



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department



SHORT-TERM ECONOMIC TRENDS

June 2018

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SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

June 2018

- In June 2018, industrial production increased by 12.1% compared to June 2017.
- Consumer prices in June 2018 increased by 1.4% compared to June 2017, following the annual increase of prices by 1.7% in May 2018. Average inflation rate in the period January - June 2018 amounted to 1.5%.
- Export in the period January – June 2018 surged by 13.6%, while import grew by 11.0%, resulting in increase of the trade deficit by 3.8% compared to the same period in 2017;
- In the first six months in 2018, total budget revenues amounted to Denar 90,650 million, i.e. 13.7% of GDP, which was higher performance by 5.0% compared to the same period in 2017.
- In the first six months in 2018, total budget expenditures were executed in the amount of Denar 95,188 million, i.e. 14.4% of GDP, being higher by 0.5% compared to same period last year;
- Total credits of banks in June 2018 grew by 6.2% compared to June 2017, while total deposit potential of banks surged by 9.9%.

1. REAL SECTOR

Industrial Production

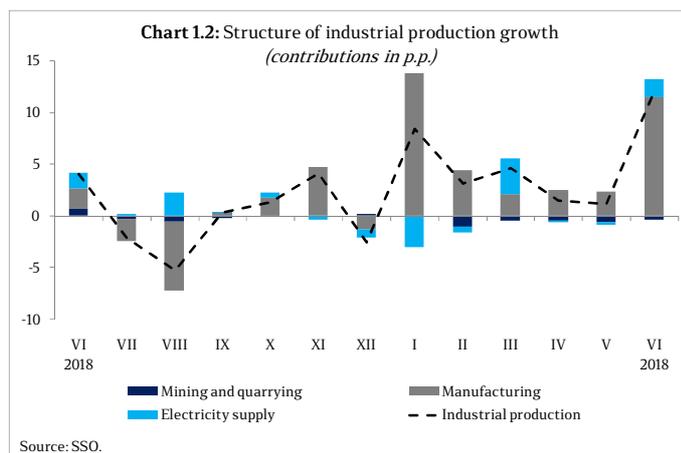
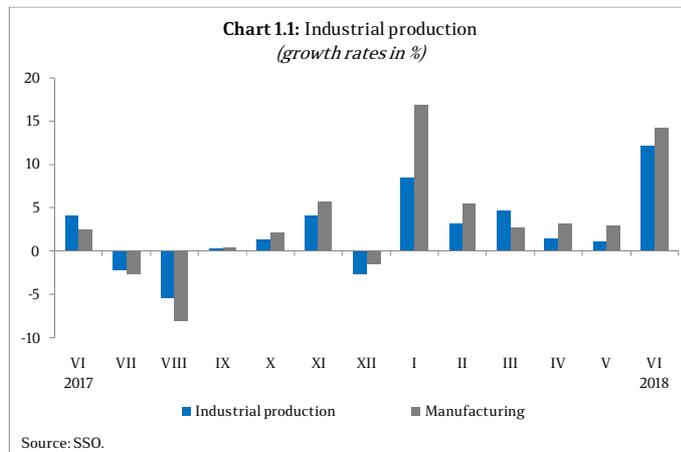
In June 2018, industrial production increased by 12.1% compared to June 2017. Growth was fully a result of the positive trends in Manufacturing, where production picked up by 14.1% and the contribution to growth accounted for 11.5 p.p., as well as in the Electricity, gas, steam and air-conditioning sector, growing by 16.3 p.p., which contribution to growth accounted for 1.7 p.p..

Mining and quarrying sector declined by 4.2%, which contributed to mitigating the growth of industrial production and it had negative contribution of 0.3 p.p..

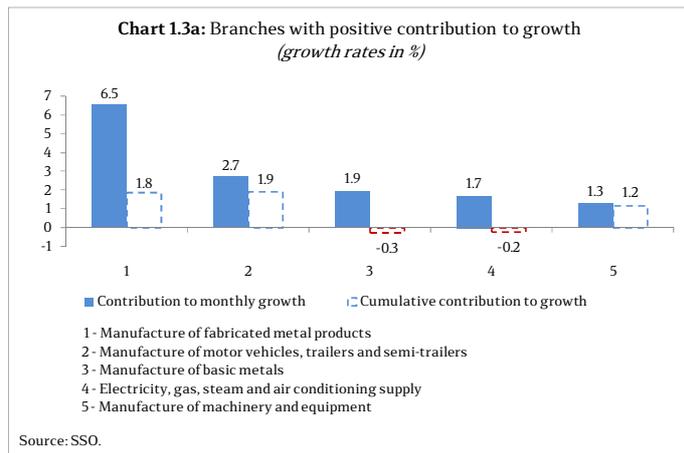
Analyzed by branches, growth was recorded at 20 out of total 27 branches, participating with 83.1% in the industrial production structure, by which several branches for manufacture of highly sophisticated technologic products continued to be the driving force of the growth, where high increase of manufacture was registered. Thus, three-digit growth was seen at the

manufacture of transport equipment and fabricated metal products. As for the branches with double-digit share in the production share, growth was seen at all branches, such as Electricity, gas, steam and air conditioning supply sector increasing by 16.3% (contribution of 1.7 p.p), Manufacture of machinery and equipment surging by 9.9% (contribution of 1.3 p.p.), and Food industry experiencing 3.9% growth (contribution of 0.4 p.p.).

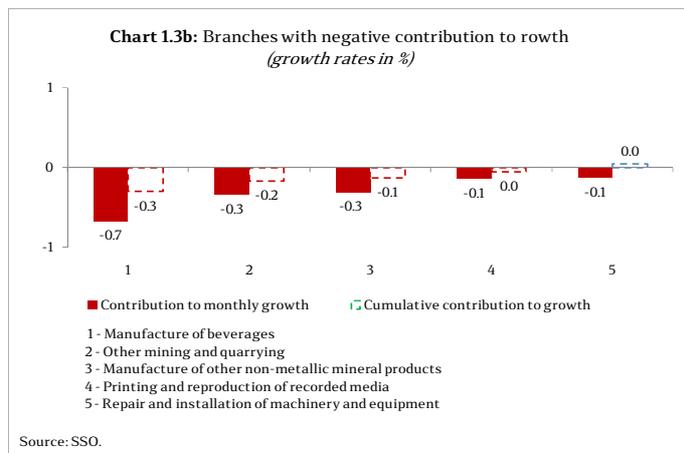
In line with the data by target groups, growth was seen at the following groups: Capital goods increasing by 34.2% (contribution of 7.3 p.p.), Durable consumer goods industry surging by 20.1% (contribution of 0.5 p.p.), Intermediary goods industries, except energy picking up by 13.5% (contribution of 4.0 p.p.), and Energy, which experienced 12.3% increase (contribution of 1.5 p.p.), while production in the Non-durable consumer goods industry group remained unchanged.



On cumulative basis, industrial production in the first half in 2018, experienced 5.0% growth, which was fully a result of the increased production in the Manufacturing by 7.0% and contribution of 5.7 p.p., being mitigated by the drop in the Mining and quarrying sector by 5.9% and negative contribution of 0.5 p.p., as well as Electricity, gas, steam and air-conditioning supply sector by 2.2% and negative contribution of 0.2 p.p..



