



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department



SHORT-TERM ECONOMIC TRENDS

September 2018

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SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

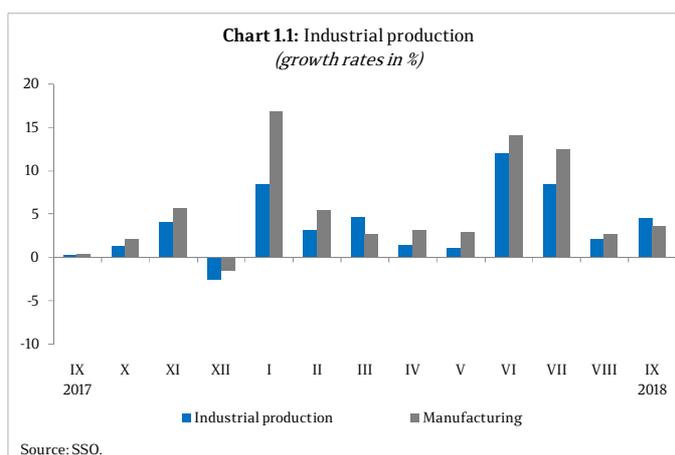
September 2018

- Industrial production surged by 4.5% in September 2018 compared to September 2017.
- Consumer prices in September 2018 increased by 1.5% compared to both September 2017 and August 2018. Average inflation rate in the period January - September 2018 amounted to 1.5%;
- Export in the period January – September 2018 surged by 14.9%, while import grew by 11.4%, resulting in increase of the trade deficit by 1.3% compared to the same period in 2017;
- In the first nine months in 2018, total budget revenues amounted to Denar 136,652 million, i.e. 20.8% of GDP, which was higher performance by 4.3% compared to the same period in 2017;
- In the first nine months in 2018, total budget expenditures were executed in the amount of Denar 143,660 million, i.e. 21.8% of GDP, being higher by 1.2% compared to same period last year;
- Total credits of banks in September 2018 grew by 7.9% compared to September 2017, while total deposit potential of banks surged by 11.6%.

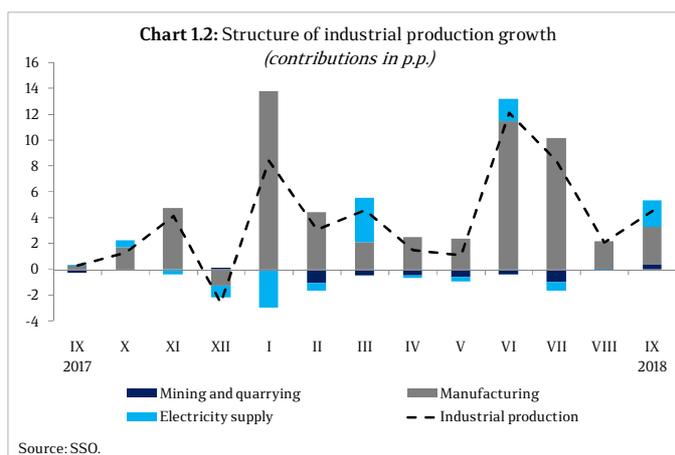
1. REAL SECTOR

Industrial Production

Industrial production surged by 4.5% in September 2018 compared to September 2017. Growth was a result of the positive trends in Manufacturing, where production picked up by 3.6% and the contribution to growth accounted for 3.0 p.p., being underpinned by growth in the other two sectors, in particular Electricity, gas, steam and air-conditioning supply sector by 19.2%, which contribution to growth accounted for 2.0 p.p., and Mining and quarrying sector by 4.7%, which contribution to growth accounted for 0.4 p.p..



In September 2018, growth in production was registered in 15 out of total of 27 industrial branches, comprising 69.6% of the total production structure, showing that growth was mainly seen at the branches with higher share. As regards higher value-added branches, Manufacture of motor vehicles contributed the most thereto, observing 53.8% growth in September, which contribution to total production accounted for 2.9 p.p., whereby high contribution of 1.7% was also observed at Manufacture of machinery and equipment, experiencing 12.9% growth. Manufacture of food products experienced growth for the fourth month in a row, accounting for 8.5% in September 2018, thus, contribution of this branch to total growth accounted for 0.9 p.p..

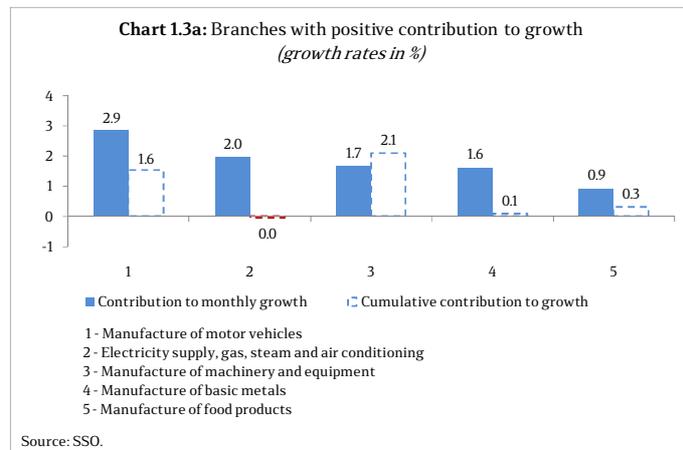


According to the data by target group, growth was registered at the following groups: Capital goods surging by 14.9% (contribution of 3.2 p.p.), Energy picking up by 15.5% (contribution of 1.9 p.p.) and Intermediary goods, except energy increasing by 5.1% (contribution of 1.5p.p.); while drop in the production was registered at Non-durable consumer goods industry by 3.1% (contribution of -1.0 p.p.) and Durable consumer goods industry by 1.3% (contribution of 0.0 p.p.).

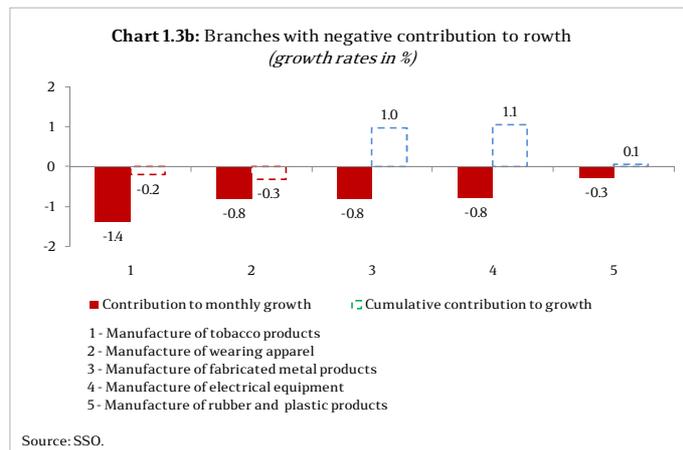
As per the cumulative data, production in the first nine months in 2018 experienced 5.0% growth, which was fully a result of the increased production in Manufacturing by

6.8% and contribution of 5.5 p.p., being mitigated by the drop in Mining and quarrying by 4.6% and negative contribution of 0.4 p.p., as well as Electricity, gas, steam and air-conditioning supply sector by 0.5% and insignificant negative effect.

Data from the analysis by branches shows that growth was registered at 14 out of 27 branches, accounting for 55.5% of industrial production structure. Branches with two-digit share in the structure, experiencing growth, were Manufacture of machinery and equipment, increasing by 16.3% (contribution of 2.1 p.p.) and Manufacture of food products, surging by 2.9% (contribution of 0.3 p.p.), while drop was only seen at Electricity, gas, steam and air conditioning supply, declining by 0.5% (contribution of 0.0 p.p.).



