



Republic of Macedonia Ministry of Finance

QUARTERLY ECONOMIC REPORT

- first quarter of 2018 -

Summary

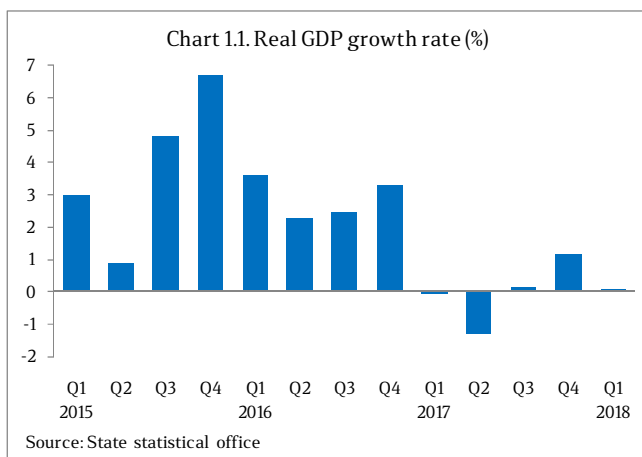
- **Gross Domestic Product** in Q1 2018 compared to the same quarter in 2017 grew by 0.1% in real terms, as a result of the growth of private consumption and the positive contribution of net export;
- **Number of employed persons** in Q1 2018 was higher by 2.2% compared to the same quarter in 2017. **Number of unemployed persons** dropped by 5.4%, which resulted in reduction of **unemployment rate** to 21.6% in Q1 2018;
- Average **gross wage** amounted to Denar 34,659 in Q1 2018, increasing by 4.7% in nominal terms, i.e. surging by 3.1% in real terms, compared to the gross wage in Q1 2017;
- Total **budget revenues** were higher by 1.5% in Q1 2018, while total **budget expenditures** surged by 0.4% compared to the same quarter of 2017;
- **Inflation rate** was 1.5% in Q1 2018 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 0.2% in Q1 2018 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q1 2018 decrease by 0.7% on quarterly basis;
- In Q1 2018, increase of both **export of goods** by 13.1% and **import of goods** by 12.5% was registered on annual basis, whereby total **foreign trade** expressed in euros, surged by 12.7%.

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1. Economic activity

Gross Domestic Product (GDP) in Q1 2018 compared to the same quarter in 2017 increased by 0.1% in real terms. Nominal GDP growth in Q1 2018 amounted to 4.6% on annual basis.

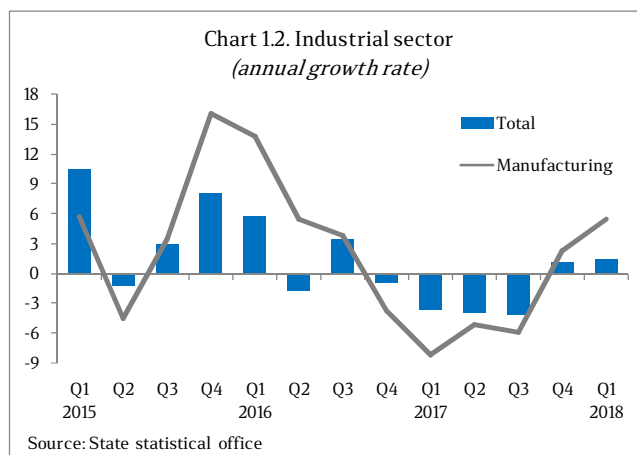


Analyzed by sectors, economic growth in Q1 2018 was a result of the positive performance in the services, industrial and agricultural sectors, while construction sector had negative contribution to growth.

Growth of **the services sector** amounted to 3.1% in real terms, being a result of the increased activity in: Trade, transportation and catering by 10.5%, Arts, entertainment, recreation and other service activities by 12.1% and Professional, scientific, technical and administrative activities by 8.5%, while a decrease in the activity registered: Information and communication by 6.9%, Public administration and defence, education and health by 1.6%, Financial and insurance activities by 0.8% and Real estate activities by 0.2%. Growth in the **agricultural sector** continued with the

similar intensity as in the previous year, amounting to 6.6%.

Industrial sector grew by 1.4% in real terms, as a result of the growth in Manufacturing by 5.5%, while Mining and Electricity and gas supply, according to high-frequency data, dropped by 6.2% and 5.6%, respectively. Within Manufacturing, more significant contribution to growth in the first three months of 2018 had: Manufacture of electrical equipment (39.3%), Manufacture of motor vehicles (33.9%), Manufacture of machinery and equipment (12.8%), Manufacture of fabricated metal products (21.8%), Manufacture of furniture (23.9%), etc. Hence, an annual positive growth was registered at 13 branches, comprising 51.0% of the industrial production.



Drop of activity in **the construction sector** continued with stronger dynamics in Q1 2018, amounting to 37.2% in real terms, in conditions of a decrease of the value of completed construction works as regards civil engineering structures by around 65%, while with respect to

buildings construction activity picked up by 3.2% in real terms.

Analyzed according to the **expenditure side of GDP**, economic activity growth in Q1 2018 was a result of private consumption growth, as well as the positive contribution on net export to growth.

