



Republic of Macedonia Ministry of Finance

QUARTERLY ECONOMIC REPORT

- second quarter of 2018 -

Summary

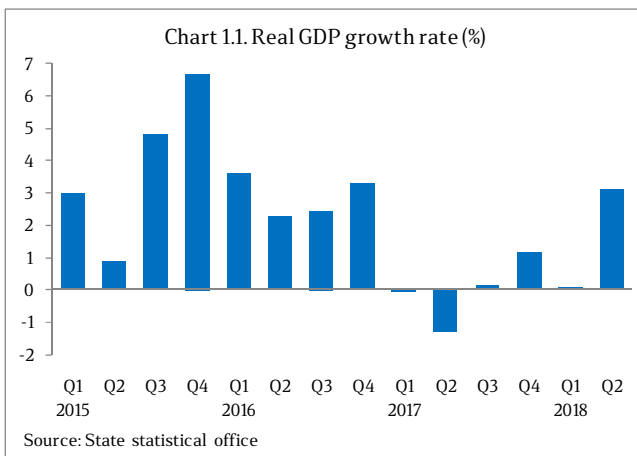
- **Gross domestic product** in Q2 2018, compared to the same quarter in 2017, grew by 3.1% in real terms, as a result of the positive contribution of net export and consumption growth;
- **Number of employed persons** in Q2 2018 was higher by 2.1% compared to the same quarter in 2017. **Number of unemployed persons** dropped by 6.2%, which resulted in reduction of **unemployment rate** to 21.1% in Q2 2018;
- Average **gross wage** amounted to Denar 35,544 in Q2 2018, increasing by 6.2% in nominal terms, i.e. surging by 4.6% in real terms, compared to the gross wage in Q1 2017;
- Total **budget revenues** were higher by 8.4% in Q2 2018, while total **budget expenditures** surged by 0.6% compared to the same quarter in 2017;
- **Inflation rate** was 1.5% in Q2 2018 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 2.8% in Q2 2018 on quarterly basis;
- **Credit activity** of banks to non-government sector experienced 2.7% increase in Q2 2018 on quarterly basis;
- In Q2 2018, increase of both **export of goods** by 13.3% and **import of goods** by 9.4% was registered on annual basis, whereby total **foreign trade**, expressed in euros, surged by 11.1%;

Contents:

1. Economic Activity	3
2. Labour Market	4
3. Public Finances	5
3.1. Budget revenues according to the economic classification	5
3.2. Revenues by budget users	6
3.3. Budget expenditures according to the economic classification	7
3.4. Expenditures by budget users	8
3.5. Budget deficit and government debt	10
4. Inflation and Monetary Trends	10
5. External Sector	13
5.1. Foreign Trade	13
5.2. Balance of Payments	15

1. Economic Activity

Gross Domestic Product (GDP) in Q2 2018, compared to the same quarter in 2017, increased by 3.1% in real terms, showing significant intensification following the 0.1% growth in the previous quarter. Nominal GDP growth in Q2 2018 amounted to 5.6% on annual basis.

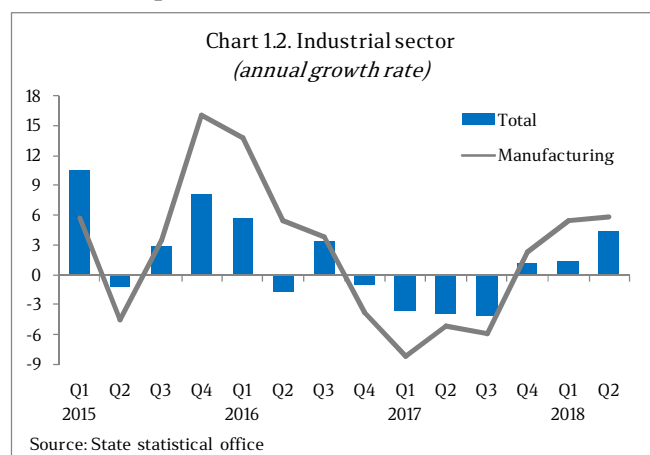


Analyzed by sectors, economic growth in Q2 2018 was a result of the positive performance in the services, industrial and agricultural sectors, while construction sector had a negative contribution to growth.

Growth in the **services sector** amounted to 3.6% in real terms, being a result of the increase in: Trade, transportation and accommodation and food service activities by 12.7%, Arts, entertainment, recreation and other service activities by 13.9%, Professional, scientific, technical and administrative activities by 4.5% and Real estate activities by 0.6%, while a decrease was registered at: Information and communication by 9.5%, Public administration and defence, education and health by 1.6% and Financial and insurance activities by 1.8%. Growth in the

agricultural sector continued with weaker intensity, compared to the previous quarter, amounting to 0.3%.

Industrial sector registered growth of 4.4% in real terms, following the 1.4% growth in the previous quarter, as a result of the growth in Manufacturing by 5.8%. According to highfrequency data, Electricity and gas supply registered a 3.9% growth, while Mining experienced a decrease by 5.6%, in Q2 2018. Within **Manufacturing**, more significant contribution to growth had Manufacture of fabricated metal products (90.9%), Manufacture of electrical equipment (42.9%), Manufacture of motor vehicles (37.6%), Manufacture of machinery and equipment (5.8%), Manufacture of furniture (25.0%), Manufacture of basic metals (7.3%), etc. Hence, an annual positive growth was registered at 13 branches, comprising 43.7% of the industrial production.



