



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department



SHORT-TERM ECONOMIC TRENDS

October 2018

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SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

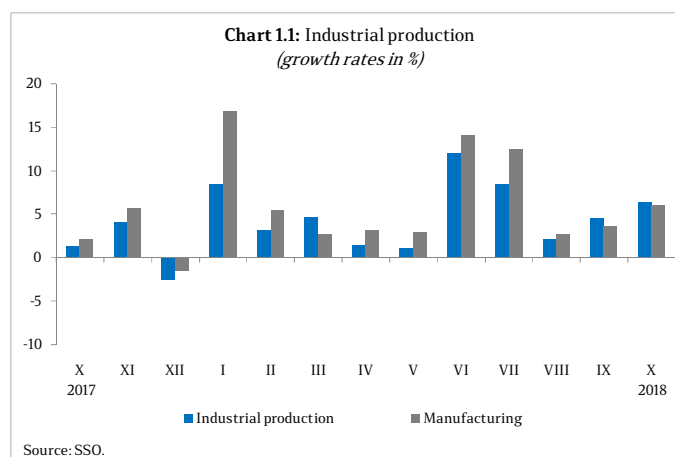
October 2018

- Industrial production in October 2018 surged by 6.4% compared to October 2017;
- Consumer prices in October 2018 increased by 1.5% compared to both October 2017 and September 2018. Average inflation rate in the period January - October of 2018 amounted to 1.5%.
- Export in the period January – October 2018 surged by 16.3%, while import grew by 12.9%, resulting in increase of the trade deficit by 3.2% compared to the same period in 2017;
- In the first ten months in 2018, total budget revenues amounted to Denar 153,689 million, i.e. 23.4% of GDP, which was higher performance by 5.0% compared to the same period in 2017;
- In the first ten months in 2018, total budget expenditures were executed in the amount of Denar 159,656 million, i.e. 24.3% of GDP, being higher by 1.3% compared to same period last year;
- Total credits of banks in October 2018 grew by 8.2% compared to October 2017, while total deposit potential of banks surged by 11.4%.

1. REAL SECTOR

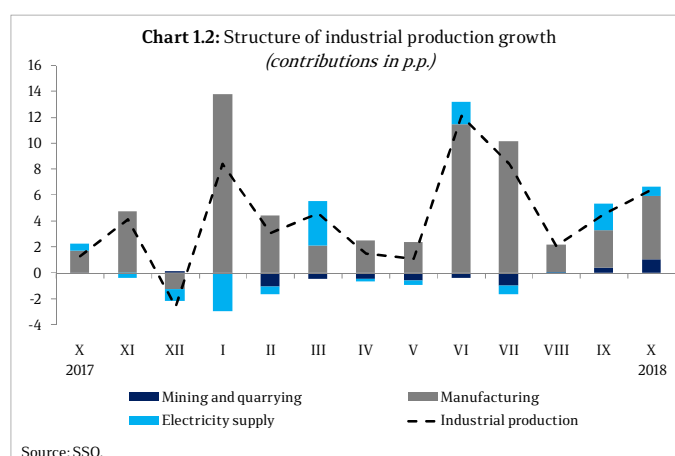
Industrial Production

Industrial production in October 2018 surged by 6.4% compared to October 2017. Growth was a result of the positive trends in Manufacturing, where production picked up by 6.0% and the contribution to growth accounted for 4.9 p.p., being underpinned by growth in the other two sectors, in particular Mining and quarrying sector by 12.9%, which contribution to growth accounted for 1.1 p.p., as well as Electricity, gas, steam and air-conditioning supply sector by 7.0%, which contribution to growth accounted for 0.7 p.p..



In October 2018, growth in production was registered in 17 out of total of 27 industrial branches, comprising 77.2% of the total production structure, showing that growth was mainly seen at the branches with higher share. As regards higher value-added branches, Manufacture of machinery and equipment contributed the most thereto, observing 14.5% growth in October, which contribution to total production accounted for 1.9 p.p., whereby contribution of 0.9% was also observed at Manufacture of motor vehicles, experiencing 17.6% growth. Manufacture of food products experienced growth for the fifth month in a row, accounting for 3.1% in October 2018, thus, contribution of this branch to total growth accounted for 0.3 p.p..

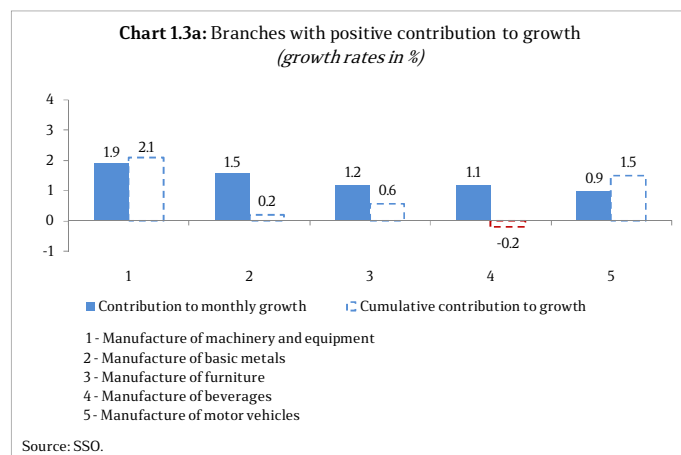
According to the data by target group, growth was registered at the following groups: Intermediary goods, except energy surging by 9.1% (contribution of 2.7 p.p.), Capital goods growing by 6.7% (contribution of 1.4 p.p.), Energy picking up by 8.1% (contribution of 1.0 p.p.) and Durable consumer goods industry increasing by 33.3% (contribution of 0.8 p.p.) and Non-durable consumer goods industry by 2.3% (contribution of 0,8 p.p.).



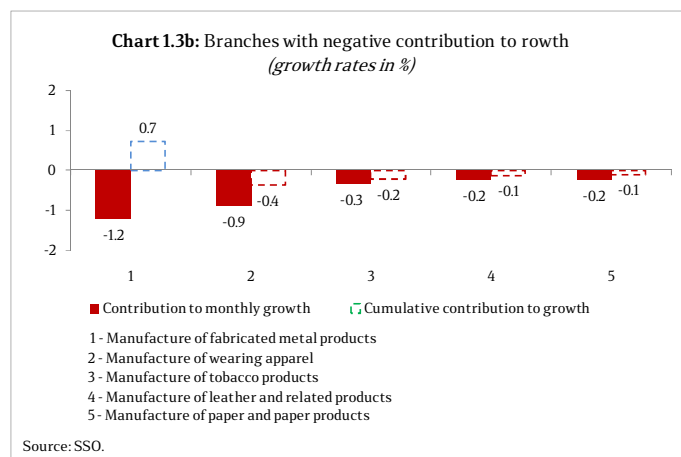
As per the cumulative data, production in the first ten months in 2018 experienced 5.2% growth, which was fully a result of the increased production in Manufacturing by 6.7% and contribution of 5.4 p.p., being mitigated by the drop in Mining and quarrying by 2.8% and negative contribution of 0.2 p.p., while growth in the

Electricity, gas, steam and air-conditioning supply sector by 0.3% had insignificant negative effect.

Data from the analysis by branches shows that growth was registered at 16 out of 27 branches, accounting for 70.0% of industrial production structure. Branches with two-digit share in the structure, experiencing growth, were Manufacture of machinery and equipment increasing by 16.1% (contribution of 2.1 p.p.), Food industry growing by 2.9% (contribution of 0.3 p.p.), as well as Electricity, gas, steam and air conditioning supply surging by 0.3% (contribution of 0.0 p.p.).