As for target groups, growth was mainly a result of the increased production at Capital goods by 19.9% (contribution of 4.2 p.p.) being underpinned by the increase of production at Durable consumer goods industry by 30.9% (contribution of 0.8 p.p.), as well as Intermediary goods, except energy by 2.5% (contribution of 0.7 p.p.). Growth was mitigated by the drop



of production at the following groups: Non-durable consumer goods industry by 1.2% (contribution of -0.4 p.p.) and Energy by 2.1% (contribution of -0.3 p.p.).

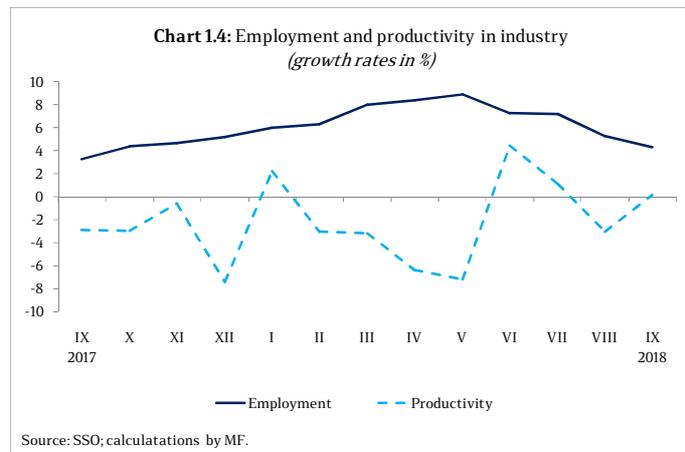
Number of Employees in the Industry

In September 2018, number of employees in the industry increased by 4.3% annually. Growth was mainly a result of the increased number of employees in Manufacturing by 4.7%, being underpinned by the growth in Mining and quarrying sector by 2.1%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.4%.

Data on the number of employees in the industry by target groups in September 2018, compared to the same period last year, showed increase in the number of employees at the following groups: Capital goods by 17.2% and Intermediary goods, except energy by 7.3%; while drop was recorded at Durable consumer goods industry by 2.0% and Energy by 0.8%. Number of workers in the Non-durable consumer goods industry remained unchanged.

Number of employees in the period January - September 2018 grew by 6.8%, which was mainly a result of the increased number of employees in Manufacturing by 7.6%, as well as in Mining and quarrying sector by 1.5%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.2%.

In the first nine months of 2018, number of employees increased in the following target groups: Capital goods by 22.2%, Intermediary goods, except energy by 12.6% and Non-durable consumer goods industry by 1.2%, while decline was observed at Energy and Durable consumer goods industry and by 0.7% and 0.3% respectively.



Business Tendencies in Manufacturing

Economic situation of business entities in September 2018 was more favourable compared to August 2018, as well as in relation to September 2017.

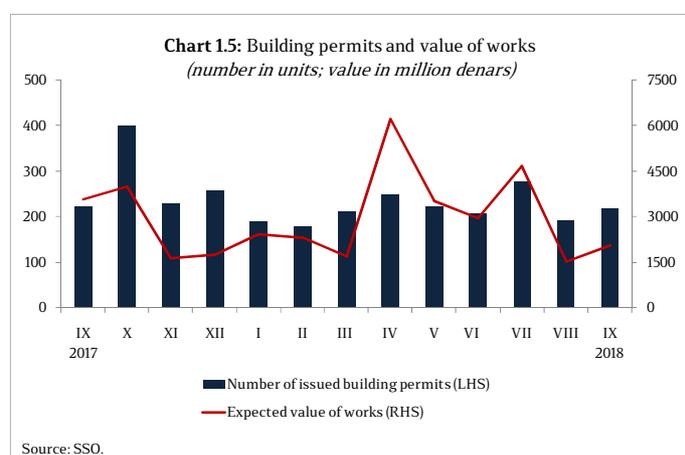
Average utilization of capacities of business entities in September accounted for 68.1%, being an increase compared to the previous month, when it accounted for 68.0%. On annual basis, utilization of capacities was higher by 2.7 p.p..

Shortage of skilled labour with 25.5%, insufficient domestic demand with 16.1%, insufficient foreign demand with 15.4%, uncertain economic environment with 11.3%, financial problems with 7.9%, shortage of raw materials with 7.8% and competitive import with 6.1% limited the most the production volume in September.

As regards the volume of production orders in September 2018 compared to August 2018, it was more favourable, 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 September 2018, 219 building permits were issued, dropping by 1.4% on annual basis. Compared to August 2018, when 192 building permits were issued, number of issued building permits increased by 14.1%. Expected value of works, according to the issued building permits compared to September 2017, dropped by 42.6%. Compared to the previous month, value of works

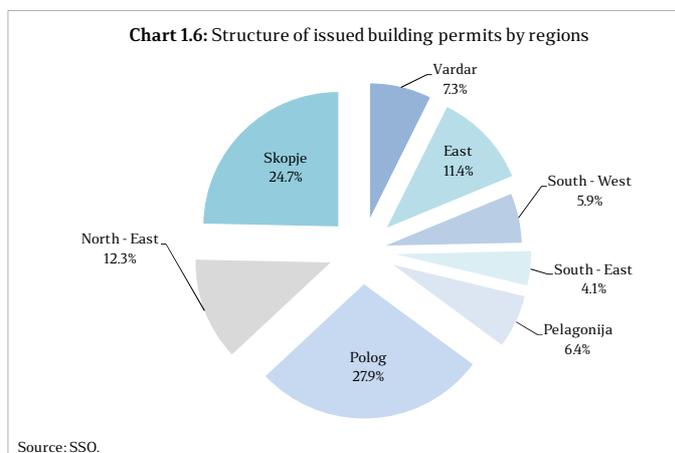


in September picked up by 35.5%.

Analyzed by types of constructions, out of the total number of issued building permits, 130 (or 59.3%) were intended for buildings, 24 (or 11.0%) for civil engineering structures and 65 (or 29.7%) for reconstruction.

Analyzed by types of investors, out of total 219 issued building permits, individuals were investors in 149 facilities (or 68.0%), while business entities were investors in 70 facilities (or 32.0%).

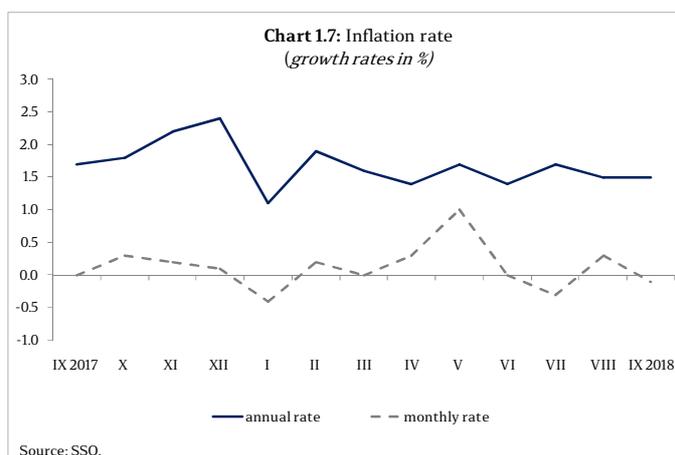
In September 2018, construction of 495 flats was envisaged, with total usable area of 43,895 m². Number of flats envisaged for construction surged by 73.7% on monthly basis, while compared to the same month in 2017, it dropped by 25.6%.



Inflation

Consumer prices in September 2018 increased by 1.5% compared to both September 2017 and August 2018. Average inflation rate in the period January - September 2018 amounted to 1.5%.

Prices in the Food and non-alcoholic beverages category, having the highest share in the CPI index, experienced 0.4% increase in September on annual basis. Highest annual increase of prices in September 2018 was observed at the Transport category by 8.1%, followed by the increase in prices at the following categories: Alcoholic beverages, tobacco and narcotics by 5.0%, Recreation and culture by 2.7%, Restaurants and hotels by 2.2%, Communications by 1.0%, Furnishings, household equipment and routine maintenance of the house by 1.5%, Health by 1.3%, Clothing and footwear and Miscellaneous goods and services by 0.7% each.



