



# Republic of Macedonia Ministry of Finance

## Q3-2018 QUARTERLY ECONOMIC REPORT - third quarter of 2018 -

### Summary

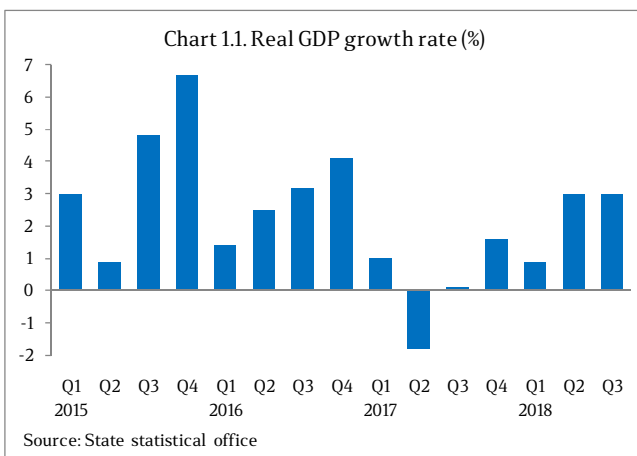
- **Gross Domestic Product** in Q3 2018 compared to the same quarter in 2017 increased by 3.0% in real terms. Analyzed by sectors, economic growth was a result of the positive performance in the services and industrial sectors, while observed by expenditure components, consumption and net export had positive contribution to growth;
- **Number of employed persons** in Q3 2018 was higher by 2.2% compared to the same quarter in 2017. **Number of unemployed persons** dropped by 5.7%, which resulted in reduction of **unemployment rate** to 20.8% in Q3 2018;
- Average **gross wage** amounted to Denar 35,563 in Q3 2018, increasing by 5.5% in nominal terms, i.e. surging by 3.9% in real terms, compared to the gross wage in Q3 2017;
- Total **budget revenues** were higher by 3.2% in Q3 2018, and total **budget expenditures** were higher by 2.4% compared to the same quarter in 2017;
- **Inflation rate** was 1.6% in Q3 2018 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 2.4% in Q3 2018 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q3 2018 grew by 1.8% on quarterly basis;
- In Q3 2018, increase of both **export of goods** by 15.8% and **import of goods** by 11.9% was registered on annual basis, whereby total **foreign trade**, expressed in euros, surged by 13.6%;

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## 1. Economic Activity

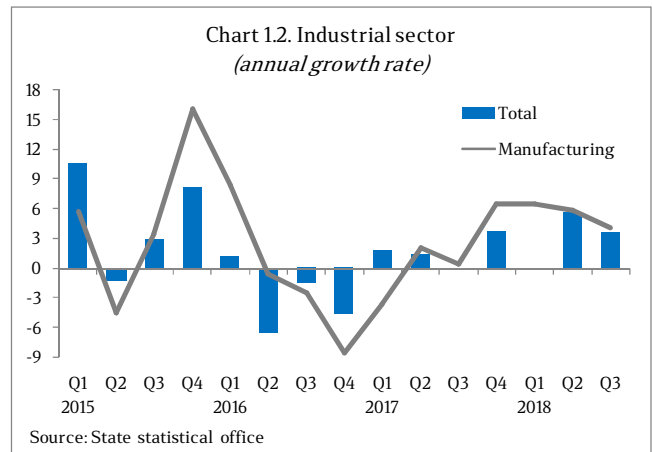
In Q3 2018, compared to the same quarter of 2017, **Gross Domestic Product (GDP)** registered a real growth of 3.0%, as it amounted in the second quarter, by which the average growth in the first three quarters of 2018 reached 2.3%<sup>1</sup>. Nominal GDP growth in Q3 2018 amounted to 7.0% on annual basis.



**Analyzed by sectors**, economic growth in Q3 2018 was a result of the positive performance in the services and industrial sectors, while construction and agricultural sector had negative contribution to growth.

Growth of the **services sector** amounted to 4.2% in real terms, being a result of the growth registered in the following activities: Trade, transportation and accommodation and food services by 9.4%, Arts, entertainment, recreation and other service activities by 17.0%, Professional,

scientific, technical and administrative activities by 7.7%, Financial and insurance activities by 2.3% and Real estate activities by 0.4%, while a decrease was seen in the following activities: Public administration, defense, education and health services and Information and communication by 1.8% and 1.7%, respectively.



**Industrial sector** registered a growth of 3.6%, mostly as a result of the growth in Manufacturing by 4.1%. According to high-frequency data, Electricity and gas supply registered 4.0% growth, while Mining experienced 2.0% drop, in Q3 2018. Within **Manufacturing**, more significant contribution to growth was observed in: Manufacture of machinery and equipment (33.4%), Manufacture of motor vehicles (18.0%), Manufacture of basic metals (20.3%) Manufacture of food products (7.3%), Manufacture of furniture (26.6%), Manufacture of chemicals and chemical products (32.1%), Manufacture of textiles (14.8%), Manufacture of pharmaceutical products and preparations (10.6%), etc. Hence, an annual positive growth was

<sup>1</sup>State Statistical Office simultaneously carried out upward revision of the real GDP growth rate for the first quarter to 0.9% from the previous 0.1%, while for the second quarter it carried out slight downward revision to 3.0% from the previous 3.1%.

registered at 13 branches, comprising 52.4% of the industrial production.

Growth in the **agricultural sector** continued with weaker intensity, compared to the previous quarter, amounting to 4.8% in Q3 2018.

