



REPUBLIC OF MACEDONIA  
MINISTRY OF FINANCE  
Macroeconomic Policy Department



# SHORT-TERM ECONOMIC TRENDS

May, 2018

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# SUMMARY

## OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

May 2018

- Industrial production in May 2018 surged by 1.1% compared to May 2017;
- Consumer prices in May 2018 increased by 1.7% compared to May 2017, following the annual increase of prices by 1.4% in April 2018. Average inflation rate in the period January - May 2018 amounted to 1.5%.
- Export in January – May 2018 surged by 14.2%, while import grew by 9,5%, resulting in decrease of the trade deficit by 2.5% compared to the same period in 2017;
- In the first five months in 2018, total budget revenues amounted to Denar 75.709 million, i.e. 11.4% of GDP, which was higher performance by 3.5% compared to the same period in 2017.
- In the first five months in 2018, total budget expenditures were executed in the amount of Denar 80.110 million, i.e. 12.1% of GDP, being higher by 2.1% compared to same period in 2017.
- Total credits of banks in May 2018 grew by 6.3% compared to May 2017, while total deposit potential of banks surged by 9.8%.

# 1. REAL SECTOR

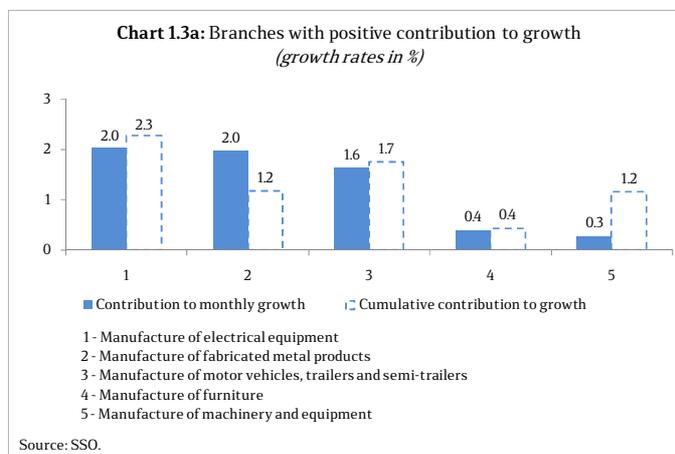
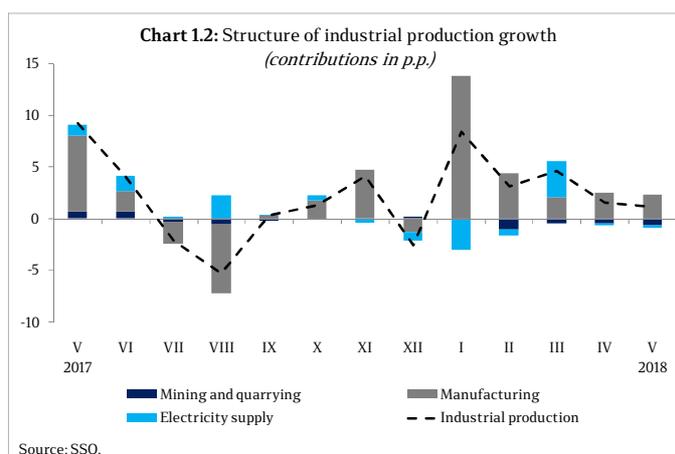
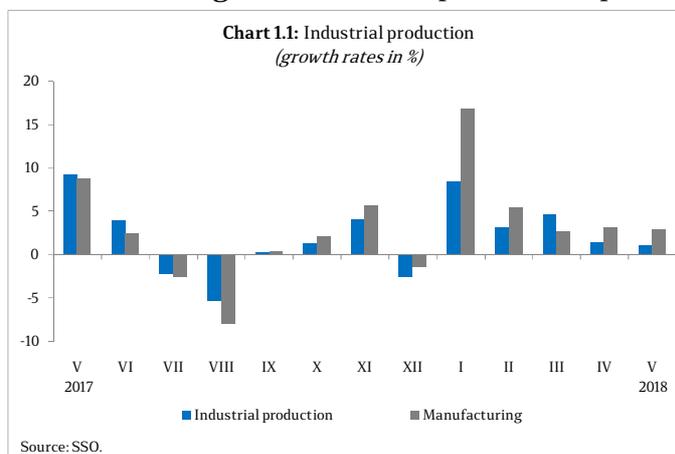
## Industrial Production

Industrial production in May 2018 surged by 1.1% compared to May 2017. Growth was fully a result of the positive trends in Manufacturing sector, where production picked up by 2.9% and the contribution to growth accounted for 2.4 p.p.. Other sectors experienced drop as follows: Mining and quarrying decreased by 7.3% with contribution of -0.6 p.p., while Electricity, gas, steam and air conditioning supply declined by 2.8% with contribution of -0.3 p.p..

Analyzed by branches, growth was recorded at 11 out of total 27 branches, participating with 39.8%

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, growth of more than 30% was seen at the manufacture of electric and transport equipment, motor vehicles and fabricated metal products. As for the branches with double-digit share in the industrial production structure, growth of production was only seen at Manufacture of machinery and equipment by 2.1% (contribution of 0.3 p.p.), while Manufacture of food products dropped by 4.6 % (contribution of -0.5 p.p.) and Electricity, gas, steam and air conditioning supply declined by 2.8% (contribution of -0.3 p.p.).

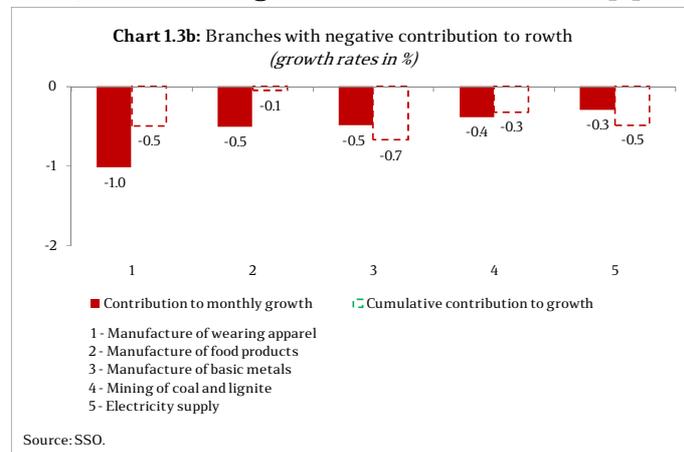
In line with the data by target groups, growth was seen at the groups: Capital goods by 18.0% (contribution of 3.8 p.p.) and Durable consumer goods industry by 39.7% (contribution of 1.0 p.p.). Drop was seen at the following groups: Non-durable consumer goods industry by 6.0% (contribution of -2.0 p.p.) and Energy by 6.3% (contribution of -0.8 p.p.) and



Intermediary goods, except energy by 2.4% (contribution of -0,7 p.p.).

On cumulative basis, industrial production in the first five months in 2018 experienced 3.5% growth, fully a result of the increased production in the Manufacturing sector by 5.5% and contribution of 4.4 p.p., being mitigated by the drop in the Mining and quarrying sector by 6.2% and negative contribution of 0.5 p.p., as well as Electricity, gas, steam and air-conditioning supply sector by 4.7% and negative contribution of 0.5 p.p..

Data from the analysis by branches shows that growth was registered at 10 out of 27 branches, accounting for 36.9% of industrial production structure. As for branches with double-digit share in the industrial production structure, growth was only seen at Manufacture of machinery and equipment by 8.9% (contribution of 1.2 p.p.), while drop was recorded in the Food industry by 0.5% (contribution of -0.1 p.p.) and Electricity, gas, steam and air conditioning supply by 4.7% (contribution of -0.5 p.p.).