Growth of **export** of goods and services amounted to 10.6% in real terms, mainly due to the export by the capacities in the free economic zones, also supported by the solid performance of most of the other export sectors, in conditions of favourable trends of the external demand. **Import** of goods and services experienced almost twice lower growth than export, i.e. it grew by 5.1% in real terms. More detailed information on export and import of goods is shown in point 5.1.

Consumption increased by 1.5% in real terms, thus continuing to underpin the economic activity. Thereby, private consumption surged by 2.3%. mostly a result of the growth of the household disposable income amid increase of both employment and wages in the economy, (see point 2) also supported by the crediting to households. Public consumption declined by 1.4% in real terms amid decreased public expenditures for goods and services.

Gross investments decreased by 9.0% in real terms, being a result of the reduced investments in the field of construction works, amid lower execution of the budget capital expenditures, despite the high inflow of foreign direct investments and the stronger import of capital goods.

2. Labour market

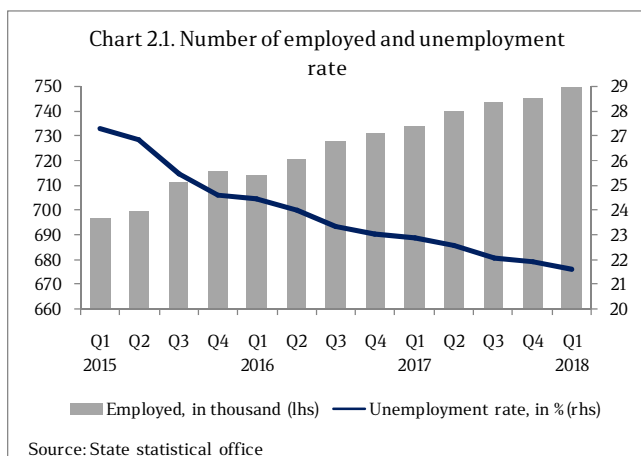
Positive trends on the labour market continued in Q1 2018. According to the Labour Force Survey, the **number of employed persons** was higher by 2.2%. i.e. by 15.8 thousand persons compared to the same quarter in 2017, whereby employment growth was highest in the industrial sector (8.7 thousand or 5.2%), followed by the construction sector (4.8 thousand or 9.4%) and the services sector (2.7 thousand or 0.7%), while number of employed persons was somewhat reduced in the agriculture sector.

Analyzed according to the economic status, employment growth was register at all categories, particularly at family workers. Thus, number of employed

persons (wage earners) was higher by 13.5 thousand or 2.4%, number of employers surged by 3.2 thousand or 9.4%, while number of self-employed persons experienced somewhat slighter growth. **Employment rate** in Q1 2018 amounted to 44.6%, being higher by 0.9 p.p. compared to the same quarter in 2017.

Increase of the employment rate was accompanied by a drop of the **number of unemployed persons**, decreasing by almost 12 thousand persons, i.e. by 5.4% compared to the same quarter in 2017. Such trends on the labour market caused for the **unemployment rate** in Q1 2018 to reduce to 21.6%, i.e. by 1.3 p.p. compared to the same quarter in 2017, being lower by

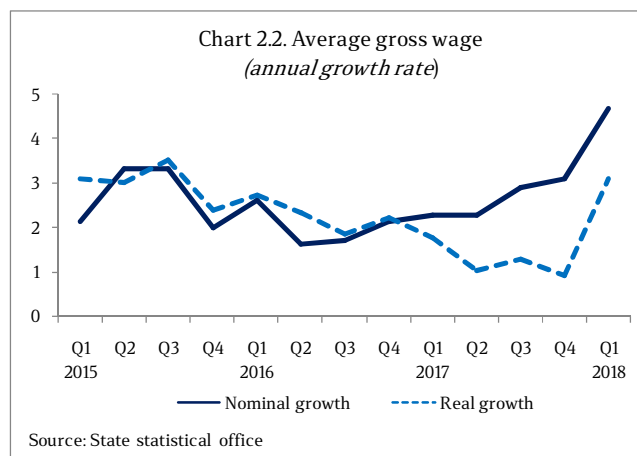
0.3 p.p. compared to the previous quarter (Chart 2.1).



Observed by age groups, unemployment decreased at all groups, whereby the most significant reduction was seen at the central age group (25-49 years), accounting for 21.0%. Observed by gender, unemployment rate was mostly reduced at the female population (by 2.5 p.p.), accounting for 20.0%, being lower by 2.7 p.p. compared to unemployment of men, decreasing by 0.5 p.p..

Number of active population increased by 4.0 thousand, i.e. by 0.4% on annual basis. Active population in Q1 2018 accounted for 56.9% if the total working

age population, being higher by 0.2 p.p. compared to the same quarter in 2017.



Average monthly **net wage** in Q1 2018 amounted to Denar 23,624, being higher by 4.9% in nominal terms compared to the same quarter in 2017, while the net wage increased by 3.4% in real terms. Average **gross wage** amounted to Denar 34,659 in Q1 2018, increasing by 4.7% in nominal terms, i.e. surging by 3.1% in real terms (Chart 2.2).