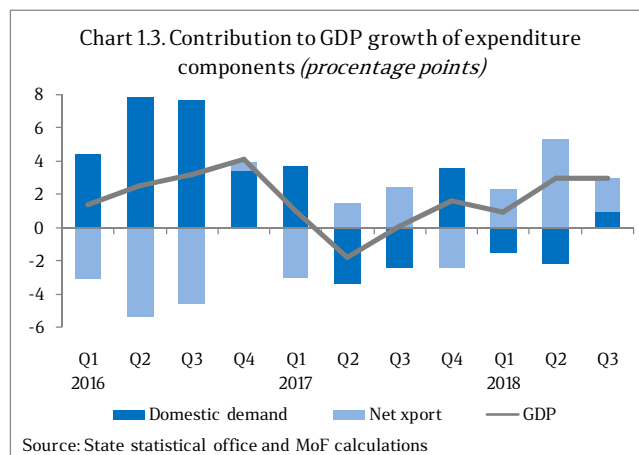
Activity in the **construction sector** in Q3 2018 decreased by 2.6% in real terms, in conditions of drop of the value of completed construction works in the country, as regards both civil engineering structures and buildings.

Analyzed according to the **expenditure side of GDP**, economic activity growth in Q3 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 12.0% in real terms on annual basis, mainly as a result of export by the capacities in the free economic zones, also underpinned by sound performance of part of the other export segments, such as the metal and food industries. **Import** of goods and services experienced significantly lower growth than export, i.e. it surged by 7.5% in real terms, by which net export contributes with two thirds to the economic activity growth. More detailed information of export and import of goods is shown in point 5.1.

Domestic demand, upon the negative contribution in the previous two quarters,

positively contributed thereto in Q3 2018, in conditions of stronger growth of consumption and more moderate drop of investment demand (Chart 1.3.).

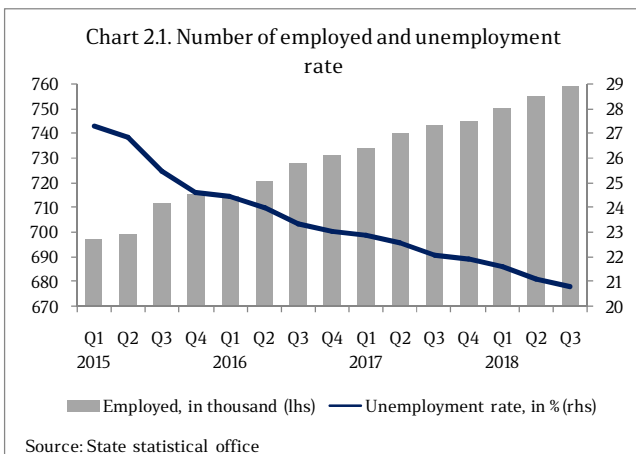


**Consumption** increased by 4.1% in real terms, thus continuing to underpin the economic activity. Thereby, private consumption surged by 3.0%, mostly as a result of the growth of the household disposable income amid increase of both employment and wages in the economy (see point 2), also supported by the crediting to households. Public consumption surged by 9.6% in real terms, amid growth of public expenditures for health protection and wages.

**Gross investments** in Q3 2018 decreased by 8.5% in real terms, upon the twice higher drop in the previous quarter, being a result of the drop of investments in construction, amid lower execution of public capital expenditures.

## 2. Labour Market

Positive trends on the labour market continued in Q3 2018, thus, according to the Labour Force Survey, **number of employed** persons was higher by 2.2%, i.e. by 16.0 thousand persons compared to the same quarter in 2017, whereby employment growth was the highest in the industrial sector (12.7 thousand or 7.4%), followed by the construction sector (1.3 thousand or 2.5%), services sector (852 or 0.2%) and agriculture sector (477 or 0.4%).



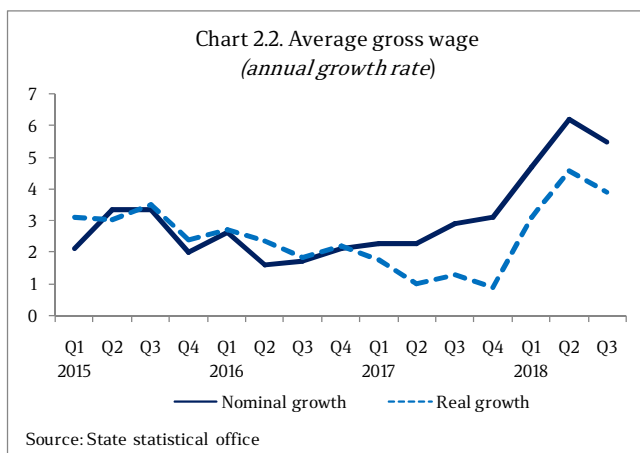
Analyzed according to the economic status, employment growth was registered in all groups, whereby highest growth was seen at self-employed persons, whose number increased by 7.4 thousand or 7.6%, followed by the employed persons (wage earners), increasing by 5.0 thousand or 0.9%, family workers surging by 2.4 thousand or 5.6% and employers growing by 1.2 thousand or 4.1%. **Employment rate** in Q3 2018

amounted to 45.1%, being higher by 0.9 p.p. compared to the same quarter in 2017.

Increase of employment rate was accompanied by drop in the **number of unemployed persons**, decreasing by around 12.0 thousand persons, i.e. by 5.7% compared to the same quarter in 2017. Such trends caused for the **unemployment rate** in Q3 2018 to reduce to 20.8%, i.e. by 1.3 p.p. compared to the same quarter in 2017, or by 0.3 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment rate mostly declined for the youngest age group (15-24 years), by 4.0 p.p. compared to Q3 2017, amounting to 45.8%. Unemployment drop was also seen at the central age group (25-49 years), while unemployment for the oldest age group (50-64 years) increased. Observed by gender, unemployment rate was mostly reduced for males (by 1.6 p.p.), amounting to 21.0%, which is higher by 0.5 p.p. compared to female unemployment rate for which dropped by 0.9 p.p..

