



REPUBLIC OF MACEDONIA  
MINISTRY OF FINANCE  
Macroeconomic Policy Department



# SHORT-TERM ECONOMIC TRENDS

March, 2018

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## SUMMARY

### OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

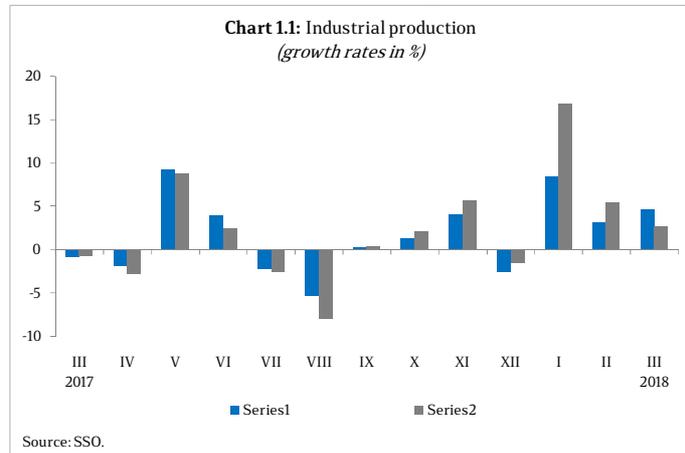
March 2018

- Industrial production surged by 4.6% in March 2018 compared to March 2017;
- Consumer prices in March 2018 increased by 1.6% compared to March 2017, following the annual increase by 1.9% in February 2018. Average inflation rate in the period January - March 2018 amounted to 1.5%.
- Export in the period January – March 2018 surged by 13.1%, while import grew by 12.5%, resulting in increase of the trade deficit by 10.8% compared to the same period in 2017;
- Total budget revenues were collected in the amount of Denar 43,376 million in the first three months of 2018, i.e. they accounted for 6.5% of GDP, which was higher performance by 1.5% compared to the same period in 2017;
- Total budget expenditures amounted to Denar 46,508 million in the first three months of 2018, i.e. they accounted for 7.0% of GDP, being higher by 0.4% compared to the same period in 2017;
- Total credits of banks in March 2018 grew by 5.8% compared to March 2017, while total deposit potential of banks surged by 7.1%.

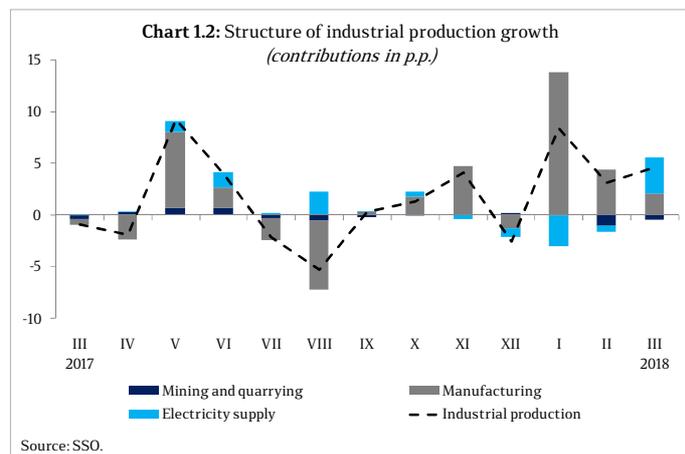
# 1. REAL SECTOR

## Industrial Production

Industrial production surged by 4.6% in March 2018 compared to March 2017. Growth was mainly a result of the increased production in the Electricity, gas, steam and air-conditioning supply sector by 33.1% and contribution to growth of 3.4 p.p., being also supported by the growth registered in Manufacturing sector by 2.6% and contribution to growth of 2.1 p.p.. Decline in production in Mining and quarrying sector of 5.4% contributed to mitigating the total growth of industrial production and it had negative contribution of 0.5 p.p..



Data by branches show that growth was recorded at 11 out of total 27 branches, participating with 44.9% in the industrial production structure, by which several branches continued to be the driving force of the growth second month in a row, where high increase of manufacture was registered. Thus, growth of more than 100% was seen at repair and installation of machinery and equipment, while manufacture of motor vehicles and other production industry experienced a growth of more than 60% each. As for the branches with two-digit share in the production structure, production decline was seen, i.e. Manufacture of machinery and equipment experienced 4.0% drop, and Manufacture of food products decreased by 0.9%.



Analysis of industrial production by target groups indicates that growth was registered at the following: Energy by 26.2% (contribution of 3.3 p.p.), Capital goods by 13.5% (contribution of 2.9 p.p.), Durable consumer goods industry by 35.4% (contribution of 0.9 p.p.) and Non-durable consumer goods industry by 1.8% (contribution of 0.6 p.p.). Drop in the production was observed only at Intermediary goods, except energy by 8.1% (contribution of -2.4 p.p.).

As per the cumulative data on the trends in the industrial production in the first three months in 2018, it experienced 5.2% growth, fully a result of the increased production in the Manufacturing sector by 7.4% and contribution of 6.0 p.p., being mitigated by the drop in the Electricity, gas, steam and air-conditioning supply sector by 5,6% and a

negative contribution of 0,6 p.p., as well as Mining and quarrying sector by 6.2% and a negative contribution of 0.5 p.p..

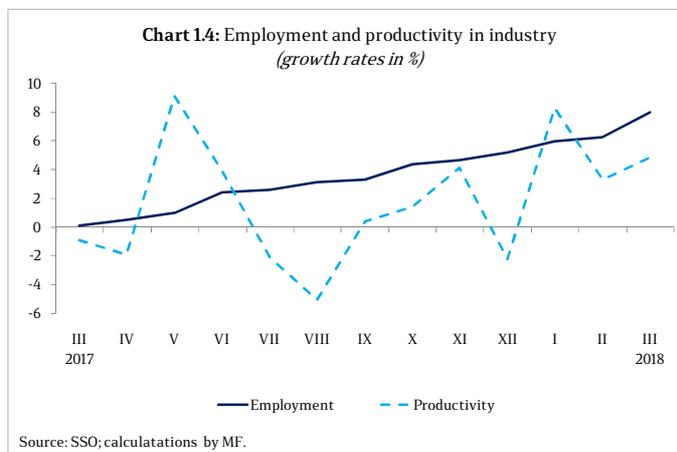
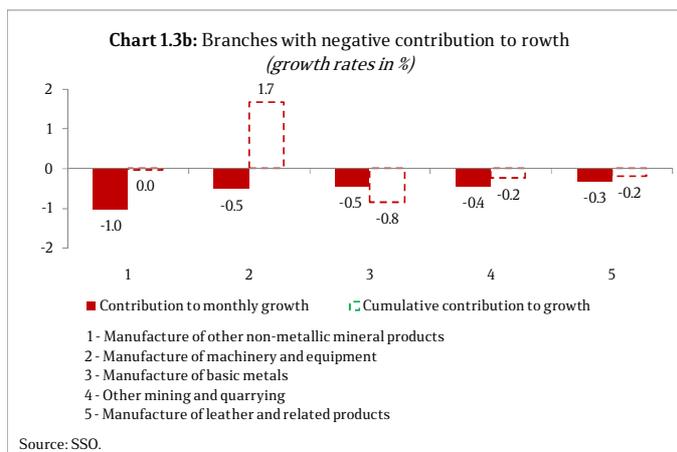
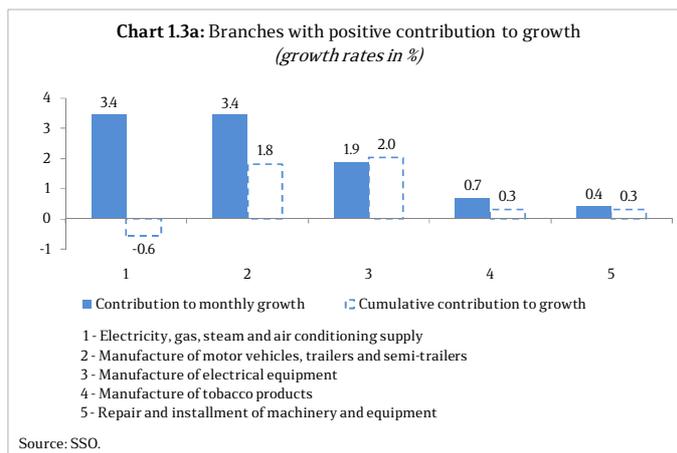
Sector analysis data show growth at 14 out of total of 27 branches, comprising 55.1% of the total industrial production structure. As for the branches with two-digit share in the production structure, Manufacture of machinery and equipment grew by 12.8% and Manufacture of food products increased by 1.4%.