As for target groups, growth was mainly a result of the increased production at Capital goods by 18.3% (contribution of 3.9 p.p.) being underpinned by the increase of production at Intermediary goods, except energy by 3.2% (contribution of 0.9 p.p.), as well as Durable consumer goods industry by 31.2% (contribution of 0.8 p.p.). Growth was mitigated by the drop of production at the following groups: Non-durable consumer goods industry by 0.8% (contribution of -0.3 p.p.) and Energy by 1.0% (contribution of -0.1 p.p.).



Number of Employees in the Industry

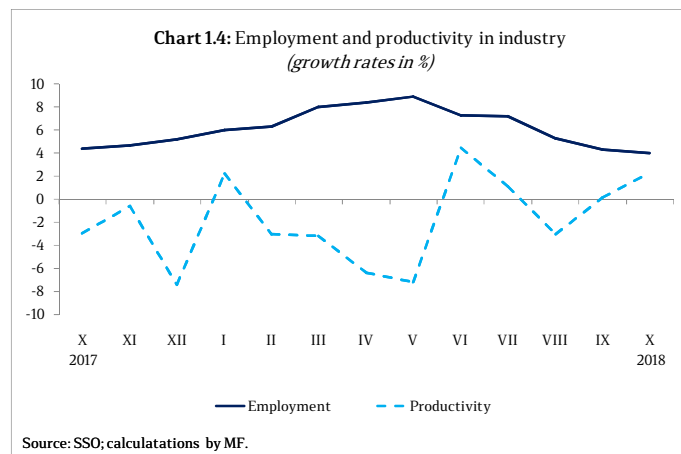
In October 2018, number of employees in the industry increased by 4.0% annually. Growth was mainly a result of the increased number of employees in Manufacturing by 4.4%, being underpinned by the growth in Mining and quarrying sector by 1.9%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 2.4%.

Data on the number of employees in the industry by target groups in October 2018, compared to the same period last year, showed increase in the number of employees at the following groups: Capital goods by 20.3% and Intermediary goods, except energy by 4.7%; while drop was recorded at Durable consumer goods industry by 3.4% and Energy by 2.1% and Non-durable consumer goods industry by 0.1%.

Number of employees in the period January - October 2018 grew by 6.5%, which was mainly a result of the increased number of employees in Manufacturing by 7.3%, as well

as in Mining and quarrying sector by 1.5%, while number of employees in Electricity, gas, steam and air-conditioning supply sector dropped by 0.4%.

In the first ten months of 2018, number of employees increased in the following target groups: Capital goods by 22.0%, Intermediary goods, except energy by 11.7% and Non-durable consumer goods industry by 1.0%, while decline was observed at Energy and Durable consumer goods industry by 0.8% and 0.6% respectively.



Business Tendencies in Manufacturing

Economic situation of business entities in October 2018 was more favourable compared to both the previous months and October 2017.

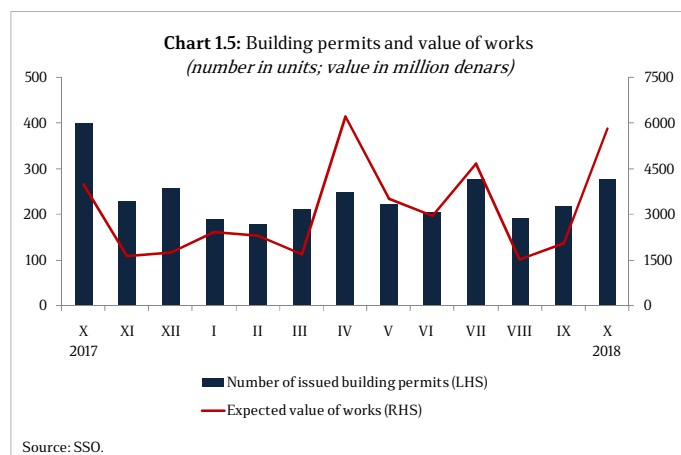
Average utilization of the capacities of business entities in October accounted for 68.4%, being an increase compared to September 2018, when it accounted for 68.1%. On annual basis, utilization of the capacities was higher by 2.3 p.p..

Shortage of skilled labour with 28.6%, insufficient domestic demand with 16.1%, insufficient foreign demand with 15.4%, uncertain economic environment with 10.2%, financial problems with 8.3%, shortage of raw materials with 8.2% and competitive import with 5.7% limited the most the production volume in October.

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

Number of Issued Building Permits and Expected Value of Works

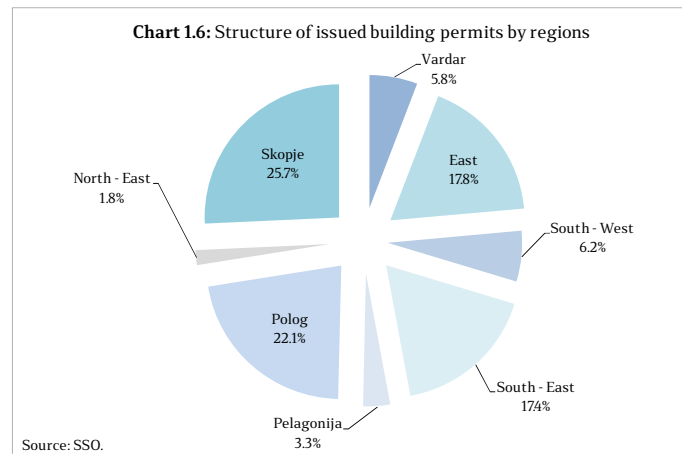
In October 2018, 276 building permits were issued, dropping by 31.0% compared to the same month in 2017. Compared to the previous month, when 219 building permits were issued, number of issued building permits surged by 26.0%. Expected value of works, according to the issued building permits compared to October 2017, increased by 45.7%. On monthly basis, value of works in October experienced nearly threefold increase.



Analyzed by types of constructions, out of the total number of issued building permits, 158 (or 57.2%) were intended for buildings, 48 (or 17.4%) for civil engineering structures and 70 (or 25.4%) for reconstruction.

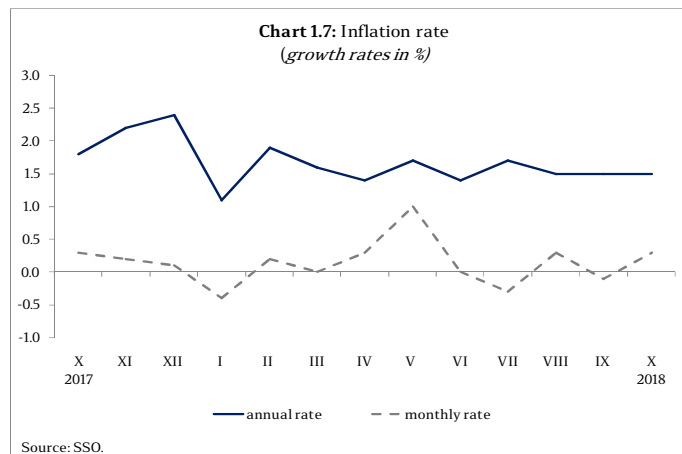
Analyzed by types of investors, out of total 276 issued building permits, individuals were investors in 157 facilities (or 56.9%), while business entities were investors in 119 facilities (or 43.1%).

In October 2018, construction of 1,591 flats was envisaged, with total usable area of 116,486 m². Number of envisaged flats for construction in October compared to September 2018 experienced threefold increase, while compared to the same month in 2017, it grew by 71.3%.