**Number of active population** increased by 4.0 thousand, persons i.e. by 0.4% on annual basis. Active population in Q3 2018 accounted for 57.0% of the total working age population, being higher by 0.2 p.p. compared to the same quarter in 2017.



Average monthly **net wage** amounted to Denar 24,212 in Q3 2018, being higher by 5.6% in nominal terms compared to the same quarter in 2017, while net wage increased by 4.0% in real terms. Average monthly **gross wage** amounted to Denar 35,563 in Q3 2018, increasing by 5.5% in nominal terms, i.e. surging by 3.9% in real terms (Chart 2.2).

**Labour productivity** in Q3 2018 increased by 0.8% amid higher growth of production than the growth of employment.

### 3. Public Finances

#### 3.1 Budget Revenues according to the Economic Classification

In Q3 2018, share of total budget revenues accounted for 26.7% of the quarterly GDP, being higher by 3.2% compared to the same quarter in 2017, being mostly due to the higher collection of tax revenues and social contributions by 4.8%, as well as higher performance of non-tax revenues by 0.2%. Thereby, higher collection was registered at personal income tax, profit tax, excise duties, as well as revenues from customs duties, while VAT and other taxes experienced lower collection.

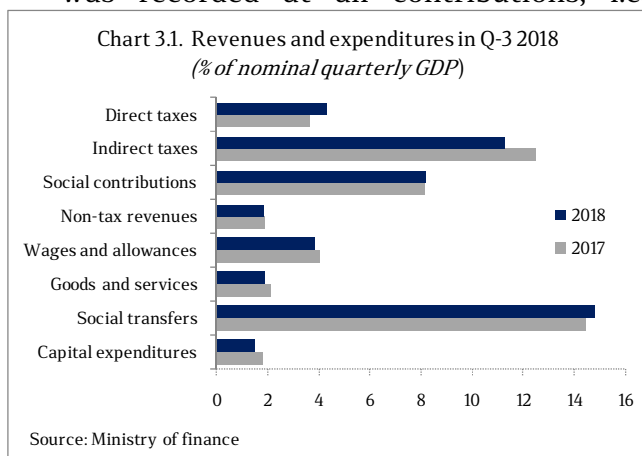
In Q3 2018, collection of indirect taxes was lower by 3.8%, while collection of direct taxes surged by 25.8% compared to Q3 2017. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes increased by 0.7 p.p., i.e. from 3.6% of quarterly GDP in Q3 2017 to 4.3% in Q3 2018, while share of revenues on the basis of indirect taxes was lower by

1.3 p.p., compared to Q3 2017, accounting for 11.2% in Q3 2018.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 41.5% of total tax revenues in Q3 2018, being lower by 8.4% 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 3.5% compared to the same quarter of 2017, while collection of customs duties grew by 2.5%.

As for **direct taxes**, collection of revenues on the basis of personal income tax surged by 12.5%, while profit tax revenues experienced a significant increase by 47.1% 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 7.7%, whereby higher collection was recorded at all contributions, i.e.



### 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 30,804 million in Q3 2018, i.e. 92.3% of the revenues of all budget users, accounting for 19.4% of the annual projections of this budget user.

Within the Ministry of Finance - Functions of the State, tax revenues accounted for the most – 85.9% of total revenues and inflows to this budget user, whereby their collection reached 23.7% of the annual projections in Q3 2018. Funds on the basis of domestic borrowing amounted to Denar 1,662 million, accounting for 5.4% of the total amount of this budget user.

**Ministry of Education and Science** collected revenues in the amount of Denar 753 million, accounting for 2.3% of the revenues and inflows of all budget users, being mainly non-tax revenues, collected on the basis of fees and charges.

pension and disability insurance contributions by 7.7% each, while health insurance contributions surged by 7.6%.

Collection of **non-tax revenues**, accounting for 1.8% of the quarterly GDP, was higher by 0.2% in Q3 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 25.1% on annual basis in Q3 2018. Revenues on the basis of foreign donations dropped by 52.3%.

Next budget user, having the highest revenues and inflows, is the **Ministry of Internal Affairs** that collected revenues in the amount of Denar 376 million, i.e. 1.1% of the revenues and inflows of all budget users, whereby major portion of the amount was inflows on the basis of non-tax-revenues. The remaining budget users collectively generated revenues, accounting for 4.3% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link (<https://www.finance.gov.mk/en/node/5618>).

As for **budget funds**, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 17,180 million in Q3 2018, accounting for 25.3% of the Fund's annual projections.

### 3.3. Budget Expenditures according to the Economic Classification

In Q3 2018, total budget expenditures, accounting for 28.2% of the quarterly GDP, were higher by 2.4% compared to the same quarter of 2017.

**Current expenditures**, accounting for 26.7% of quarterly GDP, participated with 94.7% in the total expenditures and experienced 3.1% higher execution on annual basis. As for current expenditures, expenditures for goods and services were lower by 4.4%, while expenditures related to wages and allowances were higher by 1.5% compared to the same quarter in 2017.

Funds for transfers, which participated with 66.7% in the total expenditures, were higher by 5.8% on annual basis. Social transfers surged by 9.8%, accounting for 52.5% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 4.7%, accounting for 31.6% of the total expenditures. Category Other Transfers,

which includes transfers to local government units, accounted for 13.4% of the total expenditures, i.e. it dropped by 4.8% compared to the third quarter in 2017. Block and earmarked grants to local government units surged by 4.0%, while subsidies and transfers were lower by 19.5%.

Interest-related expenditures decreased by 8.1% on annual basis, whereby domestic debt interest-related expenditures dropped by 11.0% and expenditures related to interest on foreign debt declined by 7.5%.

