



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department



SHORT-TERM ECONOMIC
TRENDS

July, 2018

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SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

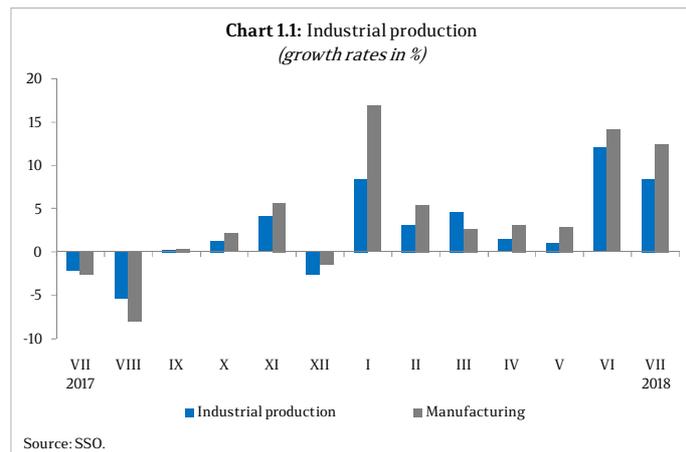
July 2018

- Industrial production in July 2018 surged by 8.4% compared to July 2017;
- Consumer prices in July 2018 increased by 1.7% compared to July 2017, following the annual increase by 1.4% in June 2018. Average inflation rate in the period January - July 2018 amounted to 1.5%.
- Export in the period January – July 2018 surged by 14.5%, while import grew by 11.9%, resulting in increase of the trade deficit by 4.5% compared to the same period in 2017;
- In the first seven months in 2018, total budget revenues amounted to Denar 106,248 million, i.e. 16.0% of GDP, which was higher performance by 4.6% compared to the same period in 2017;
- In the first seven months in 2018, total budget expenditures were executed in the amount of Denar 113,745 million, i.e. 17.1% of GDP, being higher by 1.3% compared to same period last year;
- Total credits of banks in July 2018 grew by 6.2% compared to July 2017, while total deposit potential of banks surged by 11.3%;

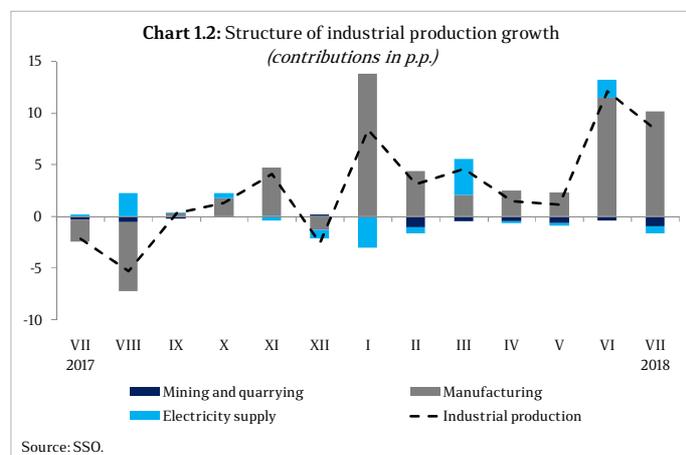
1. REAL SECTOR

Industrial Production

Industrial production in July 2018 surged by 8.4% compared to July 2017. Growth was fully a result of the positive trends in Manufacturing, where production picked up by 12.5% and the contribution to growth accounted for 10.2 p.p., whereby growth was mitigated by drop in Mining and quarrying sector by 11.5% and negative contribution of 1.0 p.p., as well as Electricity, gas, steam and air-conditioning supply sector by 6.3% and negative contribution of 0.7 p.p..

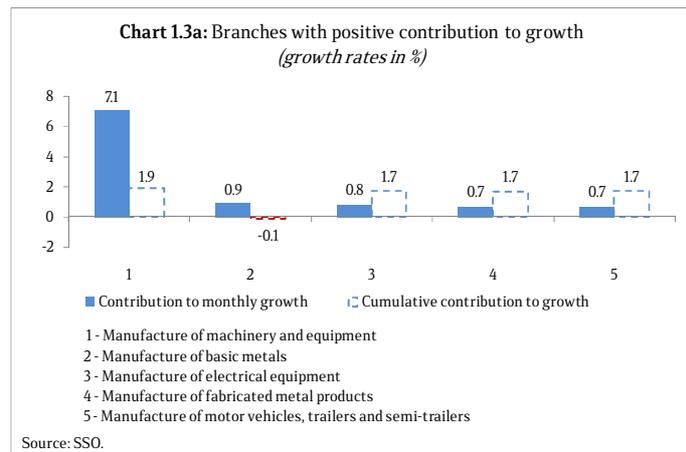


Growth in production in July was observed at 17 out of total of 27 industrial branches, accounting for 71.5% of the industrial production structure, showing broad-based growth (diversified). Production at higher value-added branches continued to dominantly contribute to growth, hence manufacture of motor vehicles, machinery and equipment, electrical equipment and fabricated metal products continued to register high growth rates. Total positive contribution to growth of these four branches in July 2018 was 9.4 p.p., while all other branches (13) contributed with 4.5 p.p. to the growth. Branches with two-digit share in the structure, experiencing growth, were Manufacture of machinery and equipment, increasing by 54.8% (contribution of 7.1 p.p.) and Manufacture of food products, surging by 1.7% (contribution of 0.2 p.p.), while drop was seen at Electricity, gas, steam and air conditioning supply sector, declining by 6.3% (contribution of -0.7 p.p.).

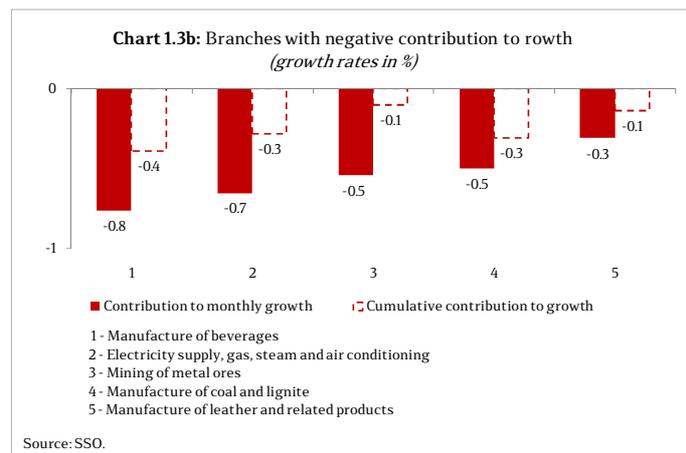


According to the data by target group, growth was registered at the following groups: Durable consumer goods industry by 26.7% (contribution of 0.7 p.p.), Capital goods by 25.3% (contribution of 5.4 p.p.) and Intermediary goods, except energy by 16.1% (contribution of 4.8%); while drop in the production was registered at the Energy group by 9.2% (contribution of -1.1 p.p.) and Non-durable consumer goods industry by 1.8% (contribution of -0.6 p.p.).

On cumulative basis, industrial production in the first seven months in 2018, experienced 5.5% growth, which was fully a result of the increased production in Manufacturing by 7.9% and contribution of 6.4 p.p., being mitigated by the drop in Mining and quarrying by 6.7% and negative contribution of 0.6 p.p., as well as Electricity, gas, steam and air-conditioning supply sector by 2.7% and negative contribution of 0.3 p.p..



Data from the analysis by branches shows that growth was registered at 14 out of 27 branches, accounting for 52.5% of industrial production structure. Branches with two-digit share in the structure, experiencing growth, were Manufacture of machinery and equipment, increasing by 14.6% (contribution of 1.9 p.p.) and Manufacture of food products, surging by 0.5% (contribution of 0.1 p.p.), while drop was only seen at Electricity, gas, steam and air conditioning supply, declining by 2.7% (contribution of -0.3 p.p.).