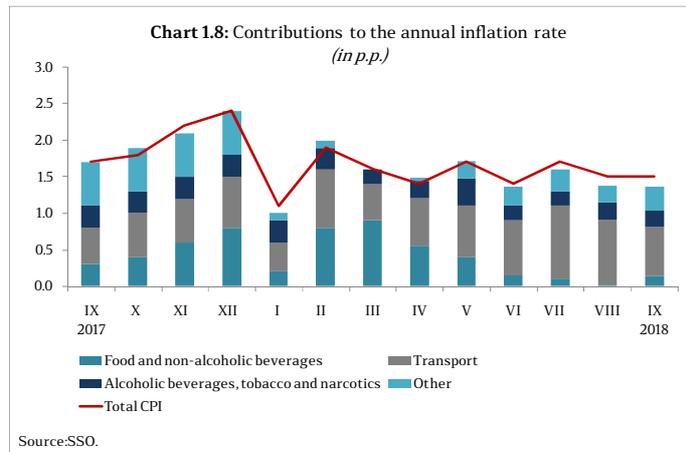
Annual drop in prices in September 2018 was registered at the categories Education category by 0.3% and Housing, water, electricity, gas and other fuels by 0.1%.

Consumer prices in September 2018 decreased by 0.1% compared to the previous month. Thereby, increase of prices on monthly basis was recorded in the following categories: Furnishings, household equipment and routine maintenance of the house by 1.0%, Food

and non-alcoholic beverages by 0.4%, Alcoholic beverages, tobacco and narcotics by 0.1% and Miscellaneous goods and services by 0.2%.

Monthly drop of prices was recorded at the following categories: Transport by 2.1%, Restaurants and hotels and Recreation and culture by 0.8% each, Education by 0.3% and Housing, water, electricity, gas and other fuels by 0.1%.

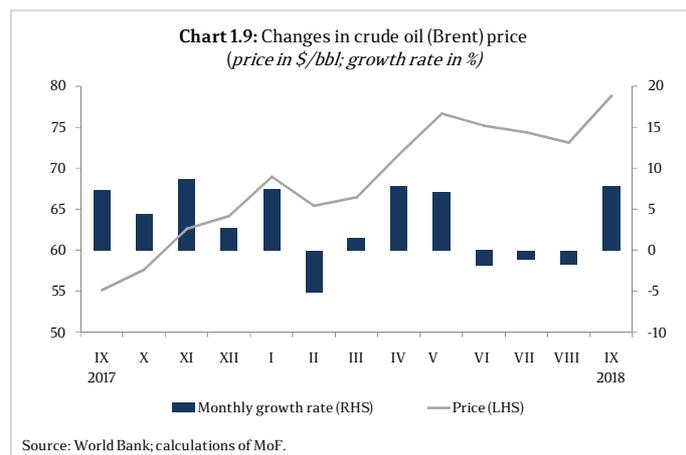
Prices in the following categories: Communications, Clothing and footwear and Health remained unchanged.



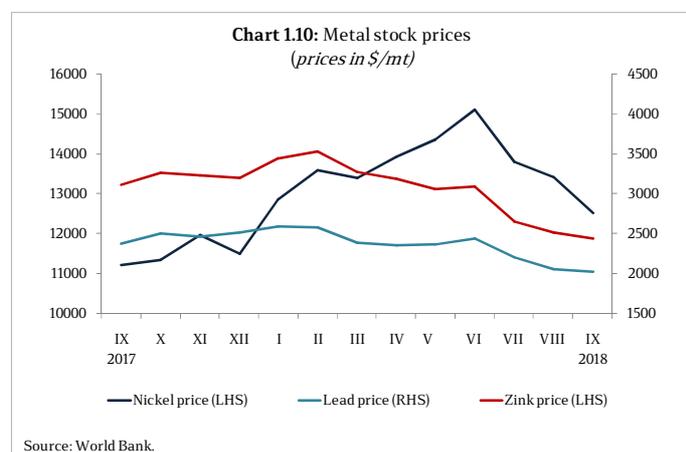
Retail prices in September 2018 were higher by 2.6% compared to the same month last year, while on monthly basis, they dropped by 0.7%. Retail prices in the period January - September 2018 were higher by 3.0%.

Stock Market Prices

In September 2018, crude oil price (Brent) on the global stock markets grew by 7.8% compared to the previous month, reaching the price of US\$ 78.9 per barrel. Oil price surged by 43.0% on annual basis. Price of natural gas in September 2018 surged by 1.4% compared to August 2018.



As regards metal products, nickel, as an important export product, was traded at an average price of US\$ 12,510 for a metric ton (\$/mt) in August 2018, being a price decline by 6.7% compared to the previous month. Compared to September 2017, nickel price increased by 11.5%. In addition to nickel, prices of other base metals decreased in September 2018 compared to the previous month, except price of copper, which remained unchanged. Hence, price of zinc dropped by 3.1%, price of lead declined by 1.5%, price of tin was lower by 1.4% and price of aluminum decreased by 1.2%. Price of iron ore in September grew by 1.9% on monthly basis.



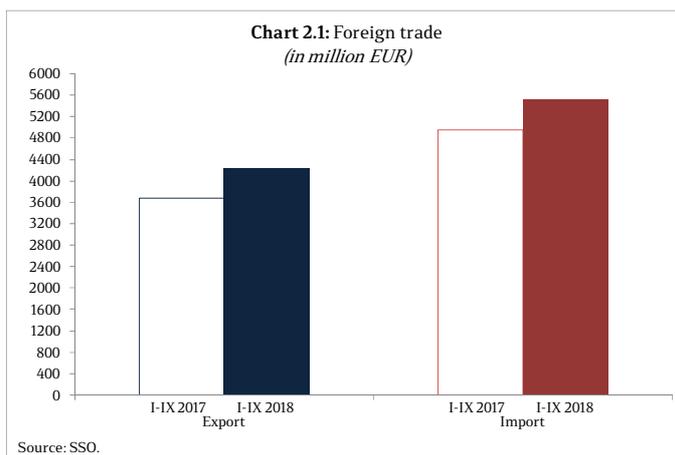
As regards precious metals, prices of silver and gold declined by 4.8% and 0.3% respectively in September, compared to the previous month, while price of platinum remained the same.

In September 2018, compared to August 2018, price of wheat on global stock markets dropped by 7.1%, while price of maize declined by 4.7%.

2. FOREIGN TRADE

Total foreign trade in the first nine months in 2018 amounted to EUR 9,748.4 million, increasing by 12.9% 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 – September 2018, accounting for 71.3%, being an increase of 0.9 p.p. in relation to the same period last year.

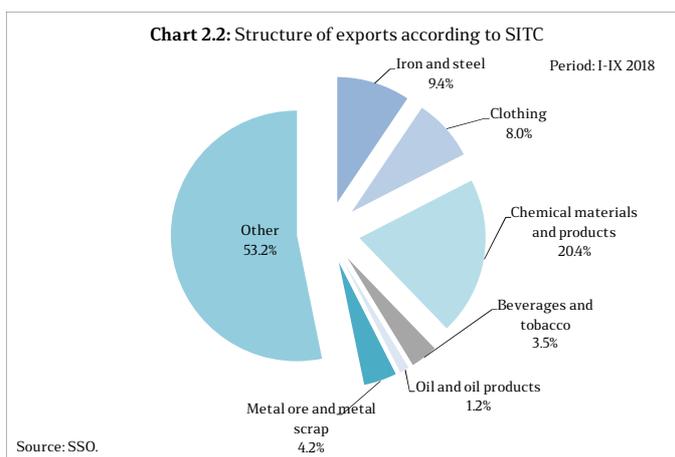


Export

In the period January - September 2018, value of exported goods amounted to EUR 4,230.0 million, surging by 14.9% (EUR 547.5 million) compared to the same period in 2017, while physical output of export grew by 5.9%.