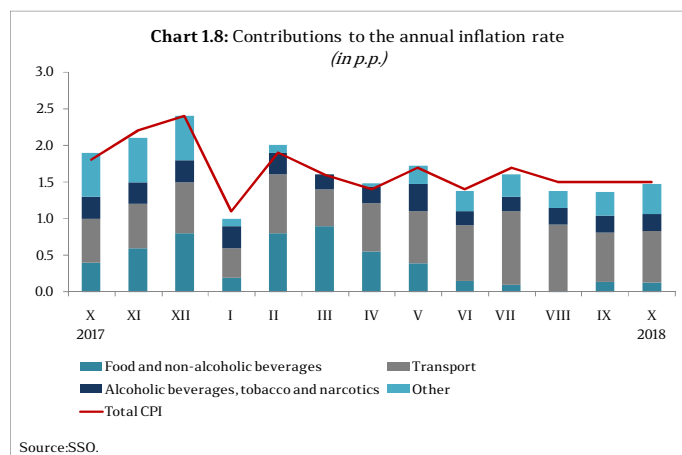


Inflation

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



Prices in the Food and non-alcoholic beverages category, having the highest share in the CPI index, experienced 0.4% increase in October on annual basis. Highest annual increase of prices in October 2018 was observed at the Transport category by 8.4%, followed by the increase in prices at the following categories: Alcoholic beverages, tobacco and narcotics by 5.1%, Recreation and culture by 3.5%, Restaurants and hotels by 2.5%, Health by 1.4%, Communications and Furnishings, household equipment and routine maintenance of the house by 0.9% each, Clothing and footwear by 0.2% and Miscellaneous goods and services by 1.2%.



Annual drop in prices in October 2018 was registered at the category

Education category by 0.3%, while prices in the category Housing, water, electricity, gas and other remained unchanged.

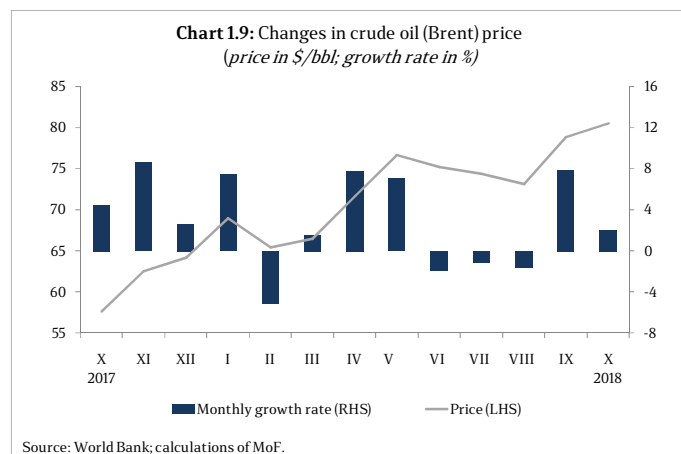
Consumer prices in October 2018 increased by 0.3% compared to the previous month. Thereby, increase of prices on monthly basis was recorded in the following categories: Transport by 1.7%. Clothing and footwear by 1.5%, Restaurants and hotels and Health by 0.5% each, Recreation and culture by 0.3% and Alcoholic beverages, tobacco and narcotics, Housing, water, electricity, gas and other goods and Miscellaneous goods and services by 0.1% each.

Monthly drop of prices was recorded at the following categories: Furnishings, household equipment and routine maintenance of the house by 0.6% and Communications by 0.1%. Prices in the following categories: Food and non-alcoholic beverages and Education remained unchanged.

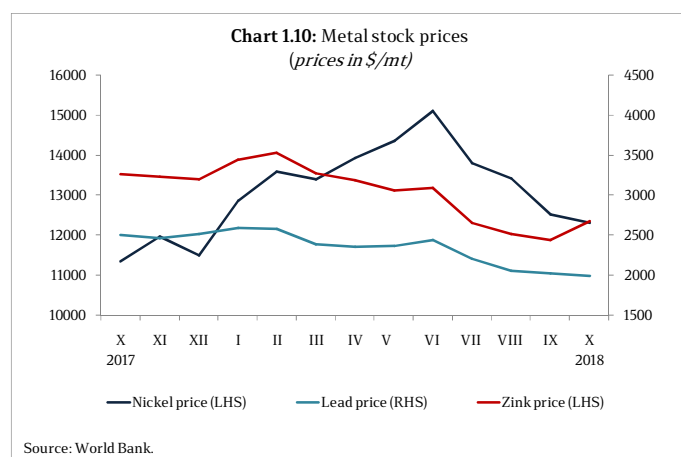
Retail prices in October 2018 were higher by 2.7% compared to the same month last year, while on monthly basis, retail prices were increased by 0.4%. In the period January - October 2018, retail price were higher by 2.9%.

Stock Market Prices

In October 2018, crude oil price (Brent) on the global stock markets grew by 2.0%, compared to September 2018, reaching the price of US\$ 80.5 per barrel. Compared to the same month in 2017, oil price was higher by 39.7%. Price of natural gas in October 2018 increased by 0.2% on monthly basis.



As regards metal products, nickel, as an important export product, was traded at an average price of US\$ 12,315 for a metric ton (\$/mt) in October 2018, being a price decline by 1.6% compared to the previous month. In October, nickel price surged by 8.6% on annual basis. In addition to nickel, price of lead also declined by 1.7% on monthly basis. Prices of other base metals in October 2018 compared to September 2018 experienced growth. Hence, price of zinc grew by 9.8%, price of copper increased by 2.8%, price of tin was higher by 0.8% and price of aluminum decreased experienced 0.2% growth. Price of iron ore in October grew by 7.3% on monthly basis.

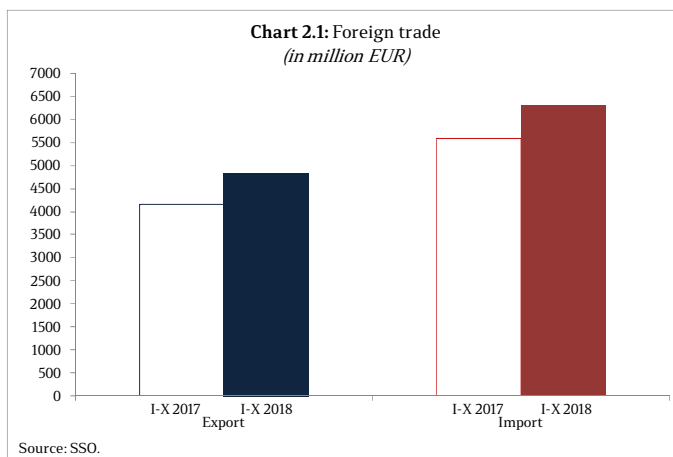


In October 2018, prices of precious metals increased on monthly basis. Hence, price of platinum surged by 3.1%, price of silver increased by 2.3% and price of gold picked up by 1.4%. In October 2018, compared to the previous month, price of maize on global stock markets grew by 3.5%, while price of wheat increased by 0.5%,

2. FOREIGN TRADE

Total foreign trade in the first ten months in 2018 amounted to EUR 11,128.6 million, increasing by 14.4% compared to the same period last year.

Foreign trade of the Republic of Macedonia with the European Union (EU 28) participated the most in the total foreign trade in the period January – October 2018, accounting for 71.3%, being an increase of 0.8 p.p. in relation to the same period last year.

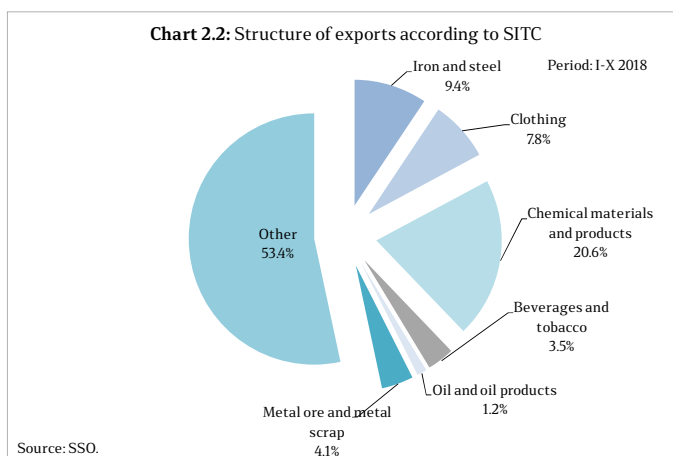


Export

In the period January - October 2018, value of exported goods amounted to EUR 4,829.6 million, surging by 16,3% (EUR 676.8 million) compared to the same period in 2017, while physical output of export surged by 7.6%.