Drop of activity in the **construction sector** continued with slower dynamics in Q2 2018, amounting to 12.9% in real terms, amid more favourable trends with respect

to completed construction works as regards both buildings construction and civil engineering.

Analyzed according to the **expenditure side of GDP**, economic activity growth in Q2 2018 was a result of consumption growth, as well as the positive contribution of net export to economic growth.

Growth of **export** of goods and services amounted to 13.7% in real terms on annual basis, mainly as a result of export by the capacities in the free economic zones, also supported by the sound performance of most of the other export segments, in conditions of favourable trends of the external demand. **Import** of goods and services experienced significantly lower growth compared to export, i.e. it grew by 4.0% in real terms. More detailed information of export and import of goods is shown in point 5.1.

Consumption increased by 1.8% in real terms, thus continuing to underpin the economic activity. Thereby, private consumption surged by 2.0%, mostly as a result of household disposable income growth amid increase of both employment and wages in the economy (see point 2), also supported by the increased crediting to households. Public consumption grew by 1.0% in real terms, following the 1.4% decline in the previous quarter, due to increased execution of public expenditures for goods and services.

Gross investments decreased by 11.3% in real terms, as a result of the decline in the construction activity, amid lower execution of public capital expenditures, despite the high inflow of foreign direct investments.

2. Labour Market

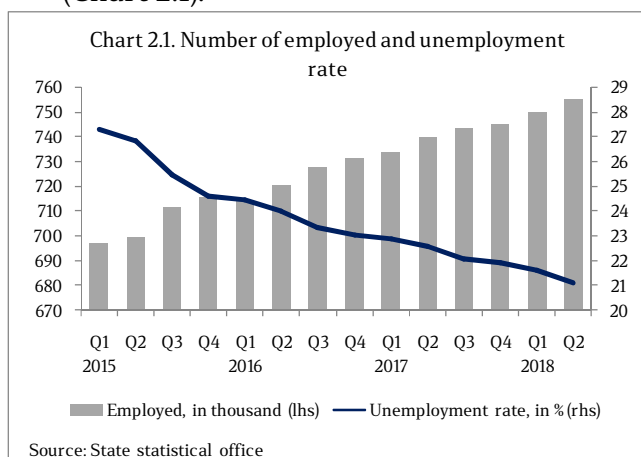
Positive trends on the labour market continued in Q2 2018. According to the Labour Force Survey, **number of employed** persons was higher by 2.1%, i.e. by 15.2 thousand persons compared to the same quarter in 2017, whereby employment growth was highest in the construction sector (5.4 thousand or 10.4%), followed by the industrial sector (4.3 thousand or 2.5%), the services sector (2.8 thousand or 0.7%) and the agriculture sector (2.3 thousand or 1.9%).

Analyzed according to the economic status, employment growth was

registered at employed persons (wage earners) and self-employed persons, while decline was observed at employers and family workers. Hence, number of self-employed persons picked up by 11.6 thousand or by 12.1%, while the number of employed persons (wage earners) surged by 10.8 thousand or by 1.9%. **Employment rate** in Q2 2018 amounted to 44.9%, being higher by 0.8 p.p. compared to the same quarter in 2017.

The increase of employment rate was accompanied by drop in the **number of unemployed persons**, decreasing by

around 13.4 thousand persons, i.e. by 6.2% compared to the same quarter in 2017. Such trends on the labour market caused for the **unemployment rate** in Q2 2018 to reduce to 21.1%, i.e. by 1.5 p.p. compared to the same quarter in 2017, being lower by 0.5 p.p. compared to the previous quarter (Chart 2.1).

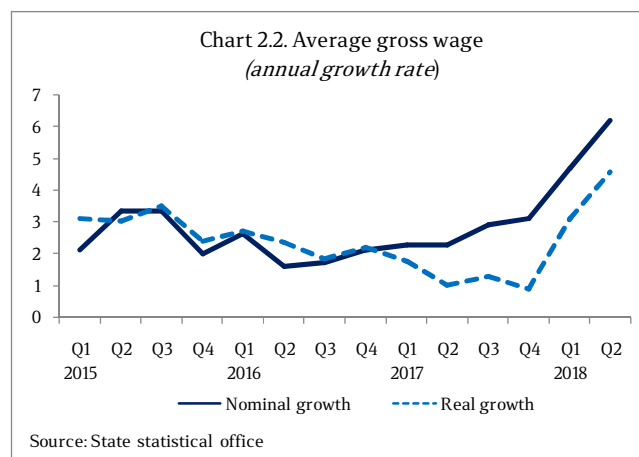


Observed by age groups, the unemployment rate declined at the central age group (25-49 years), accounting for 19.5%. Observed by gender, the unemployment rate was mostly reduced at the female population (by 1.9 p.p.), accounting for 20.2% and being lower by 1.5 p.p. compared to the unemployment at the male population which dropped by 1.2 p.p..

Number of active population increased by 1.8 thousand, i.e. by 0.2% on annual

basis. Active population in Q2 2018 accounted for 56.9% of total working-age population, being at the same level compared to the same quarter in 2017.

Average monthly **net wage** amounted to Denar 24,218 in Q2 2018, being higher by 6.3% in nominal terms compared to the same quarter in 2017, while the increase in real terms was 4.7% in real terms. Average monthly **gross wage** amounted to Denar 35,544 in Q2 2018, increasing by 6.2% in nominal terms, i.e. surging by 4.6% in real terms (Chart 2.2).



