

# **National Bank of the Republic of Macedonia**

MONETARY POLICY AND RESEARCH DEPARTMENT



## **Recent Macroeconomic Indicators Review of the Current Situation**

August 2018

## Recent Macroeconomic Indicators

## Recent Macroeconomic Indicators

### Review of the Current Situation – Implications for the Monetary Policy

*The review of the current situation aims to give an overview of the recent macroeconomic data (April - August 2018) and to make a comparison with the latest macroeconomic forecasts (April 2018). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous round of forecasts. The review focuses on the changes in external assumptions and performances of domestic variables and the effect of these changes on the environment for monetary policy conduct.*

The latest estimates for the global economic growth remain favorable, envisaging further solid growth rates of the global economy this and the next year. Despite the favorable outlook, according to the latest perceptions of the IMF the short-term risks are assessed as mainly downward, despite the current assessments for their balance. The risks are related to the uncertainty about the possible further escalation of trade protectionism, the monetary policies normalization pace of central banks in developed countries, the trend of intensified oil price growth on the world stock markets, as well as the increased geopolitical risks. In terms of the economic developments in the **euro area**, the preliminary GDP estimate for the second quarter shows an annual growth of 2.1%, which is a further slowdown in the pace of growth (2.5% in the first quarter). Taking into account the performances in the first quarter and the available indicators for the second quarter, in June, the ECB made a moderate downward revision of the growth of the euro area for 2018 (from 2.4% to 2.1%), while keeping the March forecasts for the growth in 2019 and 2020 (of 1.9% and 1.7%, respectively). During the second quarter, the labor market conditions are more favorable, whereby the unemployment rate in June was 8.3% (8.6% in the first quarter). Regarding inflation, the performances for July show a small acceleration to 2.1% (from 2% in June), mostly as a result of the growth of the energy inflation of 9.4% (8% in June). The latest ECB forecasts for inflation have been revised upward for 2018 and 2019, mainly as a result of the effect of the higher oil prices on the energy inflation, while the expectations for 2020 are unchanged relative to March<sup>1</sup>. At the last meeting in July, the ECB specified the reducing dynamics of the asset purchase, indicating that the terminal date of the quantitative easing program would be December 2018, while interest rates would remain at the current level at least by the end of the summer of 2019. Hence, the expectations for the future trend of **Euribor** in 2018 and 2019 remained in the negative zone.

**Observed from a viewpoint of the individual quantitative external environment indicators of the Macedonian economy, the forecast regarding the foreign effective demand has been moderately revised downwards** for 2018 and 2019 compared to the April forecast. On the other hand, regarding **the foreign effective inflation**, a slight upward revision to the 2018 and 2019 forecast was made. There are further expectations for depreciation of the **exchange rate of the US dollar against the euro**, which will be less pronounced in 2018 and slightly higher in 2019, compared to April. **Forecasts for primary commodities prices on the world markets for 2018 and 2019 have been mostly revised upwards in relation to the April forecasts.** Analyzed by individual products, the latest estimates for **world oil prices** indicate a faster price growth in 2018 in relation to the April forecasts and minimal growth of the price in 2019, versus the expected moderate fall. **Metal prices** for 2018 have an upward correction compared to April forecasts, with expectations for a higher rise in the prices of nickel and copper. On the other hand, in 2019, the revisions are in different

---

<sup>1</sup> The latest forecasts are that inflation will be 1.7% in 2018, 2019 and 2020, while in March it was expected to be 1.4% in 2018 and 2019, and 1.7% in 2020.

directions, i.e. a slightly higher growth in the nickel price and a somewhat larger decrease in the copper price is forecasted. In terms of **global prices of primary food products**, the revisions for 2018 and 2019 are upward, whereby a higher growth of wheat and corn prices is expected. However, one should bear in mind that the movements in the prices of primary commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term.