Analyzed by target groups, growth was mainly a result of the increased production at Capital goods by 19.3% (contribution of 4.1 p.p.), and increase of production was also seen at Durable consumer goods industry by 53.3% (contribution of 1.3 p.p.) and Non-durable consumer goods industry by 2.6% (contribution of 0.9.p.p.). Production decline was observed at Energy by 6.8% (contribution of -0.8 p.p.) and Intermediary goods, except energy by 2.2% (contribution of -0.6 p.p.).

### Number of Employees in the Industry

In March 2018, number of employees in the industry increased by 8.0% annually. Growth was mainly a result of the increased number of employees in Manufacturing sector by 8.9%, as well as in Mining and quarrying sector by 0.9%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.1%.

Data on the number of employees in the industry by target groups in March 2018, compared to the same period last year, showed increase in the number of employees at the following groups: Capital goods by 23.9%, Intermediary goods, except energy by 16.0%, Non-durable consumer goods industry by 1.4% and Durable consumer goods industry by 1.0%. Drop was registered only at the Energy group of 0.6%.



On cumulative basis, in the period January – March 2018, number of employees in the industry grew by 6.7%, mainly as a result of the growth in the Manufacturing sector by 7.6% and the Mining and quarrying sector by 0.6%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.5%.

In the first three months of 2018, number of employees increased in the following target groups: Capital goods by 20.4%, Intermediary goods, except energy by 13.9%, Durable consumer goods industry by 1.4% and Non-durable consumer goods industry by 1.0%. Drop in the number of employees was registered only at the Energy group of 0.9%.

### Business Tendencies in Manufacturing

Economic situation of business entities in March 2018 was more favourable compared to both February 2018 and March 2017.

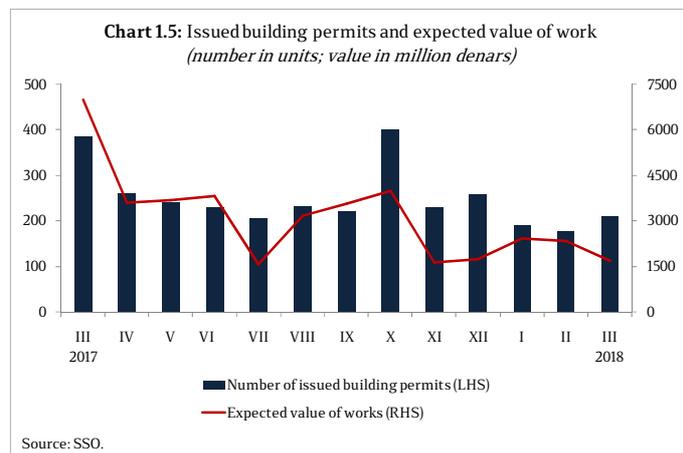
Average utilization of capacities of business entities in March accounted for 67.0%, being an increase compared to February 2018, when it accounted for 66.9%. Compared to the same month in 2017, utilization of the capacities was higher by 1.7 p.p..

Following factors limited the most the production volume in March 2018: shortage of skilled labour with 21.8%, insufficient foreign demand with 19.7%, insufficient domestic demand with 18.3% and uncertain economic environment with 10.7%.

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

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

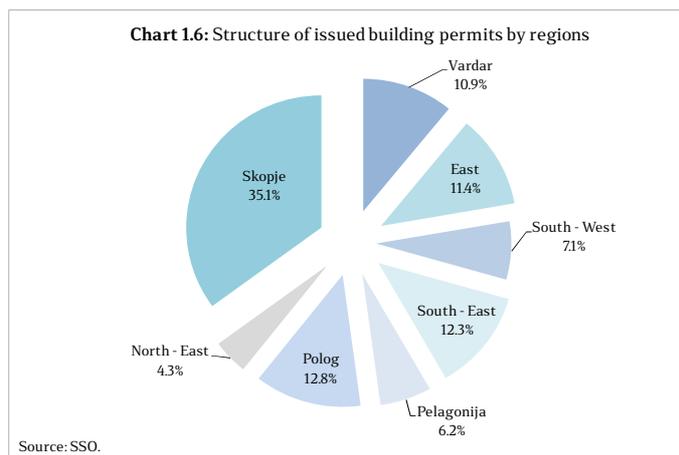
In March 2018, 211 building permits were issued, dropping by 45.1% compared to the same period in 2017. Compared to February 2018, when 177 building permits were issued, number of issued building permits increased by 19.2%. Expected value of works, according to the issued building permits in March 2018, declined by 76.0% on annual basis. Compared to the previous month, value of works dropped by 27.6%.



Analyzed by types of constructions, out of the total number of issued building permits, 119 (or 56.4%) were intended for buildings, 35 (or 16.6%) for civil engineering structures and 57 (or 27.0%) for reconstruction.

Analyzed by types of investors, out of total 211 issued building permits, individuals were investors in 116 facilities (or 55.0%), while business entities were investors in 95 facilities (or 45.0%).

In March 2018, construction of 342 flats was envisaged, with total usable area of 27,398 m<sup>2</sup>. Number of flats envisaged for construction declined by 43.9% compared to February 2018 and by 63.2% on annual basis.

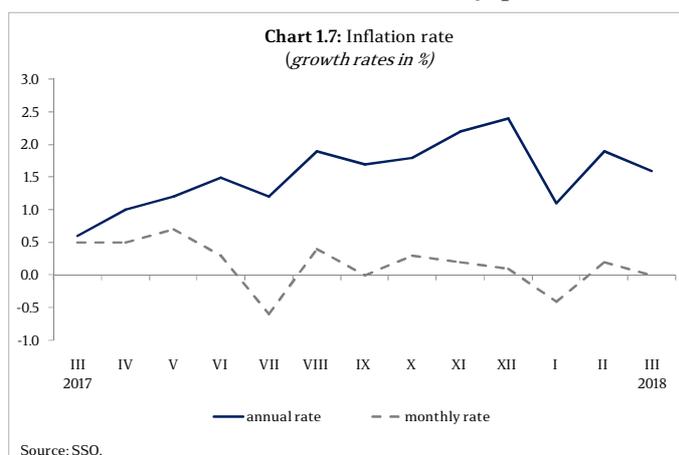


## Inflation

Consumer prices in March 2018 increased by 1.6% compared to March 2017, following the annual increase by 1.9% in February 2018. Average inflation rate in the period January - March 2018 amounted to 1.5%.

Food and non-alcoholic beverages category, having the largest share in the CPI, experienced 2.3% increase in prices in March on annual basis, whereby prices of both Fruit and Vegetables categories experienced the highest increase by 19.9% and 10.2% respectively.