As for target groups, growth was mainly a result of the increased production at Capital goods by 22.3% (contribution of 4.8 p.p.) being underpinned by the increase of production at Durable consumer goods industry by 42.1% (contribution of 1.0 p.p.), as well as Intermediary goods, except energy by 2.7% (contribution of 0.8 p.p.).

Growth was mitigated by the drop of production at the following groups: Energy by 4.9% (contribution of -0.6%), and Non-durable consumer goods industry by 1.2% (contribution of -0.4 p.p.)

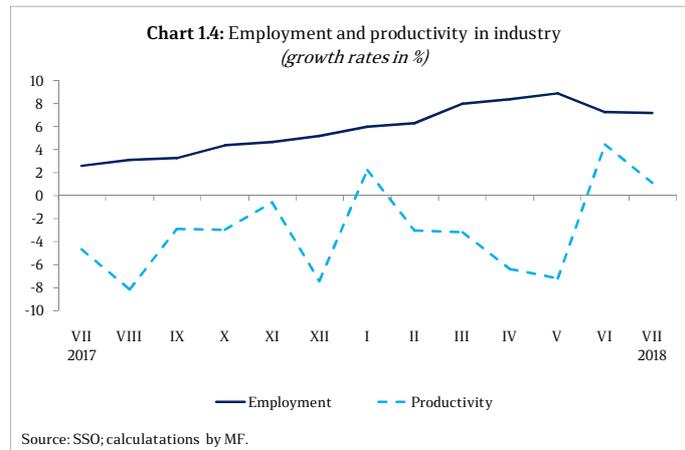
Number of Employees in the Industry

In July 2018, number of employees in the industry increased by 7.2% annually. Growth was mainly a result of the increased number of employees in Manufacturing by 7.9%, as well as in Mining and quarrying sector by 2.1%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.7%.

Data on the number of workers in the industry by target groups in July 2018, compared to the same period last year, showed increase in the number of employees at the following groups: Capital goods by 24.3%, Intermediary goods, except energy by 12.0% and Non-durable consumer goods industry by 1.5%. Decline was observed at the following groups: Durable consumer goods industry by 1.8% and Energy by 1.1%.

Number of employees in the period January - July 2018 grew by 7.4%, which was mainly a result of the increased number of employees in Manufacturing by 8.3%, as well as in Mining and quarrying sector by 1.3%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.4%.

In the first seven months of 2018, number of employees increased in the following target groups: Capital goods by 23.0%, Intermediary goods, except energy by 14.0%, Non-durable consumer goods industry by 1.5% and Durable consumer goods industry by 0.1%. 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 July 2018 was more favourable compared to the previous month, as well as in relation to July 2017.

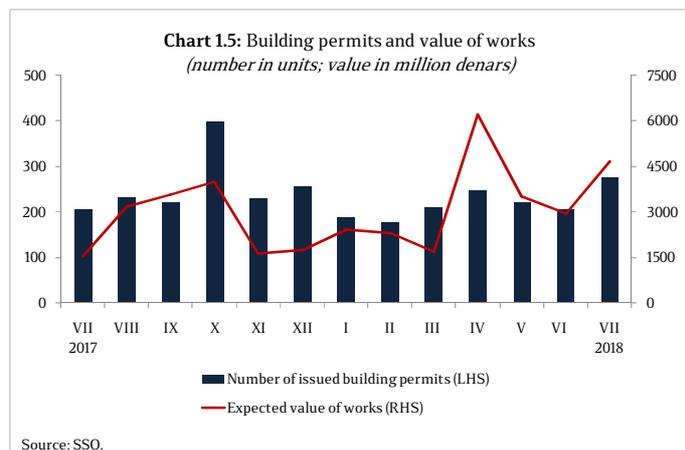
Average utilization of capacities of business entities in July 2018 accounted for 67.9%, being an increase compared to June 2018, when it accounted for 67.8%. On annual basis, utilization of the capacities was higher by 2.6 p.p..

Shortage of skilled labour with 24.5%, insufficient domestic demand with 17.1%, insufficient foreign demand with 15.2%, uncertain economic environment with 11.7%, financial problems with 11.0% and competitive import with 7.5% limited the most the production volume in July.

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

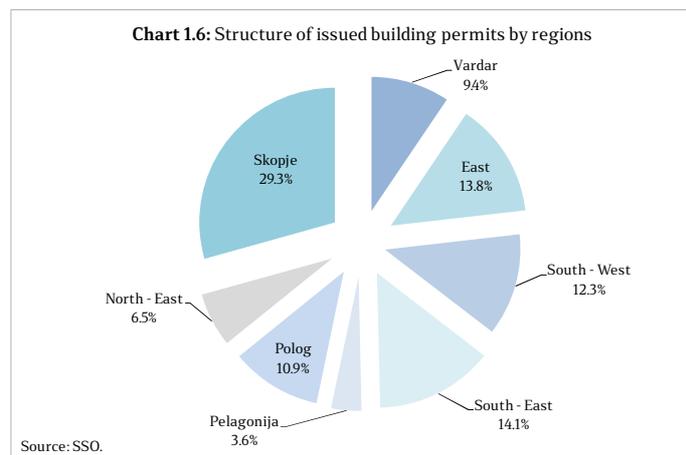
Number of Issued Building Permits and Expected Value of Works

In July 2018, 276 building permits were issued in total, increasing by 34.6% compared to July 2017 and June 2018, when 205 building permits were issued each month. Expected value of works, according to the issued building permits grew by 200.4% compared to the same period in 2017. Value of works surged by 58.6% on monthly basis.



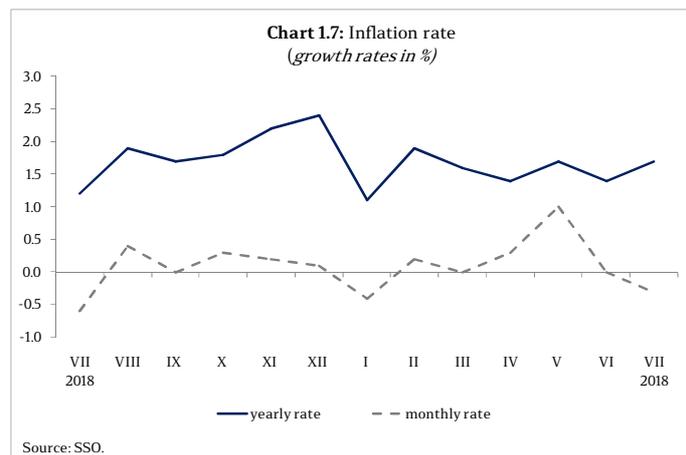
Analyzed by types of constructions, out of the total number of issued building permits, 146 (or 52.9%) were intended for buildings, 39 (or 14.1%) for civil engineering structures and 91 (or 33.0%) for reconstruction.

Analyzed by types of investors, out of total 276 issued building permits, individuals were investors in 161 facilities (or 58.3%), while business entities were investors in 115 facilities (or 41.7%). In July 2018, construction of 648 flats was envisaged, with total usable area of 53,243 m². Number of flats envisaged for construction in July grew by 17.0% compared to June 2018, increasing by 208.6% on annual basis.