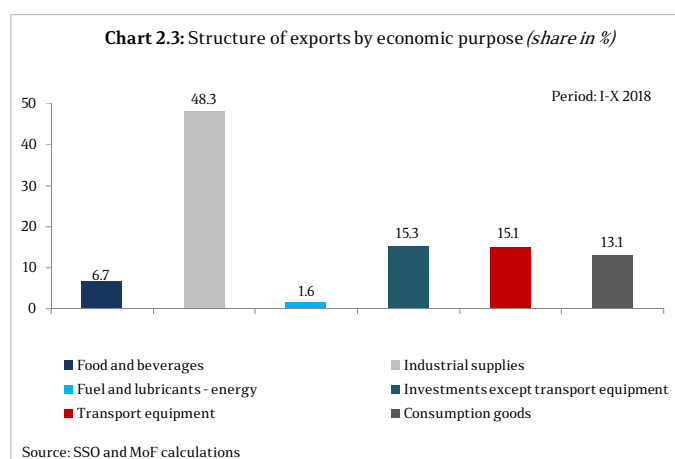
Value of exported goods amounted to EUR 599.6 million in October 2018, surging by 27.5% (EUR 129.3 million) compared to the same month of the previous year, while physical output of export increased by 21.2%.

Analyzed on monthly basis, in October 2018, export grew by 13.1% (EUR 69.6 million), compared to the previous month and, should export be seasonally adjusted, it registered monthly growth of 10.6%.



Main groups of products (according to SITC) being the most exported in the period January – October 2018 were the following: chemical materials and products, iron and steel, clothing, metal ore and metal scrap, beverages and tobacco and oil and oil products. These six groups of products comprised 46.6% of the total export of the country.

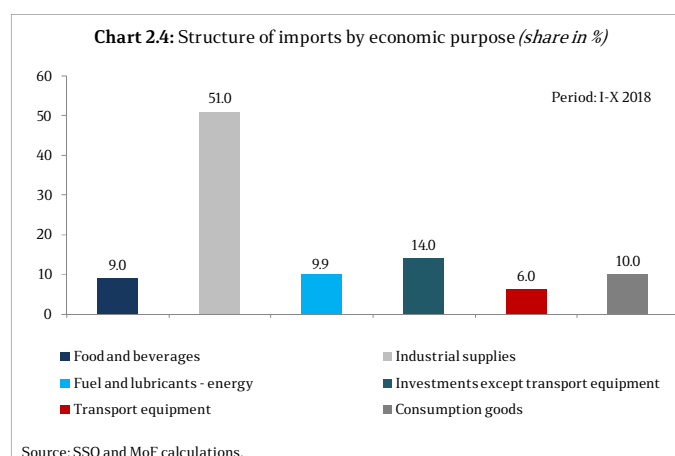
Analyzed according to economic groups of countries, in the period January–October 2018, compared to the same period in 2017, export increased at the following groups: EU 28, EFTA, Organization of Petroleum Exporting Countries, Western Balkan Countries and North American Free Trade Agreement, while drop was recorded at the following groups: Asia-Pacific Economic Cooperation



and Commonwealth of Independent States. Export to EU 28 grew by 17.9% annually, while export to Western Balkan countries increased by 8.5%, whereby export of goods to EU 28 and the Western Balkan countries accounted for 82.4% and 10.9% respectively in the total export from the Republic of Macedonia.

Import

In the period January – October 2018, value of imported goods amounted to EUR 6,299.0 million, surging by 12.9% (EUR 721.8 million) compared to the same period in 2017, while physical output of import increased by 2.2%.



In October 2018, import value amounted to EUR 780.2 million, surging by 25.2% (EUR 157.3 million) compared to the same month in 2017, while imported quantities of goods grew by 28.8%.

Analyzed on monthly basis, in October 2018, import grew by 28.7% (EUR 173.8 million), compared to the previous month, and, should import be seasonally adjusted, it registered monthly increase of 14.5%.

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

Export of oil and oil products*)				
	I - X - 2017	I - X - 2018	Balance	% rate
000 T	101,5	125,6	24,2	23,8
EUR mil.	40,4	59,5	19,1	47,3
\$ mil.	45,4	70,5	25,0	55,1

*)Previous data

Import of oil and oil products*)				
	I - X - 2017	I - X - 2018	Balance	% rate
.000 T	839,6	848,7	9,1	1,1
EUR mil.	361,6	451,0	89,4	24,7
\$ mil.	405,4	534,3	128,8	31,8

*)Previous data

Export of chemical products*)				
	I - X - 2017	I - X - 2018	Balance	% rate
000 T	32,1	22,1	-10,0	-31,1
EUR mil.	860,3	996,3	136,0	15,8
\$ mil.	964,8	1.181,9	217,1	22,5

*)Previous data

Import of chemical products*)				
	I - X - 2017	I - X - 2018	Balance	% rate
.000 T	25,1	27,5	2,4	9,5
EUR mil.	149,2	176,8	27,6	18,5
\$ mil.	167,0	210,3	43,3	25,9

*)Previous data

Export of iron and steel*)				
	I - X - 2017	I - X - 2018	Balance	% rate
000 T	580,9	650,4	69,5	12,0
EUR mil.	373,6	452,9	79,3	21,2
\$ mil.	419,2	536,6	117,4	28,0

*)Previous data

Import of iron and steel*)				
	I - X - 2017	I - X - 2018	Balance	% rate
.000 T	596,1	673,0	77,0	12,9
EUR mil.	302,9	371,2	68,2	22,5
\$ mil.	339,3	442,7	103,4	30,5

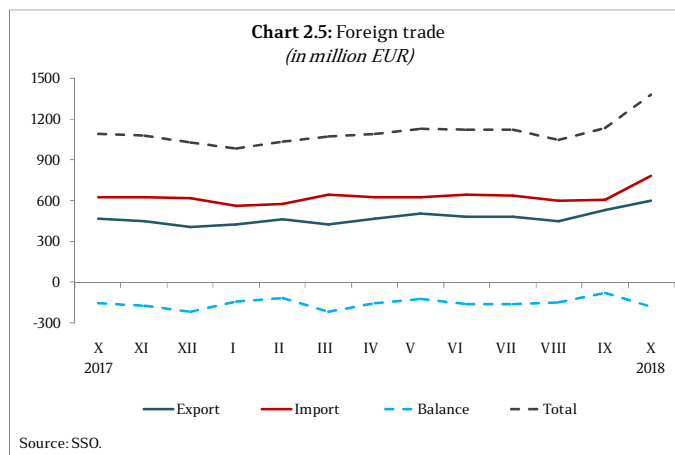
*)Previous data

Trade Balance

In the period January - October 2018, trade deficit increased by 3.2%, i.e. by EUR 44.9 million, compared to the same period last year.

In October 2018, trade deficit widened by 18.3%, i.e. EUR 27.9 million compared to October 2017.

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



In the period January–October 2018, 99.2% of the trade deficit of the country was realized in the trade with Great Britain, Greece, China and Serbia followed by: Turkey, Italy, South Africa, Poland, the USA and others. Surplus was realized in the trade with Germany, Kosovo, Belgium, Spain and Austria.