**Capital expenditures**, accounting for 1.5% of quarterly GDP, declined by 9.4% compared to the same quarter in 2017, i.e. they participated with 5.3% in the total expenditures.

### 3.4. Expenditures by Budget Users

Review of budget expenditures for the largest budget users<sup>2</sup> 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 10,902 million or 25.0% of its total 2018 budget in Q3 2018. Thereby, most of the expenditures (72.8%) in this period were allocated for current transfers to extra-

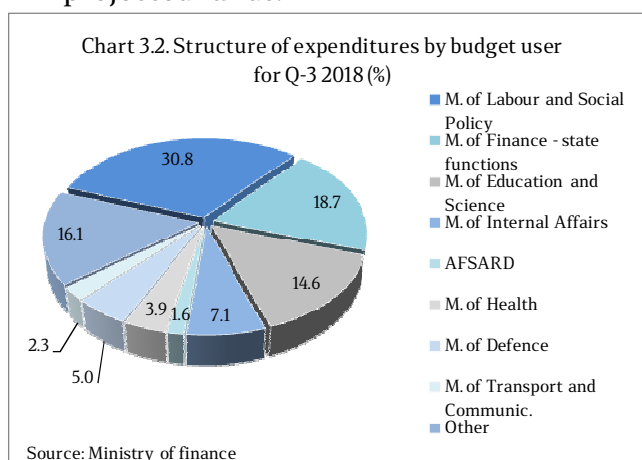
budgetary funds, for which Denar 7,939 million was spent or 25.1% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 19.3% in the total expenditures. As for this purpose, 26.2% (Denar 2,106 million) of the expenditures projected for 2018 were executed.

In the third quarter of 2018, Denar 6,638 million was spent through the organizational code **Ministry of Finance -**

<sup>2</sup> Data are not consolidated, also including the outflows.



**Functions of the State**<sup>3</sup>, accounting for 16.9% of its annual budget. Interest payments accounted for most of the expenditures or 56.7%, Denar 3,761 million being spent therefore, i.e. 43.4% of the funds projected for this purpose in 2018. Repayment of principal accounted for 25.9% of the total expenditures, Denar 1,717 billion being spent therefore or 7.6% of the projected funds.



In Q3 2018, **Ministry of Education and Science** executed budget funds in the amount of Denar 5,172 million, i.e. 20.6% of its total 2018 budget. Current transfers to local government units accounted for most of the expenditures (63.4%), for which Denar 3,280 million was spent or 23.8% of the total projected funds. Wages and allowances were the second highest expenditure category, participating with

16.1%, Denar 833 million being spent therefore, i.e. 23.8% of the total projected funds.

In the third quarter of 2018, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,522 million, accounting for 24.5% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with 73.7%, Denar 1,858 million being spent therefore, or accounting for 25.4% of the projected ones. The second highest expenditure item was goods and services, participating with 15.9%, funds in the amount of Denar 400 million being spent therefore, or accounting for 23.3% of the annual projections.

In Q3 2018, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 554 million, accounting for 6.4% of the funds projected for the current year, while subsidies and transfers accounted for 74.5% thereof.

**Ministry of Health**, in the third quarter of 2018, spent budget funds in the amount of Denar 1,376 million, accounting for 20.7% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 65.0%, for which, Denar 895 million was spent or 32.1% of the funds projected for 2018.

<sup>3</sup>As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities 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, etc.

Expenditures related to goods and services were the second highest expenditure category, accounting for 27.3% of the total expenditures, funds in the amount of Denar 375 million being executed therefore in the analyzed period, i.e. 18.7% of total projected ones.

**Ministry of Defense**, in Q3 2018, spent budget funds in the amount of Denar 1,755 million, i.e. 26.9% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 53.1%, Denar 932 million being spent therefore in Q3 2018, accounting for 24.7% of the total funds projected for the current year. Capital expenditures accounted for 26.3% of total expenditures, Denar 461 million being spent therefore during the analyzed period, i.e. 56.0% execution of the total projected funds.

**Ministry of Transport and Communications**, in the third quarter of 2018, spent budget funds in the amount of Denar 813 million, i.e. 13.4% of its 2018 total budget. Capital expenditures accounted for the most in the total expenditures with 78.7%, while their execution accounted for 12.3%, i.e. Denar 640 million was spent. Subsidies and transfers amounted to Denar 135 million, accounting for 21.9% of the total projected ones and 16.6% of the expenditures of this budget user.

As regards **financing the activities in the field of culture**<sup>4</sup> in Q3 2018, funds in the amount of Denar 764 million were spent, accounting for 20.5% of its total 2018 budget. Subsidies and transfers accounted for the most in the total expenditures with 36.8%, while their execution accounted for 23.0%, i.e. Denar 281 million was spent therefore. Wages and allowances accounted for 33.6%, whereby Denar 257 million or 24.4% of the projected funds were spent therefore. Detailed data on each budget user are presented in the statistical annex attached at the following link (<https://www.finance.gov.mk/en/node/5618>).

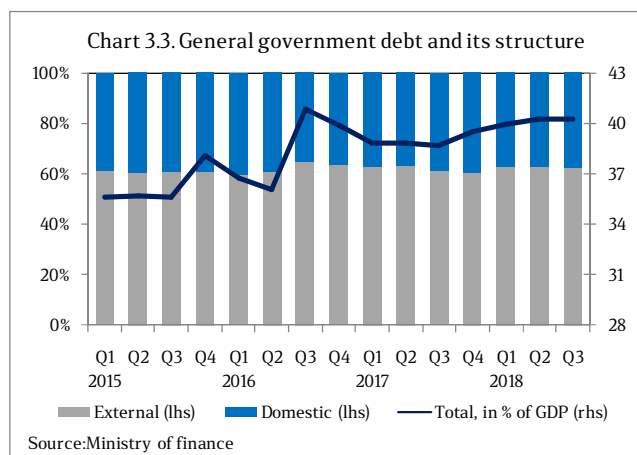
<sup>4</sup>This Organizational Code supports the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural events, museum and film library activities, international cooperation in the area of culture, support to young talents, organizations in the field of culture, etc.