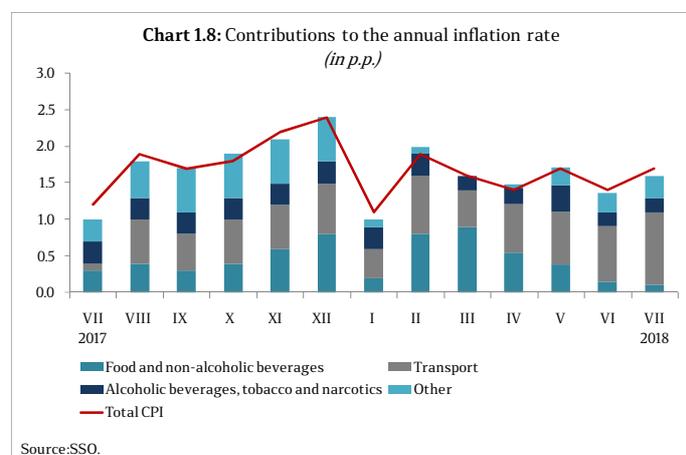
Inflation

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



Food and non-alcoholic beverages category, having the largest share in the CPI, experienced 0.2% increase in prices in July on annual basis, whereby prices of Meat and Milk, cheese and eggs experienced the highest increase by 3.3% and 2.4% respectively.

Highest annual increase of prices in July 2018 was observed at the Transport category by 11.9%, followed by the increase in prices at the following categories: Alcoholic beverages, tobacco and narcotics by 4.6%, Recreation and culture by 2.9%, Furnishings, household equipment and routine maintenance of the house by 2.2%, Restaurants and hotels by 1.8%, Communications by 1.0%, Health by 0.8%, Miscellaneous goods and services by 0.6% and Housing, water, electricity, gas and other fuels by 0.1%.



Annual drop in prices in July 2018 was also registered at Clothing and footwear category by 0.2%. Prices at Education category remained the same.

Consumer prices in July 2018 decreased by 0.3% compared to the previous month. Thereby, monthly decline of prices was recorded in the following categories: Food and non-alcoholic beverages by 1.3%, Clothing and footwear by 0.3% and Furnishings, household equipment and routine maintenance of the house by 0.3%.

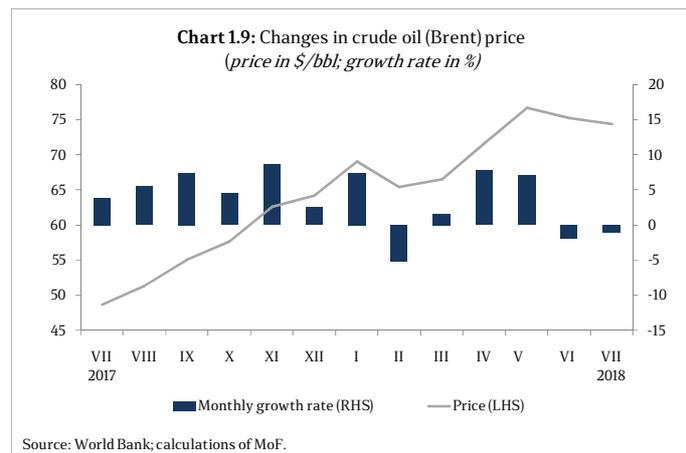
Monthly increase of prices was recorded at the following categories: Transport by 1.7%, Recreation and culture by 1.0%, Restaurants and hotels by 0.8%, Alcoholic beverages, tobacco and narcotics by 0.3%, and Miscellaneous goods and services by 0.1%.

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

Retail prices in July 2018 were higher by 3.3% compared to the same month last year, while on monthly basis, retail prices were increased by 0.4%. In the period January - July 2018, retail price were higher by 3.0%.

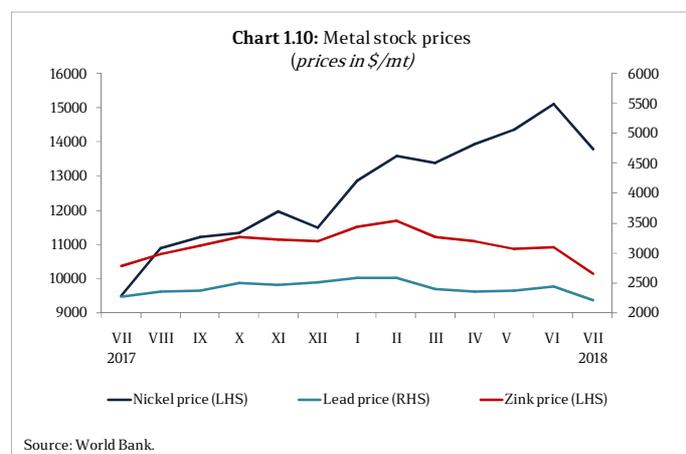
Stock Market Prices

In July 2018, crude oil price (Brent) on the global stock markets dropped by 1.1% compared to the previous month, reaching the price of US\$ 74.4 per barrel. Oil price surged by 52.8% on annual basis. Price of natural gas in July 2018 decreased by 0.6% compared to June 2018.



As regards metal products, nickel, as an important export product, was traded at an average price of US\$ 13,794 for a metric ton (\$/mt) in July 2018, being a price decline by 8.7% compared to the previous month.

Compared to June 2017, nickel price increased by 45.3%. In addition to nickel, prices of aluminium and lead also decreased by 7.0% and 9.4% respectively on monthly basis. Prices of other base metals in July 2018 decreased compared to the previous month. Thus, price of zinc declined by 14.0%, price of tin was lower by 4.5%, while price of copper experienced 10.3% drop. Price of iron ore in July declined by 0.6% on monthly basis.



As regards prices of precious metals, they dropped in July 2018 on

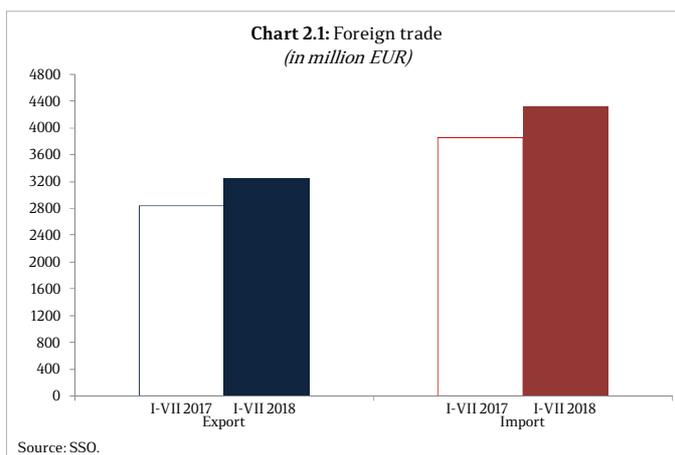
monthly basis. Hence, price of gold decreased by 3.4%, price of platinum declined by 6.0% and price of silver dropped by 4.8%.

In July 2018, compared to June 2018, price of wheat on global stock markets grew by 0.4%, while price of maize dropped by 5.2%.

2. FOREIGN TRADE

Total foreign trade in the first seven months in 2018 amounted to EUR 7,561.4 million, increasing by 13.0% 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 – July 2018, accounting for 72.0%, being an increase of 1.4 p.p. in relation to the same period last year.

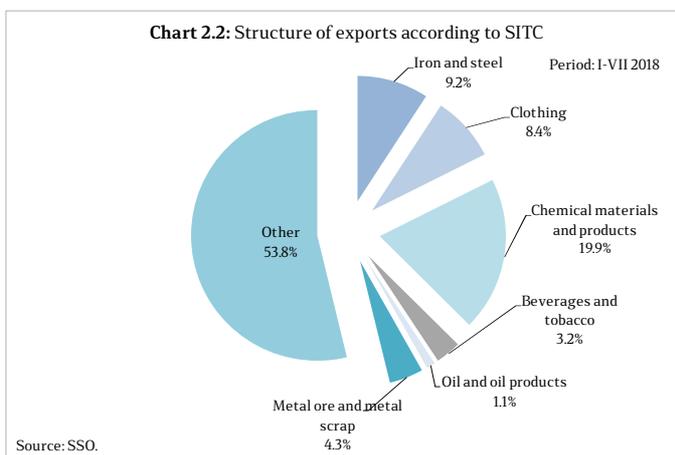


Export

In the period January - July 2018, value of exported goods amounted to EUR 3,247.8 million, surging by 14.5% (EUR 412.4 million) compared to the same period in 2017, while physical output of export grew by 5.5%.