**Regarding the domestic economy, the comparison of the latest macroeconomic indicators with their projected dynamics within the April forecasting round indicates certain deviations in individual segments of the economy.** According to the initially estimated GDP data, the economic activity in the first quarter of 2018 registered minimal growth, which is under the forecasted movement. The available high frequency data for the second quarter indicate more favorable developments, compared to the first quarter. Namely, the activity in industry and trade continued to grow at solid growth rates, similar to those from the first quarter, while the fall in the value of completed construction works significantly slowed down. The second quarter witnessed an improvement in the economic sentiment indicator. Regarding the **consumer prices**, in July the annual inflation rate is 1.7%, which is a downward deviation compared to the April forecast. Amid upward revision of external input assumptions in the inflation forecast for the entire 2018 and lower inflation than forecast, it was assessed that risks surrounding the inflation forecast of 2% for 2018 are balanced. The uncertainty around the forecasted movement of the world primary commodities prices remains the main risk surrounding the inflation forecast.

**Recent available data on changes in foreign reserves (adjusted for the effects of price and exchange rate differentials and price changes of securities) in July registered a moderate monthly decline.** According to the analysis of change factors, the regular servicing of the obligations of the country<sup>2</sup> abroad in July acted towards reducing the foreign reserves, which was in a significant part offset by the NBRM's purchase of foreign currency on the foreign exchange market. Available data from the external sector for the third quarter of the year so far are limited. Foreign exchange market data, as of July, point to performances close to the expectations. Regarding the external position in the second quarter, foreign trade statistics, as of the second quarter, show lower than expected trade deficit, amid simultaneously higher export and import component. The analysis of foreign reserves adequacy indicators shows that they remain in a safe zone.

As for the monetary sector developments, final data as of June<sup>3</sup> show a further monthly increase in **total deposits** (of 0.9%), but with a moderate slowdown in the pace of growth compared to the previous month. Analyzing by sector, the monthly increase in total deposits is mostly a result of the growth of corporate deposits, whereby household deposits, as well as deposits of other financial institutions also make a positive, but relatively smaller contribution. Analyzing the currency structure, the increase in total deposits was mostly due to foreign currency deposits, and a small positive contribution was also made by denar deposits (including demand deposits). On an annual basis, total deposits in June grew by 10.6%, which exceeds the forecasted growth of 7.4% for the second quarter of 2018, according to the April forecast. Analyzing the credit market, in June, the **total loans** to the private sector registered a monthly growth of 0.9%, slightly more moderate compared to the previous month. The growth of lending activity in June, almost equally arises from loans granted to households and corporations. Analyzing the currency structure, the monthly growth of total loans in June is mainly driven by loans in domestic currency, whereby loans in foreign currency also make a positive contribution to the growth. On annual basis, total loans in June grew by 6.2%, which is above the forecasted growth of 4.1% for the second quarter of 2018.

---

<sup>2</sup> In July, among other things, the regular repayment of the annual interest on the basis of two Eurobonds was made.

<sup>3</sup> The data from the monetary statistics are in accordance with the methodological changes of the NBRM from June 2018. More information on the methodological changes can be found on the following link: [http://www.nbrm.mk/monetarna\\_statistika\\_i\\_statistika\\_na\\_kamatni\\_stapki.nspix](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix).

In the fiscal sector, in the first half of 2018, the Budget of the Republic of Macedonia registered a deficit of Denar 4,538 million, which was mostly financed by external sources, i.e. by inflows from the new Eurobond issued in January, whereby part of these funds were kept as deposits on the Government's account with the National Bank. The budget deficit was in a small part funded through the new issue of government securities in the domestic financial markets. The deficit in the Budget of the Republic of Macedonia constitutes 24.9% of the deficit envisaged in the Budget for 2018.