Labour productivity in Q1 2018 decreased by 2.0%, following the 0.7% drop in the previous quarter, as a result of the significantly higher employment than production growth.

3. Public finances

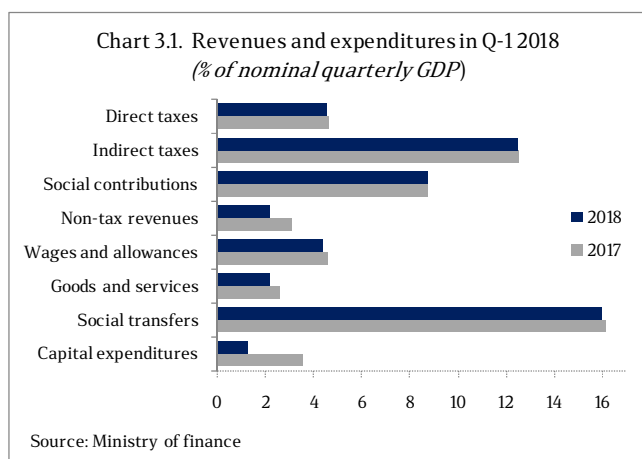
3.1. Budget revenues according to the economic classification

In Q1 2018, share of total budget revenues accounted for 29.0% of the quarterly GDP, being higher by 1.5% compared to the same quarter in 2017, due to the higher collection of tax revenues and social contributions by 4.2%, while the collection of non-tax revenues was lower by 27.2%. Thereby, as for tax revenues, higher collection was recorded at excise duties,

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

Collection of indirect taxes in Q1 2018 was higher by 4.1%, while collection of direct taxes was higher by 2.2% compared to Q1

2017. From the point of view of structural share in GDP, the share of revenues on the basis of direct taxes decreased by 0.2 p.p., i.e. from 4.7% of quarterly GDP in Q1 2017 to 4.5% in Q1 2018, while the share of revenues on the basis of indirect taxes was lower by 0.1 p.p., accounting for 12.4% of GDP in Q1 2018 compared to Q1 2017.



With respect to **indirect taxes**, VAT revenues predominated, accounting for 45.2% of total tax revenues in Q1 2018, being lower by 5.3% compared to the same quarter of last year. As for VAT 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 27.3% compared

to the same quarter of 2017, while collection of customs duties grew by 12.5%.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 3.6%, while profit tax revenues grew by 0.7% compared to the same quarter of the previous year, as a result of the higher collection on the basis of monthly advance payments.

Collection of **social contributions** was higher by 4.7%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 4.4%, employment contributions by 5.3% and health insurance contributions by 5.4%.

Collection of **non-tax revenues**, accounting for 2.1% of the quarterly GDP, was lower by 27.2% in Q1 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 276.9% on annual basis in Q1 2018. Revenues on the basis of foreign donations decreased by 7.9%.

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 57,613 million in Q1 2018, i.e. 95.2% of the revenues of all budget users, accounting for 36.3% of the annual projections of this budget user.

Within the Ministry of Finance - Functions of the State, tax revenues accounted for the most – 43.8% of total revenues and inflows to this budget user, whereby their collection reached 22.6% of the annual projections in Q1 2018. Funds on the basis of foreign borrowing amounted to Denar 23,968 million, accounting for 41.6% of the total amount of this budget user.

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

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

budget users collectively generated revenues, accounting for 2.4% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link

(<http://finance.gov.mk/mk/node/5618>).

As for **budget funds**, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 16,510 million in Q1 2018, accounting for 24.3% of the Fund's annual projections.

3.3. Budget expenditures according to the economic classification

In Q1 2018, total budget expenditures, accounting for 31.1% of the quarterly GDP, were higher by 0.4% compared to the same quarter of 2017.

Current expenditures, accounting for 29.9% of the quarterly GDP, participated with 96.1% in the total expenditures and experienced 8.4% higher execution on annual basis. As for current expenditures, expenditures for goods and services were lower by 12.9%, while expenditures related to wages and allowances were lower by 0.7% compared to the same quarter in 2017.

Funds for transfers, which participated with 72.1% in the total expenditures, were higher by 14.1% on annual basis. Social transfers surged by 3.5%, accounting for 51.3% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 3.9%, accounting for 31.8% of the total

expenditures. Category other transfers, which includes transfers to local government units, accounted for 19.9% in the total expenditures, i.e. they surged by 57.0% compared to the first quarter in 2017. Block and earmarked grants to local government units surged by 4.2%, while subsidies and transfers were higher by three times.

Interest-related expenditures decreased by 10.1% on annual basis, whereby domestic debt interest-related expenditures surged by 3.8% and expenditures related to interest on foreign debt dropped by 27.5%.

Capital expenditures accounting for 1.2% of quarterly GDP, compared to the same quarter in 2017, were lower by 64.5%, i.e. they participated with 3.9% in the total expenditures.