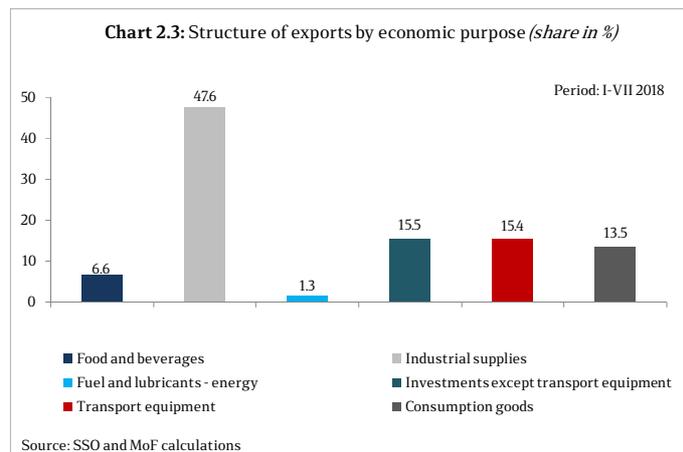
Value of exported goods amounted to EUR 480.8 million in July 2018, surging by 15.6% (EUR 65.0 million) compared to the same month of the previous year, while physical output of export increased by 2.3%.

Analyzed on monthly basis, in July 2018, export dropped by 0.4% (EUR 2.1 million), compared to the previous month and, should export be seasonally adjusted, it registered monthly growth of 3.2%.



Main groups of products (according to SITC) being the most exported in the period January – July 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.

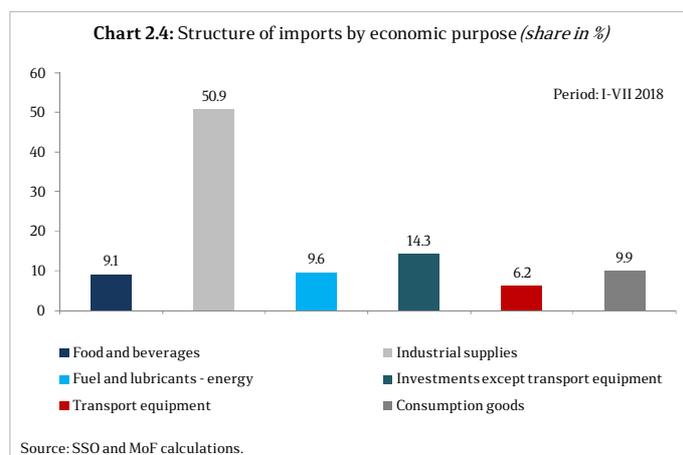
Analyzed according to economic groups of countries, in the period January – July 2018, compared to the same period in 2017, export grew at the following groups: EU 28, EFTA, Organization of Petroleum Exporting Countries, Western Balkan Countries and North American Free Trade Agreement, while drop was recorded at the following groups: Asia-Pacific Economic Cooperation and Commonwealth of Independent States. Export to EU 28 grew by 16.7% annually, while export to Western Balkan countries increased by 8,0%, whereby export of goods to EU 28 and the Western Balkan countries accounted for 83.1% and 10.5% respectively in the total export from the Republic of Macedonia.



Import

In the period January – July 2018, value of imported goods amounted to EUR 4,313.6 million, surging by 11.9% (EUR 458.1 million) compared to the same period in 2017, while physical output of import dropped by 4.3%.

In July 2018, import value amounted to EUR 640.1 million, surging by 16.4% (EUR 90.2 million) compared to the same month in 2017, while imported quantities of goods grew by 10.8%.



Analyzed on monthly basis, in July 2018, import dropped by 0.3% (EUR 1.6 million), compared to the previous month and, should import be seasonally adjusted, it registered monthly drop of 2.5%.

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

Export of chemical products*)					Import of chemical products*)				
	I - VII - 2017	I - VII - 2018	Balance	% rate		I - VII - 2017	I - VII - 2018	Balance	% rate
000 T	25,8	14,9	-10,9	-42,2	.000 T	16,5	17,8	1,3	7,8
EUR mil.	593,7	646,0	52,3	8,8	EUR mil.	103,3	120,4	17,1	16,5
\$ mil.	650,3	777,3	126,9	19,5	\$ mil.	112,7	145,0	32,3	28,7

*)Previous data

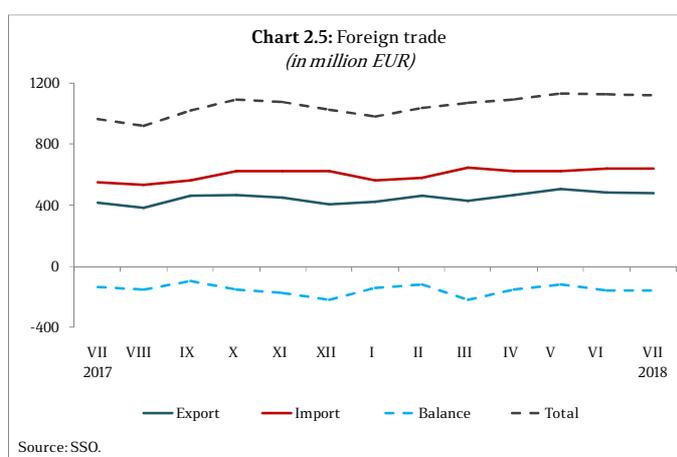
*)Previous data

Trade Balance

In the period January - July 2018, trade deficit increased by 4.5%, i.e. by EUR 45.8 million, compared to the same period last year.

In July 2018, trade deficit increased by 18.8% or by EUR 25.2 million compared to July 2017.

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



In the period January – July 2018, 93.3% of the trade deficit of the country was realized in the trade with Great Britain, Greece, China and Serbia, followed by: Turkey, Italy, South Africa, Poland, the USA and others. Surplus was realized in the trade with Germany, Kosovo, Belgium and Spain.

Currency Structure

Observed by currency structure, 87.9% of the trade in the period January – July 2018 was realized in euros and, compared to the same period in 2017, it surged by 0.6 p.p.. On export and import side, euro accounted for 93.2% and 84.0%, respectively, whereby share of the euro in export was higher by 0.5 p.p., while increase of the share of the euro in import accounted for 0.6 p.p. compared to the period January – July 2017.

import	I - VII - 2017					I - VII - 2018					absolute change in currency value	relative change in currency value (in %)
	currency	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar	structure in %	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar		
EUR	2.538,0	3.214.092.973	61,5977	197.980.734.714	83,4	2.564,6	3.623.025.999	61,5238	222.902.326.986	84,0	408.933.027	12,7
USD	1.081,1	665.410.389	56,4704	37.575.990.811	15,8	894,2	781.112.167	51,0972	39.912.644.617	15,0	115.701.778	17,4
GBP	2,7	12.282.856	71,3239	876.061.199	0,4	3,8	17.608.923	69,8354	1.229.726.162	0,5	5.326.067	43,4
EUR+USD+GBP	3.621,8			236.432.786.725	99,2	3.462,6			264.044.697.766	99,5		
tot. import	3.630,3			237.504.493.310	100,0	3.473,0			265.389.025.459	100,0		11,7

Source: SSO and NBRM

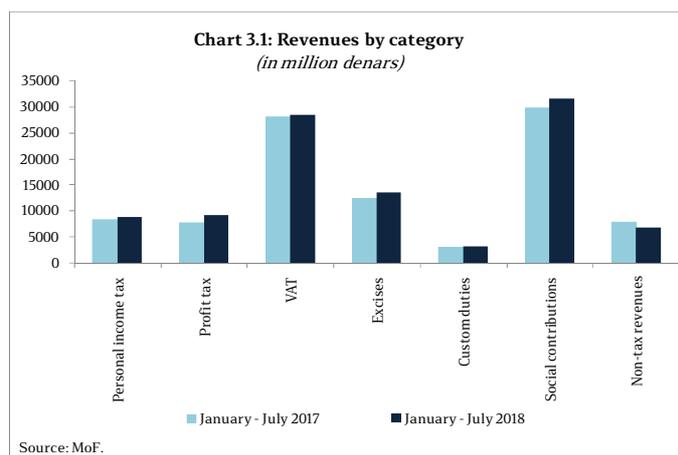
3. FISCAL SECTOR

Budget Revenues According to the Economic Classification

In the first seven months in 2018, total budget revenues amounted to Denar 106,248 million, i.e. 16.0% of GDP, which was higher performance by 4.6% compared to the same period in 2017.