Value of exported goods amounted to EUR 530.0 million in September 2018, surging by 14.7% (EUR 67.9 million) compared to the same month of the previous year, while physical output of export increased by 16.5%.

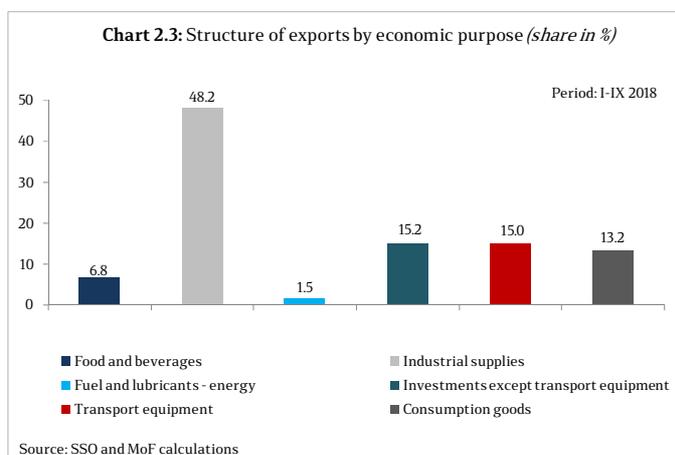
Analyzed on monthly basis, in September 2018, export grew by 17.2% (EUR 77.8 million) compared to the previous month and, should export be seasonally adjusted, it registered monthly increase of 2.2%.



Main groups of products (according to SITC) being the most exported in the period January – September 2018 were the following: chemical materials and products, iron and steel, clothing, metal ore and metal scrap, beverages and tobacco and oil and oil

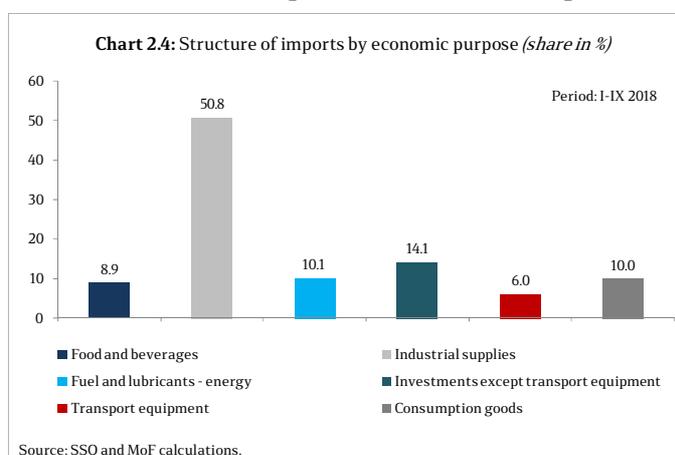
products. These six groups of products comprised 46.8% of the total export of the country.

Analyzed according to economic groups of countries, in the period January – September 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 16.6% annually, while export to Western Balkan countries increased by 7.1%, whereby export of goods to EU 28 and the Western Balkan countries accounted for 82.4% and 10.8% respectively in the total export from the Republic of Macedonia.



Import

In the period January – September 2018, value of imported goods amounted to EUR 5,518.4 million, surging by 11.4% (EUR 564.0 million) compared to the same period in 2017, while physical output of import dropped by 0.4%.



In September 2018, import value amounted to EUR 606.0 million, surging by 8.0% (EUR 44.7 million) compared to the same month in 2017, while imported quantities of goods grew by 22.5%.

Analyzed on monthly basis, in September 2018, import grew by 1.3% (EUR 8.0 million) compared to the previous month, and, should import be seasonally adjusted, it registered monthly drop of 2.2%.

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

Export of oil and oil products*)					Import of oil and oil products*)				
	I - IX - 2017	I - IX - 2018	Balance	% rate		I - IX - 2017	I - IX - 2018	Balance	% rate
.000 T	90,7	107,2	16,4	18,1	.000 T	760,2	763,0	2,8	0,4
EUR mil.	36,1	51,3	15,2	42,1	EUR mil.	323,9	396,9	73,0	22,5
\$ mil.	40,4	61,1	20,7	51,2	\$ mil.	361,1	472,1	111,0	30,7

*)Previous data

Export of chemical products*)					Import of chemical products*)				
	I - IX - 2017	I - IX - 2018	Balance	% rate		I - IX - 2017	I - IX - 2018	Balance	% rate
.000 T	30,2	19,1	-11,1	-36,7	.000 T	22,1	24,1	1,9	8,7
EUR mil.	755,2	864,9	109,7	14,5	EUR mil.	132,7	155,3	22,7	17,1
\$ mil.	842,0	1.031,1	189,1	22,5	\$ mil.	147,5	185,6	38,1	25,9

*)Previous data

Export of iron and steel*)					Import of iron and steel*)				
	I - IX - 2017	I - IX - 2018	Balance	% rate		I - IX - 2017	I - IX - 2018	Balance	% rate
000 T	518,7	571,1	52,4	10,1	.000 T	542,8	608,1	65,3	12,0
EUR mil.	337,1	397,7	60,5	18,0	EUR mil.	274,8	335,7	60,9	22,2
\$ mil.	376,4	473,2	96,8	25,7	\$ mil.	306,3	402,0	95,7	31,3

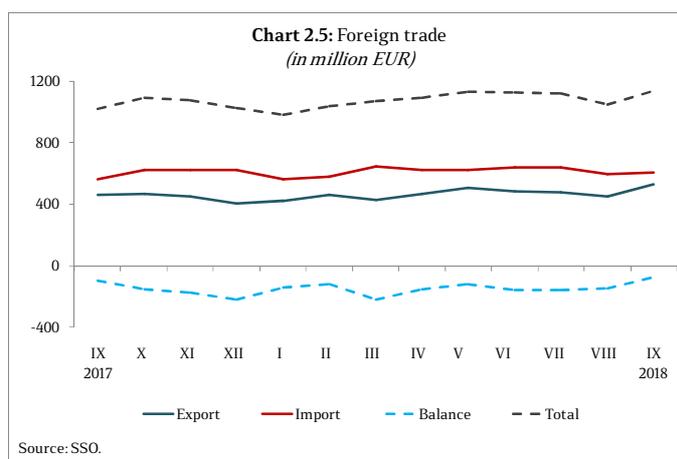
*)Previous data

*)Previous data

Trade Balance

In the period January - September 2018, trade deficit increased by 1.3%, i.e. by EUR 16.5 million, compared to the same period last year. In September 2018, trade deficit decreased by 23.4% or EUR 23.2 million compared to September 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 fuels and lubricants, investment goods without transport equipment, industrial supplies and food and beverages, as well as narrowing of positive balance in the trade of consumer goods. On the other hand, widening of positive balance in the trade of transport equipment contributed to reducing the deficit.



In the period January – September 2018, 98.7% of the trade deficit of the country was realized in the trade with Great Britain, Greece, China and Serbia, followed by: Turkey, Italy, South Africa, the USA, Poland and others. Surplus was realized in the trade with Germany, Kosovo, Belgium and Spain.