Data from the analysis by branches shows that growth was registered at 13 out of 27 branches, accounting for 49.6% of industrial production structure. Branches with two-digit share in the structure, experiencing growth are Manufacture of machinery and equipment increasing by 9.1% (contribution of 1.2 p.p.) and Food industry surging by 0.3% (contribution of 0.0 p.p.), while drop was only seen at Electricity, gas, steam and air conditioning supply declining by 2.2% (contribution of -0.2 p.p.).



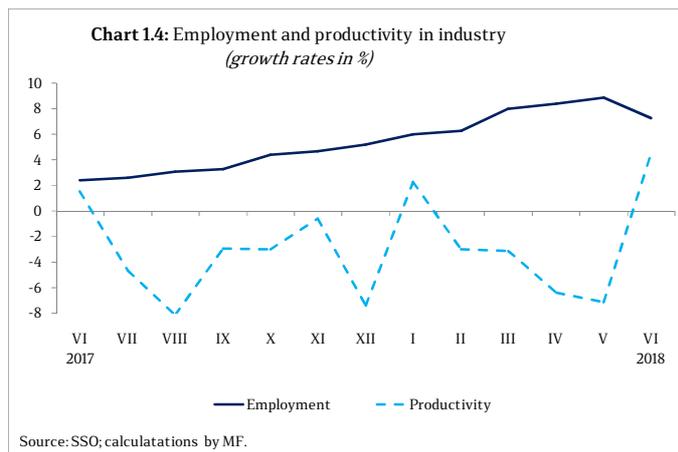
As for target groups, growth was mainly a result of the increased production in the Capital goods group by 21.9% (contribution of 4.7 p.p.) being underpinned by the increase of production at the Durable consumer goods industry group by 45.6% (contribution of 1.1 p.p.), as well as the Intermediary goods, except energy group by 0.4% (contribution of 0.1 p.p.). Growth was mitigated by the drop of production at the following groups: Energy by 4.2% (contribution of -0.5%), and Non-durable consumer goods industry by 1.1% (contribution of -0.4 p.p.)

Number of Employees in the Industry

In June 2018, number of employees in the industry increased by 7.3% annually. Growth was mainly a result of the increased number of employees in Manufacturing by 8.1%, as well as in Mining and quarrying sector by 2.1%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.2%.

Data on the number of employees in the industry by target groups in June 2018, compared to the same period last year, showed increase in the number of employees at the following groups: Capital goods by 22.5%, Intermediary goods, except energy by 13.7% and Non-durable consumer goods industry by 1.4%. Decline was observed at the following groups: Durable consumer goods industry by 1.3% and Energy by 0.7%.

Number of employees in the first half of 2018 grew by 7.5%, which was mainly a result of the increased number of employees in Manufacturing by 8.4%, as well as in Mining and quarrying sector by 1.2%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.3%.



In the period January-June 2018, the number of employees increased in the following target groups: Capital goods by 22.8%, Intermediary goods, except energy by 14.3%, Non-durable consumer goods industry by 1.5% and Durable consumer goods industry by 0.5%. Drop in the number of employees was registered only at the Energy group of 0.8%.

Business Tendencies in Manufacturing

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

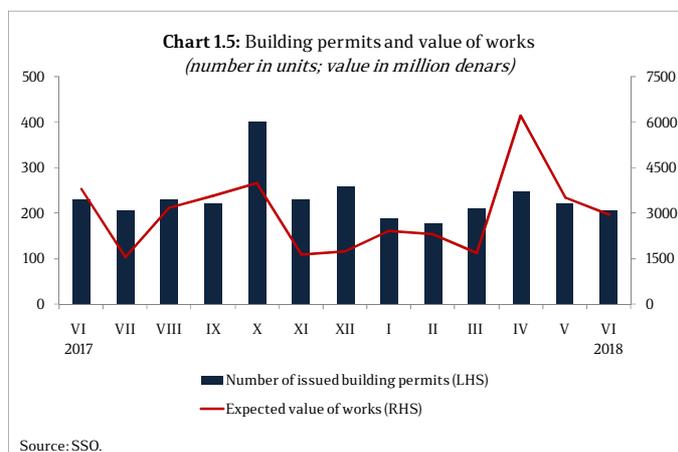
Average utilization of capacities of business entities in June 2018 accounted for 67.8%, being an increase compared to the previous month, when it accounted for 67.4%. Compared to June 2017, utilization of the capacities was higher by 2.9 p.p..

Shortage of skilled labour with 22.7%, insufficient domestic demand with 18.7%, insufficient foreign demand with 17.5%, uncertain economic environment with 10.4%, financial problems with 9.2% and competitive import with 6.3% limited the most the production volume in June.

As regards the volume of production orders in June 2018, it was more favourable compared to May 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 were increased on monthly basis.

Number of Issued Building Permits and Expected Value of Works

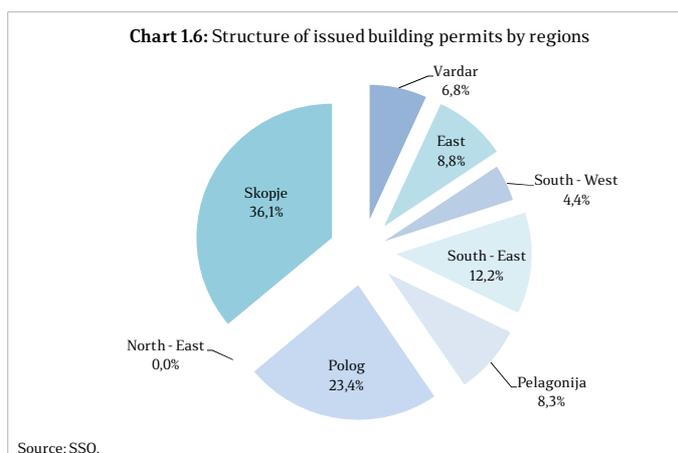
In June 2018, 205 building permits were issued in total, increasing by 10.9% compared to June 2017. Compared to the previous month, when 222 permits were issued, number of issued building permits decreased by 7.7%. Expected value of works, according to the issued building permits dropped by 22.6% compared to the same period in 2017. Value of works dropped by



16.5% on monthly basis.

Analyzed by types of constructions, out of the total number of issued building permits, 117 (or 57.1%) were intended for buildings, 45 (or 21.9%) for civil engineering structures and 43 (or 21.0%) for reconstruction.

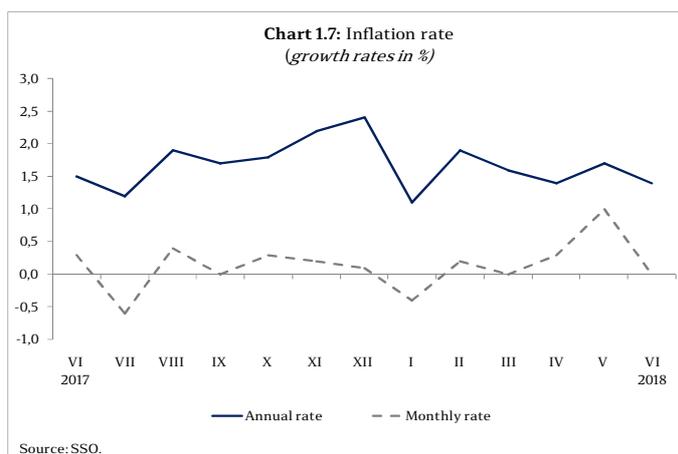
Analyzed by types of investors, out of total 205 issued building permits, individuals were investors in 115 facilities (or 56.1%), while business entities were investors in 90 facilities (or 43.9%).