Tax revenues in this period were collected in the amount of Denar 63,959 million, being higher by 7.0% in relation to the same period last year.

Revenues on the basis of value added tax were collected in the amount of Denar 28,580 million, increasing by 1.5% in relation to last year, whereby share of VAT in total tax revenues was dominant, accounting for 44.7%. Thereby, VAT collection amounted to Denar 42,369 million on gross basis, out of which Denar 13.789 million was



refunded to taxpayers (gross collection was higher by 8.0%, while VAT refund was higher by 24.7% compared to the same period in 2017). As for VAT structure, collection of VAT when importing accounted for the most, increasing by 12.6%, while VAT revenues collected on the basis of sales in the country dropped by 1.4%.

Revenues on the basis of excises were collected in the amount of Denar 13,719 million (participating with 21.4% in the tax revenues), surging by 10.5%. Hence, revenues collected on the basis of these two indirect taxes amounted to Denar 42,299 million, i.e. 66.1% of the total tax revenues in this period.

PIT revenues were collected in the amount of Denar 8,895 million, increasing by 6.0% on annual basis, whereby revenues on the basis of tax on salaries and other personal earnings accounted for 67.3% of the personal income tax, capital revenues accounted for 9.0%, revenues on the basis of contractual agreement accounted for 6.6%, revenues on the basis of games of chance and award games accounted for 5.9% and revenues on the basis of property and property rights accounted for 3.8%. Profit tax revenues in these seven months amounted to Denar 9,225 million, increasing by 20.8% compared to the same period in the previous year, being mainly a result of the additional payments on the basis of tax balances (28.5% increase), tax collected on the basis of monthly advance payments (27.6% increase), as well as withholding tax for foreign legal entities (0.7% increase).

Revenues on the basis of customs duties were collected in the amount of Denar 3,250 million, increasing by 11.1%. Collection of revenues on the basis of other taxes, amounting to Denar 290 million, surged by 27.8% compared to last year.

Social contributions were collected in the amount of Denar 31,771 million, being higher by 6.6% compared to the same period in 2017, whereby collection of pension and disability insurance contributions grew by 6.4%, collection of employment contributions increased by 6.4% and health insurance contributions experienced 6.9% growth.

Non-tax revenues were collected in the amount of Denar 6,885 million and, in relation to the same period in 2017, they were lower by 12.6% (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.).

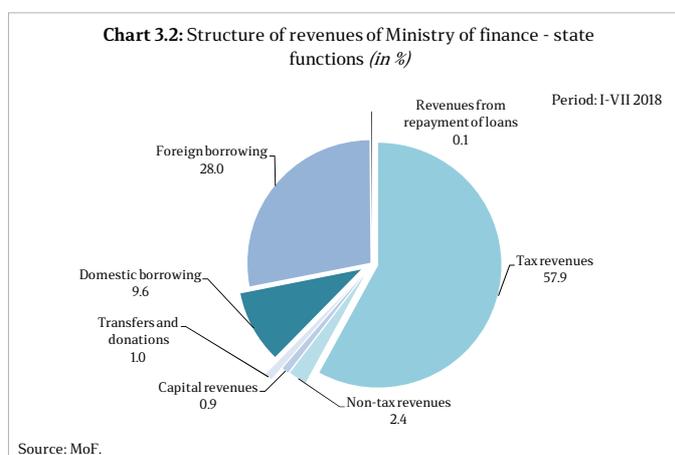
Capital revenues realized on the basis of sale of construction land, flats and dividends, reached Denar 966 million, which is almost twice compared to the same period in the previous year.

Revenues collected on the basis of foreign donations from international and bilateral cooperation amounted to Denar 1,676 million, decreasing by 37.2% 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 109,071 million in the period January - July 2018, i.e. 94.9% of the revenues of all budget users, accounting for 68.7% of the annual projections of this budget user.

Within the organizational code Ministry of Finance – Functions of the State, tax revenues accounted for the most – 57.9% of total revenues and inflows to this budget user, whereby their collection reached 56.7% of the annual projections by July. Inflows on the basis of foreign borrowing in this period amounted to Denar 30,529 million, accounting for 28.0% of the total amount of this budget user.



Next budget user, having the highest revenues and inflows, is the Ministry of Education and Science that collected revenues in the amount of Denar 1,751 million, i.e. 1.5% of the revenues and inflows of all budget users, most of which, i.e. 81.1%, were non-tax revenues, collected mainly on the basis of fees and charges.

Ministry of Health collected revenues in the amount of Denar 788 million, i.e. 0.7% of the revenues and inflows of all budget users, while 42.6% of that amount were inflows on the basis of tax revenues. The remaining budget users collectively generated revenues, accounting for 2.9% 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 39,246 million in the period January – July 2018, accounting for 57.7% of the Fund’s annual projections. In this period, Health Insurance Fund of Macedonia collected revenues in the amount of Denar 17,166 million, i.e. 59.7% of the Fund’s annual projections. In the first seven month in 2018, Employment Agency of the Republic of Macedonia collected revenues in the amount of Denar 1,368 million, accounting for 58.7% of the annual projections.

Budget Expenditures According to the Economic Classification

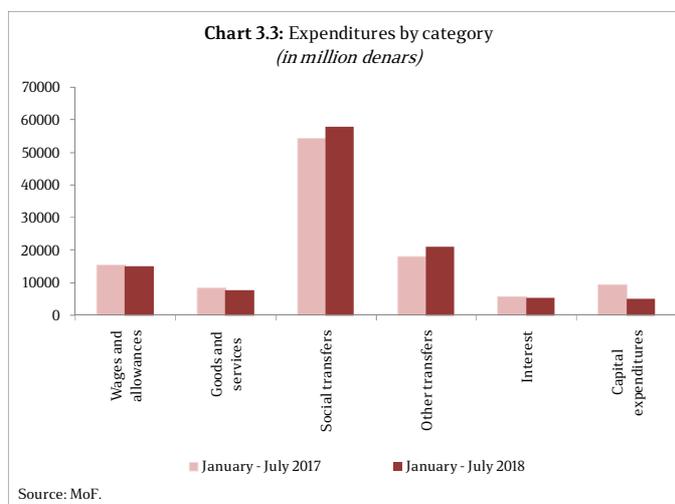
In the first seven months in 2018, total budget expenditures were executed in the amount of Denar 113,745 million, i.e. 17.1% of GDP, being higher by 1.3% compared to same period last year.

With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 108,616 million, accounted for 95.5% and they increased by 5.7% in relation to the same period in 2017.

Expenditures related to wages and allowances were executed in the amount of Denar 15,275 million, dropping by 0.3% in relation to the same period in the previous year, accounting for 13.4% of the total budget expenditures.

Expenditures related to goods and services were executed in the amount of Denar 7,949 million, decreasing by 4.1% compared to the same period in 2017.