### 3.5. Budget Deficit and Government Debt

In the third quarter of 2018, **consolidated budget deficit** amounted to Denar 2,470 million or 1.4% of GDP realized in this quarter, while central budget deficit amounted to Denar 2,321 million, i.e. 1.3% of quarterly GDP.

Total **government debt** at the end of Q3 2018 accounted for 40.3% of GDP, remaining unchanged compared to Q2 2018. Share of external debt in the total government debt decreased by 0.2 p.p. compared to Q2 2018, accounting for 62.4%, while share of domestic debt increased by 0.2 p.p. respectively,

accounting for 37.6% of the total government debt.

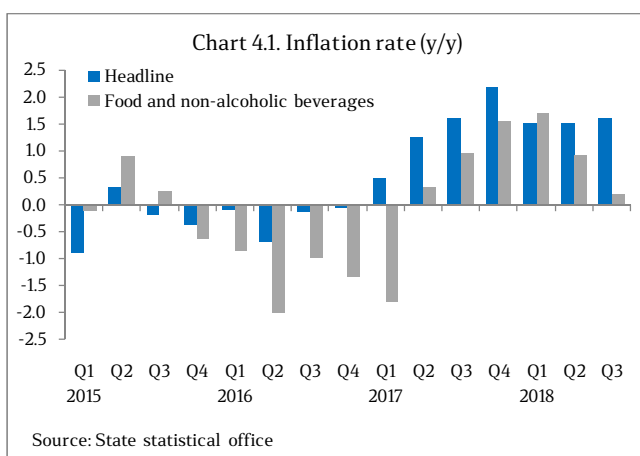


## 4. Inflation and Monetary Trends

**Inflation rate**, measured according to CPI index, in Q3 2018, amounted to 1.6% on annual basis, being higher by 0.1 p.p. compared to Q2 2018. Growth of consumer prices in Q3 2018 was a result of the higher prices in the following categories: Transport by 10.3%, Alcoholic beverages, tobacco and narcotics by 4.9%, Recreation and culture by 3.1%, Restaurants and

hotels by 2.0%, Furnishings, household equipment and routine maintenance of the house by 1.4%, Communications by 1.0%, Health by 0.8%, Clothing and Footwear by 0.3%, Food and non-alcoholic beverages by 0.2%, Housing, water, electricity, gas and other fuels by 0.1% and Miscellaneous goods and services by 0.3%. In Q3 2018, 0.1% drop of prices was recorded in the category Education.

In the third quarter<sup>5</sup> of 2018, National Bank of the Republic of Macedonia reduced the **reference interest rate** by 0.25 p.p., from 3.0% to 2.75% as a result of the continuous favourable trends on the foreign currency market, showing solid external position and stable expectations



<sup>5</sup> Data from the monetary statistics, statistics of other financial corporations and the statistics of interest rates are according to the new methodology.

of the economic agents. Developments in the deposit base of banks were also favourable, being a signal for stable expectations and confidence. Interest rate on available 7-day deposits amounted to 0.3% in September 2018 and, compared to the previous quarter, it remained unchanged.

In Q3 2018, **primary money**<sup>6</sup> increased by 1.9% on quarterly basis (3.5% growth was recorded in the previous quarter) as a result of the increase of both currency in circulation by 2.3% and total liquidity of banks by 1.3%. Compared to Q3 2017, primary money declined by 1.3% (2.5% drop was recorded in Q2 2018), as a result of the increase of currency in circulation by 5.2% and decline of total liquidity of banks by 8.3%.

In Q3 2018, the narrowest money supply M1<sup>7</sup> experienced 5.5% increase compared to the previous quarter. Monetary aggregate M2 surged by 2.0%, while the widest monetary aggregate M4 increased by 2.4%.

Total **deposit potential**<sup>8</sup> of banks in Q3 2018 grew by 2.4% on quarterly basis,

following the 2.8% growth in the previous quarter. From the point of view of sectors, deposits of enterprises increased by 2.6%, 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 4.0% and 0.1%, respectively. Level of euroization dropped by 0.9 p.p. compared to the previous quarter, accounting for 40.6%, measured through the share of foreign currency deposits in the total deposit potential.

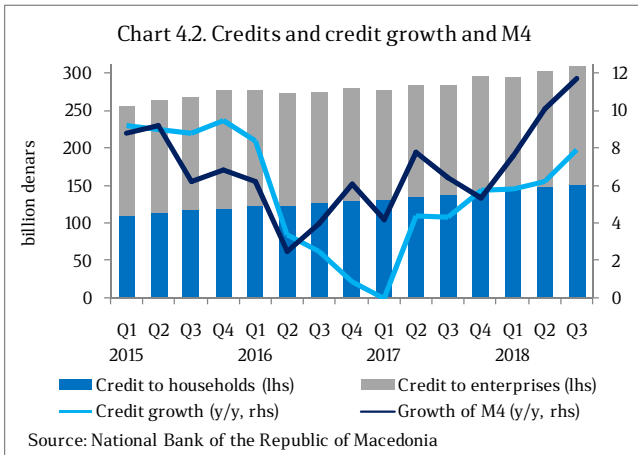
As regards maturity, share of long-term deposits in total deposit potential in Q3 2018 increased by 0.4 p.p. compared to the previous quarter, reaching 28.2% (accounting for 27.8% in Q2 2018), as a result of the increase of long-term deposits by 3.7%, compared to the previous quarter. During the analyzed period, short-term deposits declined by 0.8%.