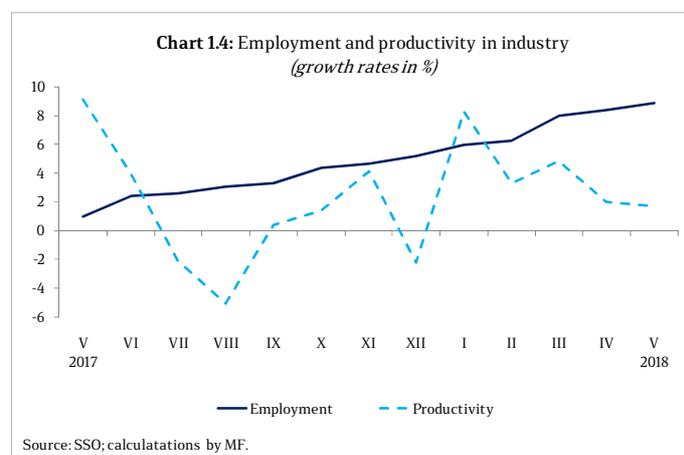


As for target groups, growth was mainly a result of the increased production in the Capital goods by 19.4% (contribution of 4.1 p.p.) being underpinned by the increase of production at the Durable consumer goods industry by 52.9% (contribution of 1.3 p.p.). Growth was mitigated by the drop of production at the following groups: Energy by 6.5% (contribution of -0.8%), Intermediary goods, except energy by 2.4% (contribution of -0.7 p.p.) and Non-durable consumer goods industry by 1.4% (contribution of -0.5 p.p.).

## Number of Employees in the Industry

In May 2018, number of employees in the industry increased by 8.9% annually. Growth was mainly a result of the increased number of employees in Manufacturing sector by 9.9%, as well as in Mining and quarrying sector by 1.7%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.2%.

Data on the number of workers in the industry by target groups in May 2018, compared to the same period last year, showed increase in the number of workers at the following groups: Capital goods by 28.2%, Intermediary goods, except energy by 15.0% and Non-durable consumer goods industry by 2.3%. Decline was observed at the following groups: Energy by 0.7% and Durable consumer goods



industry by 0.3%.

Number of employees in the first five months of 2018 grew by 7.5%, which was mainly a result of the increased number of employees in Manufacturing sector by 8.4%, as well as in Mining and quarrying sector by 1.0%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.4%.

In the period January-May 2018, number of employees increased in the following target groups: Capital goods by 22.9%, Intermediary goods, except energy by 14.5%, Non-durable consumer goods industry by 1.5% and Durable consumer goods industry by 0.8%. 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 May 2018 was more favourable compared to April 2018, as well as in relation to the May in 2017.

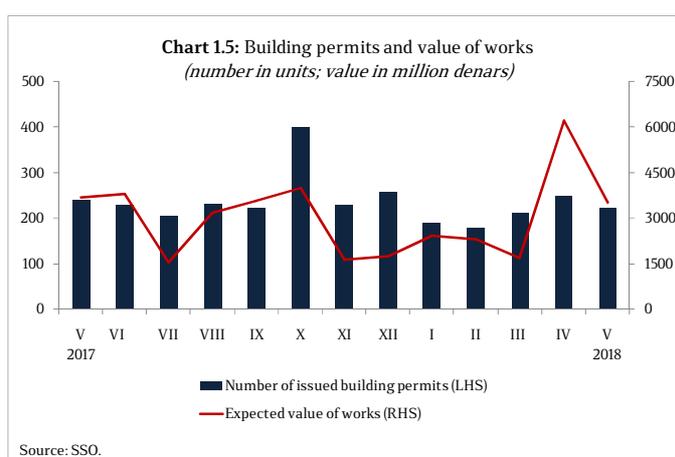
Average utilization of capacities of business entities in May accounted for 67.4%, being an increase compared to the previous month, when it accounted for 67.3%. On annual basis, utilization of the capacities was higher by 3.4 p.p..

Shortage of skilled labour with 23.0%, insufficient domestic demand with 18.7%, insufficient foreign demand with 18.4%, financial problems with 10.1% uncertain economic environment with 10.0%, and competitive import with 6.5% limited the most the production volume in May 2018.

As regards the volume of production orders in May 2018, it was more favourable compared to April 2018, it is expected for the production volume in the next three months to be more favourable compared to April 2018, while stocks of finished products were decreased on monthly basis.

### Number of Issued Building Permits and Expected Value of Works

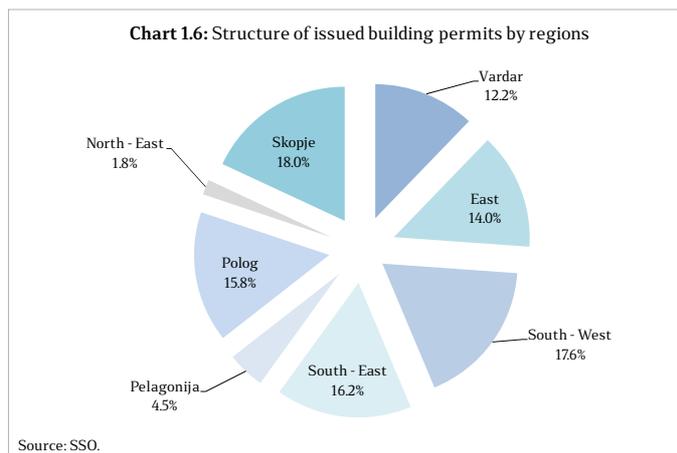
In May 2018, 222 building permits were issued, decreasing by 7.9% compared to the same period last year. Compared to April 2018, when 249 permits were issued, number of issued building permits declined by 10.8%. Expected value of works, according to the issued building permits dropped by 4.2% compared to May 2017. Value of works dropped by 43.2% on monthly basis.



Analyzed by types of constructions, out of the total number of issued building permits, 116 (or 52.2%) were intended for buildings, 41 (or 18.5%) for civil engineering structures and 65 (or 29.3%) for reconstruction.

Analyzed by types of investors, out of total 222 issued building permits, individuals were investors in 116 facilities (or 52.3%), while business entities were investors in 106 facilities (or 47.7%).

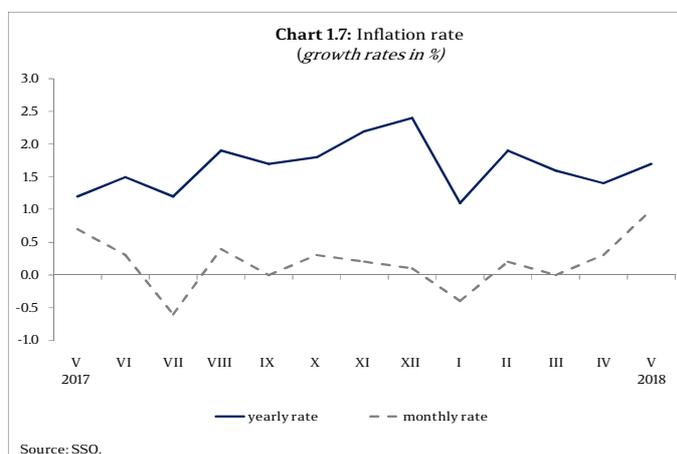
In May 2018, construction of 477 flats was envisaged, with total usable area of 38,951 m<sup>2</sup>. Number of flats envisaged for construction declined by 50.6% in May compared to the previous month, decreasing by 55.8% on annual basis.



## Inflation

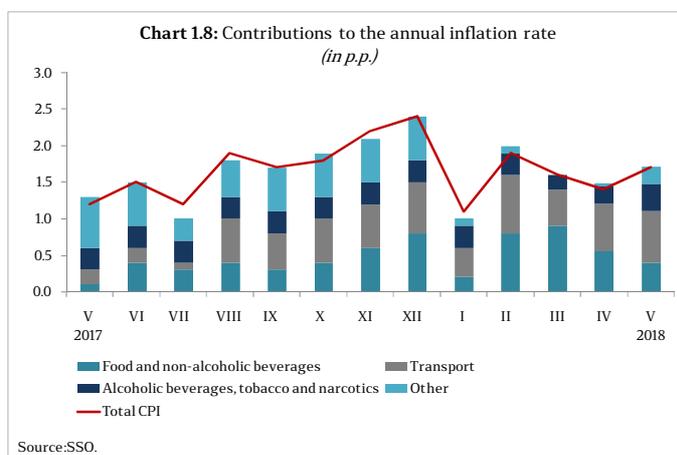
Consumer prices in May 2018 increased by 1.7% compared to May 2017, following the annual increase of prices by 1.4% in April 2018. Average inflation rate in the period January -May 2018 amounted to 1.5%.