In June 2018, construction of 554 flats was envisaged, with total usable area of 41,505 m². Number of flats envisaged for construction in June grew by 16.1% compared to May 2018, declining by 40.2% on annual basis.

Inflation

Consumer prices in June 2018 increased by 1.4% compared to June 2017, following the annual increase of prices by 1.7% in May 2018. Average inflation rate in the period January -June 2018 amounted to 1.5%.



Food and non-alcoholic beverages category, having the largest share in the CPI, experienced 0.4% increase in prices in June on annual basis, whereby prices of Meat and Milk, cheese and eggs experienced the highest increase by 3.3% and 1.8% respectively.

Highest annual increase of prices in June 2018 was observed at the category Transport by 9.1%, followed by the increase in prices at the following categories: Alcoholic beverages, tobacco and narcotics by 4.3%, Recreation and culture by 3.0%, Restaurants and hotels by 1.8%, Furnishings, household equipment and routine maintenance of the house by 1.3%, Communications by 0.8%, Miscellaneous goods and services by 0.6% and Health by 0.4%.

Annual drop in prices in June 2018 was also registered at the following categories: Clothing and footwear by 0.4% and Housing, water, electricity, gas and other fuels by 0.1%. Prices at the category Education remained the same.

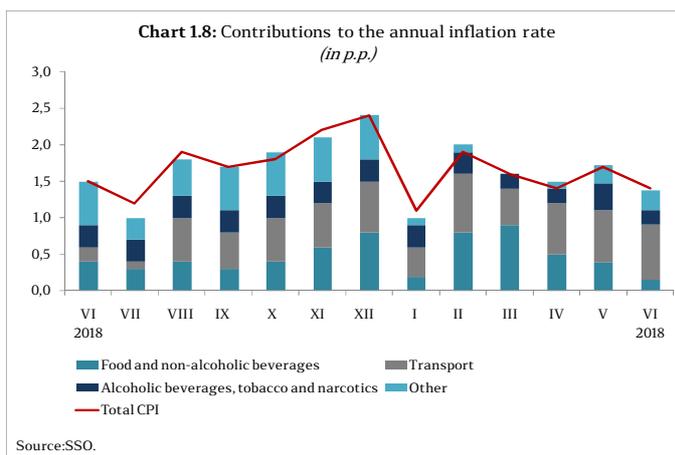
Consumer prices in June 2018 remained unchanged in relation to the previous month. Thereby, increase of prices on monthly basis was recorded in the following categories:

Transport by 0.8%, Recreation and culture and Restaurants and hotels by 0.7% each, Furnishings, household equipment and routine maintenance of the house by 0.3%, Clothing and footwear and Housing, water, electricity, gas and other fuels by 0.1% each.

Monthly drop of prices was recorded at the following categories: Food and non-alcoholic beverages and Miscellaneous goods and services by 0.4% each, and Health and Communications by 0.2% each.

Prices in the following categories: Alcoholic beverages, tobacco and narcotics and Education remained the same.

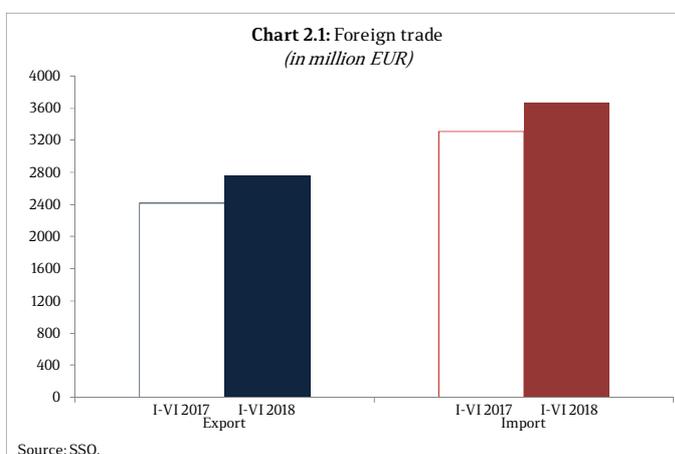
Retail prices in June 2018 were higher by 2.8% compared to the same month last year, while on monthly basis, retail prices were increased by 0.2%. Retail prices in the period January - June 2018 were higher by 2.9%.



2. FOREIGN TRADE

Total foreign trade in the first half of 2018 amounted to EUR 6,415.7 million, increasing by 12.1% 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 – June 2018, accounting for 72.1%, being an increase of 2.0 p.p. in relation to the same period last year.



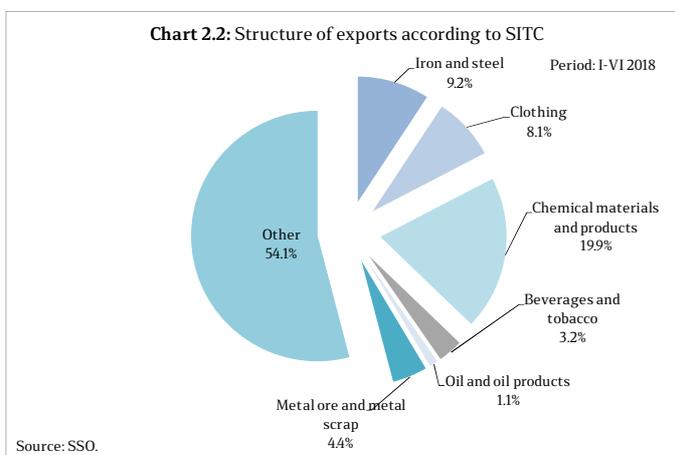
Export

In the period January - June 2018, value of exported goods amounted to EUR 2,748.2 million, surging by 13.6% (EUR 328.6 million) compared to the same period in 2017, while physical output of export grew by 2.2%.

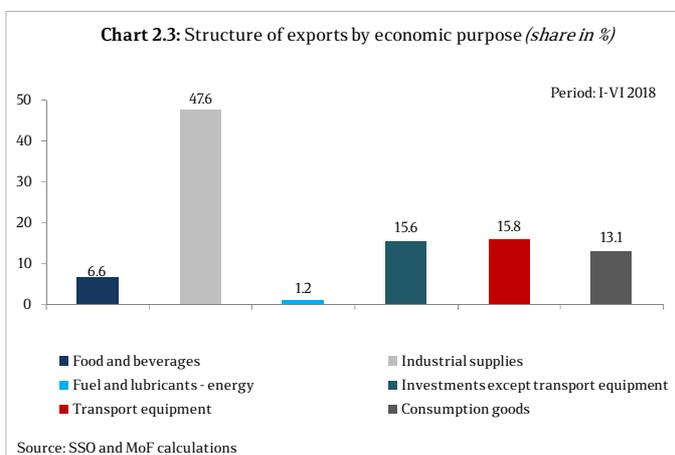
Value of exported goods amounted to EUR 464.2 million in June 2018, surging by 6.6% (EUR 28.8 million) compared to the same month of the previous year, while physical output of export dropped by 4.9%.

Analyzed on monthly basis, in June 2018, export dropped by 8.2% (EUR 41.3 million) compared to the previous month and, should export be seasonally adjusted, it registered monthly decline of 6.8%.

Main groups of products (according to SITC) being most exported in the period January – June 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 45.9% of the total export of the country.