3.4. Expenditures by budget users

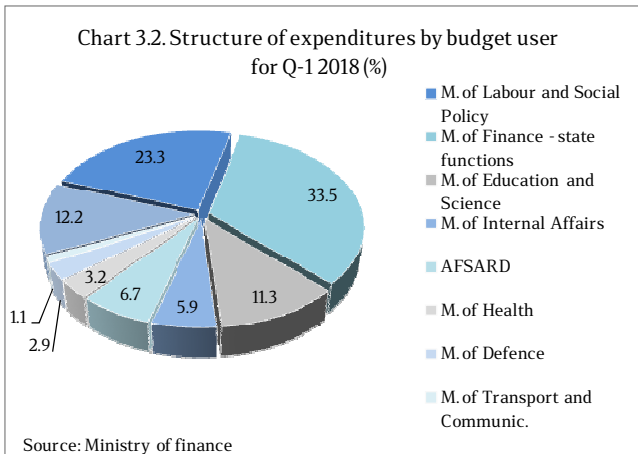
Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 85% of the total budget of all budget users.

Ministry of Labour and Social Policy executed funds in the amount of Denar 10,541 million or 24.2% of the total 2018 budget in Q1 2018. Thereby, most of the expenditures (75.1%) in this period are intended for current transfers to extra-budgetary funds, for which Denar 7,915 million was spent or 25.0% of the funds intended for 2018. The second expenditure category was social benefits, participating with 17.2% in the total expenditures. As for this purpose, 22.6% (Denar 1,813 million) of the expenditures projected for 2018 were executed.

38.7% of its annual budget. Repayment of principal accounted for most of the expenditures or 81.3%, Denar 12,326 million being spent therefore, i.e. 54.8% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 9.1% of the total expenditures, Denar 1,382 million being spent therefore or accounting for 15.9% of the projected interest payments.

Ministry of Education and Science, in Q1 2018, executed budget funds in the amount of Denar 5,142 million, i.e. 20.4% of the total budget for 2018. Current transfers to local government units account for most of the expenditures (66.3%), for which Denar 3,412 million was spent or 24.7% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 16.1%, Denar 828 million being spent therefore, i.e. 23.6% of the total projected funds.

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



In the first quarter of 2018, Denar 15,167 million was spent through the organizational code **Ministry of Finance - Functions of the State**¹, accounting for

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.

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

In Q1 2018, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 3,029 million, accounting for 35.1% of the funds projected for the current year, while subsidies and transfers accounted for 98.0% thereof.

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

Ministry of Defense, in Q1 2018, spent budget funds in the amount of Denar 1,296 million, i.e. 19.9% of the total 2018 budget. Expenditures related to wages and allowances accounted for the most with 70.6%, Denar 914 million being spent therefore in Q1 2018, accounting for 24.2% of the total funds projected for the current year. Expenditures related to goods and

services accounted for 24.2% of total expenditures, with Denar 314 million being spent therefore during the analyzed period, i.e. 18.0% execution of the total projected funds.

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

As regards **financing the activities in the field of culture**², in Q1 2018, funds in the amount of Denar 759 million were spent, accounting for 20.2% of the total 2018 budget. Wages and allowances accounted for the most in the total expenditures with 33.4%, while their execution in this period accounted for 24.1%, i.e. Denar 253 million was spent therefore. Capital expenditures accounted for 28.3%, in the total expenditures, whereby Denar 215 million or 22.0% of the projected funds were spent for this purpose. Subsidies and transfers

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.

accounted for 15.5% of total funds projected for the current year, whereby Denar 190 million or 25.1% of the total expenditures 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/5618>).

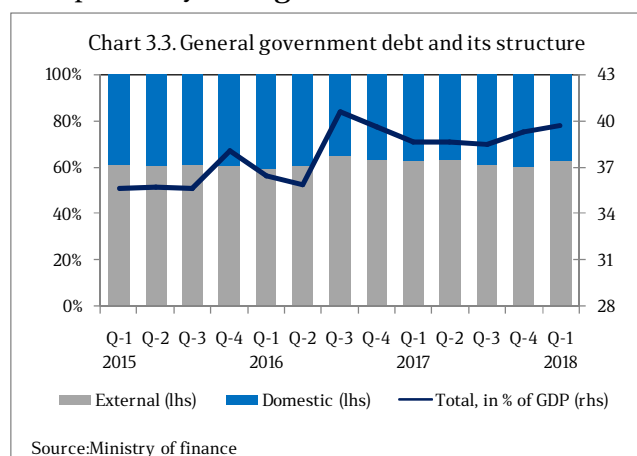
3.5. Budget deficit and government debt

In the first quarter of 2018, the **consolidated budget deficit** amounted to Denar 3,132 million or 2.1% of GDP realized in this quarter, while central budget deficit amounted to Denar 3,978 million, i.e. 2.7% of quarterly GDP.

Total **government debt** at the end of Q1 2018 accounted for 39.7% of GDP, increasing by 0.3. p.p. compared to Q4 2017. The share of the external debt in the total government debt increased by 2.8 p.p. compared to Q4 2017, accounting for 62.8%. Share of domestic debt respectively declined by 2.8 p.p., accounting for 37.2% of the total government debt.