**Credit activity** of banks to non-government sector in Q3 2018 increased by 1.8% on quarterly basis (compared to 2.7% growth in the previous quarter), in conditions of growth of credits to private enterprises by 1.3%, while credits to households surged by 2.5%.

<sup>6</sup>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).

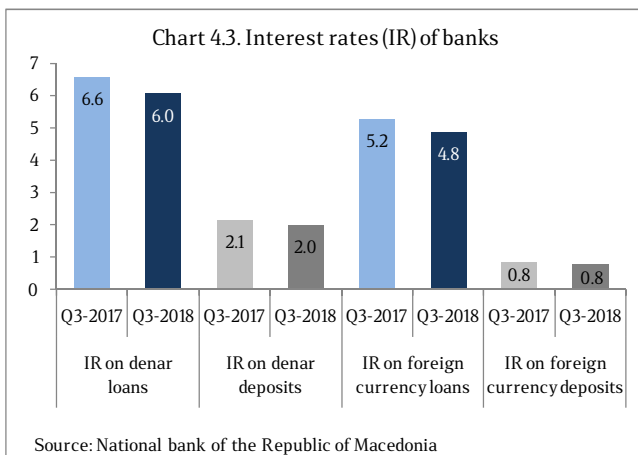
<sup>7</sup> Monetary aggregate M1 comprise currency in circulation and deposit money. Monetary aggregate M2 comprises the monetary aggregate M1 and short-term deposits, while monetary aggregate M4 includes monetary aggregate M2 and long-term deposits.

<sup>8</sup>Deposits also include calculated interest.



From currency point of view, Denar and foreign currency credits increased by 1.9% and 1.6% respectively in Q3 2018, compared to the previous quarter. From maturity point of view, long-term credits in Q3 2018 experienced 2.3% growth compared to the previous quarter, while short-term credits were higher by 0.1%.

compared to the previous quarter. Interest rate on foreign currency credits was 4.8% in Q3 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 2.0% in Q3 2018 compared to the previous quarter, while interest rate on foreign currency grew by 0.02 p.p. compared to the previous quarter, accounting for 0.78%. In Q3 2018, interest rate on newly granted Denar credits amounted to 5.2%, while interest rate on newly approved foreign currency credits accounted for 4.2%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.7% and 1.0%, respectively.



In Q3 2018, **interest rate**<sup>9</sup> on Denar credits amounted to 6.0%, decreasing by 0.2 p.p.

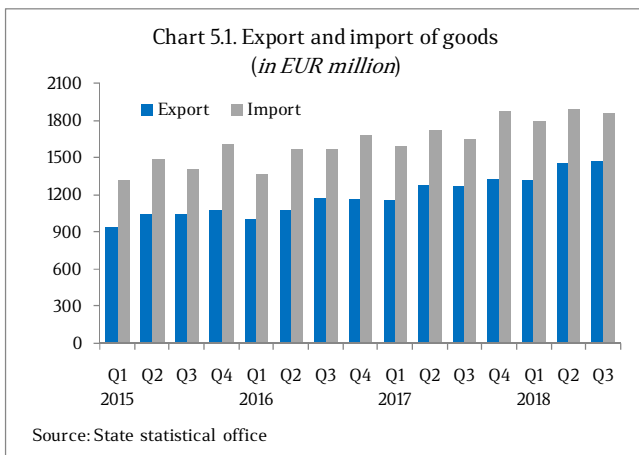
<sup>9</sup>Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.

## 5. External Sector

### 5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,308.12 million in Q3 2018, increasing by 13.6% compared to the same quarter of 2017.

In Q3 2018, **export of goods** amounted to EUR 1,463.1 million, whereby, compared to Q3 2017, it surged by 15.8%, while compared to the previous quarter, it increased by 0.3%.



Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q3 2018, compared to the same quarter in 2017, were registered at the following:

- chemical products surging by 29.1% (wherein highest growth was seen at the category: chemical materials and products by EUR 78.8 million or 33.0%);
- machinery and transport equipment increasing growing by 19.3% (industrial machines and spare parts surging by EUR 24.5 million or 18.6%, electrical

machinery, apparatus and appliances increasing by EUR 24.2 million or 14.7% and road vehicles growing by EUR 19.9 million or 38.2%);

- manufactured goods classified by material picking up by 24.6% (iron and steel increasing by EUR 35.4 million or 33.2%);
- crude materials, except fuel growing by 12.8% (metal ore and metal scrap surging by EUR 7.4 million or 14.9% and crude fertilizers and minerals, excluding coal, petroleum and precious stones increasing by EUR 4.2 million or 31.9%);
- mineral fuels and lubricants increasing by 55.2% (petroleum and petroleum products growing by EUR 7.1 million or 50.8%);
- food products picking up by 8.2% (fruit and vegetables increasing by EUR 2.9 million or 6.7% and cereals and cereal preparations surging by EUR 2.4 million or 14.0%) and
- animal and vegetable oils surging by 79.9% (fixed vegetable fats and oils, crude, refined or fractioned increasing by EUR 1.0 million or 91.6%).