Currency Structure

Observed by currency structure, 87.6% of the trade in the period January – October 2018 was realized in euros and, compared to the period in 2017, it remained the same. On export and import side, euro accounted for 93.3% and 83.3%, respectively, whereby share of the euro at export increased by 0.1 p.p., while share of the euro at import decreased by 0.2 p.p. compared to the period January – October 2017.

import	I - X - 2017					I - X - 2018					absolute change in currency value	relative change in currency value (in %)
	currency	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar	structure in %	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar		
EUR	3.713,4	4.652.467.334	61,5827	286.511.500.064	83,4	3.728,8	5.243.937.694	61,5146	322.578.729.683	83,3	591.470.361	12,7
USD	1.402,8	983.316.979	55,1350	54.215.181.648	15,8	1.498,4	1.182.195.326	51,7308	61.155.909.996	15,8	198.878.347	20,2
GBP	4,1	19.168.413	70,4558	1.350.525.839	0,4	4,9	23.517.954	69,5978	1.636.797.836	0,4	4.349.541	22,7
EUR+USD+GBP	5.120,3			342.077.207.551	99,2	5.232,1			385.371.437.515	99,5		
tot. import	5.132,1			343.472.077.284	100,0	5.246,5			387.477.017.847	100,0		12,8

Source: SSO and NBRM

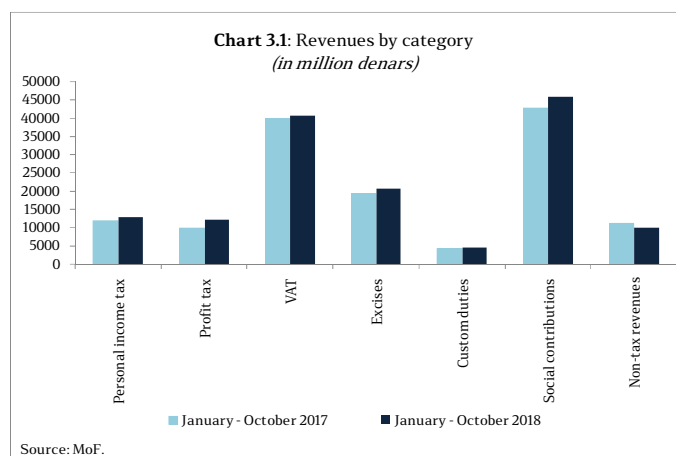
3. FISCAL SECTOR

Budget Revenues According to the Economic Classification

In the first ten months in 2018, total budget revenues amounted to Denar 153,689 million, i.e. 23.4% of GDP, which was higher performance by 5.0% compared to the same period in 2017.

Tax revenues in this period were collected in the amount of Denar 91,961 million, being higher by 7.2% in relation to the same period last year.

Revenues on the basis of value added tax were collected in the amount of Denar 40,770 million, increasing by 2.1% in relation to last year, whereby share of VAT in total tax revenues was dominant, accounting for 44.3%. Thereby, VAT collection amounted to Denar 61,528 million on gross basis, out of which Denar 20,758 million was



refunded to taxpayers (gross collection was higher by 8.3%, while VAT refund was higher by 23.0% compared to the same period in 2017). As for VAT structure, collection of VAT when importing accounted for the most, increasing by 13.0%, while VAT revenues collected on the basis of sales in the country dropped by 1.5%.

Revenues on the basis of excises were collected in the amount of Denar 20,811 million (participating with 22.6% in the tax revenues), surging by 7.6%. Hence, revenues collected on the basis of these two indirect taxes amounted to Denar 61,581 million, i.e. 67.0% of the total tax revenues in this period.

PIT revenues were collected in the amount of Denar 12,935 million, increasing by 8.1% on annual basis, whereby revenues on the basis of tax on salaries and other personal earnings accounted for 66.6% of the personal income tax, capital revenues accounted for 8.9%, revenues on the basis of contractual agreement accounted for 6.7%, revenues on the basis of games of chance and award games accounted for 5.9% and revenues on the basis of property and property rights accounted for 3.6%. Profit tax revenues in these ten months amounted to Denar 12,363 million, increasing by 25.4% compared to the same period in the previous year, being mainly a result of tax collected on the basis of monthly advance payments (28.8% increase), additional payments on the basis of tax balances (31.4% increase), as well as withholding tax for foreign legal entities (28.5% increase).

Revenues on the basis of customs duties were collected in the amount of Denar 4,640 million, increasing by 8.5%. Collection of revenues on the basis of other taxes, amounting to Denar 442 million, surged by 19.5% compared to last year.

Social contributions were collected in the amount of Denar 45,872 million, being higher by 6.9% compared to the same period in 2017, whereby collection of pension and disability insurance contributions grew by 6.8%, collection of employment contributions and health insurance contributions experienced 7.1% growth each.

Non-tax revenues were collected in the amount of Denar 10,170 million and, in relation to the same period in 2017, they were lower by 9.8% (these revenues include revenues on the basis of profit realized by the public institutions, revenues collected on the basis of administrative fees and fines, concessions, etc.).

Capital revenues realized on the basis of sale of construction land, flats and dividends reached Denar 1,924 million, increasing by 62.9% compared to last year.

Revenues collected on the basis of foreign donations from international and bilateral cooperation amounted to Denar 2,248 million, decreasing by 41.4% compared to the same period last year.

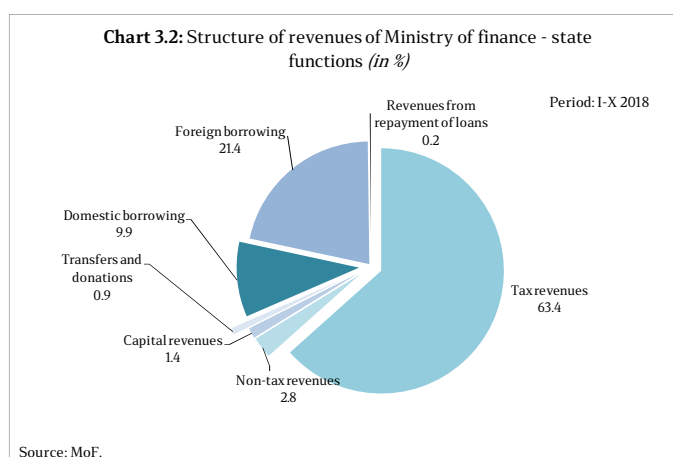
Revenues by Budget Users

Budget revenues, i.e. inflows to the Central Budget, are generated mainly through the Ministry of Finance – Functions of the State, which amounted to Denar 143,212 million in the period January - October 2018, i.e. 94.3% of the revenues of all budget users, accounting for 86.6% of the annual projections of this budget user.

Within the organizational code Ministry of Finance – Functions of the State, tax revenues accounted for the most – 63.4% of total revenues and inflows to this budget user, whereby their collection reached 81.6% of the annual projections by October. Inflows on the basis of foreign borrowing in this period amounted to Denar 30,700 million, accounting for 21.4% of the total amount of this budget user.

Next budget user, having the highest revenues and inflows, is the Ministry of Education and Science that collected revenues in the amount of Denar 2,773 million, i.e. 1.8% of the revenues and inflows of all budget users, most of which, i.e. 83.4% were non-tax revenues, collected mainly on the basis of fees and charges.

Ministry of Health collected revenues in the amount of Denar 1,024 million, i.e. 0.7% of the revenues and inflows of all budget users, while 51.1% of that amount were inflows on the basis of tax revenues. The remaining budget users collectively generated revenues, accounting for 3.2% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/693>).



As for budget funds, Pension and Disability Insurance Fund of Macedonia collected the most revenues, amounting to Denar 56,507 million in the period January – October 2018, accounting for 82.3% of the Fund’s annual projections. In this period, Health Insurance Fund of Macedonia collected revenues in the amount of Denar 24,460 million, i.e. 82.9% of the Fund’s annual projections. Employment Agency of the Republic of Macedonia in the first ten months of 2018 collected revenues in the amount of Denar 1,975 million, accounting for 71.1% of the annual projections.