In January 2018 the sixth Eurobond was issued in the amount of EUR 500 million

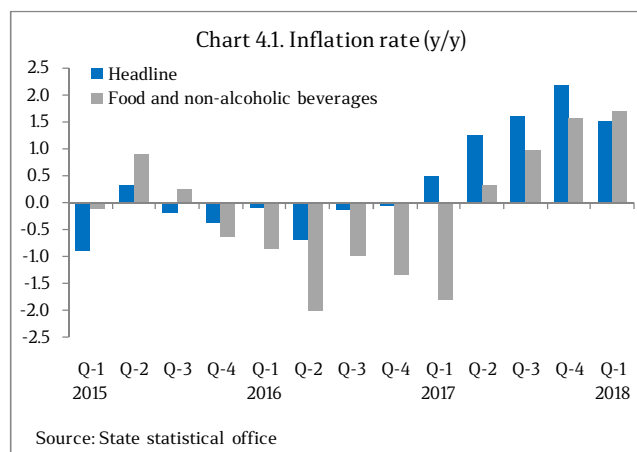
with a maturity of 7 years and a coupon rate of 2.75%, which reflects the investors' exceptionally high trust in the



perspectives of the Macedonian economy, as well as the favorable conditions on the international capital market.

4. Inflation and monetary trends

Inflation rate, measured according to CPI index, in Q1 2018, amounted to 1.5% on annual basis, following the 2.2% growth registered in Q4 2017. Growth of consumer prices in Q1 2018 was a result of the higher prices in the following categories: Transport by 7.0%, Alcoholic beverages and tobacco by 6.3%, Recreation and culture by 1.9%, Food and non-alcoholic beverages by 1.7%, Restaurants and hotels by 1.6%, Communications by 0.3% and Furnishings, household equipment and routine maintenance by 0.1%, while prices in the Health and Education categories



remained unchanged. Price decline in Q1 2018 was recorded at the following categories: Clothing and footwear by 1.4%

and Housing, water, electricity, gas and Miscellaneous goods and services by 0.1% each.

During the first quarter of 2018, the National Bank of the Republic of Macedonia reduced the **reference interest rate** by 0.25 p.p. from 3.25% to 3.0% amid stability of the economic fundamentals and absence of imbalances in the economy. At the same time, further stabilization of the confidence and the expectations of the economic agents was determined, evident from the favourable trends on the foreign currency market and the gradual acceleration of the deposit growth. Interest rate on available 7-day deposits decreased by 0.2 p.p. compared to the previous quarter, amounting to 0.3% in March 2018.

Primary money³ in Q1 2018 decreased by 10.2% on quarterly basis (4.2% growth was recorded in the previous quarter) as a result of the decrease of both currency in circulation by 4.6% and total liquidity of banks by 16.3%. Compared to Q1 2017, primary money declined by 5.6% (63% growth was registered in Q4 2017) in conditions of increase of currency in circulation by 5.0% and decrease total liquidity of banks by 16.0%.

In Q1 2018, the narrowest money supply M1⁴ experienced 1.8% decrease compared

³ 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).

⁴ 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.

to the previous quarter. Monetary aggregate M2 reduced by 0.7%, while the widest monetary aggregate M4 increased by 0.3%.

Total **deposit potential**⁵ of banks in Q1 2018 grew by 0.2% on quarterly basis, following the 5.7% growth in the previous quarter. From the point of view of sectors, deposits of enterprises decreased by 4.9%, while deposits of households grew by 1.2%. From currency point of view, Denar deposits decreased by 0.9%, while foreign currency deposits grew by 1.9% compared to the previous quarter. Level of euroization increased by 0.7 p.p. compared to the previous quarter, i.e. to 41.1%, measured through the share of foreign currency deposits in the total deposit potential.

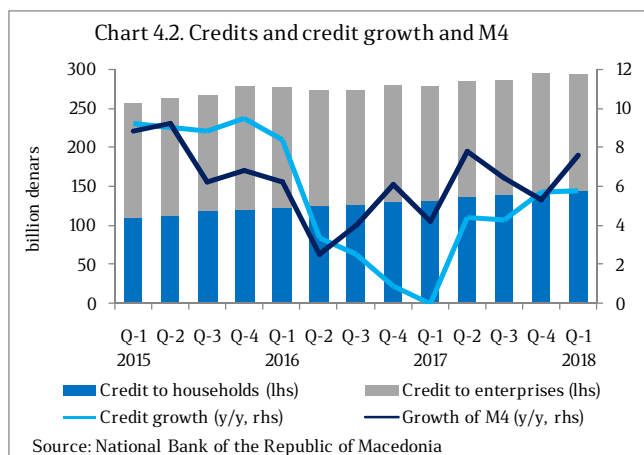
As regards maturity, share of long-term deposits in total deposit potential in Q1 2018 increased by 0.9 p.p. compared to the previous quarter, reaching 28.6% (accounting for 27.7% in Q4 2017), as a result of the increase of long-term deposits by 3.5%. During the analyzed period, short-term deposits were almost unchanged.

Credit activity of banks to non-government sector in Q1 2018 decreased by 0.7 % on quarterly basis (compared to 4.1% growth in the previous quarter), as a result of the drop of credits to private enterprises by 3.6%, while credits to households surged by 2.3%.