Currency Structure

Observed by currency structure, 87.5% of the trade in the period January – September 2018 was realized in euros and, compared to the same period in 2017, it surged by 0.2 p.p.. On export and import side, euro accounted for 93.1% and 83.2% respectively, whereby share of the euro at export increased by 0.2 p.p., while share of the euro at import surged by 0.1 p.p. compared to the period January – September 2017.

import	I - IX - 2017					I - IX - 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	3.303,3	4.119.869.635	61,5940	253.759.250.311	83,2	3.283,9	4.592.174.669	61,5170	282.496.809.123	83,2	472.305.034	11,5
USD	1.353,4	883.350.251	55,4583	48.989.103.246	16,1	1.351,1	1.041.376.837	51,5263	53.658.295.342	15,8	158.026.586	17,9
GBP	3,6	16.633.553	70,6196	1.174.654.833	0,4	4,6	21.505.283	69,5872	1.496.492.461	0,4	4.871.731	29,3
EUR+USD+GBP	4.660,3			303.923.008.391	99,2	4.639,6			337.651.596.926	99,5		
tot. import	4.670,8			305.174.624.927	100,0	4.652,2			339.474.789.834	100,0		11,2

Source: SSO and NBRM

3. FISCAL SECTOR

Budget Revenues According to the Economic Classification

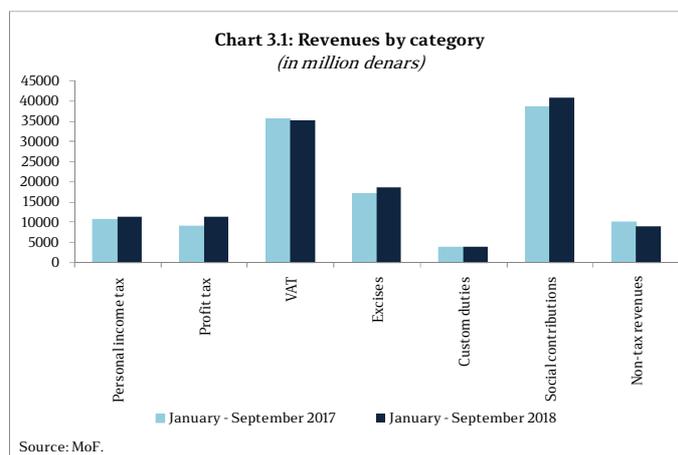
In the first nine months in 2018, total budget revenues were collected in the amount of Denar 136,652 million, i.e. 20.8% of GDP, which was higher performance by 4.3% compared to the same period in 2017.

Tax revenues in this period were collected in the amount of Denar 81,533 million, being higher by 6.2% in relation to the same period last year.

Revenues on the basis of value added tax were collected in the amount of Denar 35,221 million, decreasing by 0.9% in relation to last year, whereby share of VAT in total tax revenues was dominant, accounting for 43.2%. Thereby, VAT collection amounted to Denar 54,131 million on gross basis, out of which Denar 18,910 million was refunded to taxpayers (gross collection was higher by 7.6%, while VAT refund was higher by 28.2% compared to the same period in 2017). As for VAT structure, collection of VAT when importing accounted for the most, increasing by 12.1%, while VAT revenues collected on the basis of sales in the country dropped by 1.9%.

Revenues on the basis of excises were collected in the amount of Denar 18,762 million (participating with 23.0% in the tax revenues), surging by 9.6%. Hence, revenues collected on the basis of these two indirect taxes amounted to Denar 53,983 million, i.e. 66.2% of the total tax revenues in this period.

PIT revenues were collected in the amount of Denar 11,558 million, increasing by 7.2% on annual basis, whereby revenues on the basis of tax on salaries and other personal earnings accounted for 66.7% of the personal income tax, capital revenues accounted for 9.1%, 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 3.6%. Profit tax revenues in these nine months amounted to Denar 11,537 million, increasing by 25.7% compared to the same period in the previous year, being mainly a result of tax collected on the basis of monthly advance payments (27.8% increase), additional payments on the basis of tax balances (35.6% increase), as well as withholding tax for foreign legal entities (27.3% increase).



Revenues on the basis of customs duties were collected in the amount of Denar 4,072 million, increasing by 8.1%. Collection of revenues on the basis of other taxes, amounting to Denar 383 million, surged by 15.0% compared to last year.

Social contributions were collected in the amount of Denar 41,033 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 and health insurance contributions experienced 6.8% growth each.

Non-tax revenues were collected in the amount of Denar 9,038 million and, in relation to the same period in 2017, they were lower by 9.7% (these revenues include revenues on the basis of profit realized by the public institutions, revenues collected on the basis of administrative fees and fines, concessions, etc.).

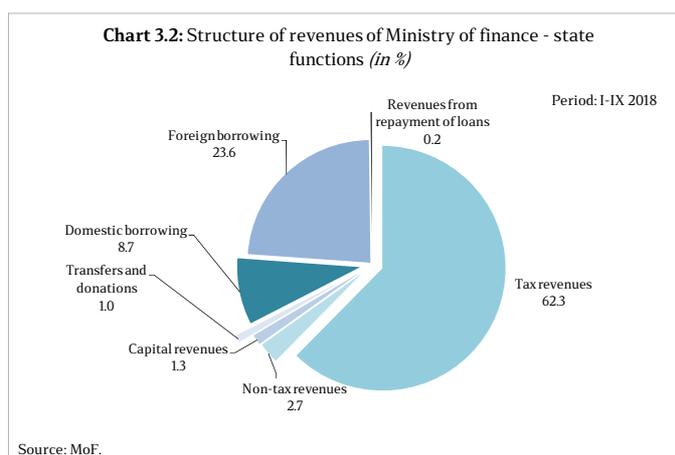
Capital revenues realized on the basis of sale of construction land, flats and dividends reached Denar 1,673 million, increasing by 52.1% compared to last year.

Revenues collected on the basis of foreign donations from international and bilateral cooperation amounted to Denar 1,994 million, decreasing by 40.8% 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 129,134 million in the period January - September 2018, i.e. 94.4% of the revenues of all budget users, accounting for 81.3% of the annual projections of this budget user.

Within the organizational code of the Ministry of Finance – Functions of the State, tax revenues accounted for the most – 62.3% of total revenues and inflows to this budget user, whereby their collection reached 72.2% of the annual projections by September.



Inflows on the basis of foreign borrowing in this period amounted to Denar 30,529 million, accounting for 23.6% of the total amount of this budget user.

Next budget user, having the highest revenues and inflows, is the Ministry of Education and Science that collected revenues in the amount of Denar 2,382 million, i.e. 1.7% of the revenues and inflows of all budget users, most of which (83.5%) were non-tax revenues, collected mainly on the basis of fees and charges.

Ministry of Health collected revenues in the amount of Denar 956 million, i.e. 0.7% of the revenues and inflows of all budget users, while 49.5% of that amount were inflows on the basis of tax revenues. The remaining budget users collectively generated revenues, accounting for 3.2% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/693>).

As for budget funds, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 50,637 million in the period January – September 2018, accounting for 74.5% of the Fund’s annual projections. Health Insurance Fund of Macedonia in this period collected revenues in the amount of Denar 22,192 million, i.e. 77.2% of the Fund’s annual projections. Employment Agency of the Republic of Macedonia in the first nine months of 2018 collected revenues in the amount of Denar 1,767 million, accounting for 75.9% of the annual projections.

Budget Expenditures According to the Economic Classification

In the first nine months in 2018, total budget expenditures were executed in the amount of Denar 143,660 million, i.e. 21.8% of GDP, being higher by 1.2% compared to same period last year.

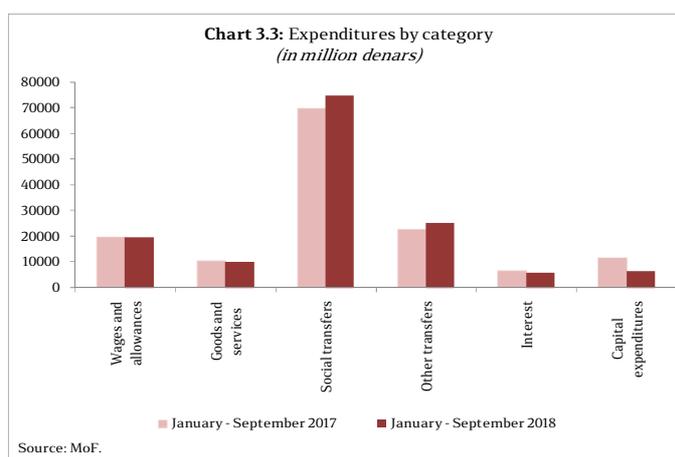
With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 137,064 million, accounted for 95.4% and they increased by 5.0% in relation to the same period in 2017.