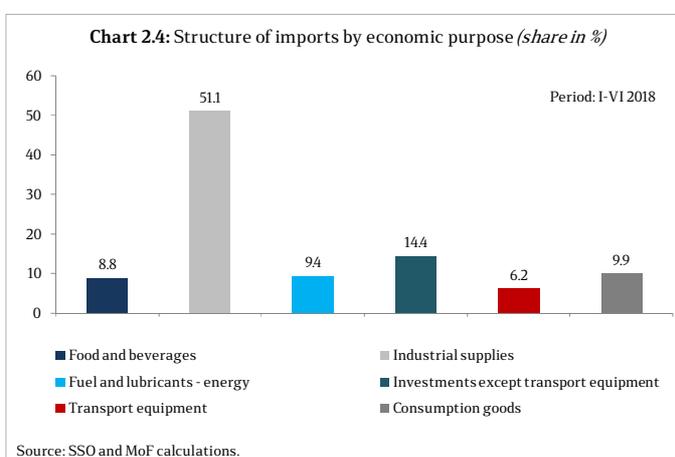
Analyzed according to economic groups of countries, in the period January – June 2018, compared to the same period in 2017, export grew at the following groups: EU 28, EFTA, Organization of Petroleum Exporting Countries, Western Balkan Countries and North American Free Trade Agreement, while drop was recorded at the following groups: Asia-Pacific Economic Cooperation and Commonwealth of Independent States. Export to EU 28 grew by 16.4% annually, while export to Western Balkan countries increased by 7.7%, whereby export of goods to EU 28 and the Western Balkan countries accounted for 83.3% and 10.5% respectively in the total export from the Republic of Macedonia.



Import

In the period January – June 2018, value of imported goods amounted to EUR 3,667.5 million, surging by 11.0% (EUR 362.0 million) compared to the same period in 2017, while physical output of import dropped by 7.0%.

In June 2018, import value amounted to EUR 635.6 million, surging by 17.8% (EUR 96.0 million) compared to the same month in 2017, while imported quantities of



goods grew by 6.9%.

Analyzed on monthly basis, in June 2018, import grew by 1.7% (EUR 10.4 million), compared to the previous month, and, should import be seasonally adjusted, it registered monthly increase of 8.4%.

Table 1. Review of export and import of selected groups of products

Export of oil and oil products*)					Import of oil and oil products*)				
	I - VI - 2017	I - VI - 2018	Balance	% rate		I - VI - 2017	I - VI - 2018	Balance	% rate
000 T	54,4	64,9	10,5	19,3	.000 T	495,4	464,1	-31,3	-6,3
EUR mil.	22,1	29,6	7,5	33,8	EUR mil.	208,2	234,9	26,8	12,9
\$ mil.	24,0	35,9	11,9	49,3	\$ mil.	225,3	283,7	58,4	25,9

*)Previous data

Export of chemical products*)					Import of chemical products*)				
	I - VI - 2017	I - VI - 2018	Balance	% rate		I - VI - 2017	I - VI - 2018	Balance	% rate
000 T	24,5	12,4	-12,2	-49,6	.000 T	14,2	15,0	0,8	5,3
EUR mil.	516,3	547,1	30,8	6,0	EUR mil.	90,5	103,0	12,5	13,8
\$ mil.	561,0	661,8	100,9	18,0	\$ mil.	98,0	124,7	26,8	27,3

*)Previous data

Export of iron and steel*)					Import of iron and steel*)				
	I - VI - 2017	I - VI - 2018	Balance	% rate		I - VI - 2017	I - VI - 2018	Balance	% rate
000 T	347,1	377,8	30,7	8,9	.000 T	368,2	441,5	73,3	19,9
EUR mil.	230,4	253,7	23,3	10,1	EUR mil.	186,5	240,5	54,0	29,0
\$ mil.	250,7	305,8	55,1	22,0	\$ mil.	202,7	291,2	88,6	43,7

*)Previous data

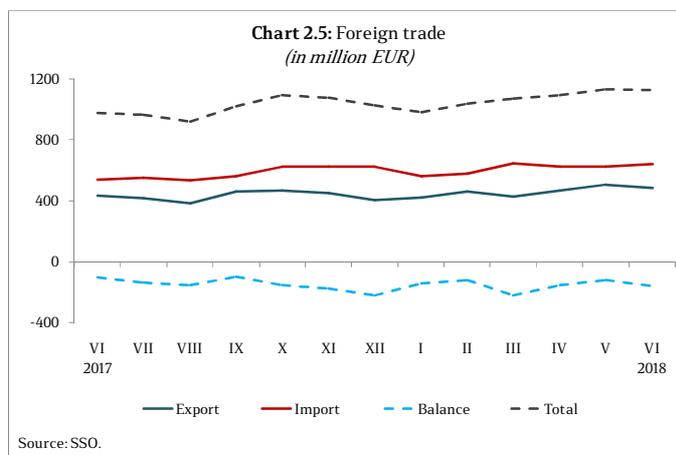
Trade Balance

In the first half of 2018, trade deficit increased by 3.8%, i.e. EUR 33.4 million, compared to the same period last year.

In June 2018, trade deficit increased by 64.5% or EUR 67.2 million compared to June 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 investment goods without transport equipment, industrial supplies, fuels and lubricants and food and beverages, and 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 – June 2018, 92.9% 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, Spain and Croatia.



Currency Structure

Observed by currency structure, 88.0% of the trade in the period January – June 2018 was realized in euros and, compared to the same period in 2017, it surged by 1.0 percentage points. On export and import side, euro accounted for 93.3% and 84.0% respectively, whereby share of the euro at export was higher by 0.8 p.p., while increase of the share of the euro at import accounted for 1.0 p.p. compared to the period January – June 2017.

import	I - VI - 2017					I - VI - 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	2.128,9	2.742.754.056	61,6020	168.959.135.371	83,0	2.171,5	3.079.935.884	61,5293	189.506.299.009	84,0	337.181.828	12,3
USD	980,2	580.573.105	56,9744	33.077.804.322	16,2	716,1	668.109.645	50,8294	33.959.612.383	15,0	87.536.540	15,1
GBP	2,3	10.225.382	71,6367	732.512.639	0,4	3,2	15.377.708	69,9269	1.075.315.483	0,5	5.152.326	50,4
EUR+USD+GBP	3.111,5			202.769.452.332	99,2	2.890,9			224.541.226.876	99,5		
tot. import	3.118,4			203.645.402.650	100,0	2.899,2			225.660.248.147	100,0		10,8

Source: SSO and NBRM

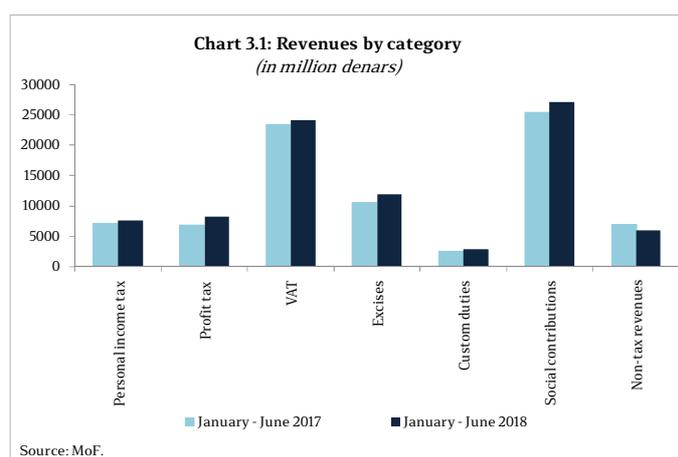
3. FISCAL SECTOR

Budget Revenues According to the Economic Classification

In the first six months in 2018, total budget revenues amounted to Denar 90,650 million, i.e. 13.7% of GDP, which was higher performance by 5.0% compared to the same period in 2017.