**In general, the latest macroeconomic indicators and assessments indicate certain deviations in terms of the forecasted dynamics, but the perceptions about the environment for monetary policy conduct are somewhat more favorable than before.** This primarily refers to the foreign exchange market, where the movements have been continuously favorable, reflecting the improved foreign exchange position of the corporate sector, as well as the favorable movements on the currency exchange market. Foreign reserves adequacy indicators remain in the safe zone. Regarding the economic activity, despite the favorable developments in the individual economic sectors during the second quarter, the relatively weak performance in the first quarter continues to create downward risks to the forecasted economic growth for the entire 2018. Observing the inflation, amid lower inflation than forecasted, but also significant upward revisions in part of the world prices, the current risks are assessed as balanced.

## Better signals of economic activity in the second quarter of 2018, compared to the first quarter

In the second quarter of the year, positive developments were registered in the key macroeconomic indicators on the domestic supply side. **Industrial output** continued to grow at a solid pace, as in the first quarter. Although the industry growth is mainly driven by the activities in which the major foreign export capacities are present, towards the end of the quarter, a positive contribution was also made by part of the traditional activities, primarily the metal industry. The growth of **domestic trade** accelerates, primarily the turnover in all types of trade (wholesale, retail and trade in motor vehicles). Positive trends continue also in **the catering services**, and the **economic sentiment** indicator also has a significant improvement. Favorable developments this quarter were observed in **construction**, as an activity with a pronounced negative contribution to the activity in the first quarter. Namely, **the value of completed construction works** in the period April – May registered a significant slowdown in the pace of fall (in April, an increase was observed), primarily due to better performances in civil engineering and its significantly reduced negative contribution compared to the previous quarter. Such performances in the key activities of the domestic economy point to a more favorable annual dynamics of the growth in the second quarter, compared with the performances in the first quarter. Regarding these perceptions, one should note also the low base effect, bearing in mind the decline in GDP in the second quarter of the previous year, as the only quarter that registered reduced economic activity.

