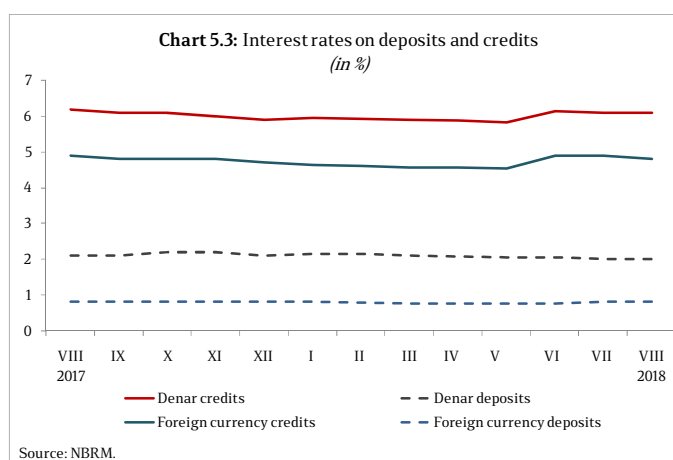
As regards maturity, long-term credits experienced annual growth of 8.6%, and short-term credits surged by 6.3%.



Interest Rates of Deposit Banks

In August 2018, total interest rate on credits dropped by 0.02 p.p. compared to the previous month, accounting for 5.49%. Interest rate on Denar credits dropped by 0.01 p.p., accounting for 6.05%, while interest rate on foreign currency credits decreased by 0.02 p.p. on monthly basis, accounting for 4.84%.

Total interest rate on deposits in August 2018 was 1.42%, remaining unchanged compared to last month. Interest rate on Denar deposits remained unchanged, accounting for 1.98%, while interest rate on foreign currency deposits increased by 0.01 p.p. compared to the last month, accounting for 0.78%.



Capital Market

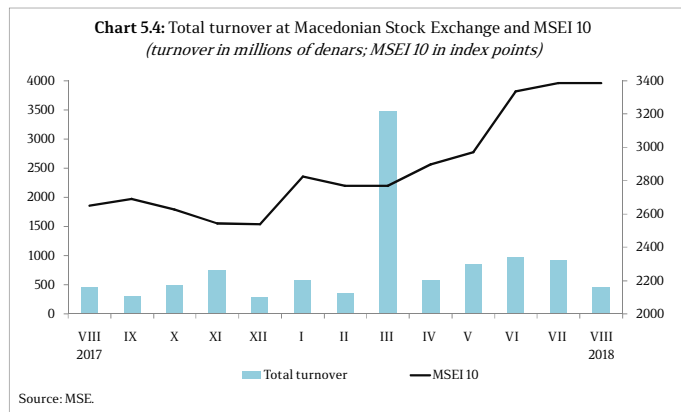
As for the capital market, in August 2018, total turnover on the stock exchange dropped by 48.6% on monthly basis, as a result of the decline of the turnover from block transactions and the turnover from trading in best by 58.9% and 34.5%, respectively.

Total turnover on the stock exchange amounted to Denar 46 8.8 million in August 2018, increasing by 1.5% on annual basis. Macedonian Stock Exchange Index MSEI - 10 amounted to 3,383.38 index points at the end of August 2018, whereby the index

dropped by 0.1% on monthly basis, while, compared to the same month last year, the index was higher by 27.8%.

Reserve Assets

Gross reserve assets at the end of August 2018 amounted to EUR 2,698.6 million and, compared to the previous month, they were higher by EUR 75.8 million, while compared to August 2017, they were higher by EUR 423.2 million.



MINISTRY OF FINANCE
Macroeconomic Policy Department
Gruev Street, no. 12, 1000 Skopje
<http://www.finance.gov.mk/mk>
<http://www.finance.gov.mk/mk/node/693>