Food and non-alcoholic beverages category, having the largest share in the CPI, experienced 1.0% increase in prices in May on annual basis, whereby prices of both Fruit and Meat categories experienced the highest increase by 3.7% and 3.4% respectively.



Highest annual increase of prices in May 2018 was observed at the category Transport by 8.7%, followed by the increase in prices at the following categories: Alcoholic beverages, tobacco and narcotics by 8.0%, Recreation and culture by 3.0%, Restaurants and hotels by 2.0%, Furnishings, household equipment and routine maintenance of the house by 1.0%, Communications by 0.8%, Miscellaneous goods and services by 0.4% and Health by 0.3%.

Annual drop in prices in May 2018 was registered at the following categories: Clothing and footwear by 0.7% and Housing, water, electricity, gas and other fuels by 0.2%. Prices remained the same at the category Education.



Consumer prices in May 2018 increased by 1.0% compared to the previous month. Thereby, increase of prices on

monthly basis was recorded in the following categories: Alcoholic beverages, tobacco and narcotics by 3.7%, Recreation and culture by 2.1%, Food and non-alcoholic beverages by 1.4%, Transport by 1.2%, Restaurants and hotels by 1.0%, Health by 0.7%, Clothing and footwear by 0.5%, Miscellaneous goods and services by 0.4% and Communications by 0.1%.

Monthly drop of prices was recorded at the category Furnishings, household equipment and routine maintenance of the house by 0.3%.

Prices in the following categories: Housing, water, electricity and other fuels and Education remained unchanged.

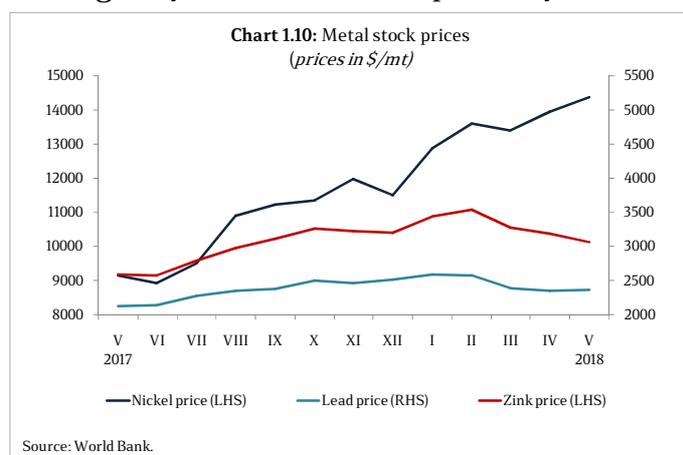
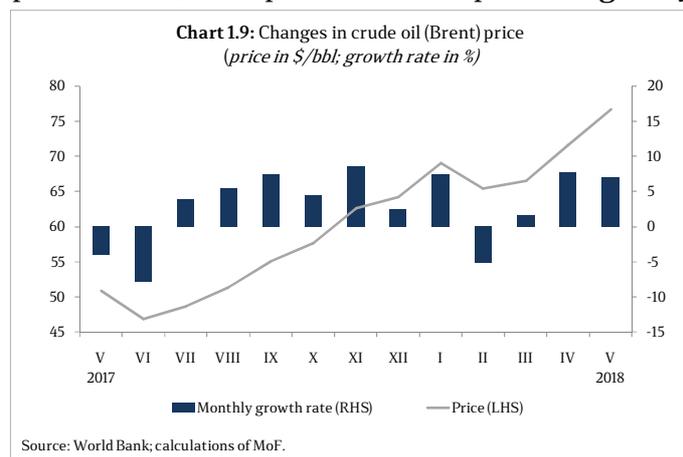
Retail prices in May 2018 were higher by 3.1% compared to the same month last year, while, on monthly basis, they increased by 0.7%. Retail prices in the period January - May 2018 were higher by 3.0%.

### Stock Market Prices

In May 2018, crude oil price (Brent) on the global stock markets grew by 7.0% compared to the previous month, reaching the price of US\$ 76.7 per barrel. Oil price surged by 50.7% on annual basis. Price of natural gas in May 2018 was higher by 10.3% compared to April 2018.

As regards metal products, nickel, as an important export product, was traded at an average price of US\$ 14,366 for a metric ton (\$/mt) in May 2018, being a price increase by 3.1% compared to the previous month. Compared to May 2017, nickel price increased by 56.9%. In addition to nickel, prices of aluminium and lead also surged by 2.0% and 0.4%, respectively. Prices of other base metals in May 2018 decreased compared to the previous month. Thus, price of zinc declined by 4.0%, price of tin was lower by 2.0%, while price of copper experienced 0.4% drop. Price of iron ore in May grew by 0.5% on monthly basis.

As regards prices of precious metals, they dropped in May 2018 on monthly basis. Thus, price of gold declined by 2.3%, price of platinum decreased by 2.1% and price of silver dropped by 0.9%.

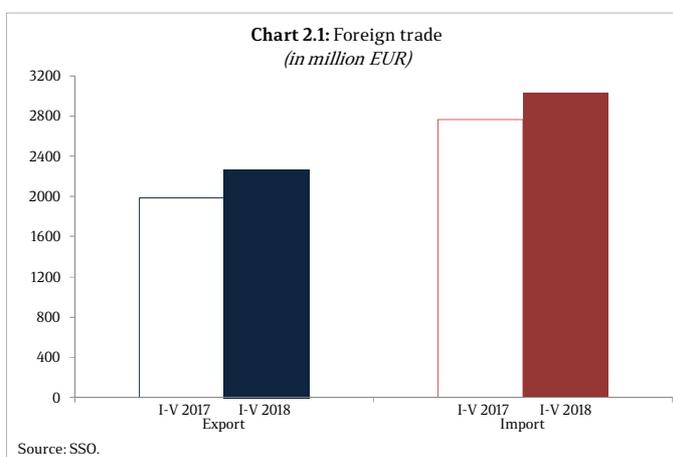


Price of wheat on global stock markets grew by 5.6% in May 2018 compared to April 2018, while price of maize increased by 2.0%.

## 2. FOREIGN TRADE

Total foreign trade in the first five months in 2018 amounted to EUR 5,293.4 million, increasing by 11.4% compared to the same period last year.

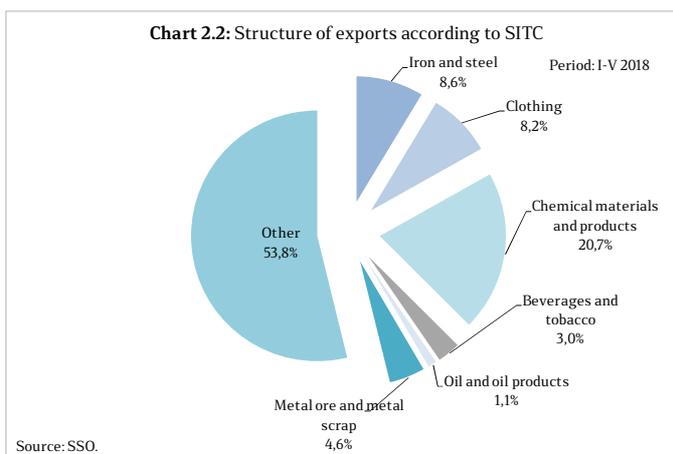
Foreign trade of the Republic of Macedonia with the European Union (EU 28) participated the most in the total foreign trade in the period January – May 2018, accounting for 72.7%, being an increase of 2.7 p.p. in relation to the same period last year.