Highest annual increase of prices in March 2018 was observed at the category Transport by 6.0%, followed by the increase in prices at the following categories: Alcoholic beverages, tobacco and narcotics by 5.1%, Recreation and culture by 1.3%, Restaurants and hotels by 1.2%,



Furnishings, household equipment and routine maintenance of the house by 0.6% and Communications and Miscellaneous goods and services by 0.4% each.

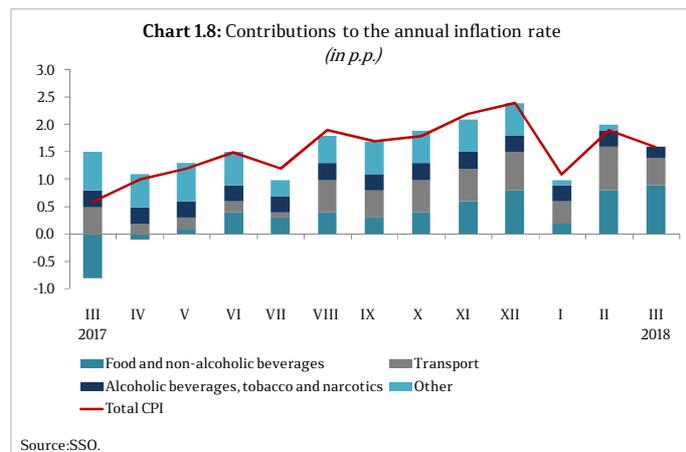
Annual drop in prices in March 2018 was also registered at the following categories: Clothing and footwear by 0.9%, Health by 0.8% and Housing, water, electricity, gas and other fuels by 0.3%. Prices at the category Education remained the same.

Consumer prices in March 2018 remained the same in relation to the previous month. Thereby, increase of prices on monthly basis was recorded in the following categories: Miscellaneous goods and services by 0.8%, Furnishings, household equipment and routine maintenance of the house and Clothing and footwear by 0.5% each, Communications by 0.2% and Food and non-alcoholic beverages by 0.1%.

Monthly drop of prices was recorded at the following categories: Transport by 1.3%, Health by 0.3%, Recreation and culture and Housing, water, electricity, gas and other fuels by 0.1% each.

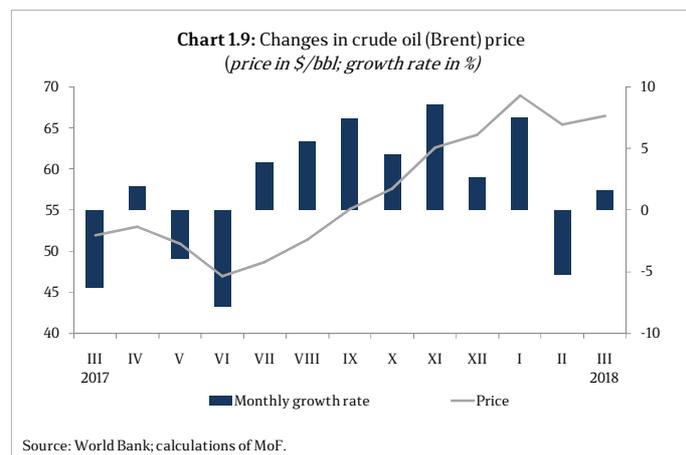
Prices in the following categories: Alcoholic beverages, tobacco and narcotics, Education and Restaurants and hotels remained the same.

Retail prices in March 2018 were higher by 2.8% compared to the same month last year, while on monthly basis, they dropped by 0.1%. Retail prices in the period January - March 2018 surged by 2.9%.

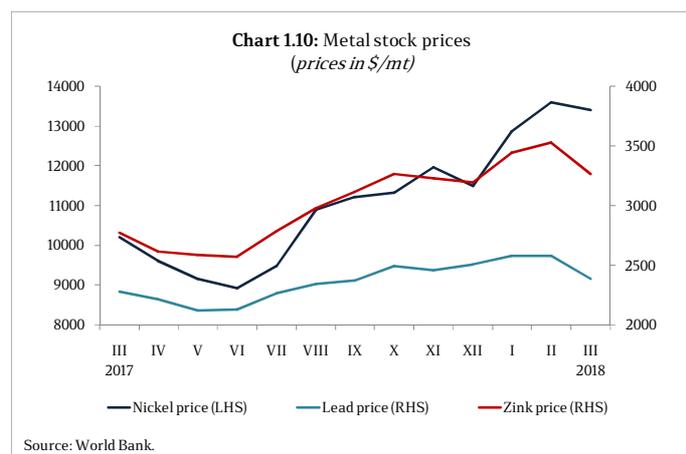


### Stock Market Prices

In March 2018, crude oil price (Brent) on the global stock markets grew by 1.6% compared to February 2018, reaching the price of US\$ 66.5 per barrel. Compared to March 2017, oil price surged by 27.9%. Price of natural gas in March 2018 increased by 1.4% on monthly basis.



As regards metal products, nickel, as an important export product, was traded at an average price of US\$ 13,393 for a metric ton (\$/mt) in March 2018, being a price decrease by 1.5% compared to February 2018. Compared to the same month in 2017, price of nickel grew by 31.2%. In addition to nickel, other base metals also experienced monthly price decline in March. Hence, price of zinc decreased by 7.5%, price of lead declined by 7.4%, price of aluminium declined by 5.2%, price of copper decreased by 3.0%, while price of tin dropped by 2.0%.



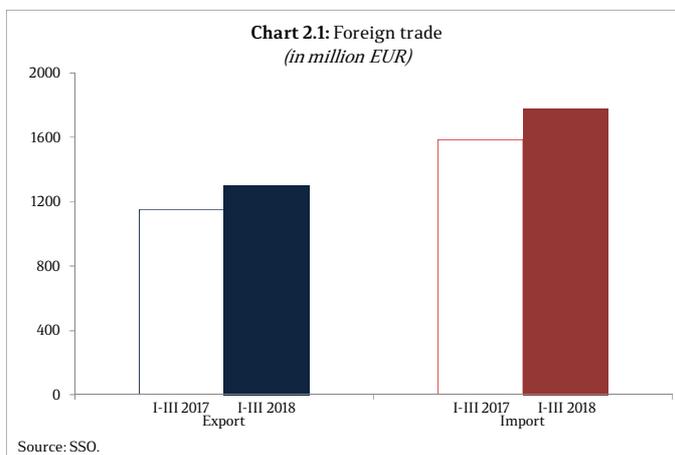
Price of precious metals in March 2018 decreased on monthly basis. Hence, price of platinum dropped by 3.3%, price of silver declined by 0.7% and price of gold decreased by 0.5%.

Price of maize on global stock markets grew by 5.3% in March 2018 compared to February 2018, while price of wheat increased by 4.4%. Compared to February 2018, price of lamb in March 2018 declined by 0.1%.

## 2. FOREIGN TRADE

Total foreign trade in the first three months in 2018 amounted to EUR 3,080.1 million, increasing by 12.7% compared to the same period last year.

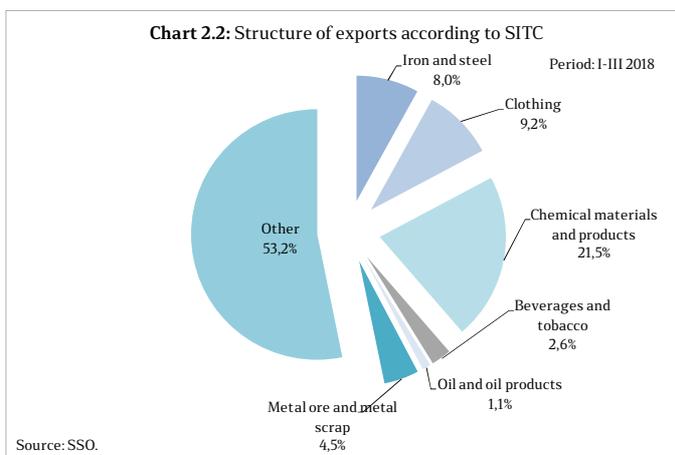
Foreign trade of the Republic of Macedonia with the European Union (EU 28) participated the most in the total foreign trade in the period January – March 2018, accounting for 72.6%, being an increase of 2.2 p.p. in relation to the same period last year.