Tax revenues in this period were collected in the amount of Denar 54,675 million, being higher by 8.0% in relation to the same period last year.

Revenues on the basis of value added tax were collected in the amount of Denar 24,080 million, increasing by 3.0% in relation to last year, whereby share of VAT in total tax revenues was dominant, accounting for 44.0%. Thereby, VAT collection amounted to Denar 35,183 million on gross basis, out of which Denar 11,102 million was refunded to taxpayers (gross collection was higher by 6.8%, while VAT refund was higher by 16.1% compared to the same period in 2017). As for VAT structure, collection of VAT when importing accounted for the most, increasing by 10.9%, while VAT revenues collected on the basis of sales in the country dropped by 2.3%.



Revenues on the basis of excises were collected in the amount of Denar 11,848 million (participating with 21.7% in the tax revenues), surging by 13.4%. Hence, revenues

collected on the basis of these two indirect taxes in this period amounted to Denar 35,928 million, i.e. 65.7% of total tax revenues in this period.

PIT revenues were collected in the amount of Denar 7,502 million, increasing by 4.5% 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 9.1%, revenues on the basis of contractual agreement accounted for 6.5% and revenues on the basis of property and property rights accounted for 3.9%. Profit tax revenues in these six months amounted to Denar 8,220 million, increasing by 18.7% compared to the same period in the previous year, being mainly a result of the additional payments on the basis of tax balances (33.1% increase) and tax collected on the basis of monthly advance payments (24.3% increase) while withholding tax for foreign legal entities declined (17.5%).

Revenues on the basis of customs duties were collected in the amount of Denar 2,781 million, increasing by 10.9%. Collection of revenues on the basis of other taxes, amounting to Denar 244 million, surged by 29.1% compared to last year.

Social contributions were collected in the amount of Denar 26,988 million, being higher by 6.0% compared to the same period in 2017, whereby collection of pension and disability insurance contributions grew by 5.8%, collection of employment contributions increased by 6.3% and health insurance contributions experienced 6.4% growth.

Non-tax revenues were collected in the amount of Denar 5,942 million and, in relation to the same period in 2017, they were lower by 14.7% (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 811 million, which is a double increase compared to the same period in the previous year.

Revenues collected on the basis of foreign donations from international and bilateral cooperation amounted to Denar 1,420 million, decreasing by 34.3% compared to the same period last year.

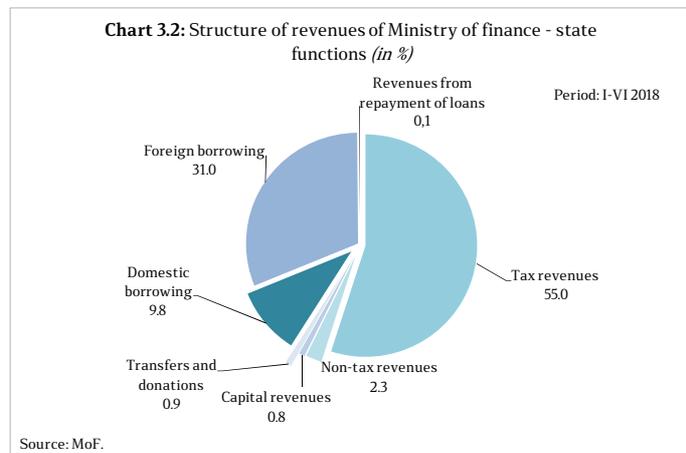
Revenues by Budget Users

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 98,329 million in the period January - June 2018, i.e. 95.0% of the revenues of all budget users, accounting for 62.0% of the annual projections of this budget user.

Within the Ministry of Finance – Functions of the State, tax revenues accounted for the most – 55.0% of total revenues and inflows to this budget user, whereby their collection reached 48.4% of the annual projections by June. Inflows on the basis of foreign borrowing in this period amounted to Denar 30,529 million, accounting for 31.0% 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 1,629 million, i.e. 1.6% of the revenues and inflows of all budget users, most of which, i.e. 81.9% were non-tax revenues, collected mainly on the basis of fees and charges.

Ministry of Health collected revenues in the amount of Denar 688 million, i.e. 0.7% of the revenues and inflows of all budget users, while 44.5% of that amount were inflows on the basis of foreign borrowing. The remaining budget users collectively generated revenues, accounting for 2.7% 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>).

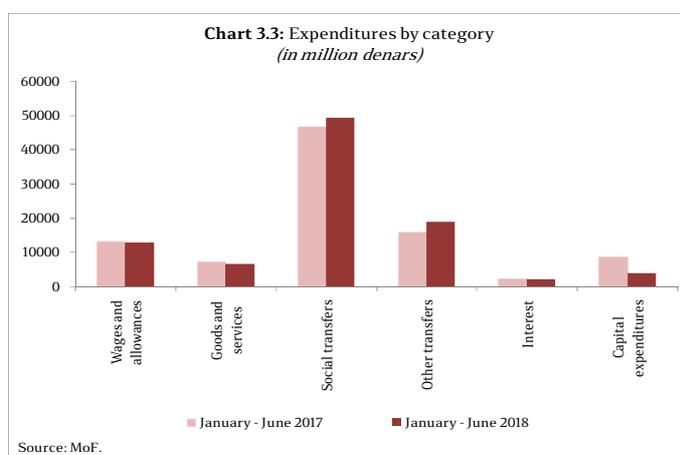


As for budget funds, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 33,457 million in the period January – June 2018, accounting for 49.2% of the Fund’s annual projections. Health Insurance Fund of Macedonia in this period collected revenues in the amount of Denar 14,739 million, i.e. 51.3% of the Fund’s annual projections. Employment Agency of the Republic of Macedonia in the first six months of 2018 collected revenues in the amount of Denar 1,161 million, accounting for 49.8% of the annual projections.

Budget Expenditures According to the Economic Classification

In the first six months in 2018, total budget expenditures were executed in the amount of Denar 95,188 million, i.e. 14.4% of GDP, being higher by 0.5% compared to same period last year.

With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 91,167 million, accounted for 95.8% and they increased by 6.0% in relation to the same period in 2017.



Expenditures related to wages and allowances were executed in the amount of Denar 13,068 million, accounting for 13.7% of the total budget expenditures and, in relation to the same period in the previous year, they dropped by 0.6%.

Expenditures related to goods and services were executed in the amount of Denar 6,818 million, decreasing by 4.9% compared to the same period in 2017.

Funds allocated for transfers amounting to Denar 69,077 million accounted for the most in the current expenditure items. Such expenditures grew by 9.1% compared to the same period in 2017, participating with 72.6% in the total expenditures.

Funds allocated for social transfers amounted to Denar 49,415 million, increasing by 5.8% and accounting for 51.9% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 30,122 million, increasing by 5.0% compared to the same period in 2017 and accounting for 31.6% of the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 19.9% of the total expenditures, i.e. they grew by 19.4%, amounting to Denar 18,962 million. Block grants to local government units, amounting to Denar 7,883 million, grew by 4.2% compared to the same period in the previous year. Subsidies and transfers amounted to Denar 9,975 million, being higher by 37.7% compared to last year.

Interest payments expenditures amounted to Denar 2,204 million, being lower by 5.8% compared to the same period in 2017. Costs related to interest on the basis of domestic borrowing increased by 1.3%, while the ones on the basis of foreign borrowing dropped by 15.4%.