### Export

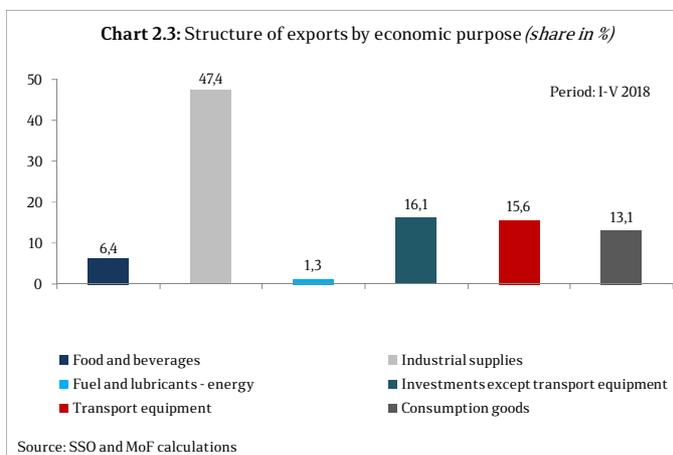
In the period January-May 2018, value of exported goods amounted to EUR 2,265.4 million, surging by 14.2% (EUR 281.3 million) compared to the same period in 2017, while physical output of export grew by 0.5%.

Value of exported goods amounted to EUR 486.9 million in May 2018, increasing by 12.0% (EUR 52.0 million) compared to the same month of the previous year, while physical output of export dropped by 12.6%.



Analyzed on monthly basis, in May 2018, export grew by 3.6% (EUR 17.0 million), compared to the previous month and, should export be seasonally adjusted, it registered monthly growth of 0.9%.

Main groups of products (according to SITC) being most exported in the period January–May 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 46.2% of the total export of the country.

Analyzed according to economic groups of countries, in the period January – May 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 18.0% annually, while export to Western Balkan countries increased by 7.6%, whereby export of goods to EU 28 and the Western Balkan countries accounted for 84.1% and 10.3% respectively in the total export from the Republic of Macedonia.

## Import

In the period January – May 2018, value of imported goods amounted to EUR 3,027.9 million, surging by 9,5% (EUR 262.0 million) compared to the same period in 2017, while physical output of import dropped by 9.9%.

In May 2018, import value amounted to EUR 621.1 million, growing by 0.7% (EUR 4.2 million) compared to the same month in 2017, while imported quantities of goods decreased by 9.9%.

Analyzed on monthly basis, in May 2018, import dropped by 0.3% (EUR 2.1 million), compared to the previous month and, should import be seasonally adjusted, it registered monthly drop of 2.3%.

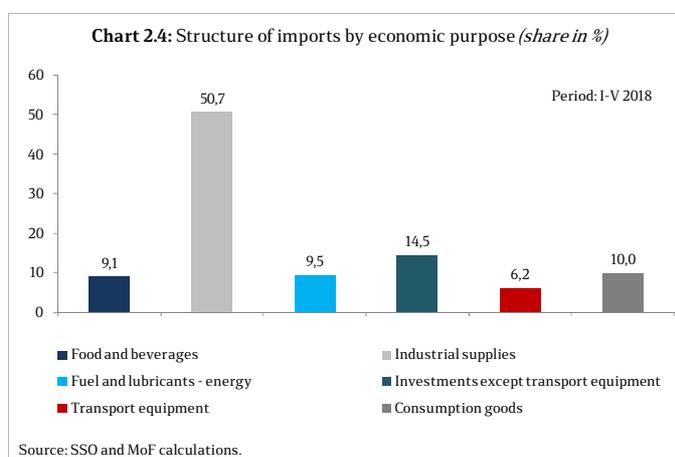


Table 2.1. Review of export and import of selected groups of products

Export of oil and oil products*)				
	I - V - 2017	I - V - 2018	Balance	% rate
000 T	44,8	56,7	11,9	26,5
EUR mil.	18,5	25,2	6,7	36,1
\$ mil.	19,9	30,7	10,8	54,0

\*)Previous data

Import of oil and oil products*)				
	I - V - 2017	I - V - 2018	Balance	% rate
.000 T	416,7	380,0	-36,7	-8,8
EUR mil.	175,7	189,3	13,6	7,8
\$ mil.	188,8	230,4	41,6	22,1

\*)Previous data

Export of chemical products*)				
	I - V - 2017	I - V - 2018	Balance	% rate
000 T	22,3	9,4	-12,9	-57,8
EUR mil.	420,7	468,3	47,6	11,3
\$ mil.	453,3	569,9	116,6	25,7

\*)Previous data

Import of chemical products*)				
	I - V - 2017	I - V - 2018	Balance	% rate
.000 T	11,8	12,1	0,3	2,3
EUR mil.	75,7	85,6	9,9	13,1
\$ mil.	81,4	104,4	23,0	28,3

\*)Previous data

Export of iron and steel*)				
	I - V - 2017	I - V - 2018	Balance	% rate
000 T	291,6	300,6	9,0	3,1
EUR mil.	194,5	195,3	0,7	0,4
\$ mil.	210,1	237,7	27,6	13,1

\*)Previous data

Import of iron and steel*)				
	I - V - 2017	I - V - 2018	Balance	% rate
.000 T	319,7	366,3	46,7	14,6
EUR mil.	160,6	198,4	37,7	23,5
\$ mil.	173,6	242,0	68,4	39,4

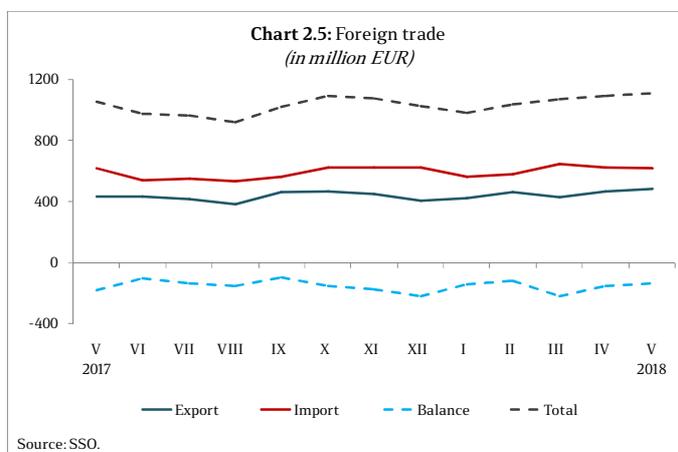
\*)Previous data

## Trade Balance

In the first five months in 2018, trade deficit decreased by 2.5%, i.e. EUR 19.2 million compared to the same period last year.

In May 2018, trade deficit decreased by 26.3% or EUR 47.8 million compared to May 2017.

If we analyze the balance of export and import of goods by economic purpose, deficit decrease was a result of the widening of the positive balance in the trade of transport equipment. On the other hand, widening of the negative balance in the trade of investment goods



without transport equipment, consumer goods, fuels and lubricants, food and beverages and industrial supplies, contributed to the deficit increase.

In the period January– May 2018, 95.1% of the trade deficit of the country was realized in the trade with Great Britain, Greece, China and Turkey, followed by: Serbia, Italy, the USA, Poland, Romania, and others. Surplus was realized in the trade with Germany, Kosovo, Belgium, Spain and Croatia.