Funds allocated for transfers amounted to Denar 79,996 million accounted for the most in the current expenditure items. Such expenditures grew by 9.0% compared to the same period in 2017, participating with 70.3% in the total expenditures.



Funds allocated for social transfers amounted to Denar 58,062 million, increasing by 6.7% and accounting for 51.0% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 35,234 million, increasing by 5.1% compared to the same period in 2017 and accounting for 31.0% of the total expenditures. Category “other transfers”, which includes transfers to local government units, accounted for 18.6% of the total expenditures, i.e. they grew by 17.0%, amounting to Denar 21,140 million. Block grants to local government units, amounting to Denar 9,154 million, grew by 4.2% compared to

the same period in the previous year. Expenditures related to subsidies and transfers amounted to Denar 10,698 million, being higher by 33.1% compared to last year.

Interest payments expenditures amounted to Denar 5,396 million, being lower by 6.4% compared to the same period in 2017. Costs related to interest on the basis of domestic borrowing increased by 3.5%, while the ones on the basis of foreign borrowing dropped by 9.8%.

During the analyzed period, funds for capital expenditures were executed in the amount of Denar 5,129 million, participating with 4.5% in the total expenditures (0.8% of GDP), i.e. decreasing by 45.8% compared to the same period last year.

Expenditures by Budget Users

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

In the period January – July 2018, Denar 31,593 million was spent through the organizational code Ministry of Finance – Functions of the State¹, accounting for 80.6% of the annual Budget. Repayment of principal accounted for most of the expenditures (72.0%), Denar 22,751 billion being spent therefore in the period January – July 2018, i.e. 101.1% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 17.1% of the total expenditures, Denar 5,393 million being spent therefore or accounting for 62.2% of the projected interest payments.

In the period January – July 2018, Ministry of Labour and Social Policy executed funds in the amount of Denar 25,243 million or 57.9% of its total 2018 budget. Thereby, most of the expenditures (73.3%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 18,492 million was spent or 58.4% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 18.9% in the total expenditures. As for this purpose, 59.1% (Denar 4,759 million) of the expenditures projected for 2018 was executed.

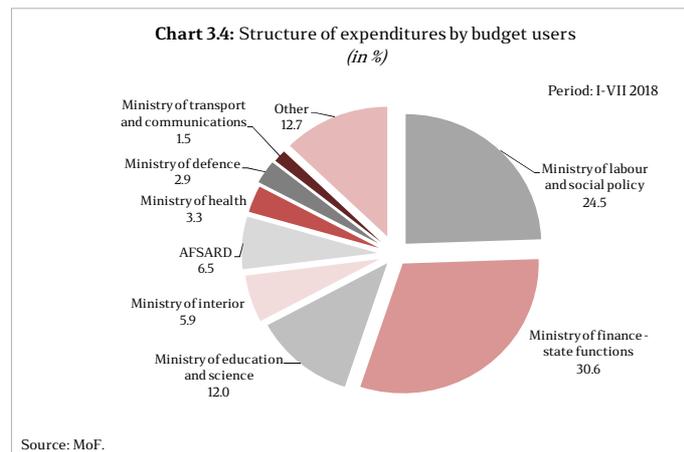
In the period January – July 2018, Ministry of Education and Science executed budget funds in the amount of Denar 12,435 million, i.e. 49.4% of its total 2018 budget. Current transfers to LGUs accounted for the most of the expenditures (63.7%), Denar 7,917 million being spent therefore or 57.4% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 15.6%, Denar 1,939 million being spent therefore, i.e. 55.4% of the total projected funds. As for goods and

¹ As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities (interest and principal repayment) of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds for financing unforeseen costs in the course of the fiscal year.

services (accounting for 12.1% of the total expenditures), Denar 1,504 million was spent, accounting for 36.0% of the total funds projected for this year.

In the first seven months in 2018, Agency for Financial Support in Agriculture and Rural Development (AFSARD) executed expenditures in the amount of Denar 6,712 million, accounting for 77.8% of the funds projected for the current year. During the analyzed period, subsidies and transfers were the highest expenditure category (accounting for 93.7%), funds in the amount of Denar 6,292 million being spent therefore or accounting for 92.8% of the projected ones.

In the period January - July 2018, Ministry of Internal Affairs executed expenditures in the total amount of Denar 6,058 million, accounting for 58.8% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with 69.8%, Denar 4,231 million being spent therefore, or accounting for 58.0% of the



projected ones. The second highest expenditure item was goods and services, participating with 15.8%, funds in the amount of Denar 959 million being spent therefore, or accounting for 56.1% of the annual projections.

In the first seven months in 2018, Ministry of Health executed budget funds in the amount of Denar 3,447 million, accounting for 51.9% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 59.8%, for which, Denar 2,061 million was spent or 73.8% of the funds projected for 2018 in the period January - July 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 29.8% of the total expenditures, funds in the amount of Denar 1,027 million being executed therefore in the analyzed period, i.e. 52.1% of total projected ones. Capital expenditures (participating with 8.6% in the total expenditures) were executed in the amount of Denar 297 million or 16.9%.

In the period January - July 2018, Ministry of Defense executed budget funds in the amount of Denar 3,028 million, i.e. 46.5% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 71.3%, Denar 2,158 million being spent therefore in the first seven months, accounting for 57.1% of the total funds projected for the current year. Expenditures related to goods and services accounted for 22.6% of total expenditures, with Denar 684 million being spent therefore during the analyzed period, i.e. 39.7% execution of the total projected funds.

As regards “Financing the activities in the field of culture”², in the period January - July 2018, funds in the amount of Denar 1,806 million were spent, accounting for 48.5% of the

² Financing activities in the area of culture support the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural and artistic events,

total 2018 budget therefore. Wages and allowances accounted for the most in the total expenditures with 32.9%, while their execution in this period accounted for 56.6%, i.e. Denar 595 million was spent therefore. Expenditures related to subsidies and transfers accounted for 32.5%, Denar 587 million being spent therefore or 48.1% of the projected funds. Capital expenditures were executed in the amount of Denar 381 million, accounting for 39.8% of total funds projected for the current year, whereby this expenditure item accounted for 21.1% of the total expenditures.

In the first seven months in 2018, Ministry of Transport and Communications executed funds in the amount of Denar 1,570 million, i.e. 25.9% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 68.9%, while their execution in the period January – July 2018 accounted for 20.8%, i.e. Denar 1,082 million was spent. Subsidies and transfers participated with 25.1% in the total budget of this user, for which purpose Denar 395 million was spent.

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

Budget Balance

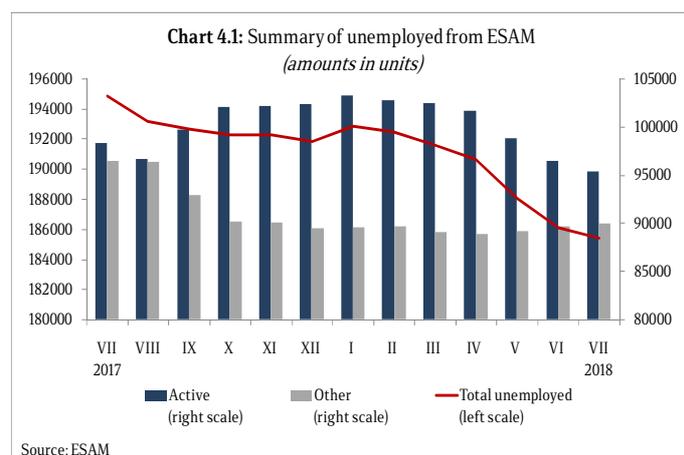
In the period January – July 2018, budget deficit reached the amount of Denar 7,497 million, being 1.13% of GDP, while central budget deficit amounted to Denar 7,092 million or 1.07% of GDP.