Labour productivity increased by 1.1% in Q2 2018, following the 2.0% decline in the previous quarter, as a result of the higher production than employment growth.

3. Public Finances

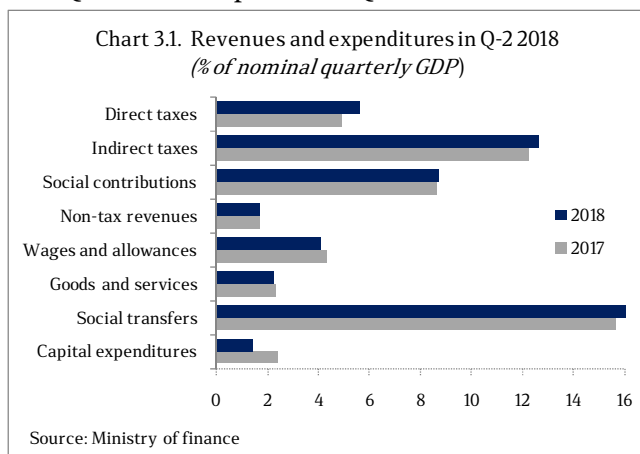
3.1. Budget revenues according to the economic classification

In Q2 2018, share of total budget revenues accounted for 29.6% of the quarterly GDP, being higher by 8.4% compared to the same quarter in 2017, due to the higher

collection of tax revenues and social contributions by 10.4%, as well as higher performance of non-tax revenues by 6.8%. Thereby, as for tax revenues, higher

collection was recorded at value added tax, excise duties, personal income tax, profit tax, as well as revenues on the basis of customs duties, while revenues on the basis of other taxes experienced lower collection.

In Q2 2018, collection of indirect taxes was higher by 8.8%, while collection of direct taxes surged by 19.7% compared to Q2 2017. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes increased by 0.7 p.p., i.e. from 4.9% of quarterly GDP in Q2 2017 to 5.6% in Q2 2018, while share of revenues on the basis of indirect taxes was higher by 0.4 p.p., accounting for 12.6% of GDP in Q2 2018 compared to Q2 2017.



With respect to **indirect taxes**, VAT revenues predominated, accounting for 43.1% of total tax revenues in Q2 2018, being higher by 11.9% compared to the same quarter of last year. As for VAT

3.2. 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 34,393 million in Q2 2018, i.e.

structure, VAT share was the biggest when importing, followed by VAT collected on the basis of sales in the country. Excise revenues were higher by 3.1% compared to the same quarter of 2017, while collection of customs duties grew by 9.4%.

As for **direct taxes**, collection of revenues on the basis of personal income tax surged by 5.3%, while profit tax revenues experienced a significant increase by 33.8% compared to the same quarter of the previous year, as a result of the higher collection on the basis of monthly advance payments and tax balances.

Collection of **social contributions** was higher by 7.2%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 7.1%, employment contributions and health insurance contributions by 7.4% each.

Collection of **non-tax revenues**, accounting for 1.7% of the quarterly GDP, was higher by 6.8% in Q2 2018 compared to the same quarter of 2017.

Capital revenues, including revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends, were higher by 49.2% on annual basis in Q2 2018. Revenues on the basis of foreign donations dropped by 51.6%.

93.9% of the revenues of all budget users, accounting for 21.7% of the annual projections of this budget user.

Within the Ministry of Finance - Functions of the State, tax revenues

accounted for the most – 83.8% of total revenues and inflows to this budget user, whereby their collection reached 25.8% of the annual projections in Q2 2018. Funds on the basis of foreign borrowing amounted to Denar 3,345 million, accounting for 18.9% of the total amount of this budget user.

Ministry of Education and Science collected revenues in the amount of Denar 645 million, accounting for 1.8% of the revenues and inflows of all budget users, being mainly non-tax revenues, collected on the basis of fees and charges.

Next budget user, having the highest revenues and inflows, is the **Ministry of Internal Affairs** that collected revenues in the amount of Denar 247 million, i.e.

0.7% of the revenues and inflows of all budget users, whereby the whole amount was inflows on the basis of non-tax-revenues. The remaining budget users collectively generated revenues, accounting for 3.6% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/692>).

As for **budget funds**, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 17,033 million in Q2 2018, accounting for 25.1% of the Fund's annual projections.

3.3. Budget expenditures according to the economic classification

In Q2 2018, total budget expenditures, accounting for 30.5% of the quarterly GDP, were higher by 0.6% compared to the same quarter of 2017.

Current expenditures, accounting for 29.1% of quarterly GDP, participated with 95.4% in the total expenditures and experienced 3.8% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 3.7%, while expenditures related to wages and allowances were lower by 0.5% compared to the same quarter in 2017.

Funds for transfers, which participated with 73.1% in the total expenditures, were higher by 4.7% on annual basis. Social transfers surged by 8.1%, accounting for

52.5% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 6.2%, accounting for 31.5% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 19.9% of the total expenditures, i.e. it dropped by 2.7% compared to the same quarter in 2017. Block and earmarked grants to local government units surged by 4.2%, while subsidies and transfers were lower by 8.0%.

Interest-related expenditures grew by 3.0% on annual basis, whereby domestic debt interest-related expenditures declined by 3.2%, and expenditures related to interest on foreign debt surged by 12.6%.