Expenditures related to wages and allowances were executed in the amount of Denar 19,652 million, increasing by 0.1% in relation to the same period in the previous year, accounting for 13.7% of the total budget expenditures.

Expenditures related to goods and services were executed in the amount of Denar 10,043 million, decreasing by 4.8% compared to the same period in 2017.

Funds allocated for transfers amounting to Denar 101,402 million accounted for the most in the current expenditure items. Such expenditures grew by 8.0% compared to the same period in 2017, participating with 70.6% in the total expenditures.

Funds allocated for social transfers amounted to Denar 74,888 million, increasing by 7.1% and accounting for 52.1% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 45,424 million, increasing by 4.9% compared to the same period in 2017 and accounting for 31.6% of the total expenditures. Category “other transfers”, which includes transfers to local government units, accounted for 17.7% of the total expenditures, i.e. they grew by 12.2%, amounting to Denar 25,458 million. Block grants to local government units, amounting to Denar 11,692 million, grew by 4.1% compared to the same period in the previous year. Expenditures related to subsidies and transfers amounted to Denar 12,110 million, being higher by 22.3% compared to last year.



Interest payments expenditures amounted to Denar 5,967 million, being lower by 7.2% compared to the same period in 2017. Costs related to interest payment on the basis of domestic borrowing decreased by 2.9%, while the ones on the basis of foreign borrowing dropped by 9.2%.

During the analyzed period, funds for capital expenditures were executed in the amount of Denar 6,596 million, participating with 4.6% in the total expenditures (1.0% of GDP), i.e. decreasing by 42.8% 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 88.3% of the total budget of all budget users.

In the period January – September 2018, Denar 33,854 million was spent through the organizational code Ministry of Finance – Functions of the State¹, accounting for 86.3% of the annual Budget. Repayment of principal accounted for most of the expenditures or 69.9%, Denar 23,678 million being spent therefore in the period January – September 2018, i.e. 105.3% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 17.6% of the total expenditures, Denar 5,962 million being spent therefore or accounting for 68.8% of the projected interest payments.

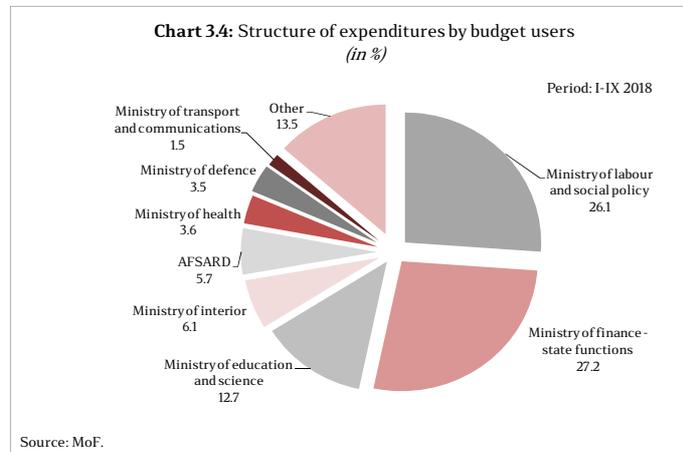
In the period January – September 2018, Ministry of Labour and Social Policy executed funds in the amount of Denar 32,526 million or 74.6% of its total 2018 budget. Thereby, most of the expenditures (73.2%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 23,797 million was spent or 75.2% 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, 76.6% (Denar 6,162 million) of the expenditures projected for 2018 was executed.

In the period January – September 2018, Ministry of Education and Science executed budget funds in the amount of Denar 15,864 million, i.e. 63.0% of its total 2018 budget. Current transfers to LGUs accounted for the most of the expenditures (63.7%), Denar 10,103 million being spent therefore or 73.2% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 15.7%, Denar 2,495 million being spent therefore, i.e. 71.2% of the total projected funds. As for goods and services (accounting for 12.6% of the total expenditures), Denar 1,999 million was spent, accounting for 47.8% of the total funds projected for this year.

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.

In the first nine months in 2018, Agency for Financial Support in Agriculture and Rural Development (AFSARD) executed expenditures in the amount of Denar 7,088 million, accounting for 82.2% of the funds projected for the current year. During the analyzed period, subsidies and transfers were the highest expenditure category (accounting for 92.5%), funds in the amount of Denar 6,557 million being spent therefore or accounting for 96.7% of the projected ones.

In the period January – September 2018, Ministry of Internal Affairs executed expenditures in the total amount of Denar 7,643 million, accounting for 74.1% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with 71.4%, Denar 5,458 million being spent therefore, or accounting for 74.8% of the projected ones. The second highest expenditure item was goods and services, participating with 15.9%, funds in the amount of Denar 1,217 million being spent therefore, or accounting for 70.8% of the annual projections.



In the first nine months in 2018, Ministry of Health executed budget funds in the amount of Denar 4,444 million, accounting for 66.8% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 61.5%, Denar 2,732 million being spent therefore in the period January - September 2018 or 97.8% of the funds projected for 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 29.0% of the total expenditures, funds in the amount of Denar 1,290 million being executed therefore in the analyzed period, i.e. 64.4% of total projected ones. Capital expenditures (participating with 7.8% in the total expenditures) were executed in the amount of Denar 345 million or 19.9%.

In the period January – September 2018, Ministry of Defense executed budget funds in the amount of Denar 4,320 million, i.e. 66.3% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 64.4%, Denar 2,781 million being spent therefore in the first nine months, accounting for 73.6% of the total funds projected for the current year. Expenditures related to goods and services accounted for 20.9% of total expenditures, Denar 905 million being spent therefore during the analyzed period, i.e. 52.6% execution of the total projected funds.

As regards “Financing the activities in the field of culture”², in the period January – September 2018, funds in the amount of Denar 2,261 million were spent, accounting for

² Financing activities in the area of culture support the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural and artistic events, museum and film library activities, international cooperation in the area of culture, support to young talents, organizations in the field of culture, decentralization and more intensive realization of capital projects.

60.7% of the total 2018 budget therefore. Expenditures related to wages and allowances accounted for the most in the total expenditures with 33.9%, while their execution in this period accounted for 72.8%, i.e. Denar 765 million was spent therefore. Expenditures related to subsidies and transfers accounted for 33.5%, Denar 757 million being spent therefore or 61.9% of the projected funds. Capital expenditures were executed in the amount of Denar 432 million, accounting for 45.0% of total funds projected for the current year, whereby this expenditure item accounted for 19.1% of the total expenditures.

In the first nine months of 2018, Ministry of Transport and Communications executed funds in the amount of Denar 1,880 million, i.e. 31.1% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 68.4%, while their execution in the period January – September 2018 accounted for 24.7%, i.e. Denar 1,285 million was spent. Expenditures related to subsidies and transfers accounted for 25.3% in the total budget of this user, for which purpose Denar 475 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

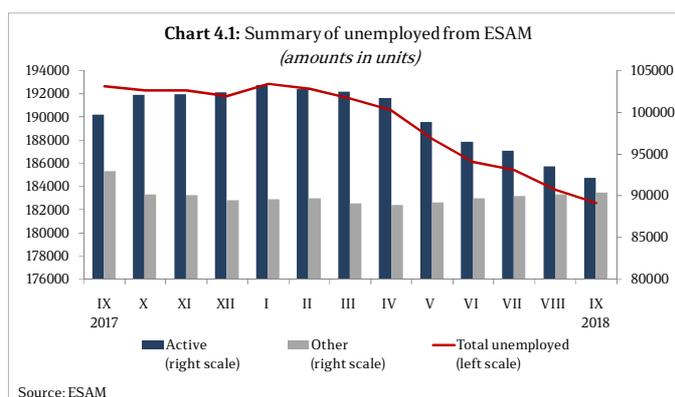
In the period January – September 2018, budget deficit of the Republic of Macedonia reached the amount of Denar 7,008 million, accounting 1.07% of GDP, while central budget deficit amounted to Denar 6,657 million or 1.0% of GDP.