During the analyzed period, funds for capital expenditures were executed in the amount of Denar 4,021 million, participating with 4.2% in the total expenditures (0.6% of GDP), i.e. decreasing by 53.7% compared to the same period last year.

Expenditures by Budget Users

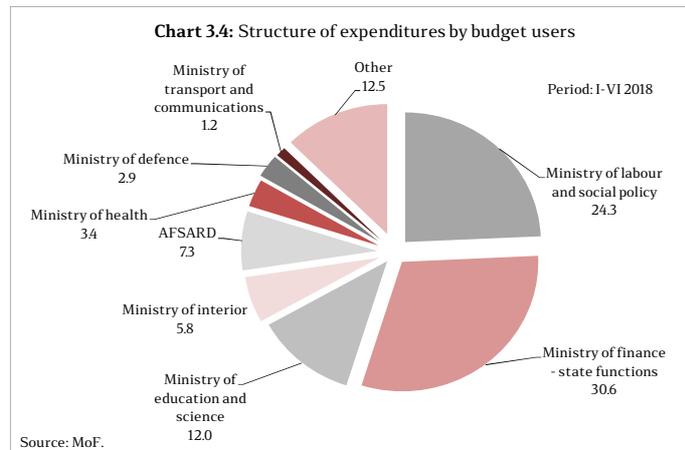
Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 87.1% of the total budget of all budget users.

In the period January – June 2018, Denar 27,217 million was spent through the organizational code Ministry of Finance – Functions of the State¹, accounting for 69.4% of the annual Budget. Repayment of principal accounted for most of the expenditures (80.7%), Denar 21,960 billion being spent therefore in the period January– June 2018, i.e. 97.6% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 8.1% of the total expenditures, Denar 2,201

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.

million being spent therefore or accounting for 25.4% of the projected interest payments.

In the period January – June 2018, Ministry of Labour and Social Policy executed funds in the amount of Denar 21,623 million or 49.6% of the total 2018 budget. Thereby, most of the expenditures (73.3%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 15,857 million was spent or 50.1% of the funds allocated for 2018. The second highest expenditure



category was social benefits, participating with 18.8% in the total expenditures. As for this purpose, 50.4% (Denar 4,057 million) of the expenditures projected for 2018 was executed.

In the period January – June 2018, Ministry of Education and Science executed budget funds in the amount of Denar 10,691 million, i.e. 42.5% of the total 2018 budget. Current transfers to LGUs accounted for the most of the expenditures (63.8%), Denar 6,824 million being spent therefore or 49.4% of total projected funds. Wages and allowances were the second highest expenditure category, participating with 15.5%, Denar 1,662 million being spent therefore, i.e. 47.4% of the total projected funds. As for goods and services (accounting for 11.8% of the total expenditures), Denar 1,259 million was spent, accounting for 30.6% of the total funds projected for this year.

In the first six months of 2018, Agency for Financial Support in Agriculture and Rural Development (AFSARD) executed expenditures in the amount of Denar 6,535 million, accounting for 75.7% of the funds projected for the current year. During the analyzed period, subsidies and transfers were the highest expenditure category (accounting for 94.0%), funds in the amount of Denar 6,144 million being spent therefore or accounting for 93.4% of the projected ones.

In the period January–June 2018, Ministry of Internal Affairs executed expenditures in the total amount of Denar 5,121 million, accounting for 50.0% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with 70.3%, Denar 3.600 million being spent therefore, or accounting for 49.3% of the projected ones. The second highest expenditure item was goods and services, participating with 15.9%, funds in the amount of Denar 817 million being spent therefore, or accounting for 47.6% of the annual projections.

In the first six months of 2018, Ministry of Health executed budget funds in the amount of Denar 3,067 million, accounting for 46.1% of the total 2018 budget. Current transfers to extra–budgetary funds accounted for the most of the expenditures with 59.9%, for which Denar 1,837 million was spent in the period January–June 2018 or 65.8% of the funds projected for 2018. Expenditures related to goods and services were the second

highest expenditure category, accounting for 29.8% of the total expenditures, funds in the amount of Denar 914 million being executed therefore in the analyzed period, i.e. 46.3% of total projected ones. Capital expenditures (participating with 8.6% in the total expenditures) were executed in the amount of Denar 264 million or 14.9%.

In the period January–June 2018, Ministry of Defense executed budget funds in the amount of Denar 2,566 million, i.e. 39.4% of the total 2018 budget. Expenditures related to wages and allowances accounted for the most with 72.1%, Denar 1,849 million being spent therefore in the first six months, accounting for 48.9% of the total funds projected for the current year. Expenditures related to goods and services accounted for 23.3% of total expenditures, with Denar 595 million being spent therefore during the analyzed period, i.e. 34.2% execution of the total projected funds.

As regards “Financing the activities in the field of culture”², in the period January – June 2018, funds in the amount of Denar 1,497 million were spent, accounting for 39.9% of the total 2018 budget therefore. Wages and allowances accounted for the most in the total expenditures with 34.0%, while their execution in this period accounted for 48.4%, i.e. Denar 509 million was spent therefore. Expenditures related to subsidies and transfers accounted for 31.8%, Denar 475 million being spent therefore or 38.7% of the projected funds. Subsidies and transfers accounted for 30.7% of total funds projected for the current year, whereby Denar 300 million or 20.1% of the total expenditures were spent therefore.

Ministry of Transport and Communications executed funds in the amount of Denar 1,067 million in the first half of 2018, accounting for 17.6% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 60.5%, while their execution in the period January–June 2018 accounted for 12.3%, i.e. Denar 645 million was spent. Subsidies and transfers participated with 31.9% in the total budget of this user, for which purpose Denar 340 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–June 2018, the budget deficit reached the amount of Denar 4,538 million, being 0.7% of GDP, while central budget deficit amounted to Denar 4,335 million or 0.7% of GDP.

²Financing 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.

4. SOCIAL SECTOR

Number of Newly Employed and Registered Unemployed Persons in EARM

In the period January – June 2018, Employment Agency of the Republic of Macedonia registered total of 103,016 new employments. Total number of newly employed persons in this period was higher by 11.8% compared to the same period in 2017.

As regards the total number of newly employed, 41.1% was engaged on permanent basis, while the rest

of the employed were engaged on temporary basis and as seasonal workers. In June 2018, as regard the total number of newly employed persons, 20.9% was from the unemployed records.