From currency point of view, Denar and foreign currency credits in Q1 2018 compared to the previous quarter,

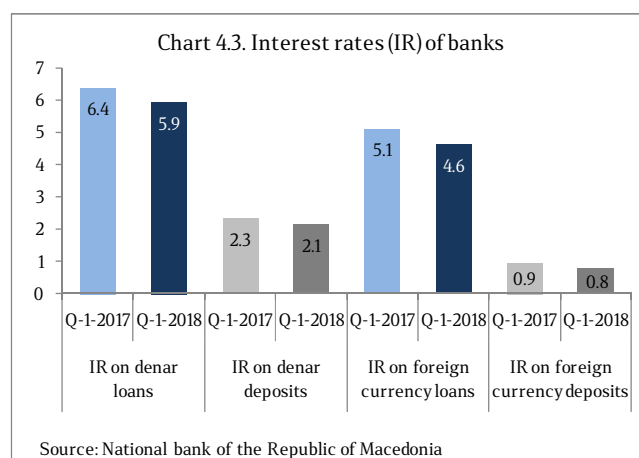
⁵ Deposits also include calculated interest.

decreased by 0.3% and 3.1%, respectively. From maturity point of view, long-term credits in Q1 2018 experienced 2.0% growth compared to the previous quarter, while short-term credits were lower by 4.1%.



In Q1 2018, **interest rate** on Denar credits amounted to 5.9%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.6% in Q1 2018, dropping by 0.1 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.1 p.p., accounting for 2.1% in Q1 2018 compared to

the previous quarter, while interest rate on foreign currency deposits remained the same compared to the previous quarter, accounting for 0.8%. In Q1 2018, interest rate on newly granted Denar credits amounted to 5.1%, while interest rate on newly approved foreign currency credits accounted for 4.0%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.8% and 0.8% respectively.



5. External sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,080.1 million in Q1 2018, increasing by 12.7% compared to the same quarter of 2017.

In Q1 2018, **export of goods** amounted to EUR 1,299.1 million, whereby compared to Q1 2017, it surged by 13.1%, while compared to the previous quarter, it decreased by 1.9%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q1 2018, compared to the same quarter of 2017, were registered at the following:

- o machinery and transport equipment by 22.5% (wherein highest growth was seen at the categories: electrical machinery, apparatus and appliances by EUR 54.6 million or 40.1% and road vehicles by EUR 16.7 million or 31.1%);

- chemical products by 11.8% (chemical materials and products by EUR 30.0 million or 12.0%);
- miscellaneous manufactured articles by 11.8% (furniture and parts thereof, bedding, mattresses and similar by EUR 16.1 million or 36.3% and clothing by EUR 5.5 million or 4.8%);
- manufactured goods classified chiefly by material by 4.7% (non-ferrous metals by EUR 9.2 million or 63.7%);
- crude materials, inedible, except fuels by 12.4% (metalliferous ores and metal scrap by EUR 6.0 million or 11.6% and crude fertilizers and minerals, excluding coal, petroleum and precious stones by EUR 2.9 million or 49.0%);
- food products by 3.6% (meat and meat preparations by EUR 3.4 million or 68.6%);
- beverages and tobacco by 0.4% (beverages by EUR 2.3 million or 16.8%) and
- animal and vegetable oils, by 21.8% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.2 million or 19.1%).

Decline of export was only seen at Mineral fuels and lubricants sector by 6.4% (wherein highest drop was recorded at the Electric current category by EUR 5.0 million or 58.6%).

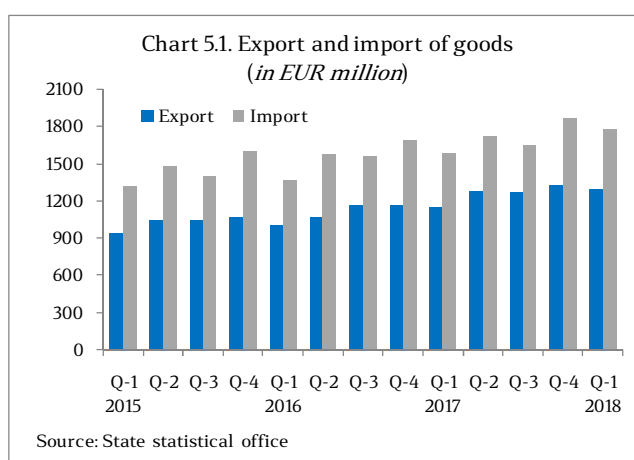
Observed **by economic purpose**, in Q1 2018, increase of export was recorded at the following groups of products;

- goods for industrial supplies by EUR 60.0 million or 10.8%;
- transport equipment by EUR 53.0 million or 36.8%;
- investment products without transport equipment by EUR 25.4 million or 13.9%;

- consumer goods by EUR 8.7 million or 4.8% and
- food and beverages by EUR 4.8 million or 6.8%.

Decline of export was only seen at fuels and lubricants by EUR 2.6 million or 14.1%.

Import of goods in Q1 2018 amounted to EUR 1,781.0 million, growing by 12.5% compared to Q1 2017, while in relation to the previous quarter, it dropped by 4.8%.