### Export

In the period January - March 2018, value of exported goods amounted to EUR 1,299.1 million, surging by 13.1% (EUR 150.5 million) compared to the same period in 2017, while physical output of export grew by 8.2%.

Value of exported goods amounted to EUR 416.6 million in March 2018, dropping by 4.5% (EUR 19.6 million) compared to the same month of the previous year, while physical output of export dropped by 15.9%.



Analyzed on monthly basis, in March 2018, export dropped by 9.4% (EUR 43.4 million) compared to the previous month and, should export be seasonally adjusted, it registered monthly decline of 13.9%.

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

Analyzed according to economic groups of countries, in the period January – March 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 16.0% annually, while export to Western Balkan countries increased by 10.9%, whereby export of goods to EU 28 and the Western Balkan countries accounted for 85.0% and 10.0% respectively in the total export from the Republic of Macedonia.

## Import

In the period January – March 2018, value of imported goods amounted to EUR 1,781.0 million, surging by 12.5% (EUR 197.3 million) compared to the same period in 2017, while physical output of import dropped by 10.2%.

In March 2018, import value amounted to EUR 642.4 million, growing by 5.1% (EUR 31.3 million) compared to the same month in 2017, while imported quantities of goods decreased by 19.1%.

Analyzed on monthly basis, in March 2018, import grew by 11.3% (EUR 65.4 million) compared to the previous month, and, should import be seasonally adjusted, it registered monthly drop of 1.3%.

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

Export of oil and oil products*)				
	I - III - 2017	I - III - 2018	Balance	% rate
000 T	22,3	35,4	13,1	58,4
EUR mil.	10,0	13,7	3,7	36,8
\$ mil.	10,6	16,8	6,1	57,7

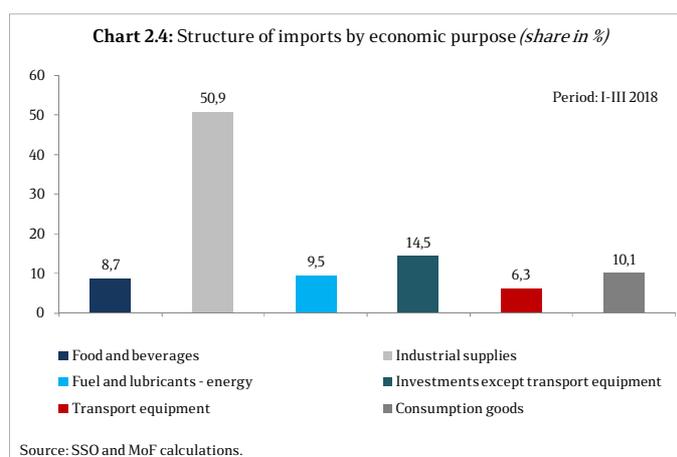
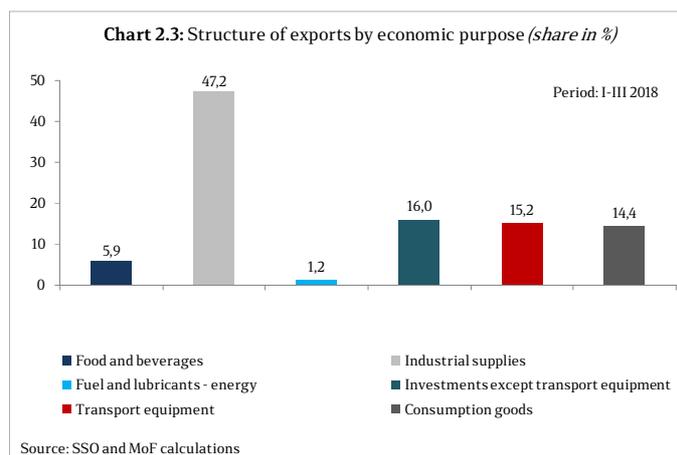
\*)Previous data

Export of chemical products*)				
	I - III - 2017	I - III - 2018	Balance	% rate
000 T	10,0	4,5	-5,5	-55,0
EUR mil.	249,0	279,0	30,0	12,0
\$ mil.	265,7	343,0	77,3	29,1

\*)Previous data

Export of iron and steel*)				
	I - III - 2017	I - III - 2018	Balance	% rate
000 T	167,3	174,3	7,1	4,2
EUR mil.	111,5	104,0	-7,5	-6,7
\$ mil.	118,9	128,1	9,2	7,7

\*)Previous data



## Trade Balance

In the first three months in 2018, trade deficit increased by 10.8%, i.e. EUR 46.8 million, compared to the same period last year.

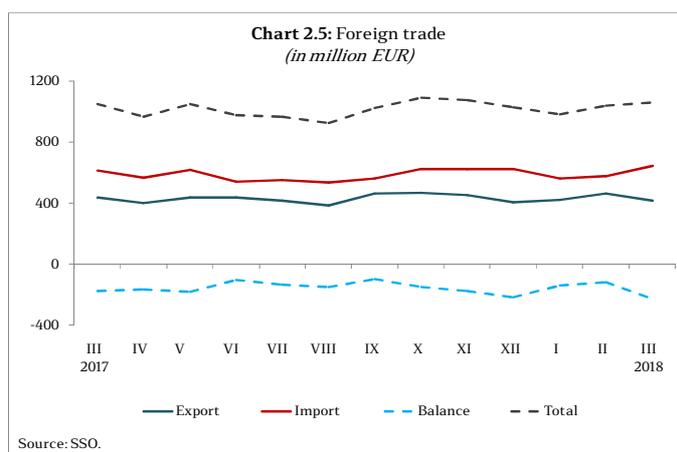
In March 2018, trade deficit increased by 29.1% or EUR 50.9 million compared to March 2017.

If we analyze the balance of export and import of goods by economic purpose, deficit increasing was a result of widening of negative balance in the trade of industrial supplies, investment goods without transport equipment, food and beverages, and fuels and lubricants, 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 – March 2018, 88.8% of the trade deficit of the country was realized in the trade with Great Britain, China, Greece and Serbia, followed by: Turkey, Italy, Russia, the USA, Poland, Romania and others. Surplus was realized in the trade with Germany, Kosovo, Belgium, Croatia and Spain.