4. SOCIAL SECTOR

Number of Newly Employed and Registered Unemployed Persons in EARM

In the period January – July 2018, Employment Agency of the Republic of Macedonia registered total of 119,017 new employments. Total number of newly employed persons in this period was higher by 12.3% compared to the same period in 2017.

As regards the total number of newly employed, 41.4% was engaged on permanent basis, while the rest of the employed were engaged on temporary basis and as seasonal workers. In July 2018, 19.8% out of the total number of newly employed persons was from the unemployed records.



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.

Total number of unemployed persons in July 2018 was 185,428, out of which 95,421 persons were active job seekers, while 90,007 persons were from the category “other unemployed”. Compared to the same month last year, total number of unemployed persons was lower by 4.9%.

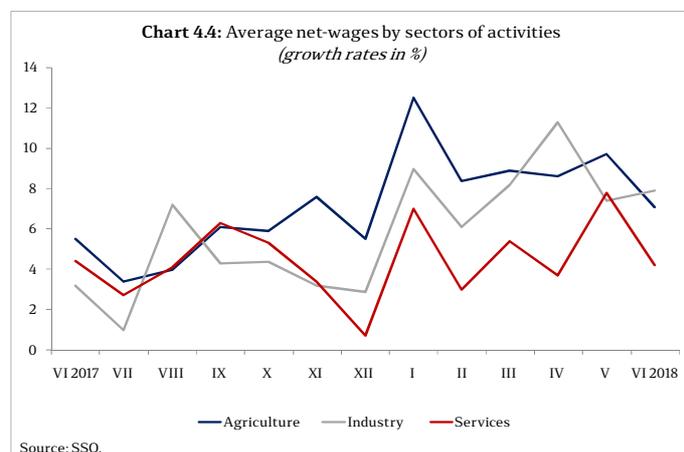
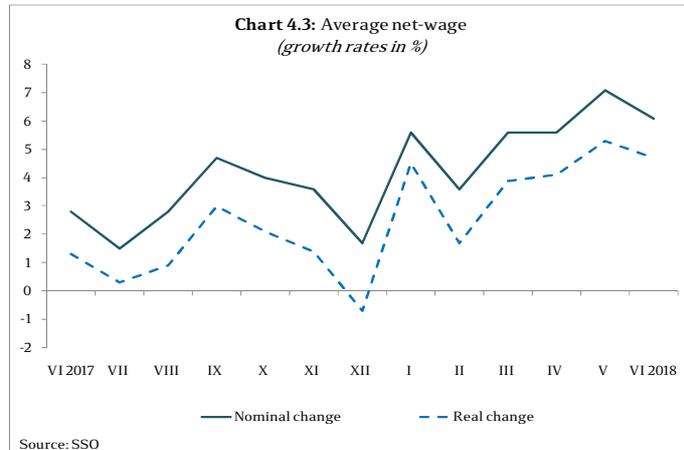
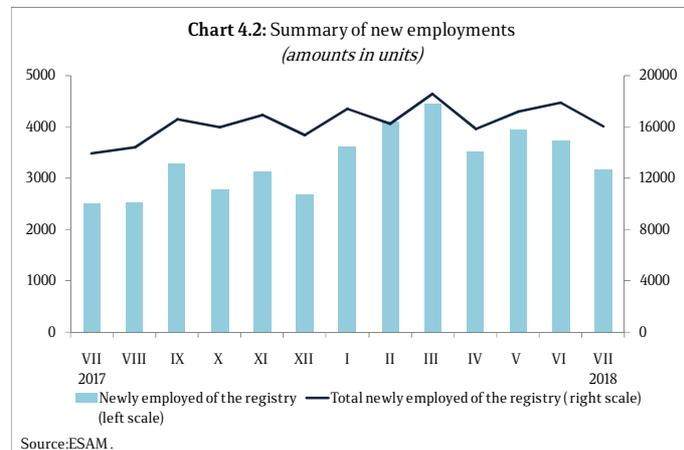
Major percentage of the unemployed (66.8%) came from urban areas (cities), whereby 58.3% were men. Analyzed by the level of education, major part, i.e. 57.5% of the unemployed persons, were with incomplete secondary education or less, 27.9% were with completed secondary education, while 14.6% of the unemployed persons were with completed community college or higher education level.

Observed by age, majority of the unemployed persons or 48.2% fall in the category of 25-49 years of age. According to the time they waited for a job, 49.7% of the unemployed persons wait for employment from 1 to 7 years, while 8.4% wait for employment for 8 years and more.

Wages

In June 2018, average net wage increased by 6.1% in nominal terms on annual basis, and it was lower by 1.3% in relation to the previous month. The highest increase of average net wage was observed at the following sectors: Mining and quarrying (20.4%), Information and communications (16.7%) and Manufacturing (14.7%). In June, wages grew by 4.7% in real terms on annual basis.

In June 2018, average gross wage increased by 6.0% in nominal terms on annual basis, and it was lower by 1.3% in relation to the previous month. The highest increase of average gross wage was observed at the following sectors: Mining and quarrying (18.9%), Information and communications (16.9%) and Manufacturing (14.8%). Real gross



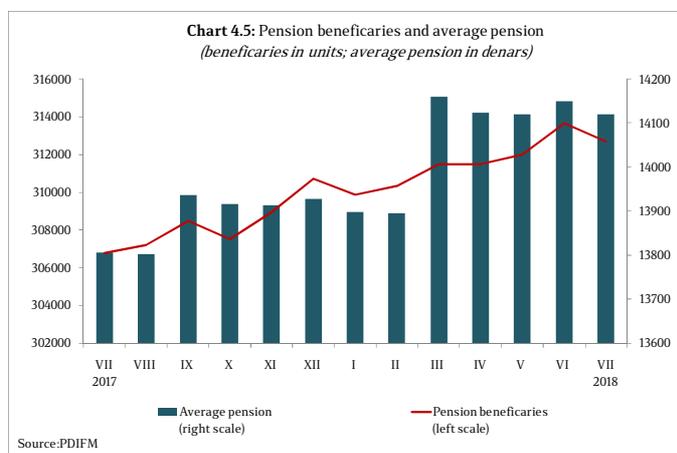
wage surged by 4.6% annually.

Pensions

In July 2018, Pension and Disability Insurance Fund registered 312,703 pensioners, increasing by 1.9% compared to the same period last year. Number of pension beneficiaries decreased by 976 persons on monthly basis. As regards the total number of pensioners, 64.1% were beneficiaries of old-age pension, 24.4% of survival pension and 11.5% of disability pension.

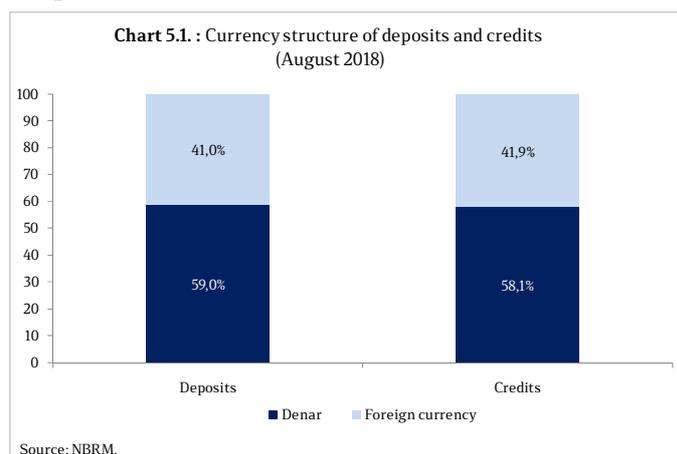
Average pension in July 2018 amounted to Denar 14,120, being higher by 2.3% compared to the same month last year. Ratio between the average pension and the average paid wage in June 2018 (the most recent available data) was 58.5%.