Capital expenditures, accounting for 1.4% of quarterly GDP, declined by 38.6% compared to the same quarter in 2017, i.e.

3.4. Expenditures by budget users

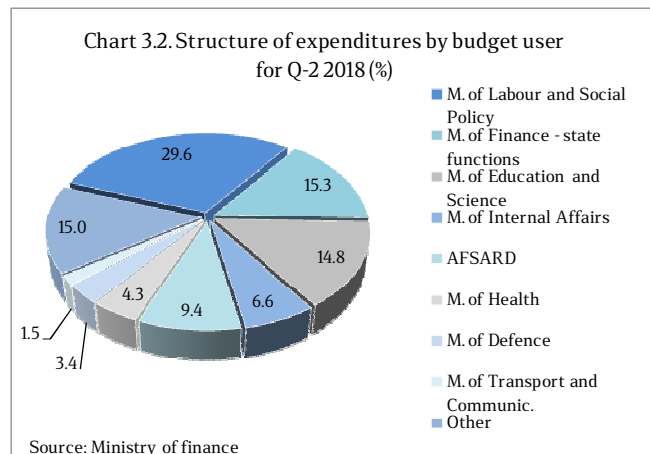
Review of budget expenditures for the largest budget users¹ is shown below, the total annual budget of which accounts for almost 85% of the total budget of all budget users.

Ministry of Labour and Social Policy executed funds in the amount of Denar 11,082 million or 25.4% of its total 2018 budget in Q2 2018. Thereby, most of the expenditures (71.7%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 7,943 million was spent or 25.1% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 20.3% in the total expenditures. As for this purpose, 27.9% (Denar 2,244 million) of the expenditures projected for 2018 was executed.

In the second quarter of 2018, Denar 5,727 was spent through the organizational code **Ministry of Finance - Functions of the State**², accounting for 14.6% of its

they participated with 4.6% in the total expenditures.

annual budget. Repayment of principal accounted for most of the expenditures or 59.3%, Denar 3,395 million being spent therefore, i.e. 15.1% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 13.7% of the total expenditures, Denar 784 million being spent therefore or accounting for 9.0% of the projected interest payments.



In Q2 2018, **Ministry of Education and Science** executed budget funds in the amount of Denar 5,549 million, i.e. 22.0% of its total 2018 budget. Current transfers to local government units accounted for most of the expenditures (61.5%), for which

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.

¹ Data are not consolidated, also including the outflows.

² 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

Denar 3,412 million was spent or 24.7% of the total projected funds. Wages and allowances were the second highest expenditure category, participating with 15.0%, Denar 834 million being spent therefore, i.e. 23.8% of the total projected funds.

In the second quarter of 2018, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,464 million, accounting for 23.9% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with 72.6%, Denar 1,790 million being spent therefore, or accounting for 24.5% of the projected ones. The second highest expenditure item was goods and services, participating with 16.7%, funds in the amount of Denar 411 million being spent therefore, or accounting for 24.1% of the annual projections.

In Q2 2018, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 3,505 million, accounting for 40.6% of the funds projected for the current year, while subsidies and transfers accounted for 90.6% thereof.

Ministry of Health, in Q2 2018, spent budget funds in the amount of Denar 1,617 million, accounting for 24.3% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 55.8%, for which, Denar 902 million was spent or 32.3% of the funds projected for 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 30.7% of the total expenditures, funds in the amount of

Denar 497 million being executed therefore in the analyzed period, i.e. 24.8% of total projected ones.

Ministry of Defense, in Q2 2018, spent budget funds in the amount of Denar 1,270 million, i.e. 19.5% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 73.6%, Denar 935 million being spent therefore in Q2 2018, accounting for 24.7% of the total funds projected for the current year. Expenditures related to goods and services accounted for 22.2% of total expenditures, Denar 281 million being spent therefore during the analyzed period, i.e. 16.4% execution of the total projected funds.

In the second quarter of 2018, **Ministry of Transport and Communications** executed funds in the amount of Denar 569 million, i.e. 9.4% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 64.2%, while their execution accounted for 7.0%, i.e. Denar 365 million was spent.

Subsidies and transfers amounted to Denar 163 million, accounting for 26.6% of the total projected ones and 28.8% of the expenditures of this budget user.

As regards **financing the activities in the field of culture**³, in Q2 2018, funds in

³ 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.

the amount of Denar 738 million were spent, accounting for 19.8% of the total 2018 budget. Subsidies and transfers accounted for the most in the total expenditures with 38.7%, while their execution accounted for 23.3%, i.e. Denar 285 million was spent therefore. Wages

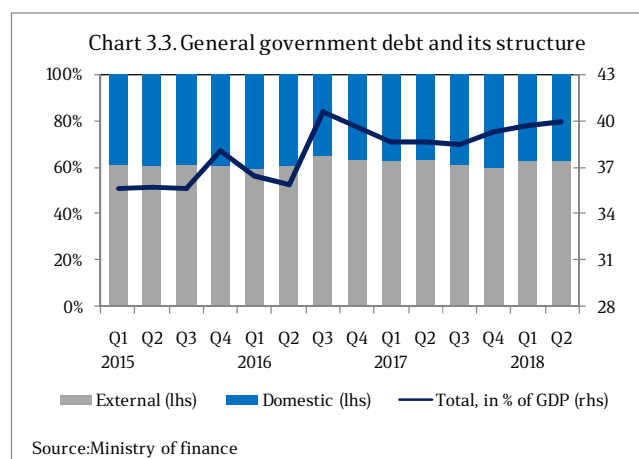
and allowances accounted for 34.6%, whereby Denar 255 million or 24.3% of the projected funds were spent therefore. Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/692>).