## Currency Structure

Observed by currency structure, 88.2% of the trade in the period January – March 2018 was realized in euros and, compared to the same period in 2017, it surged by 1.8 p.p.. On export and import side, euro accounted for 94.3% and 83.7%, respectively, whereby share of the euro in export was higher by 2.0 p.p., while share of the euro in import increased by 1.7 p.p. compared to the period January – March 2017.



import		I - III - 2017				I - III - 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	structure in %		
EUR	938,5	1.298.622.086	61,5601	79.943.305.504	82,0	1.038,4	1.490.872.586	61,5580	91.775.134.677	83,7	192.250.500	14,8
USD	509,9	290.793.042	57,8297	16.816.474.386	17,2	261,4	335.518.604	50,0967	16.808.374.858	15,3	44.725.562	15,4
GBP	1,1	4.843.215	71,5557	346.559.662	0,4	1,6	7.374.412	69,6764	513.822.447	0,5	2.531.196	52,3
EUR+USD+GBP	1.449,5			97.106.339.551	99,2	1.301,4			109.097.331.981	99,5		
tot. import	1.452,8			97.506.481.229	100,0	1.305,3			109.638.232.347	100,0		12,4

Source: SSO and NBRM

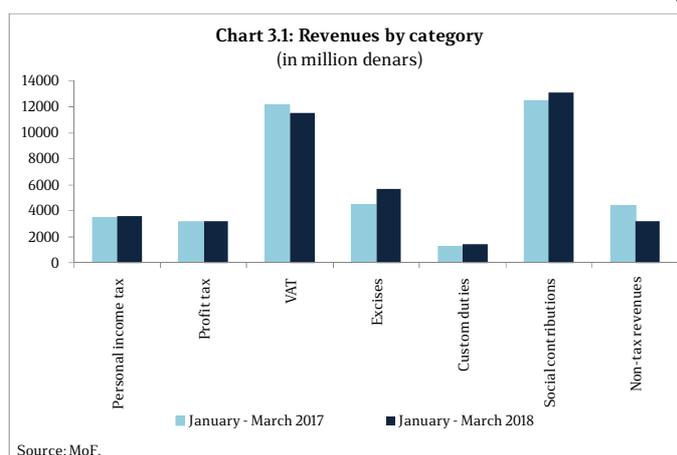
### 3. FISCAL SECTOR

#### Budget Revenues According to the Economic Classification

In the first three months of 2018, total budget revenues were collected in the amount of Denar 43,376 million, i.e. 6.5% of GDP, showing higher performance by 1.5% compared to the same period in 2017.

Tax revenues in this period were collected in the amount of Denar 25,529 million, being higher by 3.8% in relation to the same period last year.

Revenues on the basis of value added tax were collected in the amount of Denar 11,527 million, decreasing by 5.3% in relation to last year, whereby share of VAT in total tax revenues was dominant, accounting for 45.2%. Thereby, VAT collection amounted to Denar 17,177 million on gross basis, out of which



Denar 5,650 million was refunded to taxpayers (gross collection was higher by 5.5%, while VAT refund was higher by 37.1% 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 93.0%, while VAT revenues collected on the basis of sales in the country picked up by 23.4%. VAT revenues on the basis of grants, the share of which was insignificant, experienced a lower performance by 29.3%.

Revenues on the basis of excises were collected in the amount of Denar 5,666 million (participating with 22.2% in the tax revenues), surging by 27.3%. Hence, revenues collected on the basis of these two indirect taxes amounted to Denar 17,193 million, i.e. 67.3% of total tax revenues in this period.

PIT revenues were collected in the amount of Denar 3,617 million, increasing by 3.6% on annual basis, whereby revenues on the basis of tax on salaries and other personal earnings accounted for around 2/3, i.e. 67.3% of the personal income tax, capital revenues accounted for 7.0%, revenues on the basis of contractual agreement accounted for 6.8%, 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 4.4% and revenues on the basis of agricultural and forestry activity accounted for 2.1%. Profit tax revenues were collected in the amount of Denar 3,179 million in this 3-month period, increasing by 0.7% compared to the same period in the previous year, being mainly a result of the tax collected on the basis of monthly advance payments (5.7% increase). Tax collected as per additional payments on the basis of tax balances dropped by 1.8%, tax collected on the basis of dividends and other profit distributions declined by 44.5% and withholding tax for foreign legal entities experienced 28.2% drop.

Revenues on the basis of customs duties were collected in the amount of Denar 1,408 million, increasing by 12.5%. Collection of revenues on the basis of other taxes, amounting to Denar 132 million, surged by 73.7% compared to last year.

Social contributions were collected in the amount of Denar 13,058 million, being higher by 4.7% compared to the same period in 2017, whereby collection of pension and disability insurance contributions grew by 4.4%, collection of employment contributions increased by 5.3% and health insurance contributions experienced 5.4% growth.

Non-tax revenues were collected in the amount of Denar 3,204 million and, in relation to the same period in 2017, they were lower by 27.2% (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 456 million, increasing by almost 4 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 788 million, decreasing by 7.9% compared to the same period last year.

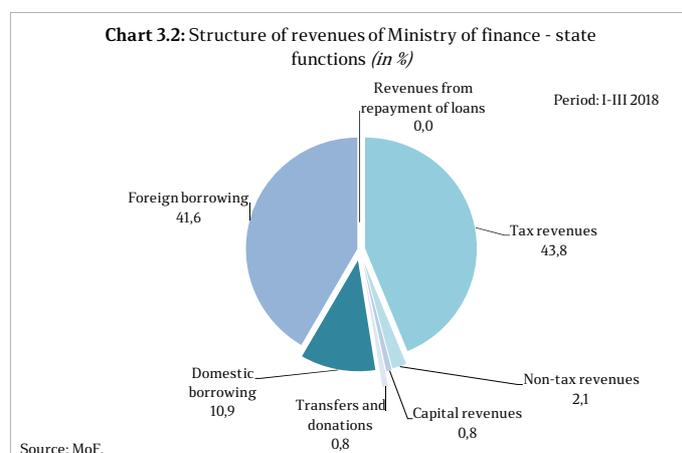
### Revenues by Budget Users

Budget revenues, i.e. inflows to the Central Budget, are generated mainly through the Ministry of Finance – Functions of the State, which amounted to Denar 57,613 million in January - March 2018, i.e. 95.2% of the revenues of all budget users, accounting for 36.3% of the annual projections of this budget user.

Within the Ministry of Finance - Functions of the State, tax revenues accounted for the most – 43.8% of total revenues and inflows to this budget user, whereby their collection reached 22.6% of the annual projections in the period January - March. Funds on the basis of foreign borrowing amounted to Denar 23,968 million, accounting for 41.6% of the total amount of this budget user.

Ministry of Education and Science collected revenues in the amount of Denar 984 million, accounting for 1.6% of the revenues and inflows of all budget users, being mainly non-tax revenues, collected on the basis of fees and charges.

Next budget user, having the highest revenues and inflows, is the Ministry of Health, which collected revenues in the amount of Denar 481 million, i.e. 0.8% of the revenues and inflows of all budget users, 63.6% of which were inflows on the basis of foreign borrowing. The remaining budget users collectively



generated revenues, accounting for 2.4% 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 16,510 million in the period January – March 2018, accounting for 24.3% of the Fund’s annual projections.

### Budget Expenditures According to the Economic Classification

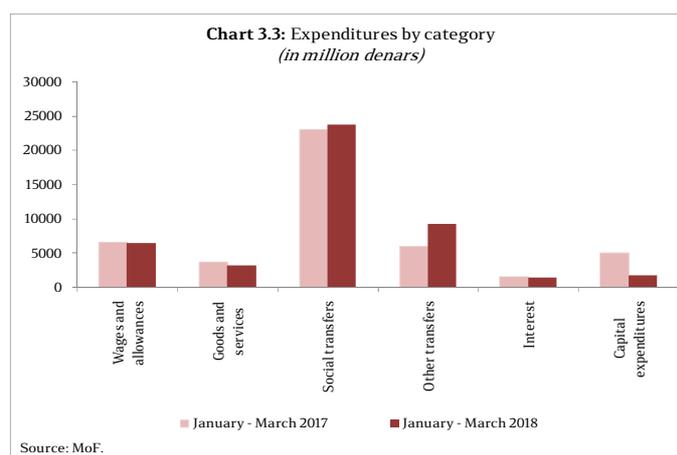
In the first three months of 2018, total budget expenditures amounted to Denar 46,508 million, i.e. they accounted 7.0% of GDP, being higher by 0.4% compared to the same period in 2017.

With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 44,714 million, accounted for 96.1% and they increased by 8.4% in relation to the same period in 2017.