Analyzed by SITC **sectors**, increase of import in Q1 2018, compared to Q1 2017, was seen at:

- machinery and transport equipment by 20.6% (wherein highest growth was seen at the categories: electrical machinery, apparatus and appliances by EUR 49.0 million or 42.0%, industrial machinery and machine parts by EUR 14.0 million or 32.1% and road vehicles by EUR 11.9 million or 16.1%);
- manufactured goods classified chiefly by material by 15.8% (iron and steel by EUR 47.8 million or 60.0% and non-metallic mineral manufactures by EUR 19.8 million or 27.0%);
- chemical products by 11.3% (inorganic chemicals by EUR 4.6 million or 42.5%

plastics in non-primary forms by EUR 4.4 million or 20.3%).

- miscellaneous manufactured articles, by 13,5% (professional, scientific and controlling instruments and apparatus by EUR 4.0 million or 29.3% and furniture and parts thereof, bedding, mattresses and similar by EUR 2.0 million or 15.4%);
- beverages and tobacco by 18.9% (tobacco and tobacco manufactures by EUR 2.6 million or 23.3%);
- food products by 4.1% (fruit and vegetables by EUR 2.3 million or 9.3% and meat and meat preparations by EUR 1.7 million or 6,1%) and
- animal and vegetable oils, by 5.3% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.5 million or 5.2%).

Decline of import was seen at the following:

- mineral fuels and lubricants by 2.8% (wherein highest drop was recorded at

the categories: gas, natural and manufactured by EUR 2.7 million or 7.9% and electric current by EUR 1.1. million or 3.2%) and

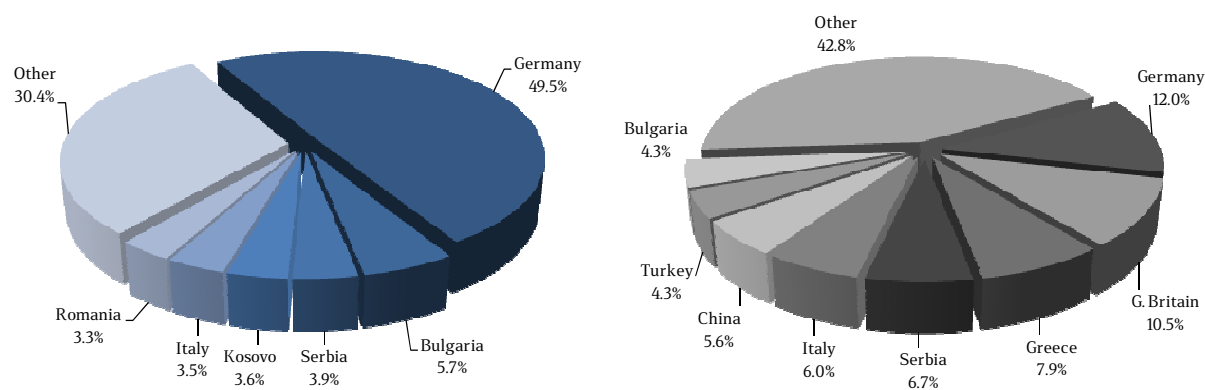
- crude materials, inedible, except fuel by 4.3% (crude fertilizers and minerals, excluding coal, petroleum and precious stones by EUR 0.7 million or 28.9%).

Observed **by economic purpose**, in Q1 2018, increase of import was recorded at the following groups of products:

- goods for industrial supplies by EUR 119.4 million or 15.2%;
- investment products without transport equipment by EUR 54.9 million or 27.1%;
- consumer goods by EUR 14.9 million or 9.1%;
- transport equipment by EUR 1.2 million or 1.1% and
- food and beverages by EUR 7.4 million or 5.0%.

Decline of import was only seen at fuels and lubricants by EUR 0.1 million or 0.1%.

Chart 5.2. Countries having the highest share in export (left) and import (right) in Q1 2018



Source: MoF calculation based on SSO data

In Q1 2018, foreign trade of the Republic of Macedonia with the European Union (EU28) as the most significant trading partner to the country, in relation to Q1

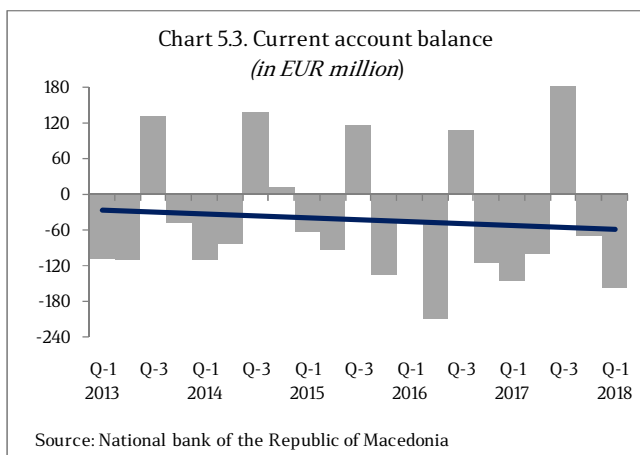
2017, surged by 16.3%, whereby share of trade with the European Union (EU 28) in the total foreign trade increased by 2.2 p.p. compared to the first quarter in 2017, accounting for 72.6%. Thereby, export of

goods accounted for 85.0%, while share of import of goods was 63.5%. In the Chart 5.2. the structure of exports and imports of goods by countries is shown.