3.5. Budget deficit and government debt

In the second quarter of 2018, **consolidated budget deficit** amounted to Denar 1,405 million or 0.9% of GDP realized in this quarter, while central budget deficit amounted to Denar 1,100 million, i.e. 0.7% of quarterly GDP.

Total **government debt** at the end of Q2 2018 accounted for 39.9% of GDP, increasing by 0.2 p.p. compared to Q1 2018. Share of external debt in the total government debt decreased by 0.2 p.p. compared to Q1 2018, accounting for 62.6%. Share of domestic debt respectively grew

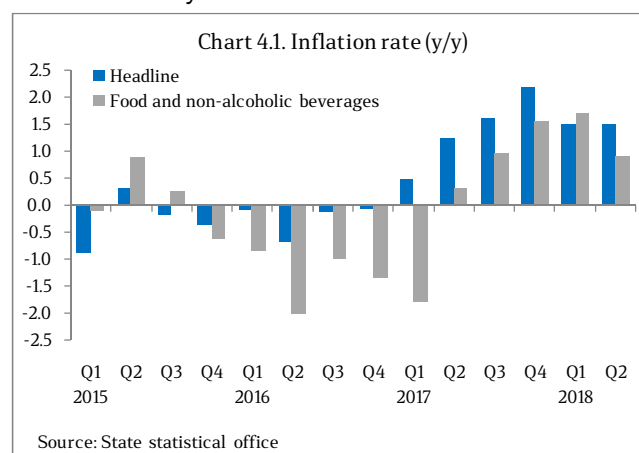
by 0.2 p.p., accounting for 37.4% of the total government debt.



4. Inflation and Monetary Trends

Inflation rate, measured according to CPI, in Q2 2018, amounted to 1.5% on annual basis, being equal to the one registered in Q1 2018. Growth of consumer prices in Q2 2018 was a result of the higher prices in the following categories: Transport by 8.6%, Alcoholic beverages, tobacco and narcotics by 5.8%, Recreation and culture by 2.3%, Restaurants and hotels by 1.6%, Furnishings, household equipment and routine maintenance of the house by 1.0%, Food and non-alcoholic beverages by 0.9%, Communications by 0.8%, Health by 0.2% and Miscellaneous goods and services by 0.3%, while prices in the Education

category remained the same. Price decline in Q2 2018 was recorded at the following categories: Clothing and footwear by 0.8% and Housing, water, electricity, gas and other fuels by 0.2%.



During the second quarter⁴ of 2018, National Bank of the Republic of Macedonia retained the **reference interest rate** at 3.0%, following the 0.25 p.p. reduction in the previous quarter, from 3.25% to 3.0%, amid stability of economic fundamentals and absence of imbalances in the economy. At the same time, further stabilization of confidence and expectations of economic agents was determined, evident from the favourable trends on the foreign currency market and the growth of banks' deposit base. Interest rate on available 7-day deposits amounted to 0.3% in June 2018 and, compared to the previous quarter, it remained unchanged.

In Q2 2018, **primary money**⁵ increased by 3.5% on quarterly basis (10.2% growth was recorded in the previous quarter) as a result of the increase of both currency in circulation by 3.7% and total liquidity of banks by 3.3%. Compared to Q2 2017, primary money declined by 2.5% (5.6% drop was recorded in Q1 2018), as a result of the increase of currency in circulation by 1.0% and decline of total liquidity of banks by 9.4%.

In Q2 2018, the narrowest money supply M1⁶ experienced 3.6% increase compared to the previous quarter. Monetary aggregate M2 surged by 3.5%, while the widest monetary aggregate M4 increased by 3.1%.

Total **deposit potential**⁷ of banks in Q2 2018 grew by 2.8% on quarterly basis, following the 0.2% growth in the previous quarter. From the point of view of sectors, deposits of enterprises increased by 4.7%, while deposits of households grew by 1.4%. From currency point of view, Denar and foreign currency deposits, compared to the previous quarter, surged by 2.4% and 3.4% respectively. Level of euroization increased by 0.2 p.p. compared to the previous quarter, i.e. to 41.5%, measured through the share of foreign currency deposits in the total deposit potential.

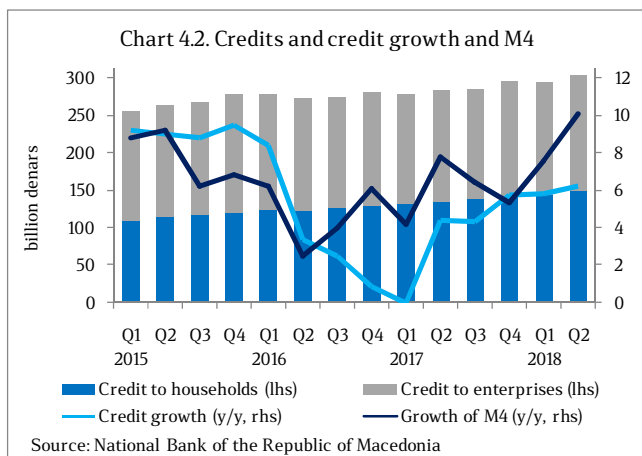
As regards maturity, in Q2 2018, share of long-term deposits in total deposit potential decreased by 0.2 p.p. compared to the previous quarter, reaching 27.8% (accounting for 28.0% in Q1 2018), despite the increase of long-term deposits by 2.1%. During the analyzed period, short-term deposits grew by 3.4%.