## Currency Structure

Observed by currency structure, 88.2% of the trade in the period January – May 2018 was realized in euros and, compared to the same period in 2017, it surged by 1.6 percentage points. On export and import side, euro accounted for 93.7% and 84.2% respectively, whereby share of the euro at export was higher by 1.4 p.p., while increase of the share of the euro at import accounted for 1.6 p.p. compared to the period January – May 2017.

import	I - V - 2017					I - V - 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	1.766,0	2.284.348.726	61,5804	140.671.108.310	82,6	1.794,8	2.548.302.631	61,5348	156.809.292.711	84,2	263.953.904	11,6
USD	841,8	494.056.069	57,3602	28.339.154.909	16,6	552,4	550.046.299	50,4746	27.763.366.945	14,9	55.990.231	11,3
GBP	1,8	8.259.733	71,8854	593.754.238	0,3	2,6	12.812.203	69,9088	895.685.710	0,5	4.552.469	55,1
EUR+USD+GBP	2.609,7			169.604.017.457	99,2	2.349,8			185.468.345.366	99,5		
tot. import	2.615,5			170.355.439.605	100,0	2.356,7			186.324.691.538	100,0		9,4

Source: SSO and NBRM

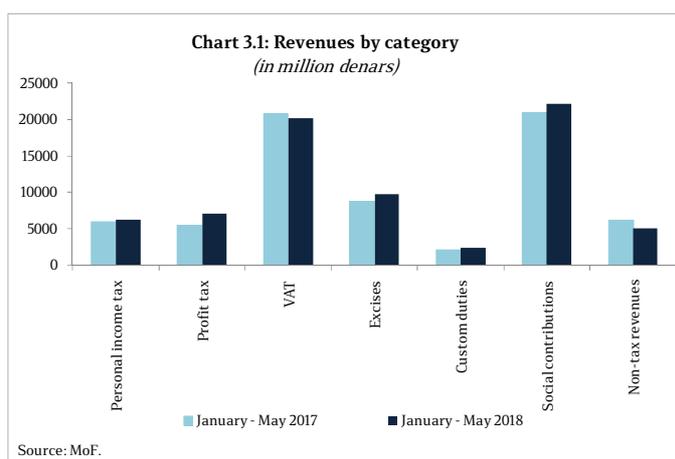
### 3. FISCAL SECTOR

#### Budget Revenues According to the Economic Classification

In the first five months in 2018, total budget revenues amounted to Denar 75.709 million, i.e. 11.4% of GDP, which was higher performance by 3.5% compared to the same period in 2017.

Tax revenues in this period were collected in the amount of Denar 45,676 million, being higher by 5.6% in relation to the same period last year.

Revenues on the basis of value added tax were collected in the amount of Denar 20,163 million, decreasing by 3.3% in relation to last year, whereby share of VAT in total tax revenues was dominant, accounting for 44.1%. Thereby, VAT collection amounted to Denar 29,392 million on gross basis, out of which Denar 9,229 million was refunded to taxpayers (gross collection was higher by 5.9%, while VAT refund was higher by 33.4% compared to the same period in 2017, being a significant increase). As for VAT structure, collection of VAT when importing accounted for the most, increasing by 9.8%, while VAT revenues collected on the basis of sales in the country dropped by 2.6%.



Revenues on the basis of excises were collected in the amount of Denar 9,733 million (participating with 21.3% in the tax revenues), surging by 11.7%. Hence, revenues collected on the basis of these two indirect taxes amounted to Denar 29,896 million, i.e. 65.5% of total tax revenues in this period.

PIT revenues were collected in the amount of Denar 6,217 million, increasing by 5.2% on annual basis, whereby revenues on the basis of tax on salaries and other personal earnings accounted for 66.6% of the personal income tax, capital revenues accounted for 8.9%, revenues on the basis of contractual agreement accounted for 6.5%, revenues on the basis of games of chance and award games accounted for 6.3%, revenues on the basis of property and property rights accounted for 4.0% and income from independent activity accounted for 2.0%. Profit tax revenues in these five months amounted to Denar 7,009 million, increasing by 27.4% compared to the same period in the previous year, being mainly a result of the additional payments on the basis of tax balances (33.9% increase), tax collected on the basis of monthly advance payments (25.6% increase), as well as the withholding tax for foreign legal entities (22.7% increase), while tax on the basis of dividend and other profit distribution experienced lower performance (44.8% decrease).

Revenues on the basis of customs duties were collected in the amount of Denar 2,345 million, increasing by 11.4%. Collection of revenues on the basis of other taxes, amounting to Denar 209 million, surged by 31.4% compared to last year.

Social contributions were collected in the amount of Denar 22,200 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 6.5% and health insurance contributions experienced 6.4% growth.

Non-tax revenues were collected in the amount of Denar 5,068 million and, in relation to the same period in 2017, they were lower by 17.9% (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 757 million, increasing by 3 times 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 1,344 million, decreasing by 29.5% compared to the same period last year.

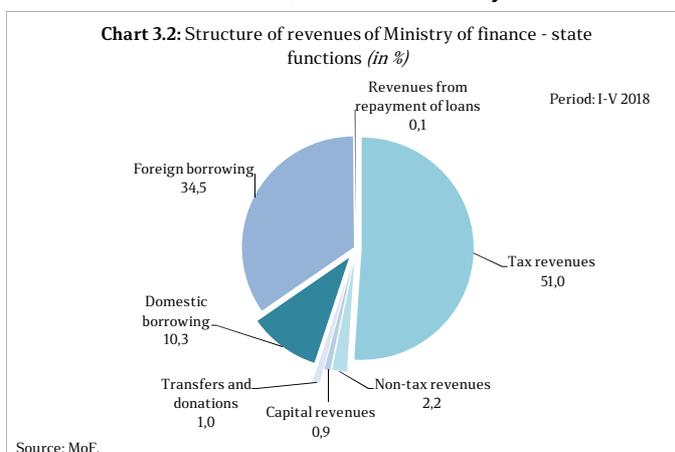
### Revenues by Budget Users

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 88,455 million in January -May 2018, i.e. 95.2% of the revenues of all budget users, accounting for 55.7% of the annual projections of this budget user.

Within the Ministry of Finance – Functions of the State, tax revenues accounted for the most – 51.0% of total revenues and inflows to this budget user, whereby their collection reached 40.5% of the annual projections by May. Inflows on the basis of domestic borrowing in this period amounted to Denar 30,529 million, accounting for 34.5% 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 1,452 million, i.e. 1.6% of the revenues and inflows of all budget users, most of which, i.e. 81.0%, were non-tax revenues, collected mainly on the basis of fees and charges.

Ministry of Health collected revenues in the amount of Denar 613 million, i.e. 0.7% of the revenues and inflows of all budget users, while 49.9% of that amount were inflows on the basis of foreign borrowing. The remaining budget users collectively generated revenues, accounting for 2.6% 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 27,682 million in January–May 2018, accounting for 40.7% of the Fund’s annual projections. Health Insurance Fund of Macedonia collected revenues in the amount of Denar 12,071 million in this period, i.e. 42.0% of the Fund’s annual projections. Employment Agency of the Republic of Macedonia collected revenues in the amount of Denar 955 million in the first five months of 2018, accounting for 41.0% of the annual projections.

### Budget Expenditures According to the Economic Classification

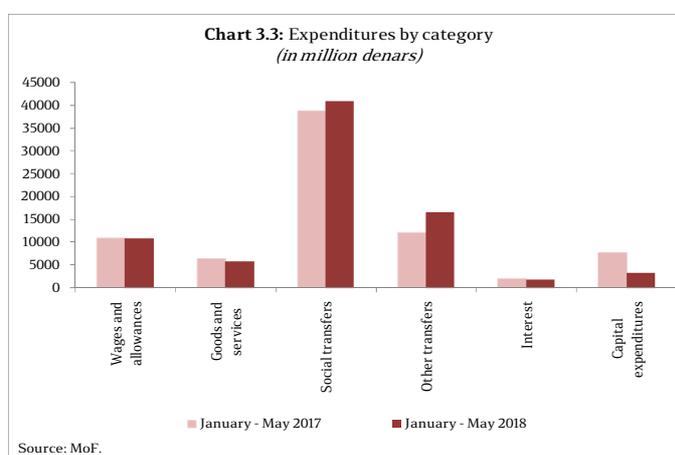
In the first five months in 2018, total budget expenditures were executed in the amount of Denar 80,110 million, i.e. 12.1% of GDP, being higher by 2.1% compared to same period last year.