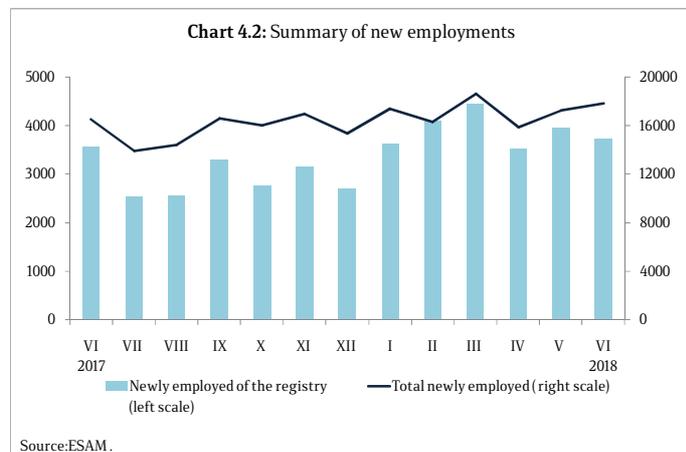
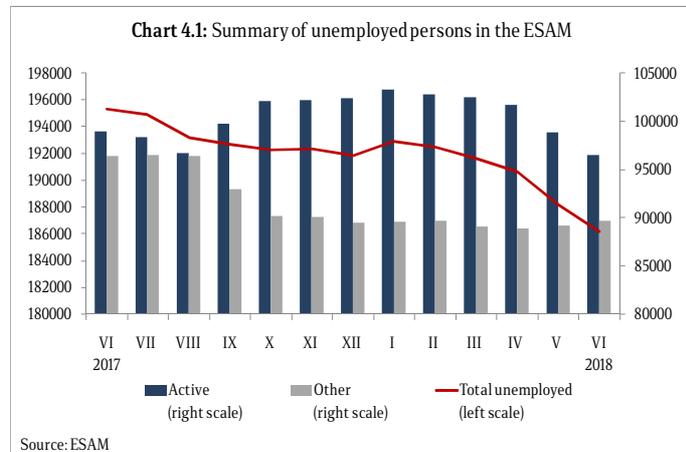
Total number of unemployed persons in June 2018 was 186,134, out of which 96,482 persons were active job seekers, while 89,652 persons were from the category “other unemployed”. Compared to the same month last year, total number of unemployed persons was lower by 4.7%.

Major percentage of the unemployed (66.7%) came from urban areas (cities), whereby 58.5% were men. Analyzed by the level of education, major part, i.e. 57.7% of the unemployed persons, were with incomplete secondary education or less, 27.8% were with completed secondary education, while 14.5% of the unemployed persons were with completed community college or higher education level.

Observed by age, majority of the unemployed persons or 48.2% fall in the category of 25-49 years of age. According to the time they waited for a job, 49.4% of the unemployed persons wait for employment from 1 to 7 years, while 8.3% wait for employment for 8 years and more.

Wages

In May 2018, average net wage increased by 7.1% in nominal terms on annual basis, and it was higher by 2.4% in relation to the previous month. The highest increase of average net wage was observed at the following sectors: Accommodation and food service activities



(23.1%), Financial and insurance activities (17.4%) and Information and communications (15.3%). In May, salaries grew by 5.3% in real terms on annual basis.

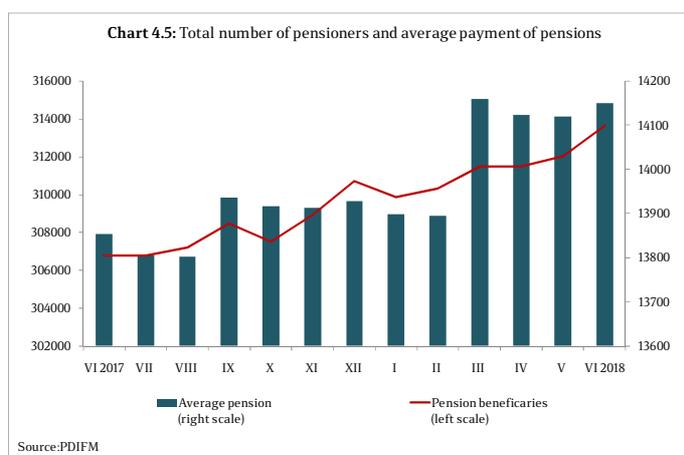
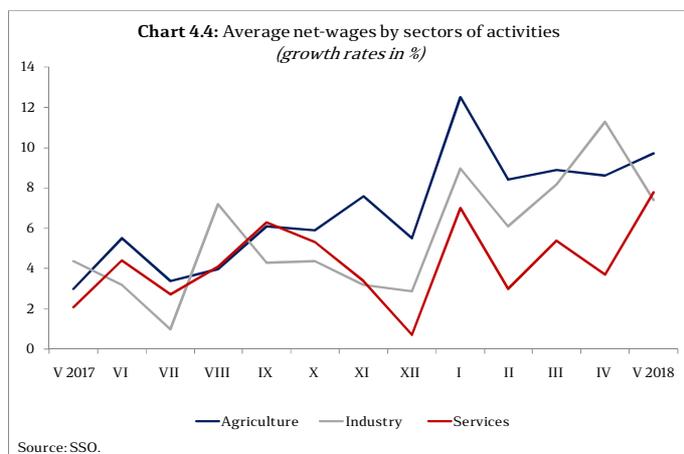
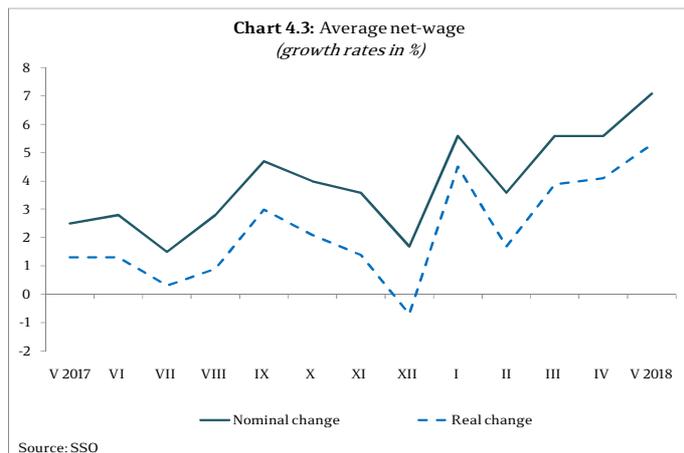
In May 2018, average net wage increased by 7.0% in nominal terms on annual basis, and it was higher by 2.5% in relation to the previous month. The highest increase of average gross wage was observed at the following sectors: Accommodation and food service activities (21.3%), Financial and insurance activities (17.4%) and Information and communications (15.7%). Real gross wage surged by 5.2% annually.

Pensions

In June 2018, Pension and Disability Insurance Fund registered 313,679 pensioners, increasing by 2.3% compared to the same period last year. Number of pension beneficiaries increased by 1,647 persons on monthly basis. As regards the total number of pensioners, 64.1% were beneficiaries of old-age pension, 24.4% of survival pension and 11.6% of disability pension.

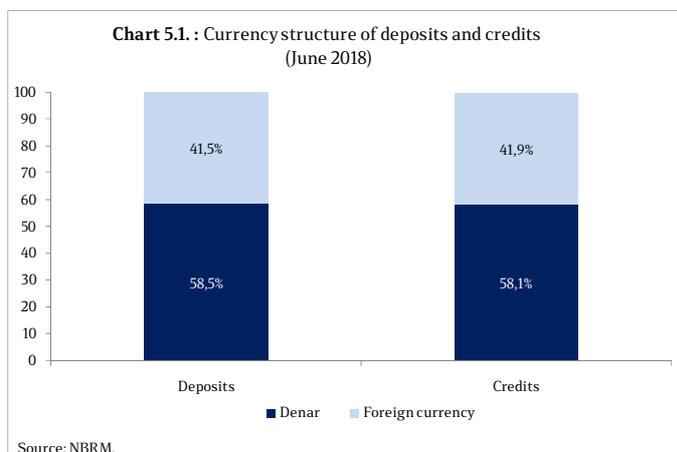
Average pension in June 2018 amounted to Denar 14,150, being higher by 2.1% compared to the same month last year. Ratio between the average pension and the average paid wage in May 2018 (the most recent available data) was 57.6%.

In June, average old-age pension amounted to Denar 15,450, average disability pension amounted to Denar 12,836, while average survival pension amounted to Denar 11,355. In June 2018, Denar 4,336.48 million was spent for payment of pensions, accounting for 50.9% of the total social transfers.