⁴ NBRM 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.

⁵ It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

⁶ Monetary aggregate M1 comprise currency in circulation and deposit money. Monetary aggregate M2 comprises the monetary aggregate M1 and short-term deposits, while monetary aggregate M4 includes monetary aggregate M2 and long-term deposits.

⁷ Deposits also include calculated interest.

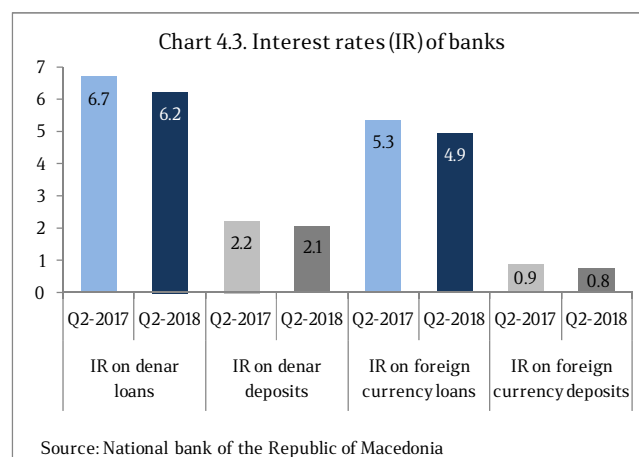


Credit activity of banks to non-government sector in Q2 2018 increased by 2.7% on quarterly basis (as opposed to 0.7% decline in the previous quarter), in conditions of growth of credits to private enterprises by 2.2%, while credits to households surged by 3.3%.

From currency point of view, Denar and foreign currency credits increased by 2.8% and 2.6% respectively in Q2 2018, compared to the previous quarter. From maturity point of view, long-term credits in Q2 2018 experienced 2.7% growth compared to the previous quarter, while short-term credits were higher by 3.1%.

In Q2 2018, **interest rate**⁸ on Denar credits amounted to 6.2%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.9% in Q2 2018, dropping by 0.08 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.07 p.p., accounting for 2.1% in Q2 2018 compared to the previous quarter, while interest rate on foreign currency dropped by 0.01 p.p. compared to the previous quarter,

accounting for 0.76%. In Q2 2018, interest rate on newly granted Denar credits amounted to 5.3%, while interest rate on newly approved foreign currency credits amounted to 4.2%.



Interest rates on newly received Denar and foreign currency deposits amounted to 1.7% and 0.7% respectively.

⁸ Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,323.4 million in Q2 2018, surging by 11.1% compared to the same quarter in 2017.

In Q2 2018, **export of goods** amounted to EUR 1,439.5 million, whereby, compared to Q2 2017, it surged by 13.3%, while compared to the previous quarter, it increased by 10.0%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q2 2018, compared to the same quarter in 2017, were registered at the following:

- machinery and transport equipment by 29.8% (wherein the highest growth was seen at the categories: electrical machinery, apparatus and appliances by EUR 71.8 million or 47.3% and road vehicles by EUR 28.9 million or 48.8%);
- manufactured goods classified chiefly by material by 18.9% (iron and steel by EUR 28.4 million or 23.9%);
- crude materials, inedible, except fuels by 16.1% (metalliferous ore and metal scrap by EUR 8.5 million or 15.3% and crude fertilizers and minerals, excluding coal, petroleum and precious stones by EUR 3.0 million or 26.1%);
- beverages and tobacco by 12.0% (tobacco and tobacco manufactures by EUR 5.1 million or 16.1%);

- mineral fuels and lubricants by 30.0% (petroleum and petroleum products by EUR 3.8 million or 31.1%);
- chemical products by 2.2% (plastics in non-primary forms by EUR 2.3 million or 22.0% and medical and pharmaceutical products by EUR 2.3 million or 13.0%) and
- animal and vegetable oils by 10.0% (fixed vegetable fats and oils, crude, refined or fractioned by EUR 0.1 million or 9.0%).

Decline of export was seen at the following:

- miscellaneous manufactured articles by 0.03% (wherein the highest drop was recorded at the category Clothing by EUR 10.5 million or 9.3%) and
- food products by 4.0% (fruit and vegetables by EUR 3.8 million or 8.2%).

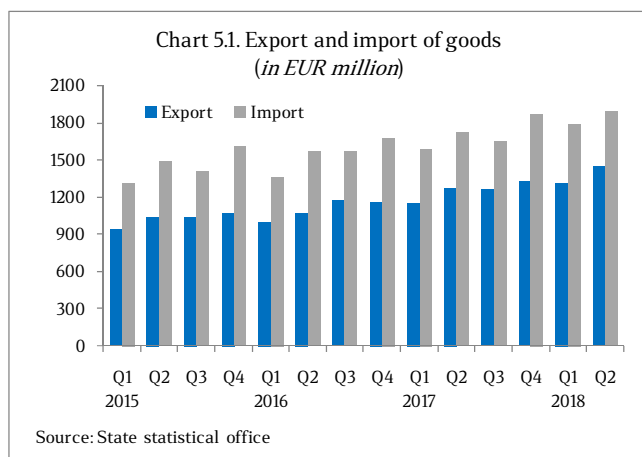
Observed by **economic purpose**, in Q2 2018, increase of export was recorded at the following groups of products:

- transport equipment by EUR 82.9 million or 53.4%;
- goods for industrial supplies by EUR 70.1 million or 11.4%;
- investment products without transport equipment by EUR 24.0 million or 12.2% and
- fuels and lubricants by EUR 5.3 million or 42.8%.