Expenditures related to wages and allowances were executed in the amount of Denar 6,543 million, accounting for 14.1% of the total budget expenditures and, in relation to 2017, they dropped by 0.7%.

Expenditures related to goods and services were executed in the amount of Denar 3,243 million, decreasing by 12.9% compared to the same period in 2017.

Funds allocated for transfers amounted to Denar 33,510 million accounted for the most in the current expenditure items. Such expenditures grew by 14.1% compared to the same period in 2017, participating with 72.1% in the total expenditures.



Funds allocated for social transfers amounted to Denar 23,858 million, increasing by 3.5% and accounting for 51.3% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 14,774 million, increasing by 3.9% compared to the same period in 2017 and accounting for 31.8% 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 57.0%. Block grants to local government units, amounting to Denar 3,942 million, grew by 4.2% compared to the same period in the previous year. Expenditures related to subsidies and transfers amounted to Denar 4,758 million, being by almost three times higher compared to last year.

Interest payments expenditures amounted to Denar 1,418 million, being lower by 10.1% compared to the same period in 2017. Costs related to interest on the basis of domestic borrowing increased by 3.8%, while the ones on the basis of foreign borrowing dropped by 27.5%.

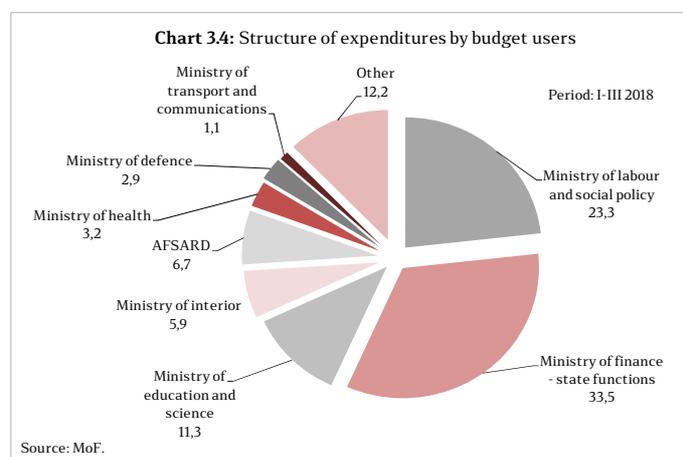
During the analyzed period, funds for capital expenditures were executed in the amount of Denar 1,794 million, participating with 3.9% in the total expenditures (0.3% of GDP), i.e. decreasing by 64.5% compared to the same period last year.

## Expenditures by Budget Users

Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 85% of the total budget of all budget users.

In the period January - March 2018, Ministry of Labour and Social Policy executed funds in the amount of Denar 10,541 million or 24.2% of its total 2018 budget. Thereby, most of the expenditures (75.1%) in this period were allocated for current transfers to extra-budgetary funds, Denar 7,915 million being spent therefore or 25.0% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 17.2% in the total expenditures. As for this purpose, 22.6% (Denar 1,813 million) of the expenditures projected for 2018 were executed.

In the first three months of 2018, Denar 15,167 million was spent through the organizational code Ministry of Finance - Functions of the State<sup>1</sup>, accounting for 38.7% of its annual budget. Repayment of principal accounted for most of the expenditures or 81.3%, Denar 12,326 million being spent therefore, i.e. 54.8% of the funds projected for this purpose in 2018. As regards expenditures related to interest



payments, they accounted for 9.1% of the total expenditures, Denar 1,382 million being spent therefore or accounting for 15.9% of the projected interest payments.

In the period January - March 2018, Ministry of Education and Science executed budget funds in the amount of Denar 5,142 million, i.e. 20.4% of its total 2018 budget. Current transfers to LGUs accounted for the most of the expenditures (66.3%), Denar 3,412 million being spent therefore or 24.7% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 16.1%, Denar 828 million being spent therefore, i.e. 23.6% of the total projected funds.

In the first quarter of 2018, Ministry of Internal Affairs executed expenditures in the total amount of Denar 2,656 million, accounting for 25.9% of its 2018 budget. Wages and

<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.

allowances were the highest expenditure category, accounting for 68.2%, Denar 1,810 million being spent therefore, or accounting for 24.8% of the projected ones. The second highest expenditure category was goods and services, participating with 15.3%, funds in the amount of Denar 406 million being executed therefore or 23.2% of the annual projections.

In the period January-March 2018, Agency for Financial Support in Agriculture and Rural Development executed expenditures in the amount of Denar 3,029 million, accounting for 35.1% of the funds projected for the current year, while subsidies and transfers accounted for 98.0% thereof.

In the first three months of 2018, Ministry of Health executed budget funds in the amount of Denar 1,450 million, accounting for 21.7% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 64.4%, for which, Denar 934 million was spent or 33.5% of the funds projected for 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 28.8% of the total expenditures, funds in the amount of Denar 417 million being executed therefore in the analyzed period, i.e. 21.2% of total projected ones.

In the period January-March 2018, Ministry of Defense executed budget funds in the amount of Denar 1,296 million, i.e. 19.9% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 70.6%, Denar 914 million being spent therefore in 2018, accounting for 24.2% of the total funds projected for the current year. Expenditures related to goods and services accounted for 24.2% of total expenditures, with Denar 314 million being spent therefore during the analyzed period, i.e. 18.0% execution of the total projected funds.

In the first quarter of 2018, Ministry of Transport and Communications executed funds in the amount of Denar 498 million, i.e. 8.2% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 56.3%, while their execution accounted for 5.3%, i.e. Denar 280 million was spent. Subsidies and transfers amounted to Denar 177 million, accounting for 29.6% of the total projected ones and 35.5% of the expenditures of this budget user.

As regards “Financing the activities in the field of culture”<sup>2</sup> in the period January - March 2018, funds in the amount of Denar 759 million were spent, accounting for 20.2% of the total 2018 budget therefore. Wages and allowances accounted for the most in the total expenditures with 33.4%, while their execution in this period accounted for 24.1%, i.e. Denar 253 million was spent therefore. Capital expenditures accounted for 28.3%, whereby Denar 215 million was spent therefore or 22.0% of the projected funds. Subsidies and transfers amounted to Denar 190 million, accounting for 15.5% of total funds projected for the current year, whereby this expenditure item accounted for 25.1%

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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.

of the total expenditures. 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–March 2018, budget deficit reached the amount of Denar 3,132 million, accounting for 0.5% of GDP, while central budget deficit amounted to Denar 3,978 million or 0.6% of GDP.

# 4. SOCIAL SECTOR

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

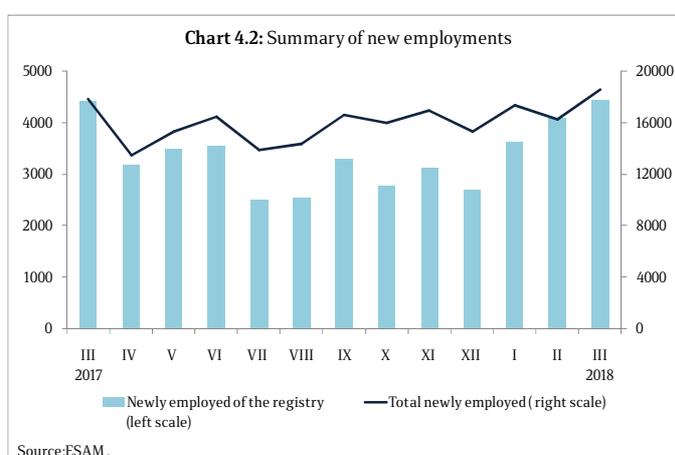
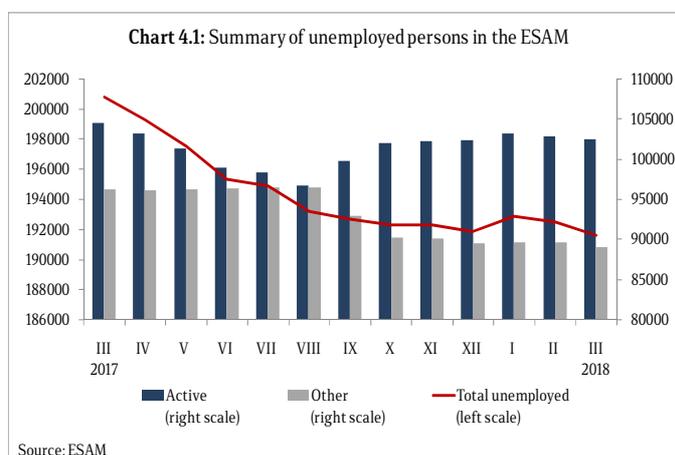
In the period January – March 2018, Employment Agency of the Republic of Macedonia registered total of 52,179 new employments. Total number of newly employed persons in this period was higher by 11.4% compared to the same period in 2017.