5. MONETARY AND FINANCIAL SECTOR

In June 2018, the National Bank of the Republic of Macedonia retained the reference interest rate at 3.0% as a result of sound economic fundamentals, without any imbalances and amid stabilization of the confidence and the expectations of the economic entities, evident from the favourable trends on the foreign currency market and the gradual acceleration of the deposit growth.



Interest rate on available 7-day deposits remained unchanged compared to last month, accounting for 0.3%.

Primary Money

In June 2018, primary money³ dropped by 2.5% on annual basis, in conditions of drop of total liquid assets of banks by 9.4%, while ready money in circulation picked up by 3.8%.

On monthly basis, primary money dropped by 10.3%, as a result of decrease of total liquid assets of banks by 20.5% , while currency in circulation increased by 0.1%.

Deposit Potential⁴

In June 2018, total deposits of banks increased by 0.8% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises grew by 2.5%, while deposits of households surged by 0.3%.

Analyzed by currency, in June 2018, compared to the previous month, Denar deposits increased by 0.2%, while foreign currency deposits picked up 1.7%.

Total deposit potential in June 2018 surged by 9.9% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 9.8% and 9.9% respectively.

From sector point of view, this month, deposits of enterprises grew by 9.2%, and deposits of households increased by 7.9%, on annual basis.

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).

⁴NBRM 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.

According to maturity, short-term deposits increased by 5.4%, while long-term deposits surged by 13.6%, on annual basis.

Currency structure of deposits remained stable, whereby share of domestic currency deposits in the deposit base was higher, accounting for 58.5%.

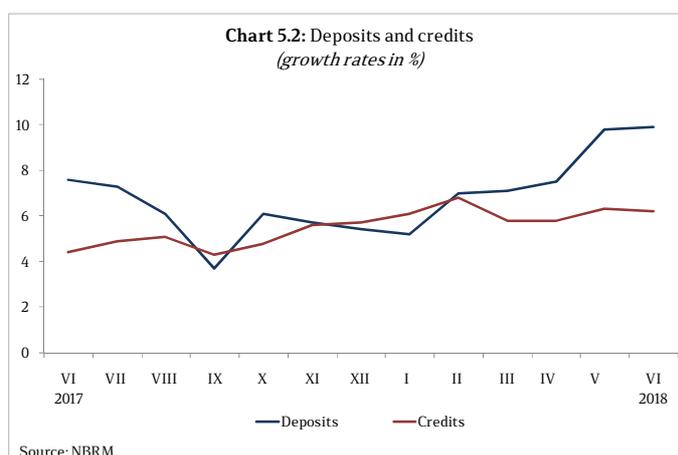
Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (June 2018)	Denar million	Monthly change	Annual change
Deposit Potential	349,816	0.8%	9.9%
Denar	204,473	0.2%	9.8%
Foreign currency	145,343	1.7%	9.9%
Short-term	159,982	1.5%	5.4%
Long-term	97,256	1.2%	13.6%
Credits to private sector	306,049	0.9%	6.2%
Denar	177,736	0.9%	9.9%
Foreign currency	128,313	0.8%	1.4%
Short-term	57,138	0.4%	6.2%
Long-term	230,431	1.1%	8.7%
Doubtful and contested claims	15,376	-0.1%	-19.6%

Source: NBRM

Bank Credits

In June 2018, total credits of banks to the private sector surged by 0.9% compared to the previous month. Sector analysis shows that credits to enterprises experienced growth of 0.8% in June 2018, while credits to households increased by 1.0%. Analyzed by currency, in June 2018, Denar credits grew by 0.9%, while foreign currency credits surged by 0.8% on monthly basis.



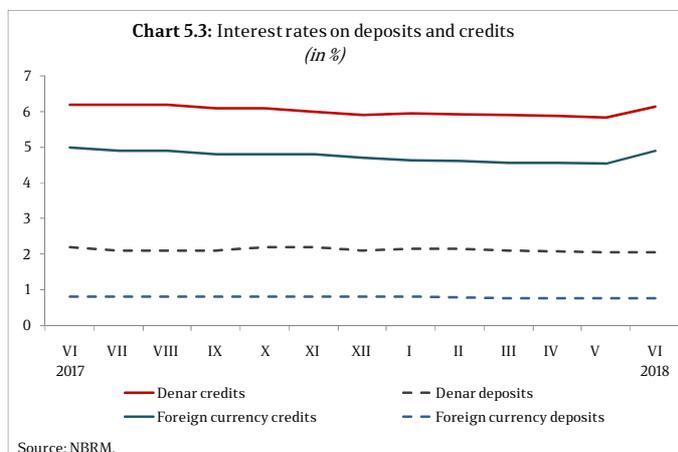
On annual basis, total credits grew by 6.2% in June 2018, in conditions of growth of credits to households of 9.7% and credits to enterprises of 2.7%. Denar credits surged by 9.9%, while foreign currency credits increased by 1.4%.

As regards maturity, long-term credits experienced annual growth of 8.7%, and short-term credits grew by 6.2%.

Interest Rates of Deposit Banks

In June 2018, total interest rate on credits dropped by 0.04 p.p. compared to the previous month, accounting for 5.57%. Interest rate on Denar credits dropped by 0.03 p.p., accounting for 6.15%, while interest rate on foreign currency credits decreased by 0.04 p.p. on monthly basis, accounting for 4.90%.

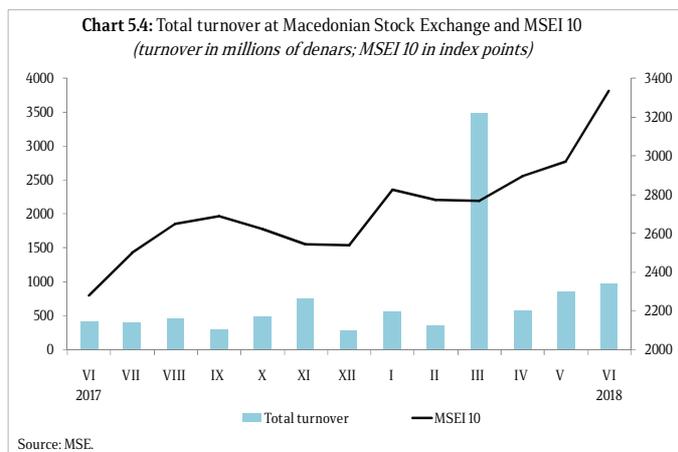
Total interest rate on deposits was 1.45% in June 2018, being lower by 0.01 p.p. compared to last month. Interest rate on Denar deposits decreased by 0.02 p.p., accounting for 2.05%, while interest rate on foreign currency deposits grew by 0.01 p.p., compared to last month, accounting for 0.77%.



Capital Market

As for the capital market, in June 2018, total turnover on the stock exchange surged by 13.4% on monthly basis, as a result of the increase of turnover from trading in best by 85.4%, while turnover from block transactions decreased by 54.7%.

Total turnover on the stock exchange amounted to Denar 976.6 million in June 2018, increasing by 2.3 times (133.6%) on annual basis. Macedonian Stock Exchange Index MSEI - 10 amounted to 3,332.7 index points at the end of June 2018, whereby the index grew by 12.62% on monthly basis, while, compared to the same month last year, the index was higher by 46.0%.



Reserve Assets

Gross reserve assets at the end of June 2018 amounted to EUR 2,642.2 million and, compared to the previous month, they were higher by EUR 31.4 million, while compared to June 2017, reserve assets were higher by EUR 242.2 million.

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