Decline of export was seen at the following:

- beverages and tobacco decreasing by 17.9% (wherein highest drop was recorded at the category tobacco and

- tobacco goods decreasing by EUR 13.1 million or 22.6%) and
- miscellaneous manufactured articles dropping by 4.6% (clothing declining by EUR 6.8 million or 5.8%);

Observed by **economic purpose**, in Q3 2018, increase of export was recorded at the following groups of products:

- goods for industrial supplies picking up by EUR 117.5 million or 19.6%;
- transport equipment surging by EUR 41.8 million or 26.2%;
- investment products without transport equipment picking up by EUR 27.7 million or 14.9%;
- fuels and lubricants growing by EUR 12.2 million or 65.3% and
- food and beverages surging by EUR 5.9 million or 6.0%.

Drop of export was only observed at the consumer goods, experiencing EUR 5.2 million or 2.6% decline.

**Import of goods** in Q3 2018 amounted to EUR 1,845.0 million, growing by 11.9% compared to Q3 2017, while in relation to the previous quarter, it dropped by 2.4%.

Analyzed by **SITC sectors**, increase of import in Q3 2018, compared to Q3 2017, was seen at:

- mineral oils and lubricants increasing by 36.6% (within which highest growth was seen at the category: oil and oil products picking up by EUR 46.2 million or 39.9%).
- products classified by material growing by 8.6% (items from non-metal minerals picking up by EUR 22.3 million or 24.7% and non-ferrous metals surging by EUR 20.4 million or 9.2%);

- machinery and transport equipment growing by 9.3% (electrical machinery, apparatus and appliances increasing by EUR 28.3 million or 20.3%);
- chemical products increasing by 17.0% (medical and pharmaceutical products surging by EUR 13.1 million or 38.3% and chemical materials and products picking up by EUR 10.2 million or 24.1%);
- crude materials, except fuel, picking up by 26.5% (metal ore and metal scrap growing by EUR 10.5 million or 45.6%);
- food products growing by 3.4% (meat and meat preparations surging by EUR 2.2 million or 6.1% and dairy products and eggs increasing by EUR 1.6 million or 11.4%);
- miscellaneous manufactured articles manufactured goods, surging by 4.0% (prefabricated buildings; sanitary plumbing growing by EUR 1.2 million or 20.0%) and
- animal and vegetable oils, increasing by 5.2% (fixed vegetable fats and oils, crude, refined or fractionated growing by EUR 0.5 million or 4.7%).

Decline of import was only seen at the beverages and tobacco sector by 5.4% (wherein highest drop was recorded at the category tobacco and tobacco goods, decreasing by EUR 2.0 million or 18.2%).

Observed by **economic purpose**, in Q3 2018, increase of import was recorded at the following groups of products:

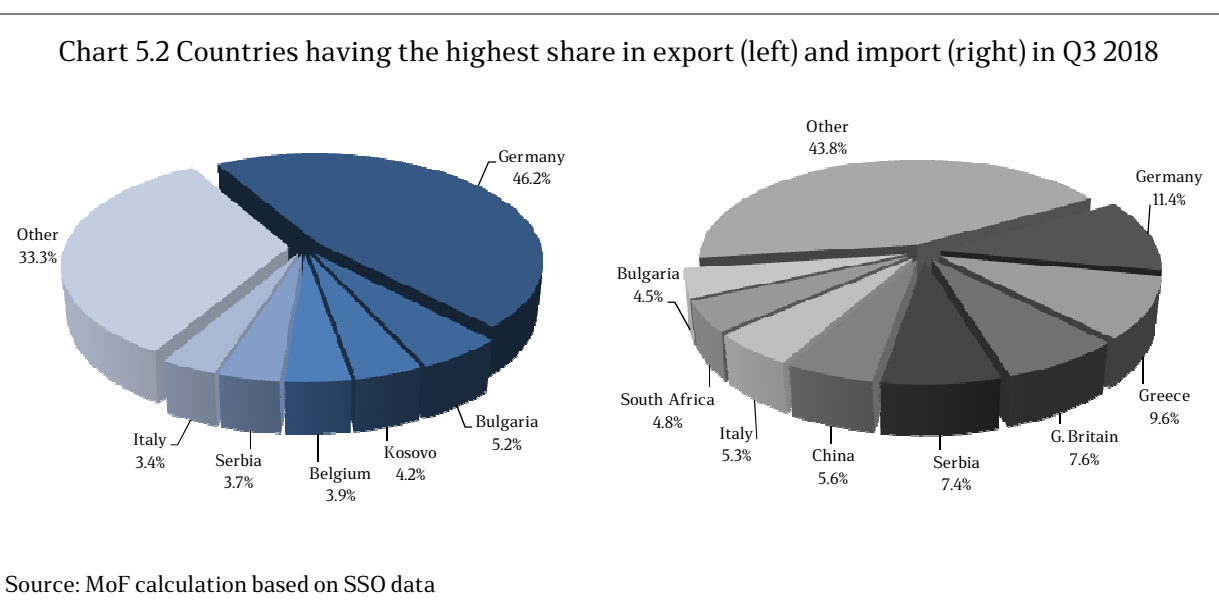
- goods for industrial supplies picking up by EUR 94.9 million or 11.5%;
- fuels and lubricants surging by EUR 54.3 million or 34.5%.

- investment products without transport equipment picking up by EUR 24.5 million or 10.8%;
- consumer goods growing by EUR 17.3 million or 10.2% and
- food and beverages surging by EUR 6.8 million or 4.2%.

Decline of import was only seen at transport equipment by EUR 1.3 million or 1.2%.