4. SOCIAL SECTOR

Number of Newly Employed and Registered Unemployed Persons in EARM

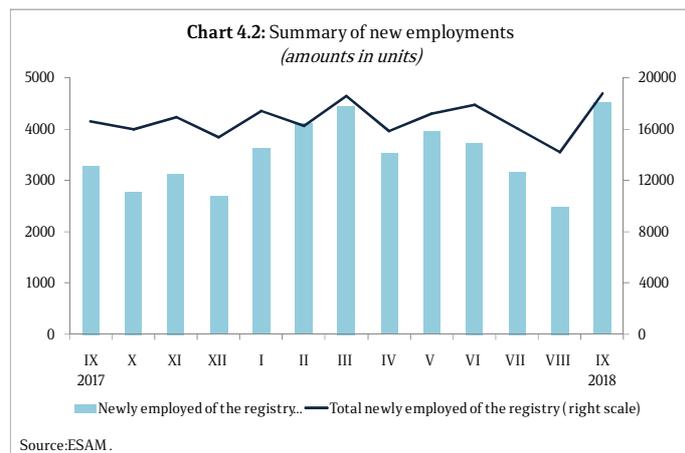
In the period January – September 2018, Employment Agency of the Republic of Macedonia registered total of 151,926 new employments. Total number of newly employed persons in this period was higher by 10.9% compared to the same period in 2017.

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 September 2018, 24.1% out of the total number of newly employed persons was from the unemployed records.



Total number of unemployed persons in September 2018 was 182,593, out of which 92,191 persons were active job seekers, while 90,402 persons were from the category “other unemployed”. Compared to the same month last year, total number of unemployed persons was lower by 5.2%.

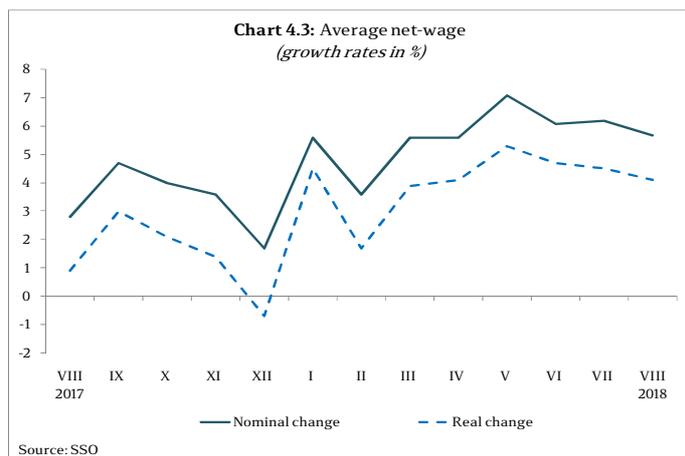
Major percentage of the unemployed (66.8%) came from urban areas (cities), whereby 57.9% were men. Analyzed by the level of education, major part, i.e. 57.4% of the unemployed persons, were with incomplete secondary education or less, 28.1% were with completed secondary education, while 14.5% of the unemployed persons were with completed community college or higher education level.



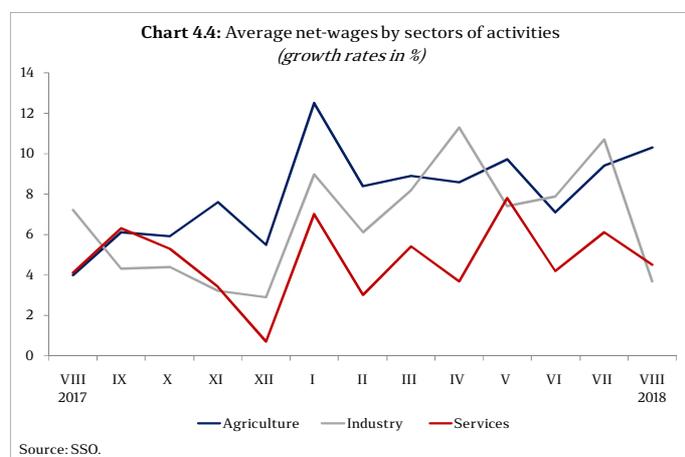
Observed by age, majority of the unemployed persons or 47.7% fall in the category of 25-49 years of age. According to the time they waited for a job, 53.3% of the unemployed persons wait for employment from 1 to 7 years, while 8.4% wait for employment for 8 years and more.

Wages

In August 2018, average net wage increased by 5.7% in nominal terms on annual basis, and it was higher by 0.6% in relation to the previous month. The highest increase of average net wage was observed at the following sectors: Information and communications (14.2%), Manufacturing (11.4%) and Agriculture, forestry and fishing (10.3%). In August, wages grew by 4.1% in real terms on annual basis.



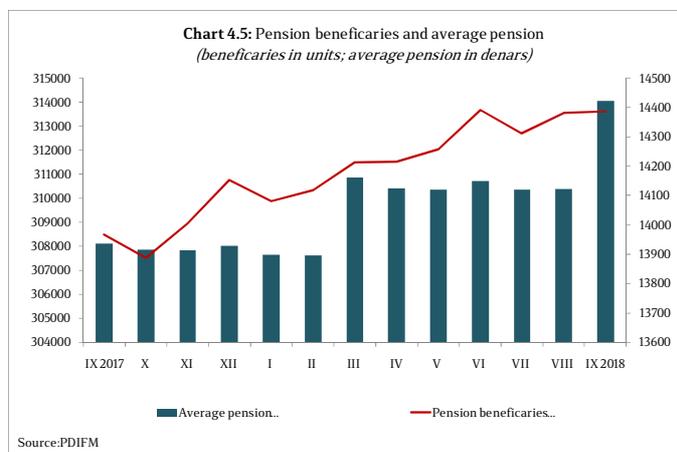
In August 2018, average gross wage increased by 5.6% in nominal terms on annual basis, and it was higher by 0.7% in relation to the previous month. The highest increase of average gross wage was observed at the following sectors: Information and communications (14.7%), Manufacturing (11.4%) and Agriculture, forestry and fishing (10.9%). Real gross wage surged by 4.1% annually.



Pensions

In September 2018, Pension and Disability Insurance Fund registered 313,631 pensioners, being 1.7% increased compared to the same period last year. Number of pension beneficiaries increased by 65 persons on monthly basis. As regards the total number of pensioners, 64.4% were beneficiaries of old-age pension, 24.1% of survival pension and 11.4% of disability pension.

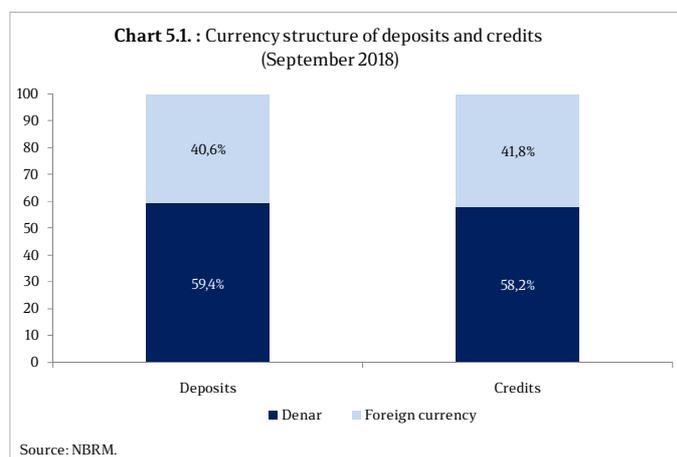
Average pension in September 2018 amounted to Denar 14,423, being higher by 3.5% compared to the same month last year³. Ratio between the average pension and the average paid wage in August 2018 (the most recent available data) was 58.3%.