Budget Expenditures According to the Economic Classification

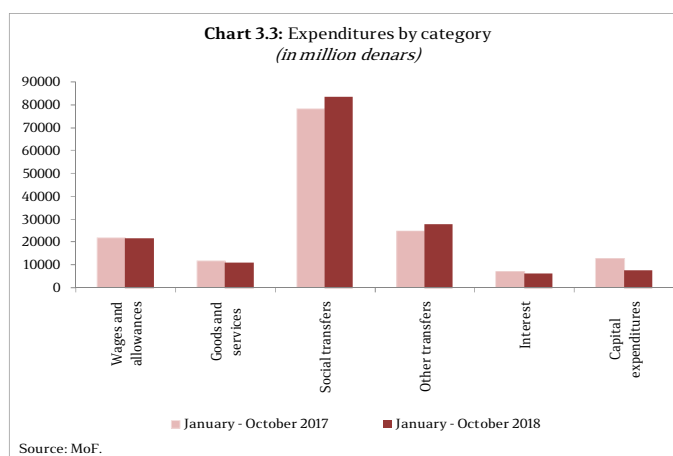
In the first ten months in 2018, total budget expenditures were executed in the amount of Denar 159,656 million, i.e. 24.3% of GDP, being higher by 1.3% compared to same period last year.

With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 152,056 million, accounted for 95.2% and they increased by 4.9% in relation to the same period in 2017.

Expenditures related to wages and allowances were executed in the amount of Denar 21,851 million, increasing by 0.2% in relation to the same period in the previous year, accounting for 13.7% of the total budget expenditures.

Expenditures related to goods and services were executed in the amount of Denar 11,087 million, decreasing by 4.9% compared to the same period in 2017.

Funds allocated for transfers amounted to Denar 112,585 million accounted for the most in the current expenditure items. Such expenditures grew by 7.7% compared to the same period in 2017, participating with 70.5% in the total expenditures.



Funds allocated for social transfers amounted to Denar 83,589 million, increasing by 6.8% and accounting for 52.4% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 50,853 million, increasing by 5.4% compared to the same period in 2017 and accounting for 31.9% of the total expenditures. Category “other transfers”, which includes transfers to local government units, accounted for 17.4% of the total expenditures, i.e. they grew by 11.8%, amounting to Denar 27,707 million. Block grants to local government units, amounting to Denar 13,105 million, grew by 5.1% compared to the same period in the previous year. Expenditures related to subsidies and transfers amounted to Denar 12,762 million, being higher by 20.7% compared to last year.

Interest payments expenditures amounted to Denar 6,533 million, being lower by 5.3% compared to the same period in 2017. Costs related to interest on the basis of domestic

borrowing increased by 2.3%, while the ones on the basis of foreign borrowing dropped by 9.3%.

During the analyzed period, funds for capital expenditures were executed in the amount of Denar 7,600 million, participating with 4.8% in the total expenditures (1.2% of GDP), i.e. decreasing by 40.5% compared to the same period last year.

Expenditures by Budget Users

Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 88.0% of the total budget of all budget users.

In the period January – October 2018, Denar 36,903 million was spent through the organizational code Ministry of Finance – Functions of the State¹ accounting for 78.1% of the annual Budget. Repayment of principal accounted for most of the expenditures (69.5%), Denar 25,653 million being spent therefore in the period January– October 2018, i.e. 90.8% of the funds projected for this purpose in 2018. As regards expenditures related to interest payments, they accounted for 17.7% of the total expenditures, Denar 6,530 million being spent therefore or accounting for 84.0% of the projected interest payments.

In the period January - October 2018, Ministry of Labour and Social Policy executed funds in the amount of Denar 36,174 million or 82.9% of its total 2018 budget. Thereby, most of the expenditures (73.1%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 26,447 million was spent or 83.1% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 18.9% in the total expenditures. As for this purpose, 83.5% (Denar 6,849 million) of the expenditures projected for 2018 were executed.

In the period January – October 2018, Ministry of Education and Science executed budget funds in the amount of Denar 17,739 million, i.e. 73.0% of its total 2018 budget. Current transfers to LGUs accounted for the most of the expenditures (63.9%), Denar 11,336 million being spent therefore or 82.1% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 15.6%, Denar 2,775 million being spent therefore, i.e. 81.3% of the total projected funds. As for goods and services (accounting for 12.1% of the total expenditures), Denar 2,139 million was spent, accounting for 52.0% of the total funds projected for this year.

In the period January – October 2018, Ministry of Internal Affairs executed expenditures in the total amount of Denar 8,471 million, accounting for 81.8% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with

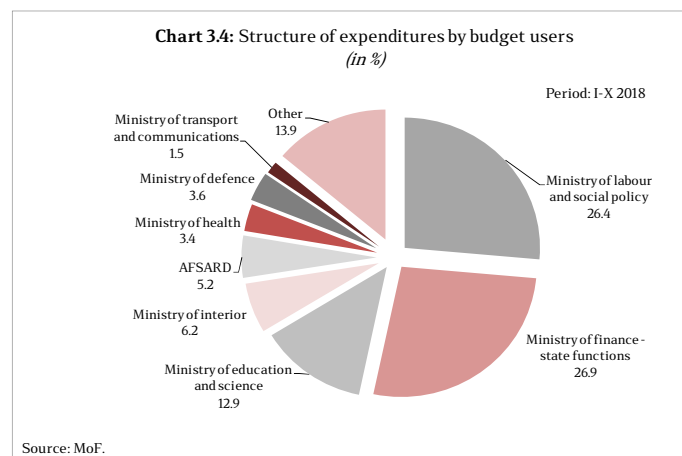
¹ As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities (interest and principal repayment) of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment 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.

71.8%, Denar 6.080 million being spent therefore, or accounting for 82.4% of the projected ones. The second highest expenditure item was goods and services, participating with 15.9%, funds in the amount of Denar 1.346 million being spent therefore, or accounting for 82.1% of the annual projections.

In the first ten months in 2018, Agency for Financial Support in Agriculture and Rural Development (AFSARD) executed expenditures in the amount of Denar 7,178 million, accounting for 83.4% of the funds projected for the current year. During the analyzed period, subsidies and transfers were the highest expenditure category (accounting for 91.5%), funds in the amount of Denar 6,569 million being spent therefore or accounting for 96.7% of the projected ones.

In the period January – October 2018, Ministry of Defense executed budget funds in the amount of Denar 4,895 million, i.e. 78.5% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 63.2%, Denar 3,093 million being spent therefore in the first ten months, accounting for 82.9% of the total funds projected for the current year. Expenditures related to goods and services accounted for 20.9% of total expenditures, Denar 1,023 million being spent therefore during the analyzed period, i.e. 69.3% execution of the total projected funds.

In the first ten months in 2018, Ministry of Health executed budget funds in the amount of Denar 4,637 million, accounting for 75.2% of its total 2018 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 58.9%, for which Denar 2,732 million was spent in the period January - October 2018 or



85.1% of the funds projected for 2018. Expenditures related to goods and services were the second highest expenditure category, accounting for 30.9% of the total expenditures, funds in the amount of Denar 1,432 million being executed therefore in the analyzed period, i.e. 70.5% of total projected ones. Capital expenditures (participating with 8.3% in the total expenditures) were executed in the amount of Denar 387 million or 47.9%.

As regards “Financing the activities in the field of culture”², in the period January - October 2018, funds in the amount of Denar 2,550 million were spent, accounting for 69.1% of the total 2018 budget therefore. Subsidies and transfers accounted for the most in the total expenditures with 34.5%, while their execution accounted for 66.9%, i.e. Denar 879 million was spent therefore. Wages and allowances accounted for 33.4%,

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.

whereby Denar 851 million or 80.9% of the projected funds were spent therefore. Capital expenditures were executed in the amount of Denar 482 million, accounting for 56.5% of total funds projected for the current year, whereby this expenditure item accounted for 18.9% of the total expenditures.