With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 76,773 million, accounted for 95.8% and they increased by 8.6% in relation to the same period in 2017.

Expenditures related to wages and allowances were executed in the amount of Denar 10,866 million, accounting for 13.6% of the total budget expenditures and, in relation to 2017, they dropped by 0.4%.

Expenditures related to goods and services were executed in the amount of Denar 5,913 million, decreasing by 6.2% compared to the same period in 2017.

Funds allocated for transfers amounted to Denar 58,146 million accounted for the most in the current expenditure items. Such expenditures grew by 13.0% compared to the same period in 2017, participating with 72.6% in the total expenditures.



Funds allocated for social transfers amounted to Denar 40,936 million, increasing by 5.6% and accounting for 51.1% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 25,066 million, increasing by 5.1% compared to the same period in 2017 and accounting for 31.3% of the total expenditures. Category “other transfers”, which includes transfers to local government units, accounted for 20.7% of the total expenditures, i.e. they grew by 37.9%, amounting to Denar 16,587 million. Block grants to local government units, amounting to Denar 6,569 million, grew by 4.2% compared to the same period in the previous year. Expenditures related to subsidies and transfers amounted to Denar 9,098 million, being higher by 88.1% compared to last year.

Interest payments expenditures amounted to Denar 1,848 million, being lower by 8.1% compared to the same period in 2017. Costs related to interest on the basis of domestic borrowing increased by 2.6%, while the ones on the basis of foreign borrowing dropped by 21.5%.

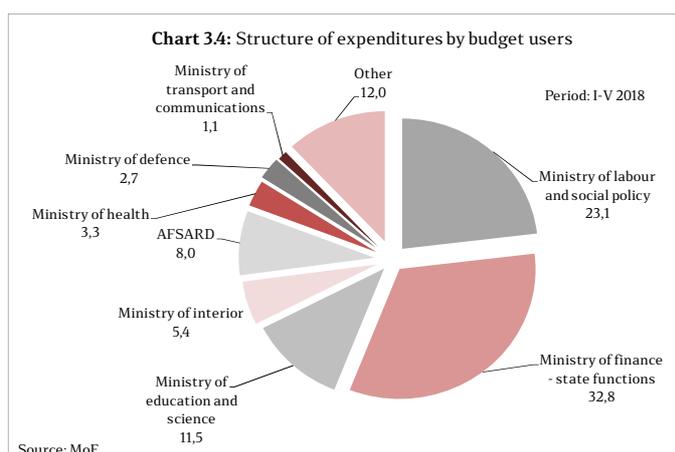
During the analyzed period, funds for capital expenditures were executed in the amount of Denar 3,337 million, participating with 4.2% in the total expenditures (0.5% of GDP), i.e. decreasing by 57.1% compared to the same period last year.

## Expenditures by Budget Users

Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 84.5% of the total budget of all budget users.

In the period January – May 2018, Denar 25,524 million was spent through the organizational code Ministry of Finance – Functions of the State<sup>1</sup>, accounting for 65.0% of the annual Budget. Repayment of principal accounted for most of the expenditures (82.2%), Denar 20,988 million being spent therefore in the period January - May 2018, i.e. 93.3% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 7.2% of the total expenditures, Denar 1,841 million being spent therefore or accounting for 21.2% of the projected interest payments.

In the period January – May 2018, Ministry of Labour and Social Policy executed funds in the amount of Denar 17,985 million or 41.2% of its total 2018 budget. Thereby, most of the expenditures (73.5%) in this period were allocated for current transfers to extra-



budgetary funds, for which Denar 13,219 million was spent or 41.8% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 18.6% in the total expenditures. As for this purpose, 41.5% (Denar 3,337 million) of the expenditures projected for 2018 was executed.

In the period January – May 2018, Ministry of Education and Science executed budget funds in the amount of Denar 8,930 million, i.e. 35.5% of its total 2018 budget. Current transfers to LGUs accounted for the most of the expenditures (63.7%), Denar 5,687 million being spent therefore or 41.2% of total projected funds. Wages and allowances

<sup>1</sup> 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.

were the second highest expenditure category, participating with 15.5%, Denar 1,383 million being spent therefore, i.e. 39.5% of the total projected funds. As for goods and services (accounting for 12.5% of the total expenditures), Denar 1,119 million was spent, accounting for 27.2% of the total funds projected for this year.

In the first five months of 2018, Agency for Financial Support in Agriculture and Rural Development executed expenditures in the amount of Denar 6,193 million, accounting for 71.7% of the funds projected for the current year. During the analyzed period, subsidies and transfers were the highest expenditure category (accounting for 95.2%), funds in the amount of Denar 5,897 million being spent therefore or accounting for 89.6% of the projected ones.

In the period January-May 2018, Ministry of Internal Affairs executed expenditures in the total amount of Denar 4,207 million, accounting for 41.0% of its 2018 budget. Wages and allowances were the highest expenditure category, accounting for 70.8%, Denar 2,977 million being spent therefore, or accounting for 40.8% of the projected ones. The second highest expenditure category was goods and services, participating with 16.2%, funds in the amount of Denar 680 million being executed therefore or 39.8% of the annual projections.

In the first five months of 2018, Ministry of Health executed budget funds in the amount of Denar 2,532 million, accounting for 38.1% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 54.7%, for which, Denar 1,385 million was spent or 49.6% of the funds projected for 2018 in the period January-May 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 33.7% of the total expenditures, funds in the amount of Denar 854 million being executed therefore in the analyzed period, i.e. 43.3% of total projected ones. Capital expenditures (participating with 9.9% in the total expenditures) were executed in the amount of Denar 250 million or 14.1%.

In the period January-May 2018, Ministry of Defense executed budget funds in the amount of Denar 2,137 million, i.e. 32.8% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 72.0%, Denar 1,538 million being spent therefore in the first five months, accounting for 40.7% of the total funds projected for the current year. Expenditures related to goods and services accounted for 23.3% of total expenditures, Denar 498 million being spent therefore during the analyzed period, i.e. 28.6% execution of the total projected funds.

As regards “Financing the activities in the field of culture”<sup>2</sup>, in the period January-May 2018, funds in the amount of Denar 1,276 million were spent, accounting for 34.1% of the total 2018 budget therefore. Wages and allowances accounted for the most in the total expenditures with 33.3%, while their execution in this period accounted for 40.4%, i.e. Denar 425 million was spent therefore. Expenditures related to subsidies and transfers

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<sup>2</sup> 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.

accounted for 29.8%, Denar 380 million being spent therefore or 30.9% of the projected funds. Capital expenditures accounted for 29.6% of total funds projected for the current year, whereby Denar 290 million or 22.7% of the total expenditures were spent therefore.

In the first five months of 2018, Ministry of Transport and Communications executed funds in the amount of Denar 893 million, i.e. 14.7% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 59.5%, while their execution in the period January-May 2018 accounted for 10.2%, i.e. Denar 532 million was spent. Expenditures related to subsidies and transfers participated with 32.8% in the total budget of this user, Denar 293 million being spent therefore.

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

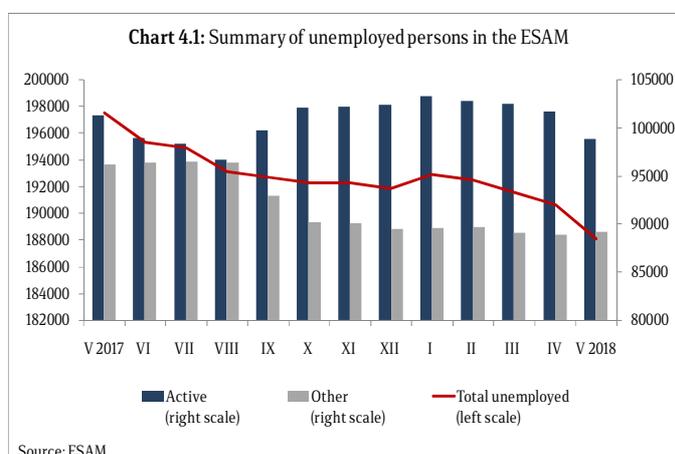
In the period January–May 2018, the budget deficit reached the amount of Denar 4,401 million, being 0.7% of GDP, while central budget deficit amounted to Denar 4,014 million or 0.6% of GDP.