As regards the total number of newly employed, 38.9% was engaged on permanent basis, while the rest of the employed were engaged on temporary basis and as seasonal workers. In March 2018, 23.9% out of the total number of newly employed persons was from the unemployed records.

Total number of unemployed persons in March 2018 was 191,608, out of which 102,538 persons were active job seekers, while 89,070 persons were from the category “other unemployed”. Compared to the same month last year, total number of unemployed persons was lower by 4.6%.

Major percentage of the unemployed (66.8%) came from urban areas (cities), whereby 58.7% were men. Analyzed by the level of education, major part, i.e. 57.5% of the unemployed persons, were with incomplete secondary education or less, 28.1% were with completed secondary education, while 14.4% of the unemployed persons were with completed community college or higher education level.

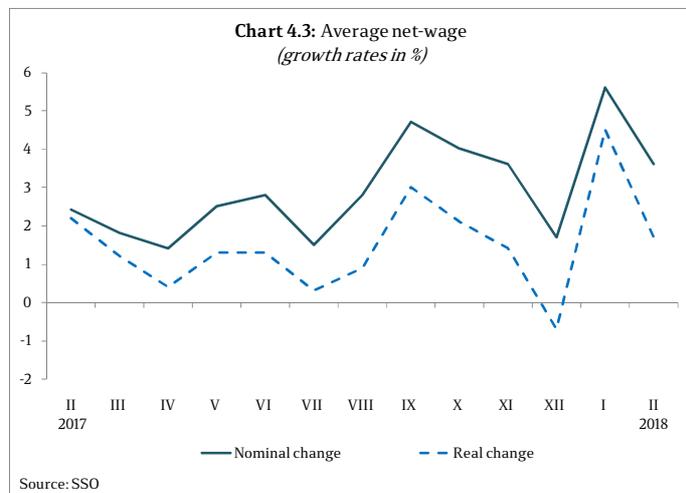
Observed by age, majority of the unemployed persons or 48.5% fall in the category of 25-49 years of age. According to the time they waited for a job, 49.0% of the unemployed



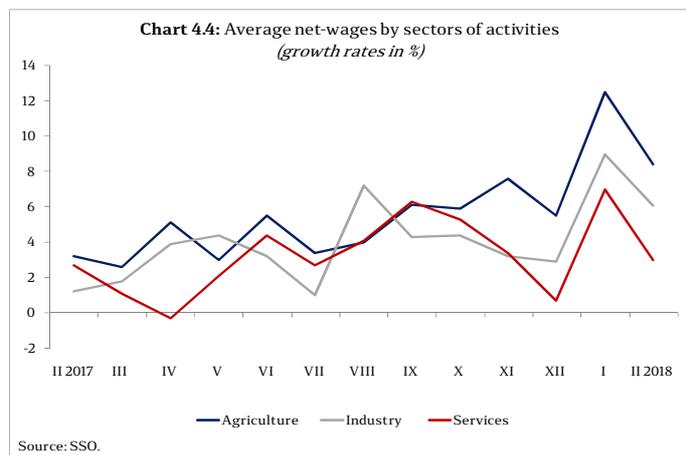
persons wait for employment from 1 to 7 years, while 8.3% wait for employment for 8 years and more.

## Wages

Average net wage in February 2018 increased by 3.6% in nominal terms on annual basis and it was lower by 3.6% in relation to the previous month. The highest increase of average net wage was observed at the following sectors: Mining and quarrying (14.5%), Manufacturing (10.7%) and Information and communications (10.5%). In February, wages grew by 1.7% in real terms on annual basis.

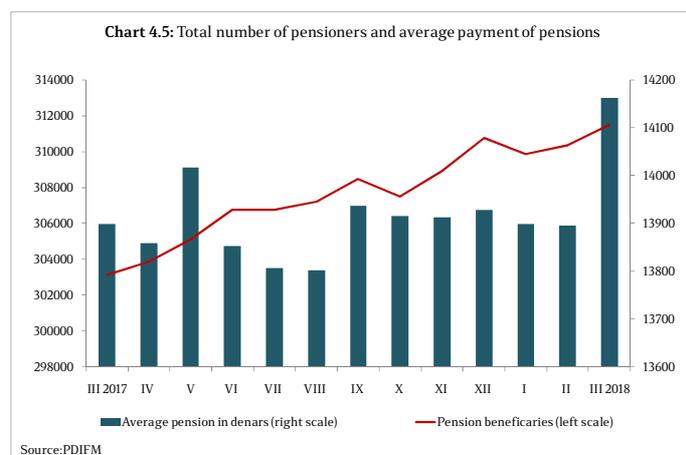


Average gross wage in February 2018 increased by 3.4% in nominal terms on annual basis and it was lower by 3.5% in relation to the previous month. The highest increase of average gross wage was observed at the following sectors: Mining and quarrying (12.8%), Manufacturing (11.0%) and Information and communications (10.9%). Real gross wage surged by 1.5% annually.



## Pensions

In March 2018, 311,492 pensioners were registered at the Pension and Disability Insurance Fund, being an increase of 2.8% compared to the same month last year. Number of pension beneficiaries increased by 1,160 persons on monthly basis. As regards the total number of pensioners, 63.7% were beneficiaries of old-age pension, 24.5% of survival pension and 11.8% of disability pension.

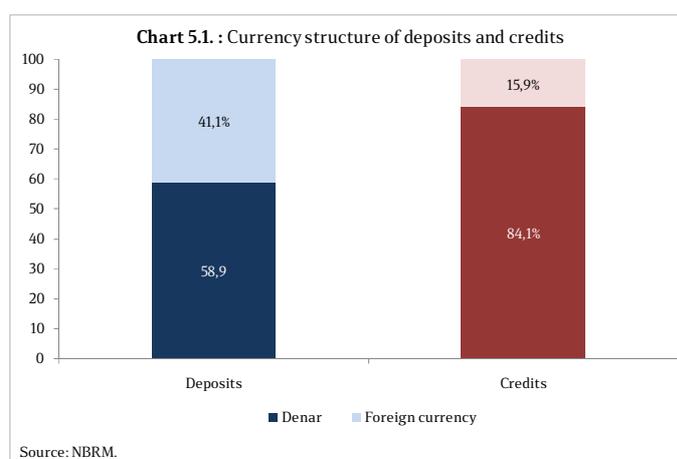


Average pension in March 2018 amounted to Denar 14,161, being higher by 1.9% compared to the same month last year. Ratio between the average pension and the average paid wage in February 2018 (the most recent available data) was 60.0%.