In September, average old-age pension amounted to Denar 15,731, average disability pension amounted to Denar 13,063, while average survival pension amounted to Denar 11,576. Denar 4,359.05 million was spent for payment of pensions in September 2018, accounting for 51.3% of the total social transfers.

5. MONETARY AND FINANCIAL SECTOR

In September 2018, National Bank of the Republic of Macedonia retained the reference interest rate at 2.75%, after previously reducing it by 0.25 p.p. in August 2018. Such reduction was a result of the sound economic fundamentals and the stable expectations of the economic agents, evident through the favourable trends on the foreign exchange market and the growth of banks' deposit base. Interest rate on available 7-day deposits remained unchanged compared to previous month, accounting for 0.3%.



³ Military and agricultural pensions are not included when calculating the average pension.

Primary Money

In September 2018, primary money⁴ dropped by 1.3% on annual basis, in conditions of drop of total liquid assets of banks by 8.3%, while currency in circulation picked up by 5.2%.

On monthly basis, primary money dropped by 7.5%, as a result of decrease of total liquid assets of banks and currency in circulation by 13.6% and 1.9% respectively.

Deposit Potential⁵

In September 2018, total deposits of banks declined by 0.4% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises declined by 2.6%, while deposits of households picked up by 0.4%.

Analyzed by currency, in September 2018, compared to the previous month, Denar deposits increased by 0.2%, while foreign currency deposits dropped by 1.2%.

Total deposit potential in September 2018 grew by 11.6% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 13.0% and 9.6% respectively.

From sector point of view, this month, deposits of enterprises grew by 14.9%, and deposits of households increased by 8.4%, on annual basis.

According to maturity, short-term deposits surged by 5.7%, 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 59.4%.

Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (September 2018)	Denar million	Monthly change	Annual change
Deposit Potential	358,126	-0.4%	11.6%
Denar	212,585	0.2%	13.0%
Foreign currency	145,541	-1.2%	9.6%
Short-term	158,673	-1.7%	5.7%
Long-term	100,833	0.9%	15.0%
Credits to private sector	311,558	1.2%	7.9%

⁴Primary 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).

⁵NBRM 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.

Denar	181,201	1.2%	9.4%
Foreign currency	130,357	1.2%	5.8%
Short-term	57,217	1.9%	10.0%
Long-term	235,751	1.2	9.8%
Doubtful and contested claims	15,421	-1.4%	-17.7%

Source: NBRM

Bank Credits

In September 2018, total credits of banks to the private sector surged by 1.2% compared to the previous month. Sector analysis showed that, in September 2018, both credits to enterprises and credits to households experienced growth of 1.7% and 0.7% respectively. Analyzed by currency, in September 2018, Denar credits and foreign currency credits surged by 1.2% each on monthly basis.

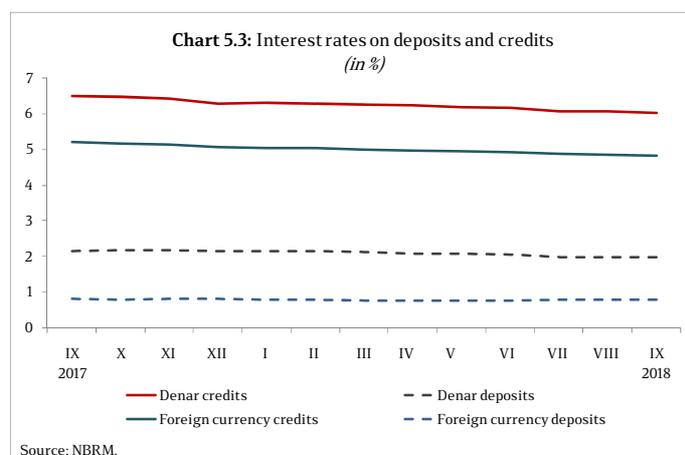
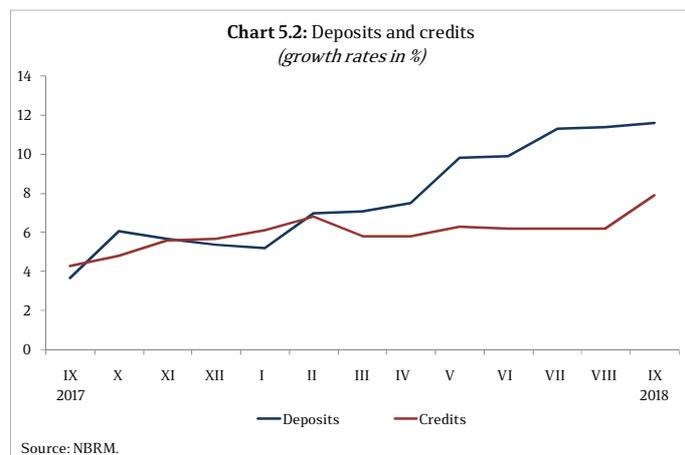
On annual basis, total credits grew by 7.9% in September 2018, in conditions of growth of both credits to households of 10.1% and credits to enterprises of 5.5%. Denar credits surged by 9.4%, while foreign currency credits increased by 5.8%.

As regards maturity, long-term credits experienced annual growth of 9.8%, and short-term credits grew by 10.0%.

Interest Rates of Deposit Banks

In September 2018, total interest rate on credits dropped by 0.03 p.p. compared to the previous month, accounting for 5.46%. Interest rate on Denar credits dropped by 0.04 p.p., accounting for 6.01%, while interest rate on foreign currency credits decreased by 0.02 p.p. on monthly basis, accounting for 4.82%.

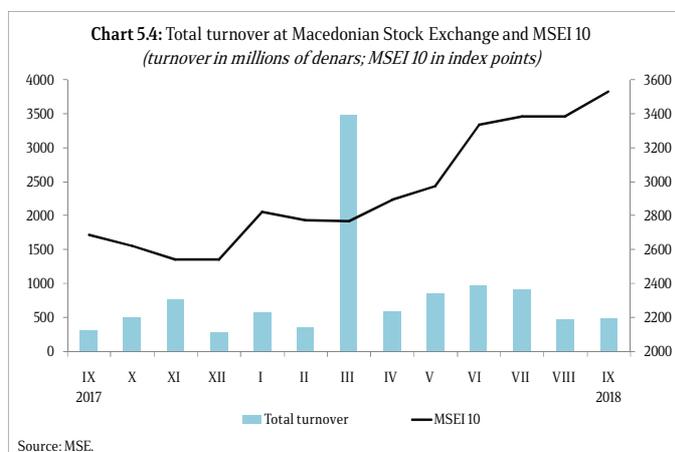
Total interest rate on deposits in September 2018 was 1.42%, remaining unchanged compared to the previous month. Interest rates on Denar and foreign currency deposits remained unchanged, accounting for 1.98% and 0.78% respectively.



Capital Market

As for the capital market, in September 2018, total turnover on the stock exchange surged by 3.1% on monthly basis, as a result of the increase of turnover from trading in best by 40.1%, while turnover from block transactions decreased by 40%.

Total turnover on the stock exchange amounted to Denar 483.5 million in September 2018, increasing by 58.8% on annual basis. Macedonian Stock Exchange Index MSEI - 10 amounted to 3,530.08 index points at the end of September 2018, whereby the index grew by 4.3% on monthly basis, while, compared to the same month last year, the index was higher by 31.3%.



Reserve Assets

Gross reserve assets at the end of September 2018 amounted to EUR 2,709.1 million and, compared to the previous month, they were higher by EUR 10.5 million, while compared to September 2017, they surged by EUR 437.7 million.

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