In July, average old-age pension amounted to Denar 15,416, average disability pension amounted to Denar 12,805, while average survival pension amounted to Denar 11,335. Denar 4,337.78 million was spent for payment of pensions in July 2018, accounting for 50.2% of the total social transfers.



5. MONETARY AND FINANCIAL SECTOR

In July 2018, National Bank of the Republic of Macedonia retained the reference interest rate at 3.0% as a result of sound economic fundamentals and stable expectations of the economic agents, evident from the favourable trends on the foreign currency market and the growth of the banks' deposit base. Interest rate on available 7-day deposits remained unchanged compared to previous month, accounting for 0.3%.



Primary Money

In July 2018, primary money³ grew by 11.9% on annual basis, in conditions of increase of both total liquid assets of banks by 19.6% and currency in circulation by 5.1%.

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

On monthly basis, primary money grew by 16.8%, as a result of increase of both total liquid assets of banks and currency in circulation by 30.8% and 5.4% respectively.

Deposit Potential⁴

In July 2018, total deposits of banks increased by 1.3% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises grew by 1.6%, while deposits of households surged by 0.6%.

Analyzed by currency, in July 2018, compared to the previous month, Denar deposits increased by 1.9%, while foreign currency deposits picked up 0.3%.

Total deposit potential in July 2018 grew by 11.3% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 12.5% and 9.7% respectively.

From sector point of view, this month, deposits of enterprises grew by 10.5%, and deposits of households increased by 9.0%, on annual basis.

According to maturity, short-term deposits increased by 5.9%, while long-term deposits surged by 15.0%, on annual basis.

Currency structure of deposits remained stable, whereby share of domestic currency deposits in the deposit base was higher, accounting for 58.8%.

Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (July 2018)	Denar million	Monthly change	Annual change
Deposit Potential	<i>354,273</i>	1.3%	11.3%
Denar	<i>208,437</i>	1.9%	12.5%
Foreign currency	<i>145,836</i>	0.3%	9.7%
Short-term	<i>160,658</i>	0.4%	5.9%
Long-term	<i>98,689</i>	1.5%	15.0%
Credits to private sector	307,139	0.4%	6.2%
Denar	<i>178,251</i>	0.3%	9.2%
Foreign currency	<i>128,888</i>	0.4%	2.3%
Short-term	<i>56,000</i>	-2.0%	4.5%
Long-term	<i>232,376</i>	0.8%	9.0%
Doubtful and contested claims	<i>15,637</i>	1.7%	-17.5%

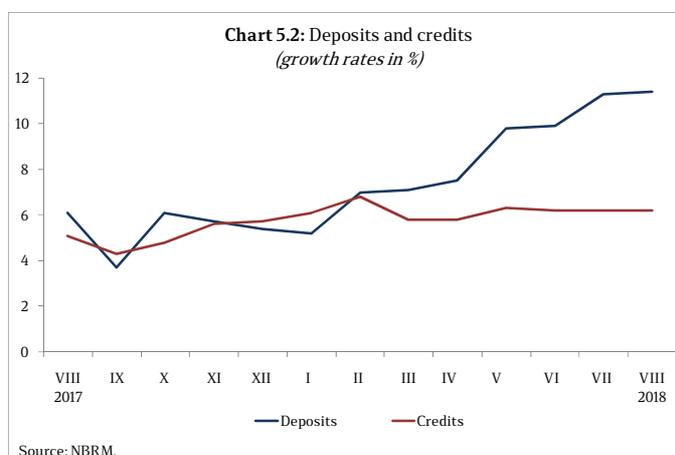
Source: NBRM

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

Bank Credits

In July 2018, total credits of banks to the private sector surged by 0.4% compared to the previous month. Sector analysis showed that, in July 2018, credits to enterprises experienced a decline of 0.2%, while credits to households increased by 1.1%. Analyzed by currency, in July 2018, Denar credits grew by 0.3%, while foreign currency credits surged by 0.4%, on monthly basis.

On annual basis, total credits grew by 6.2% in July 2018, in conditions of growth of both credits to households of 10.0% and credits to enterprises of 2.6%. Denar credits surged by 9.2%, while foreign currency credits increased by 2.3%.

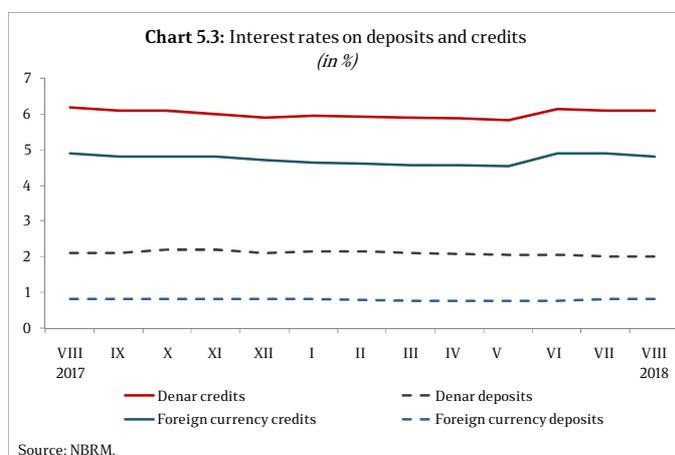


As regards maturity, long-term credits experienced annual growth of 9.0%, and short-term credits grew by 4.5%.

Interest Rates of Deposit Banks

In July 2018, total interest rate on credits dropped by 0.06 p.p. compared to the previous month, accounting for 5.5%. Interest rate on Denar credits dropped by 0.09 p.p., accounting for 6.06%, while interest rate on foreign currency credits decreased by 0.04 p.p. on monthly basis, accounting for 4.87%.

Total interest rate on deposits was 1.42% in July 2018, being lower by 0.03 p.p. compared to last month. Interest rate on Denar deposits decreased by 0.07 p.p., accounting for 1.99%, while interest rate on foreign currency deposits remained the same compared to the previous month, accounting for 0.77%.



Capital Market

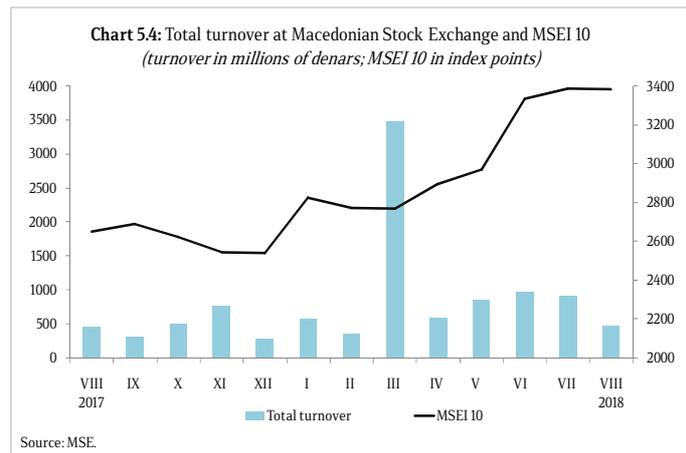
As for the capital market, in July 2018, total turnover on the stock exchange dropped by 6.6% on monthly basis, as a result of the decline in the turnover from trading in best by 50.03%, while turnover from block transactions picked up by 161.6%.

Total turnover on the stock exchange amounted to Denar 912.3 million in July 2018, increasing by 2.3 times (127.6%) on annual basis. Macedonian Stock Exchange Index MSEI - 10 amounted to 3,386.62 index points at the end of July 2018, whereby the index

grew by 1.6% on monthly basis, while, compared to the same month last year, the index was higher by 35.4%.

Reserve Assets

Gross reserve assets at the end of July 2018 amounted to EUR 2,622.8 million and, compared to the previous month, they were lower by EUR 19.4 million, while compared to July 2017, they dropped by EUR 349.5 million.



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