## 4. SOCIAL SECTOR

### Number of Newly Employed and Registered Unemployed Persons in EARM

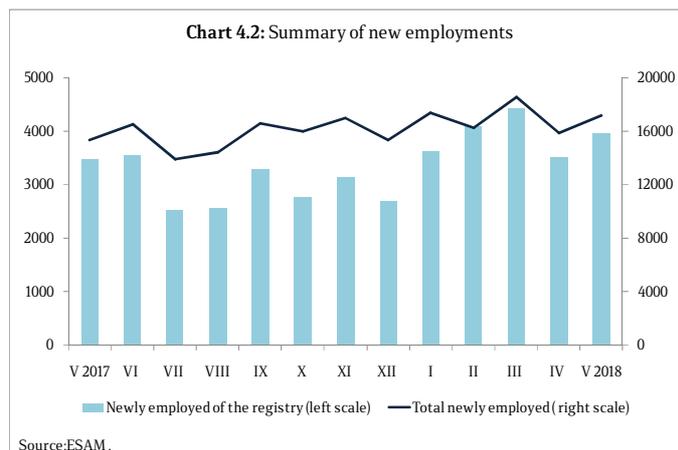
In the period January–May 2018, Employment Agency of the Republic of Macedonia registered total of 85,185 new employments. Total number of newly employed persons in this period was higher by 12.6% compared to the same period in 2017.

As regards the total number of newly employed, 40.3% was engaged on permanent basis, while the rest of the employed were engaged on temporary basis and as seasonal workers. In May 2018, 23.0% out of the total number of newly employed persons was from the unemployed records.



Total number of unemployed persons in May 2018 was 188,105, out of which 98,916 persons were active job seekers, while 89,189 persons were from the category “other unemployed”. Compared to the same month last year, total number of unemployed persons was lower by 4.8%.

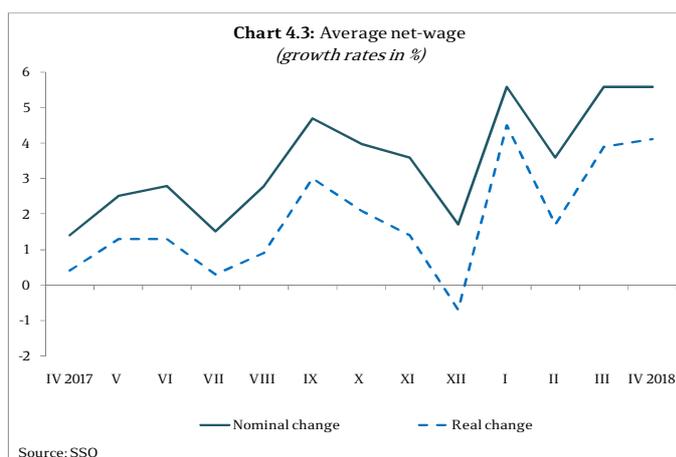
Major percentage of the unemployed (66.8%) came from urban areas (cities), whereby 58.5% were men. Analyzed by the level of education, major part, i.e. 57.6% of the unemployed persons, were with incomplete secondary education or less, 28.0% were with completed secondary education, while 14.5% of the unemployed persons were with completed community college or higher education level.



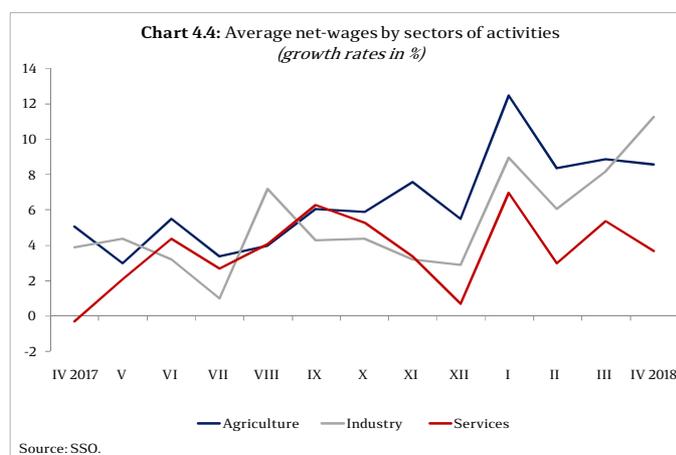
Observed by age, majority of the unemployed persons or 48.1% fall in the category of 25-49 years of age. According to the time they waited for a job, 49.1% of the unemployed persons wait for employment from 1 to 7 years, while 8.3% wait for employment for 8 years and more.

### Wages

In April 2018, average net wage increased by 5.6% in nominal terms on annual basis, and it was higher by 1.0% in relation to the previous month. The highest increase of average net wage was observed at the following sectors: Mining and quarrying (32.2%), Manufacturing (13.0%) and Accommodation and food service activities (11.4%). In April, wages grew by 4.1% in real terms on annual basis.

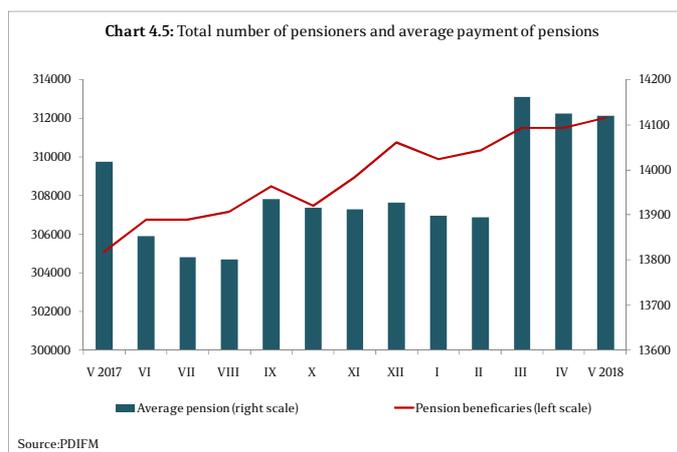


In April 2018, average gross wage increased by 5.5% in nominal terms on annual basis, and it was higher by 1.0% in relation to the previous month. The highest increase of average gross wage was observed at the following sectors: Mining and quarrying (32.1%), Manufacturing (13.1%) and Accommodation and food service activities (11.3%). Real gross wage surged by 4.0% annually.



## Pensions

In May 2018, Pension and Disability Insurance Fund registered 312,032 pensioners, increasing by 2.3% compared to the same period last year. Number of pension beneficiaries increased by 515 persons on monthly basis. As regards the total number of pensioners, 63.9% were beneficiaries of old-age pension, 24.4% of survival pension and 11.6% of disability pension.

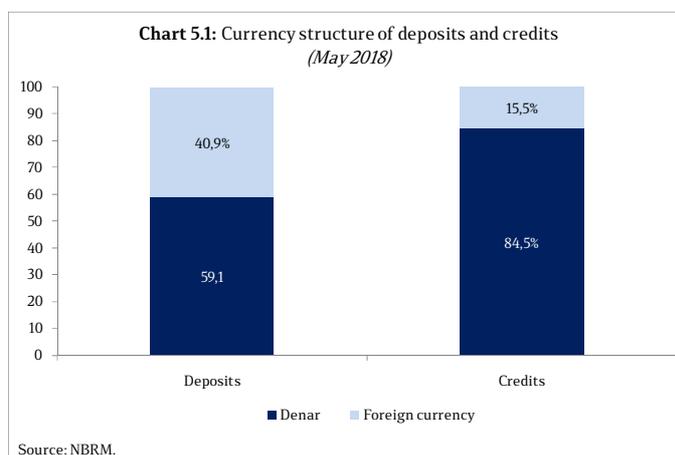


Average pension in May 2018 amounted to Denar 14,120, being higher by 0.7% compared to the same month last year. Ratio between the average pension and the average paid wage in April 2018 (the most recent available data) was 59.0%.