Decline of export was seen at the following groups of products:

- consumer goods by EUR 10.9 million or 6.0% and
- food and beverages by EUR 2.9 million or 2.7%.

Import of goods in Q2 2018 amounted to EUR 1,883.9 million, growing by 9.4% compared to Q2 2017, while, in relation to the previous quarter, it increased by 5.6%.



Analyzed by **SITC sectors**, increase of import in Q2 2018, compared to Q2 2017, was seen at:

- machinery and transport equipment by 19.3% (wherein the highest growth was seen at the categories: electrical machinery, apparatus and appliances by EUR 46.9 million or 34.9%, machinery specialized for particular industries by EUR 8.1 million or 27.3% and road vehicles by EUR 7.7 million or 9.1%);
- mineral fuels and lubricants by 17.1% (petroleum and petroleum products by EUR 27.0 million or 25.4%);
- manufactured goods classified chiefly by material by EUR 3.9% (non-metallic mineral manufactures by EUR 9.5 million or 9.7%, iron and steel by EUR

5.3 million or 4.9% and non-ferrous metals by EUR 3.8 million or 1.7%);

- chemical products by 12.1% (chemical materials and products by EUR 8.9 million or 20.2% and inorganic chemicals by EUR 5.5 million or 51.1%);
- miscellaneous manufactured articles by 13.3% (furniture and parts thereof, bedding, mattresses and similar by EUR 2.2 million or 13.3% million and clothing by EUR 1.6 million or 8.9%);
- food products by 0.6% (dairy products and eggs by EUR 2.2 million or 15.1% and meat and meat preparations by EUR 1.2 million or 3.6%);
- beverages and tobacco by 11.9% (tobacco and tobacco manufactures by EUR 1.3 million or 16.7%) and
- crude materials, inedible, except fuels by 0.6% (wood and cork by EUR 0.8 million or 13.3% and crude rubber by EUR 0.5 million or 78.6%).

Decline of import was only seen at animal and vegetable oils by 4.4% (wherein the highest drop was seen at the category: animal and vegetable oils, fats and waxes by EUR 0.4 million or 43.0%).

Observed by **economic purpose**, in Q2 2018, increase of import was recorded at the following groups of products:

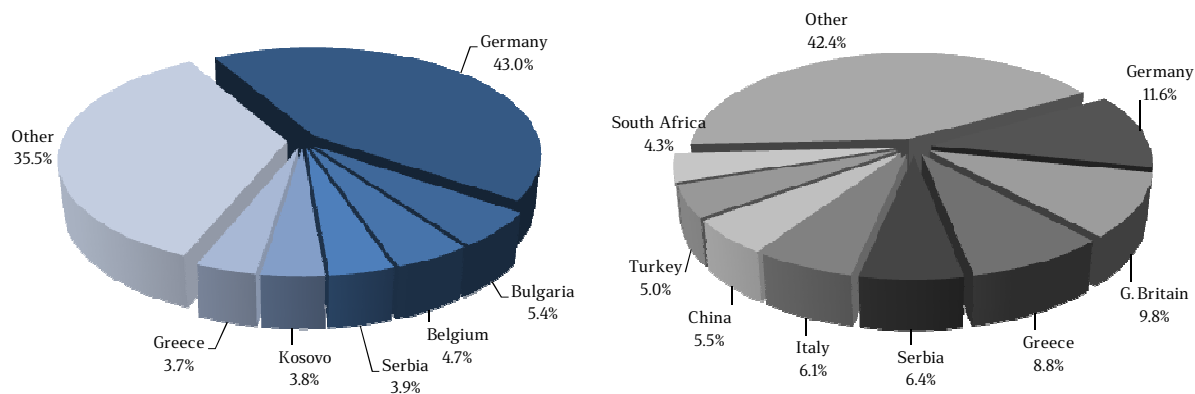
- goods for industrial supplies by EUR 68.0 million or 7.5%;
- investment products without transport equipment by EUR 47.7 million or 21.5%;
- fuels and lubricants by EUR 25.0 million or 16.8%;
- consumer goods by EUR 14.4 million or 8.4% and
- transport equipment by EUR 8.5 million or 7.9%.

Decline of import was only seen at food and beverages by EUR 0.4 million or 0.2%.