In March, average old-age pension amounted to Denar 15,477, average disability pension amounted to Denar 12,842, while average survival pension amounted to Denar 11,369. In March 2018, Denar 4,253.06 million was spent for payment of pensions, accounting for 51.8% of the total social transfers.

## 5. MONETARY AND FINANCIAL SECTOR

In March 2018, National Bank of the Republic of Macedonia reduced the reference interest rate from 3.25% to 3.0%, as a result of the 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 dropped by 0.2 p.p. compared to the previous month, accounting for 0.3%.



### Primary Money

In March 2018, primary money<sup>3</sup> dropped by 5.6% on annual basis, in conditions of drop of total liquid assets of banks by 16.0%, while ready money in circulation picked up by 5.0%.

On monthly basis, primary money dropped by 8.8%, as a result of decrease of total liquid assets of banks by 18.7%, while currency in circulation increased by 1.2%.

### Deposit Potential

In March 2018, total deposits of banks declined by 0.3% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises declined by 2.4%, while deposits of households grew by 0.3%.

Analyzed by currency, in March 2018, compared to February 2018, Denar deposits and foreign currency deposits dropped by 0.4% and 0.1% respectively.

Total deposit potential in March 2018 surged by 7.1% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 8.1% and 5.7% respectively.

<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).

From sector point of view, this month, deposits of enterprises grew by 2.3%, and deposits of households increased by 7.3%, on annual basis.

According to maturity, short-term deposits declined by 0.2%, while long-term deposits surged by 12.0%, on annual basis.

Currency structure of deposits remained stable, whereby share of domestic currency deposits in the deposit base was higher, accounting for 58.9%.

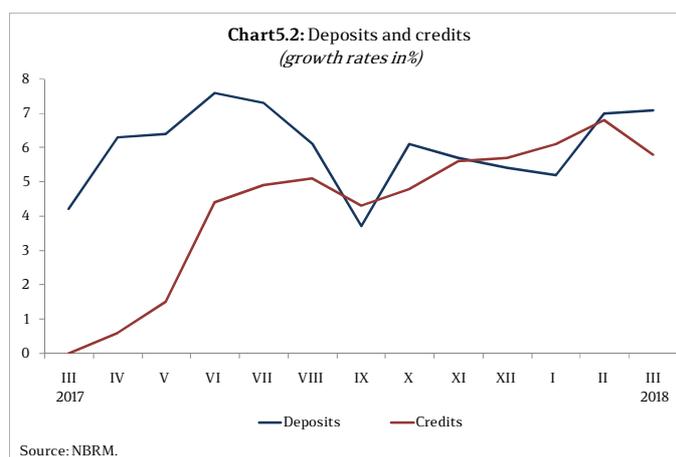
Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (March 2018)	Denar million	Monthly change	Annual change
<b>Deposit Potential</b>	<b>340,135</b>	<b>-0.3%</b>	<b>7.1%</b>
Denar	200,459	-0.4%	8.1%
Foreign currency	139,676	-0.1%	5.7%
Short-term	152,798	-0.8%	-0.2%
Long-term	97,162	2.0%	12.0%
<b>Credits to private sector</b>	<b>296,455</b>	<b>0.3%</b>	<b>5.8%</b>
Denar	249,354	0.7%	8.1%
Foreign currency	47,101	-1.4%	-5.0%
Short-term	63,499	1.3%	4.5%
Long-term	216,409	1.3%	8.0%
Doubtful and contested claims	15,023	-14.7%	-13.8%

Source: NBRM

### Bank Credits

In March 2018, total credits of banks to the private sector surged by 0.3% compared to the previous month. Sector analysis shows that credits to enterprises decreased by 0.2% in March 2018, while credits to households increased by 0.9%. Analyzed by currency, in March 2018, Denar credits grew by 0.7%, while foreign currency credits dropped by 1.4%, on monthly basis.



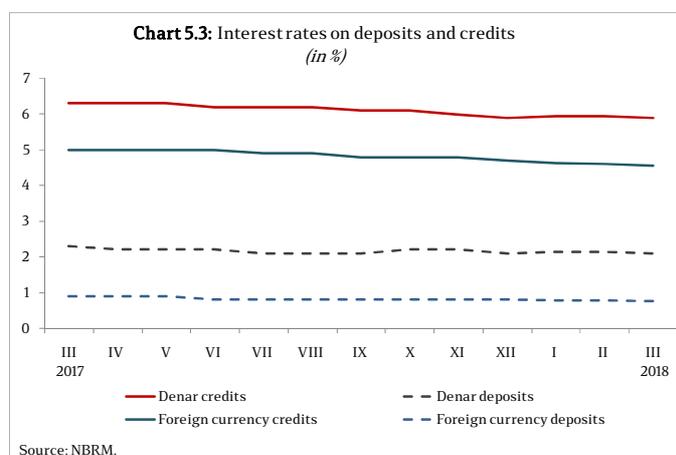
On annual basis, total credits grew by 5.8% in March 2018, in conditions of growth of credits to households of 9.4% and credits to enterprises of 2.4%. Denar credits surged by 8.1%, while foreign currency credits decreased by 5.0%.

As regards maturity, long-term credits experienced annual growth of 8.0%, and short-term credits grew by 4.5%.

## Interest Rates of Deposit Banks

In March 2018, total interest rate on credits dropped by 0.03 p.p. compared to the previous month, accounting for 5.67%. Interest rate on Denar credits reduced by 0.04 p.p., amounting to 5.90%, while interest rate on foreign currency credits dropped by 0.05 p.p. on monthly basis, accounting for 4.56%.

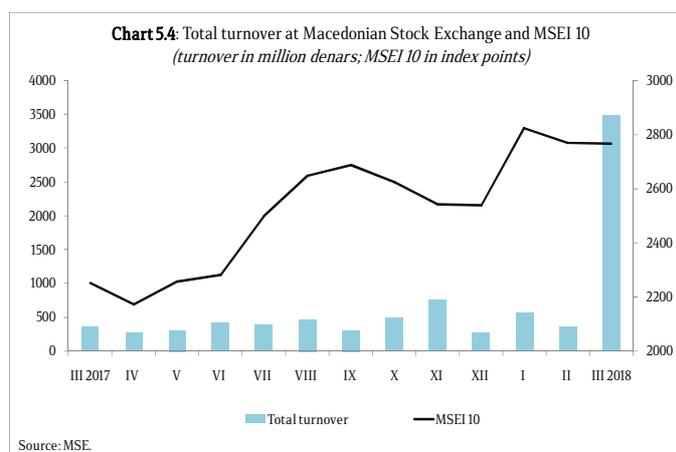
Total interest rate on deposits was 1.48% in March 2018, being lower by 0.02 p.p. compared to last month. Interest rate on Denar deposits decreased by 0.04 p.p., accounting for 2.10%, while interest rate on foreign currency deposits dropped by 0.02 p.p. compared to last month, accounting for 0.76%.



## Capital Market

As for the capital market, in March 2018, total turnover on the stock exchange surged by 9.7-times (873.6%) on monthly basis, as a result of the significant 82-fold increase of turnover from block transactions (8,098.4%) and increase of turnover from trading in best by 9.9%.

Total turnover on the stock exchange amounted to Denar 3,481 million in March 2018, increasing by 9.8 times (881.6%) on annual basis. Macedonian Stock Exchange Index MSEI - 10 amounted to 2,766.11 index points at end of March 2018, whereby the index dropped by 0.1% on monthly basis, while, compared to the same month last year, the index was higher by 22.9%.



## Reserve Assets

Gross reserve assets at end-March 2018 amounted to EUR 2,577.1 million and, compared to February 2018, they were lower by EUR 10.7 million, while compared to March 2017, they surged by EUR 42.7 million.

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