In Q3 2018, foreign trade of the Republic of Macedonia with the European Union (EU 28), in relation to Q3 2017, surged by 8.8%, whereby share of trade with the EU in the total foreign trade decreased by 1.4 p.p. compared to the third quarter in 2017, accounting for 69.7%. Thereby, in Q3 2018, export of goods accounted for 80.8%, while share of import of goods was 60.8%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q3 2018

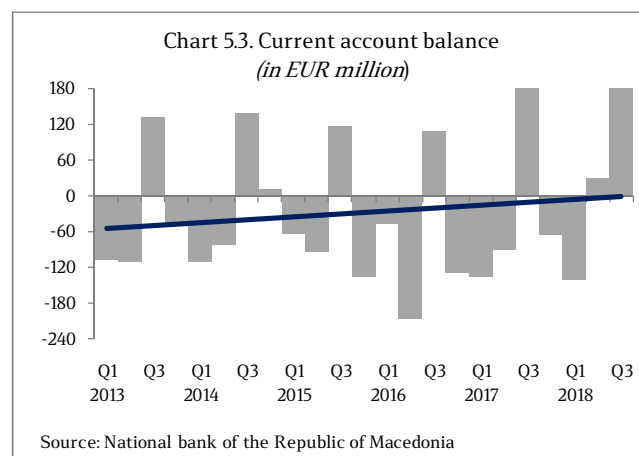


## 5.2. Balance of Payments

According to the data from the National Bank of the Republic of Macedonia, surplus in the amount of EUR 202.2 million was recorded on the balance of payments **current account** in Q3 2018, accounting for 7.2% of quarterly GDP, as opposed to the surplus of 7.3% of GDP registered in the same quarter in 2017.

Analyzed on annual basis, current account surplus increased by EUR 12.8 million, i.e. by 6.8%, in Q3 2018, being a result of the increase of the positive balance of the secondary income account by 2.0%,

services account by 1.6%, as well as the narrowed deficit of the goods account by

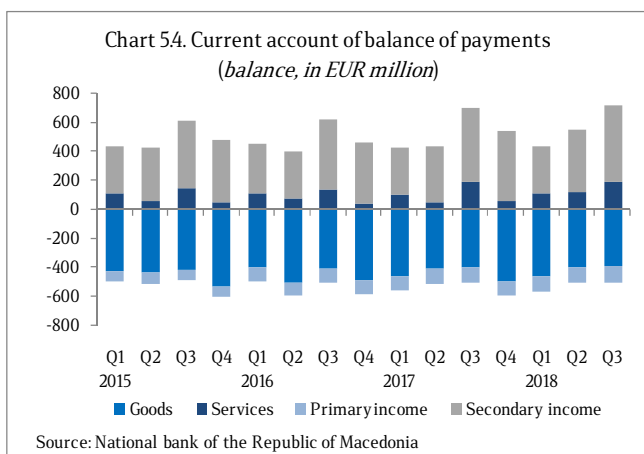




2.3%. Widened deficit on the primary income account by 9.5% had the opposite effect.

In Q3 2018, **trade deficit** dropped by EUR 9.4 million on annual basis, narrowing by 1.4 p.p. on annual basis, i.e. accounting for 14.1% of quarterly GDP.

Surplus on **services account** amounted to EUR 186.1 million in Q3 2018 and, compared to the same quarter in 2017, it surged by EUR 2.9 million. **Trade openness** of Macedonia in Q3 2018 amounted to 128.3% of quarterly GDP, being higher by 7.7 p.p. compared to Q3 2017.



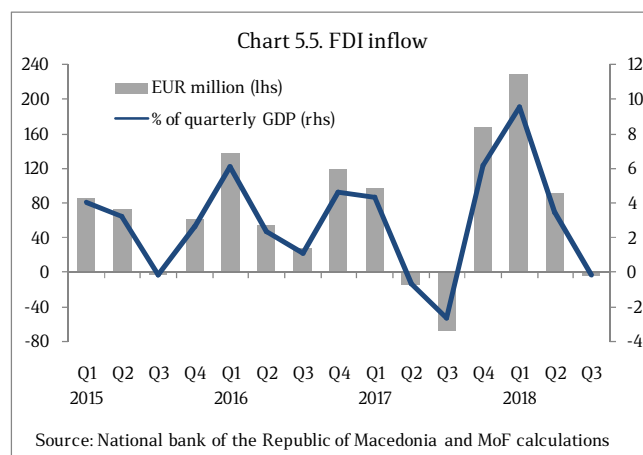
**Primary income** account experienced EUR 111.2 million deficit in Q3 2018, widening by EUR 9.6 million on annual basis.

Surplus on the **secondary income** account in Q3 2018 amounted to EUR 523.1 million, increasing by EUR 10.2 million on annual basis. Growth was mostly a result of the private transfers, increasing by EUR 29.2 million, accounting for 98.5% in the secondary income account. Official transfers decreased by EUR 19.1 million,

accounting for 1.5% on the secondary income account.

Balance on the **capital account** was negative, amounting to EUR 0.04 million in Q3 2018 and, compared to the same quarter of last year, it dropped by EUR 3.0 million, which was fully due to the decreased inflow of capital transfers.

**Foreign direct investments (FDIs)** in the country in Q3 2018 were negative, amounting to EUR 4.0 million, mostly as a result of the debt instruments, through which, inflow of EUR 55.6 million was recorded on net basis, while on the basis of reinvested earnings, as well as on the basis of equity, inflow of EUR 27.0 million and EUR 24.5 million, respectively, was registered.



**Portfolio investments** in Q3 2018 amounted to EUR 35.0 million and, compared to the same quarter in 2017, they dropped by EUR 4.6 million. **Other investments** in Q3 2018 amounted to EUR 74.5 million, being lower by EUR 113.5 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 advance payments amounted

to EUR 37.1 million, while loan account experienced a negative balance in the amount of EUR 35.3 million.

**Reserve assets** amounted to EUR 2.7 billion at the end of the third quarter in 2018, surging by 19.3% compared to Q3 2017. At the end of Q3 2018, reserve assets provided for 4.4-month coverage of import of goods and services in the previous 12-month period.