In April, average old-age pension amounted to Denar 15,423, average disability pension amounted to Denar 12,808, while average survival pension amounted to Denar 11,337. In May 2018, Denar 4,333.53 million was spent for payment of pensions, accounting for 51.0% of the total social transfers.

## 5. MONETARY AND FINANCIAL SECTOR

In May 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 agents, 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 May 2018, primary money<sup>3</sup> grew by 11.2% on annual basis, in conditions of increase of total liquid assets of banks and currency in circulation by 16.2% and 6.5%, respectively.

On monthly basis, primary money grew by 6.2%, as a result of increase of currency in circulation and total liquid assets of banks by 0.8% and 12.2%, respectively.

## Deposit Potential

In May 2018, total deposits of banks increased by 1.9% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises grew by 2.9%, while deposits of households surged by 0.6%.

Analyzed by currency, in May 2018, compared to the previous month, Denar deposits increased by 1.6%, while foreign currency deposits picked up 2.2%.

Total deposit potential in May 2018 grew by 9.8% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 10.5% and 8.9% respectively.

From sector point of view, this month, deposits of enterprises grew by 6.9%, while deposits of households increased by 8.9%, on annual basis.

According to maturity, short-term deposits increased by 4.4%, while long-term deposits surged by 12.2%, on annual basis.

Currency structure of deposits remained stable, whereby share of domestic currency deposits in the deposit base was higher, accounting for 59.1%.

Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (May 2018)	Denar million	Monthly change	Annual change
<b>Deposit Potential</b>	<b>347,000</b>	<b>1.9%</b>	<b>9.8%</b>
Denar	204,937	1.6 %	10.5%
Foreign currency	142,063	2.2%	8.9%
Short-term	156,031	2.5%	4.4%
Long-term	97,672	1.1%	12.2%
<b>Credits to private sector</b>	<b>301,758</b>	<b>1.2%</b>	<b>6.3%</b>
Denar	254,871	1.3%	8.7%
Foreign currency	46,888	0.7%	-5.2%
Short-term	64,913	1.9%	5.6%

<sup>3</sup>Primary 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).

Long-term	219,926	1.1%	9.0%
Doubtful and contested claims	15,392	0.3%	-19.5%

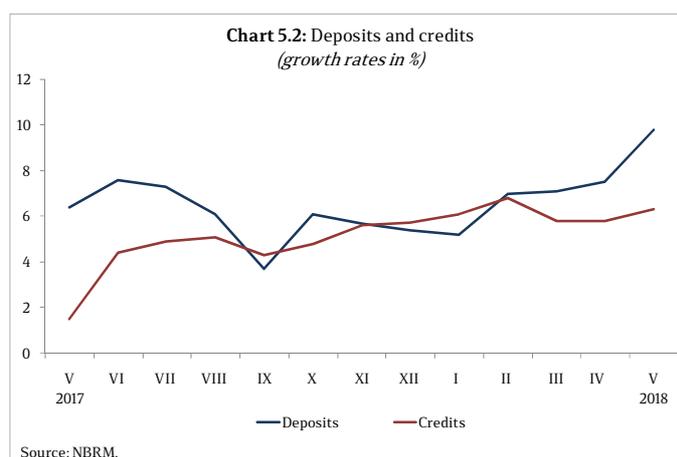
Source: NBRM

## Bank Credits

In May 2018, total credits of banks to the private sector surged by 1.2% compared to the last month. Sector analysis shows that credits to enterprises experienced growth of 1.2% in May 2018, while credits to households increased by 1.3%. Analyzed by currency, in May 2018, Denar credits grew by 1.3%, while foreign currency credits surged by 0.7%, on monthly basis.

On annual basis, total credits grew by 6.3% in May 2018, in conditions of growth of credits to households of 9.6% and credits to enterprises of 2.9%. Denar credits surged by 8.7%, while foreign currency credits decreased by 5.2%.

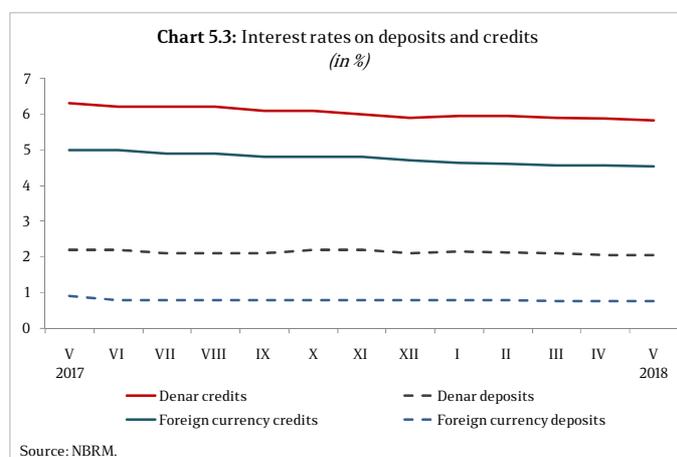
As regards maturity, long-term credits experienced annual growth of 9.0%, while short-term credits grew by 5.6%.



## Interest Rates of Deposit Banks

In May 2018, total interest rate on credits dropped by 0.05 p.p. compared to the previous month, accounting for 5.61%. Interest rate on Denar credits dropped by 0.05 p.p., accounting for 5.83%, while interest rate on foreign currency credits decreased by 0.03 p.p. on monthly basis, accounting for 4.53%.

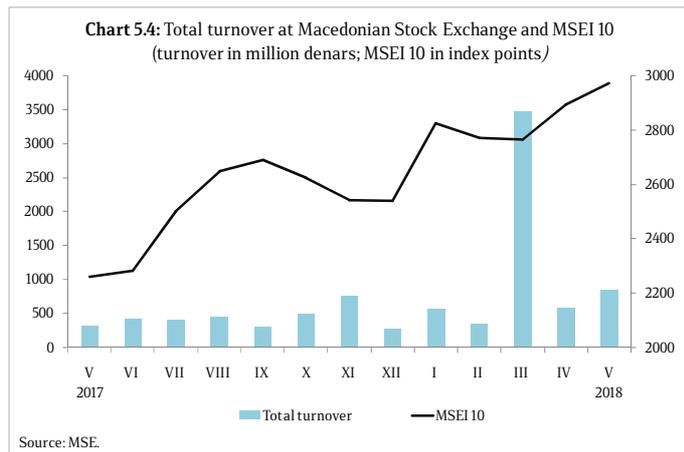
Total interest rate on deposits was 1.47% in May 2018, being lower by 0.01 p.p. compared to last month. Interest rate on Denar deposits decreased by 0.01 p.p., accounting for 2.06%, while interest rate on foreign currency deposits was the same compared to last month, accounting for 0.77%.



## Capital Market

As for the capital market, in May 2018, total turnover on the stock exchange surged by 46.6% on monthly basis, as a result of the increase of turnover from block transactions by 139.0%, as well as the increase of turnover from trading in best by 4.2%.

Total turnover on the stock exchange amounted to Denar 861.0 million in May 2018, increasing by 2.8 times (175.7%) on annual basis. Macedonian Stock Exchange Index MSEI - 10 amounted to 2,971.54 index points at the end of May 2018, whereby the index grew by 2.6% on monthly basis, while, compared to the same month last year, the index was higher by 31.6%.



## Reserve Assets

Gross reserve assets at the end of May 2018 amounted to EUR 2,610.7 million and, compared to the previous month, they were higher by EUR 22.3 million, while compared to May 2017, they were higher by EUR 162.2 million.

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