5.2. Balance of payments

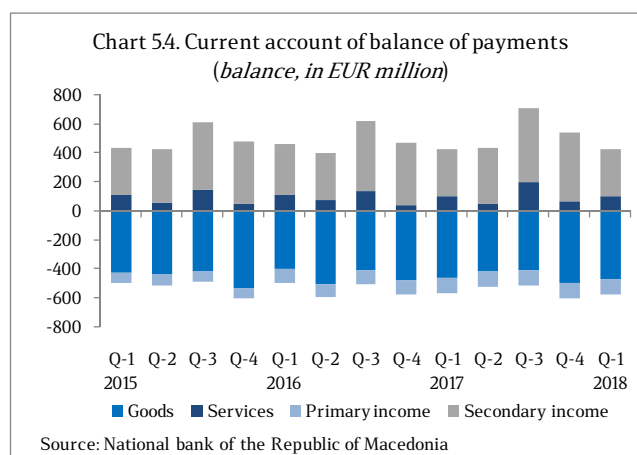
According to the data from the National Bank of the Republic of Macedonia, deficit in the amount of EUR 157.9 million was recorded on the balance of payments **current account** in Q1 2018, accounting for 6.5% of quarterly GDP, as opposed to the deficit of 6.3% of GDP registered in the same quarter of 2017.

Analyzed on annual basis, the current account deficit in Q1 2018 increased by EUR 12.7 million, i.e. by 8.7% being a result of the widened deficit on the primary income account by 4.8%, the increased deficit on the goods account by 2.2% and the reduction of the positive balance of the services account by 3.1%. Increased surplus on the secondary income account by 1.8% acted in the opposite direction.



In Q1 2018, **trade deficit** increased by EUR 10.4 million on annual basis, narrowing by 0.5 p.p. on annual basis, i.e. accounting for 19.5% of quarterly GDP. Surplus on **services account** amounted to EUR 96.8

million in Q1 2018 and, compared to the same quarter of 2017, it declined by EUR 3.1 million. **Trade openness** of Macedonia in Q1 2018 amounted to 129.8% of quarterly GDP, being higher by 6.3 p.p. compared to Q1 2017.

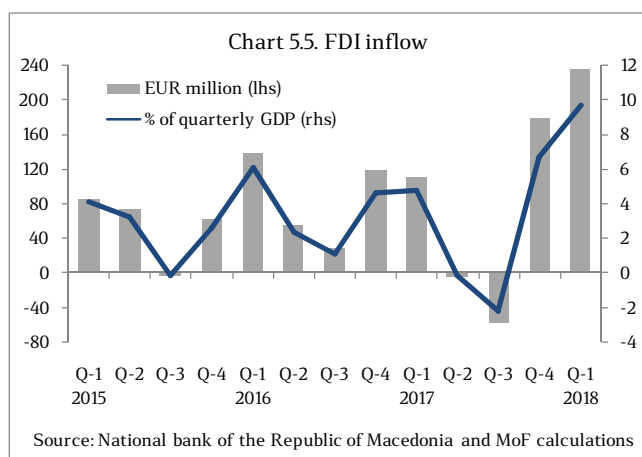


Primary income account experienced EUR 109.7 million deficit in Q1 2018, widening by EUR 5.1 million on annual basis. Surplus on the **secondary income** account in Q1 2018 amounted to EUR 329.4 million, growing by EUR 5.9 million on annual basis. Growth was mostly a result of the private transfers, increasing by EUR 21.6 million, accounting for 98.4% in the secondary income account. Official transfers decreased by EUR 15.7 million, accounting for 1.6% in the secondary income account.

Balance on the **capital account** amounted to EUR 0.3 million in Q1 2018 and, compared to the same quarter of last year, it declined by EUR 1.1 million, which was

fully due to the decreased inflow of capital transfers.

Foreign Direct Investments (FDIs) in the country in Q1 2018 amounted to EUR 235.0 million, increasing by EUR 124.8 million compared to Q1 2017. Most of the FDIs in this period, i.e. 54.4% were on the basis of debt instruments. Inflow of FDIs in the form of reinvested profit accounted for 40.1% of the total inflow, while the rest is on the basis of equity.



Portfolio investments in Q1 2018 were negative, amounting to EUR 368.7 million, being worsened compared to Q1 2017. Such trends were a result of the issuance of the long-term debt instrument by the general government in January.

Other investments in Q1 2018 amounted to EUR 175.6 million, being higher by EUR 114.4 million compared to the same quarter in 2017. As regards the category other investments, currencies and deposits amounted to EUR 80.3 million, loans amounted to EUR 47.3 million, while the balance on trade credit and advances account amounted to EUR 48.1 million.

Reserve assets amounted to EUR 2.6 billion at the end of the first quarter of 2018, increasing by 1.7% compared to Q1 2017. At the end of Q1 2018, reserve assets provided for 4.4-month coverage of import of goods and services in the previous 12-month period.