In the first ten months of 2018, Ministry of Transport and Communications executed funds in the amount of Denar 1,998 million, i.e. 49.5% of its total 2018 budget. Capital expenditures accounted for the most in the total expenditures with 67.3%, while their execution in the period January–October 2018 accounted for 41.7%, i.e. Denar 1,344 million was spent. Expenditures related to subsidies and transfers accounted for 26.0% in the total budget of this user, for which purpose Denar 519 million was spent.

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

Budget Balance

In the period January–October 2018, the budget deficit reached the amount of Denar 5,967 million, being 0.9% of GDP, while central budget deficit amounted to Denar 5,234 million or 0.8% of GDP.

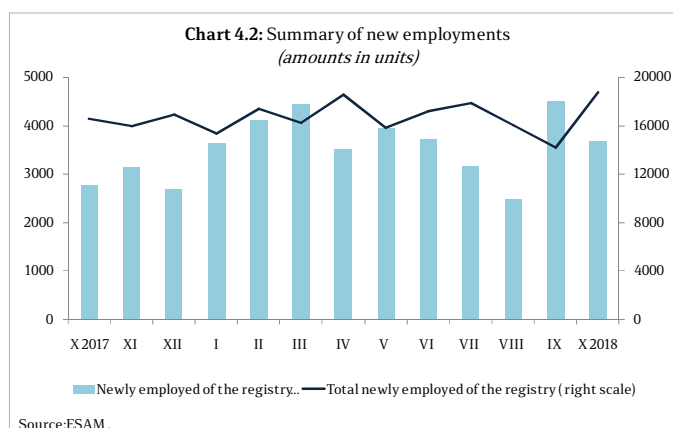
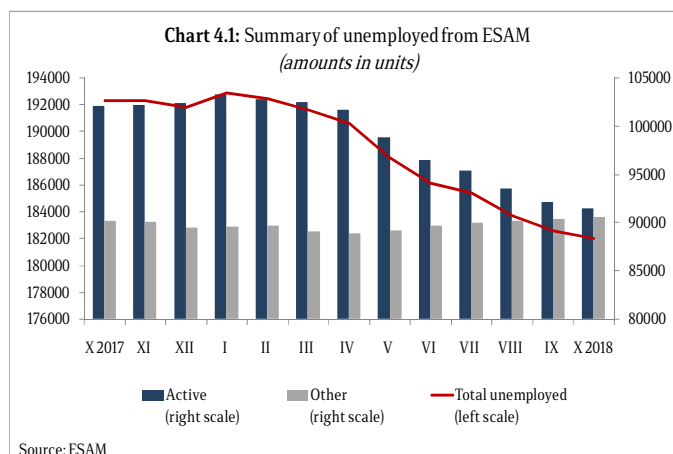
4. SOCIAL SECTOR

Number of Newly Employed and Registered Unemployed Persons in EARM

In the period January–October 2018, Employment Agency of the Republic of Macedonia registered total of 171,539 new employments. Total number of newly employed persons in this period was higher by 12.1% compared to the same period in 2017.

As regards the total number of newly employed, 41.8% was engaged on permanent basis, while the rest of the employed were engaged on temporary basis and as seasonal workers. In October 2018, 18.7% out of the total number of newly employed persons was from the unemployed records.

Total number of unemployed persons in October 2018 was 182,036, out of which 91,485 persons were active job seekers, while 90,551



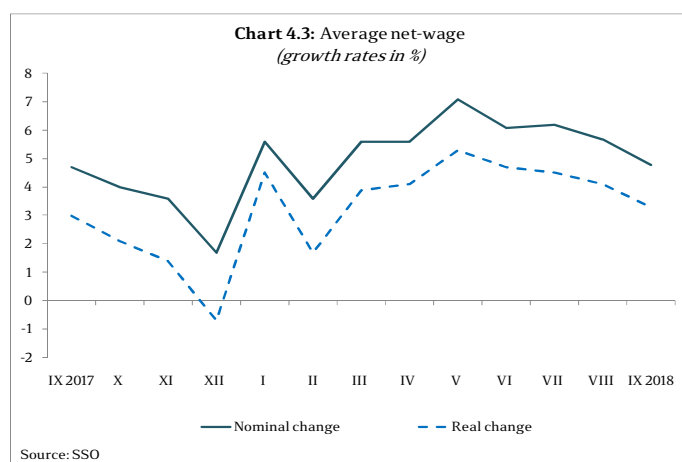
persons were from the category “other unemployed”. Compared to the same month last year, total number of unemployed persons was lower by 5.3%.

Major percentage of the unemployed (66.7%) came from urban areas (cities), whereby 57.7% were men. Analyzed by the level of education, major part, i.e. 57.5% of the unemployed persons, were with incomplete secondary education or less, 28.0% were with completed secondary education, while 14.5% of the unemployed persons were with completed community college or higher education level.

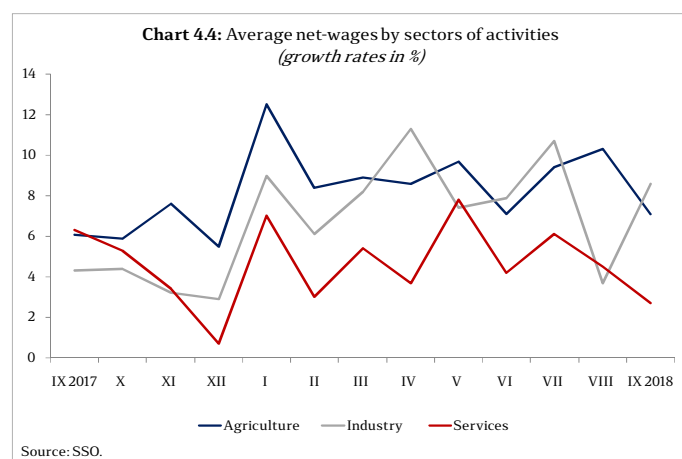
Observed by age, majority of the unemployed persons or 47.5% fall in the category of 25-49 years of age. According to the time they waited for a job, 55.4% of the unemployed persons wait for employment from 1 to 7 years, while 8.3% wait for employment for 8 years and more.

Wages

In September 2018, average net wage increased by 4.8% in nominal terms on annual basis, and it was higher by 0.6% in relation to the previous month. The highest increase of average net wage was observed at the following sectors: Mining and quarrying (21.9%), Information and communications (15.2%) and Health and social protection (11.1%). In September, wages grew by 3.3% in real terms on annual basis.



In September 2018, average gross wage increased by 4.9% in nominal terms on annual basis, and it was higher by 0.6% in relation to the previous month. The highest increase of average gross wage was observed at the following sectors: Mining and quarrying (20.3%), Information and communications (15.2%) and Health and social protection (10.8%). Real gross wage surged by 3.3% annually.

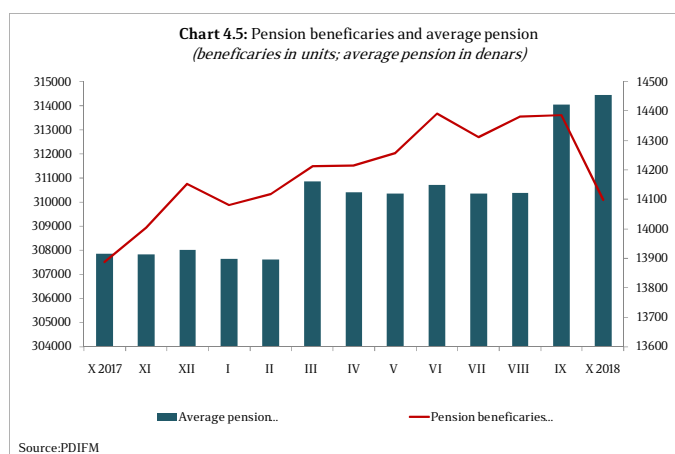


Pensions

In October 2018, Pension and Disability Insurance Fund registered 310,100 pensioners, increasing by 0.8% compared to the same period last year. Number of pension beneficiaries increased by 3,531 persons on monthly basis. As regards the total number of pensioners, 65.0% were beneficiaries of old-age pension, 23.5% of survival pension and 11.5% of disability pension.