In Q2 2018, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q2 2017, surged by 18.8%,

whereby share of trade with the EU in the total foreign trade increased by 2.0 p.p. compared to the same quarter in 2017, accounting for 71.6%. Thereby, in Q2 2018, export of goods accounted for 81.8%, while share of import of goods was 63.9%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q2 2018



Source: MoF calculation based on SSO data

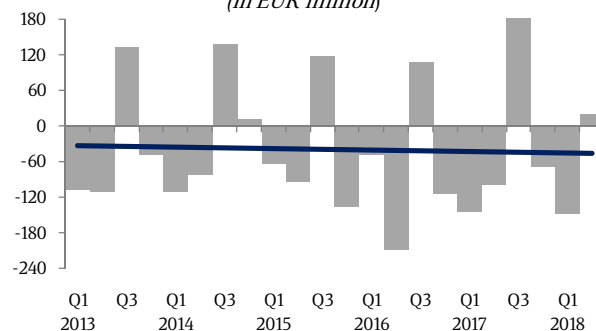
5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, surplus in the amount of EUR 20.5 million was recorded on the balance of payments **current account** in Q2 2018, accounting for 0.8% of quarterly GDP, as opposed to the deficit of 4.1% of GDP registered in the same quarter in 2017.

Analyzed on annual basis, current account surplus increased by EUR 119.8 million, i.e. by 120.6%, in Q2 2018, being a result of the increase of the positive balance of the services account by 161.1% and the secondary income account by 11.1%, as well as the narrowed deficit on the goods account and primary income account by 1.0% and 1.4%, respectively.

In Q2 2018, **trade deficit** dropped by EUR 4.0 million on annual basis, narrowing by 1.1 p.p. on annual basis, i.e. accounting for 16.0% of quarterly GDP. Surplus on **services account** amounted to EUR 116.2 million in Q2 2018 and, compared to the same quarter in 2017, it surged by EUR 71.7 million. **Trade openness** of Macedonia in

Chart 5.3. Current account balance (in EUR million)

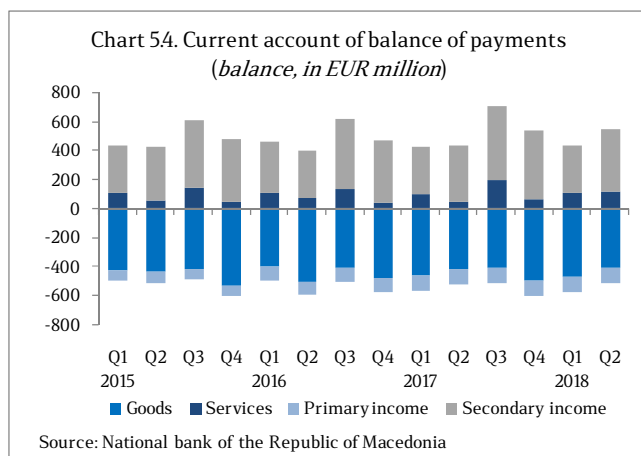


Source: National bank of the Republic of Macedonia

Q2 2018 amounted to 130.8% of quarterly GDP, being higher by 5.3 p.p. compared to Q2 2017.

Primary income account experienced EUR 106.1 million deficit in Q2 2018, narrowing by EUR 1.5 million on annual basis.

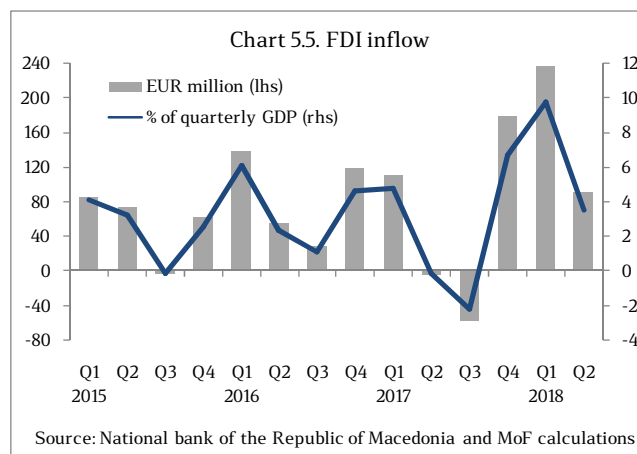
Surplus on the **secondary income** account in Q2 2018 amounted to EUR 424.8 million, increasing by EUR 42.6 million on annual basis. Growth was mostly a result of the private transfers, increasing by EUR 41.4 million, accounting for 99.3% in the secondary income account. Official transfers increased by EUR 1.1 million, accounting for 0.7% in the secondary income account.



Balance on the **capital account** amounted to EUR 0.2 million in Q2 2018 and, compared to the same quarter of last year, it dropped by EUR 2.4 million, which was fully due to the decreased inflow of capital transfers.

In Q2 2018, **Foreign Direct Investments** (FDIs) in the country amounted to EUR 90.6 million, increasing by EUR 95.1 million compared to Q2 2017. Most of the FDIs in this period, i.e. 45%, were on the

basis of reinvested profit. FDI inflows in the form of debt instruments accounted for 30.9% of the total inflow, while 24.5% was on the basis of equity.



Portfolio investments in Q2 2018 amounted to EUR 1.4 million and, compared to the same quarter in 2017, they dropped by EUR 4.5 million.

Other investments in Q2 2018 amounted to EUR 58.4 million, being higher by EUR 125.3 million compared to the same quarter in 2017. As regards the category other investments, currencies and deposits amounted to EUR 72.9 million, trade credits and advances amounted to EUR 44.3 million, while loans account experienced a negative balance in the amount of EUR 58.1 million.

Reserve assets amounted to EUR 2.6 billion at the end of the second quarter in 2018, surging by 10.1% compared to Q2 2017. At the end of Q2 2018, reserve assets provided for 4.4-month coverage of import of goods and services in the previous 12-month period.