Average pension in October 2018 amounted to Denar 14,455, being higher by 3.9% compared to the same month last year³. Ratio between the average pension and the average paid wage in September 2018 (the most recent available data) was 59.2%.

In October, average old-age pension amounted to Denar 15,739, average disability pension amounted to Denar 13,060, while average survival pension amounted to Denar 11,582. In October 2018, Denar 4,596.71 million was spent for payment of pensions, accounting for 52.8% of the total social transfers.



5. MONETARY AND FINANCIAL SECTOR

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



Primary Money

In October 2018, primary money grew⁴ by 16.2% on annual basis, in conditions of increase of both total liquid assets of banks by 26.6% and currency in circulation by 6.0%.

On monthly basis, primary money grew by 19.6%, as a result of increase of total liquid assets of banks by 44.9%, while currency in circulation declined by 0.6%.

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

⁴ Primary money is calculated as a sum of currency in circulation (including cash in hand), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

Deposit Potential⁵

In October 2018, total deposits of banks increased by 0.9% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises grew by 2.3%, while deposits of households surged by 0.2%.

Analyzed by currency, in October 2018 compared to the previous month, domestic currency deposits surged by 0.6%, while foreign currency deposits experienced 1.3% growth.

Total deposit potential in October 2018 grew by 11.4% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 13.2% and 8.8%, respectively.

From sector point of view, this month, deposits of enterprises grew by 13.9%, and deposits of households increased by 8.2%, on annual basis.

According to maturity, short-term deposits surged by 6.4%, while long-term deposits grew by 12.7%, on annual basis.

Currency structure of deposits remained stable, whereby share of domestic currency deposits in the deposit base was higher, accounting for 59.2%.

Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (October 2018)	Denar million	Monthly change	Annual change
Deposit Potential	361,295	0.9%	11.4%
Denar	213,907	0.6%	13.2%
Foreign currency	147,388	1.3%	8.8%
Short-term	160,795	1.3%	6.4%
Long-term	101,447	0.6%	12.7%
Credits to private sector	313,085	0.5%	8.2%
Denar	183,613	1.3%	10.5%
Foreign currency	129,472	-0.7%	5.2%
Short-term	56,590	-1.1%	6.9%
Long-term	237,855	0.9	11.0%
Doubtful and contested claims	15,577	1.0%	-16.3%

Source: NBRM

⁵ 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.

Bank Credits

In October 2018, total credits of banks to the private sector surged by 0.5% compared to the last month. Sector analysis shows that credits to enterprises experienced growth of 0.1% in October 2018, while credits to households increased by 0.9%. Analyzed by currency, in October 2018, Denar credits grew by 1.3%, while foreign currency credits dropped by 0.7%, on monthly basis.

On annual basis, total credits grew by 8.2% in October 2018, in conditions of growth of both credits to households of 10.5% and credits to enterprises of 5.8%. Denar credits surged by 10.5%, while foreign currency credits increased by 5.2%.

As regards maturity, long-term credits experienced annual growth of 11.0%, and short-term credits picked up by 6.9%.

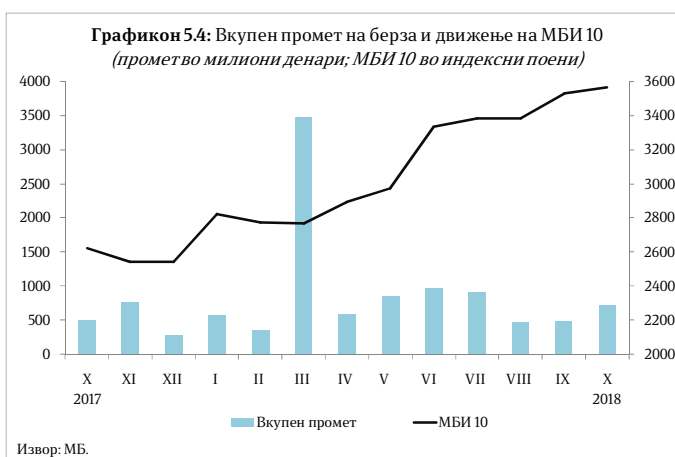
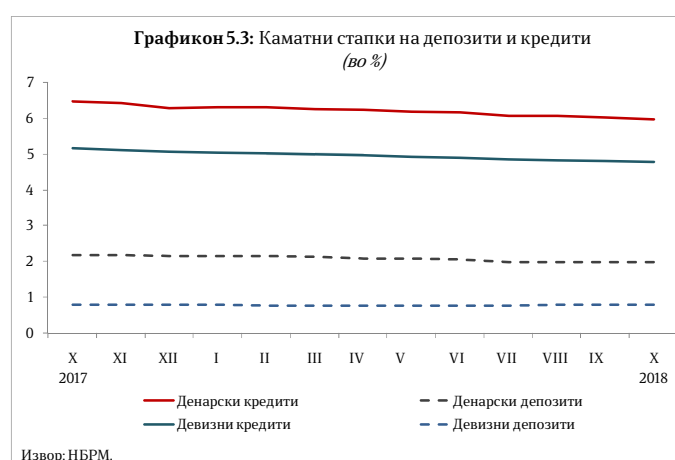
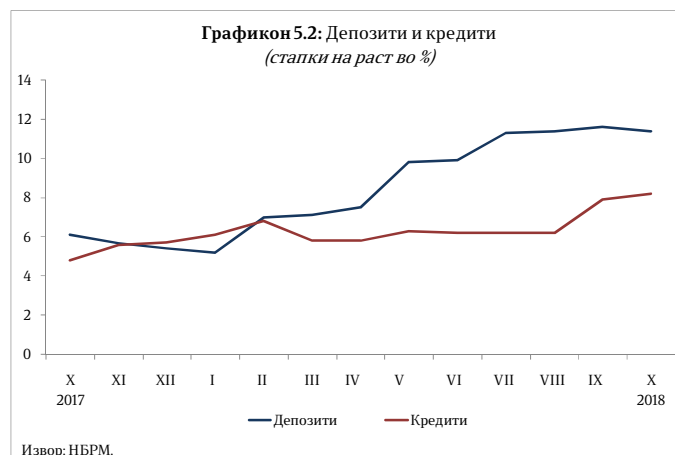
Interest Rates of Deposit Banks

In October 2018, total interest rate on credits dropped by 0.03 p.p. compared to the previous month, accounting for 5.42%. Interest rate on Denar credits dropped by 0.05 p.p., accounting for 5.96%, while interest rate on foreign currency credits decreased by 0.03 p.p. on monthly basis, accounting for 4.79%.

Total interest rate on deposits in October 2018 was 1.43%, remaining unchanged compared to the previous month. Interest rate on Denar deposits remained unchanged, accounting for 1.98%, while interest rate on foreign currency deposits increased by 0.01 p.p., accounting for 0.79%.

Capital Market

As for the capital market, in October 2018, total turnover on the stock exchange surged by 47.9% on monthly basis, as a result of the increase of turnover from trading



in best and turnover from block transactions by 60.8% and 3.2%, respectively.

Total turnover on the stock exchange amounted to Denar 715.1 million in October 2018, increasing by 44.5% on annual basis. Macedonian Stock Exchange Index MSEI - 10 amounted to 3,564.50 index points at the end of October 2018, whereby the index grew by 0.98% on monthly basis, while, compared to the same month last year, the index was higher by 35.9%.

Reserve Assets

Gross foreign currency reserves at the end of October 2018 amounted to EUR 2,759.4 million and, compared to the previous month, they were higher by EUR 50.3 million, while compared to October 2017, they surged by EUR 458.4 million.

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