Selected economic indicators <sup>1</sup>	2015	2016	2017					2018								
	2015	2016	Q1	Q2	Q3	Q4	2017	Jan.	Feb.	Mar	Q1	Apr.	May	Jun	Q2	Jul.
I. Real sector indicators																
Gross domestic product (real growth rate, y-o-y) <sup>2</sup>	3,9	2,9	0,0	-1,3	0,2	1,2	0,0				0,1					
Industrial production <sup>3</sup>																
y-o-y	4,9	3,4	-1,5	3,7	-2,4	0,9	0,2	8,4	3,1	4,6	5,2	1,5	1,1	12,1	4,9	
cumulative average	4,9	3,4	-1,5	1,2	-0,1	0,2	0,2	8,4	5,6	5,2	5,2	4,2	3,5	5,0	5,0	
Inflation <sup>4</sup>																
CPI Inflation (y-o-y) <sup>5</sup>	-0,4	-0,2	0,6	1,2	1,5	2,1	2,4	1,1	1,9	1,6	1,5	1,4	1,7	1,4	1,5	1,7
CPI Inflation (cumulative average)	-0,3	-0,2	0,6	0,9	1,1	1,4	1,4	1,1	1,5	1,5	1,5	1,5	1,5	1,5	1,5	1,5
Core inflation (cumulative average)	0,5	1,3	1,9	2,0	2,2	2,3	2,3	1,6	1,7	1,7	1,7	1,6	1,7	1,6	1,6	1,6
Core inflation (y-o-y)	0,5	1,3	1,9	2,1	2,6	2,8	2,3	1,6	1,9	1,5	1,7	1,5	1,9	1,3	1,6	1,7
Labor force																
Unemployment rate	26,1	23,7	22,9	22,6	22,1	21,9	22,4				21,6					
II. Fiscal Indicators																
(Central Budget and Budgets of Funds)																
Total budget revenues (in millions of denars)	161.207	169.356	42.734	43.636	44.600	48.718	179.688	13.328	14.060	15.981	43.369	17.085	15.237	14.959	47.281	
Total budget expenditures (in millions of denars)	180.632	185.407	46.300	48.377	47.346	54.561	196.584	13.930	16.755	15.817	46.502	16.495	17.090	15.101	48.686	
Overall balance (cash, in millions of denars)	-19.425	-16.051	-3.566	-4.741	-2.746	-5.843	-16.896	-602	-2.695	164	-3.133	590	-1.853	-142	-1.405	
Overall balance (in % of GDP) <sup>1</sup>	-3,5	-2,7	-0,6	-0,8	-0,4	-0,9	-2,7	-0,1	-0,4	0,0	-0,5	0,1	-0,3	0,0	-0,2	
III. Financial indicators <sup>6</sup>																
Broad money (M4), y-o-y growth rate	6,9	6,2	4,2	7,5	6,2	5,1	5,1	5,2	7,3	7,5	7,5	8,0	10,2	10,1	10,1	
Total credits, y-o-y growth rate	9,6	-0,1	-1,1	4,1	4,1	5,4	5,4	5,8	6,7	5,7	5,7	5,7	6,1	6,2	6,2	
Total credits - households	12,9	7,0	6,6	9,5	9,8	9,2	9,2	9,7	9,9	9,4	9,4	9,6	9,6	9,7	9,7	
Total credits - enterprises	7,3	-5,3	-7,2	-0,4	-0,9	2,3	2,3	2,4	3,7	2,3	2,3	2,1	2,9	2,9	2,9	
Total deposits (incl. demand deposits), y-o-y growth rate	6,5	5,7	4,2	7,6	6,0	5,4	5,4	5,2	7,0	7,1	7,1	7,5	9,8	9,9	9,9	
Total deposits - households	4,1	2,5	1,8	6,5	5,6	6,1	6,1	5,5	6,4	7,3	7,3	8,2	8,9	7,9	7,9	
Total deposits - enterprises	13,0	13,4	8,8	10,8	5,6	2,1	2,1	2,5	7,1	4,1	4,1	4,1	9,3	11,6	11,6	
Interest rates <sup>7</sup>																
Interest rates of CBBills	3,25	3,75	3,25	3,25	3,25	3,25	3,25	3,25	3,25	3,00	3,0	3,0	3,0	3,0	3,0	3,0
Lending rates																
denar rates	7,4	7,0	6,8	6,7	6,6	6,4	6,6	6,3	6,3	6,3	6,3	6,2	6,2	6,2	6,2	
f/x rates (aggregated, incl. f/x and denar with f/x clause)	6,2	5,7	5,4	5,3	5,2	5,1	5,3	5,0	5,0	5,0	5,0	5,0	4,9	4,9	4,9	
Deposit rates																
denar rates	2,9	2,5	2,3	2,2	2,1	2,2	2,2	2,2	2,1	2,1	2,1	2,1	2,1	2,1	2,1	
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1,3	1,0	0,9	0,9	0,8	0,8	0,9	0,8	0,8	0,8	0,8	0,8	0,8	0,8	0,8	
IV. External sector indicators																
Current account balance (millions of EUR)	-177,1	-265,0	-145,2	-99,4	180,5	-69,6	-133,7	-42,3	-0,2	-115,4	-157,9					
Current account balance (% of GDP)	-2,0	-2,7	-1,4	-1,0	1,8	-0,7	-1,3	-0,4	0,0	-1,1	-1,5					
Trade balance (millions of EUR) <sup>8</sup>	-1.713,6	-1.777,4	-435,1	-450,8	-385,9	-545,9	-1.817,7	-139,3	-117,0	-218,5	-474,9	-153,3	-119,7	-171,4	-444,4	
Trade balance (% of GDP)	-18,9	-18,0	-4,3	-4,5	-3,8	-5,4	-18,1	-1,3	-1,1	-2,1	-4,5	-1,5	-1,1	-1,6	-4,2	
Import (millions of EUR)	-5.801,1	-6.106,7	-1.583,8	-1.721,7	-1.648,8	-1.870,6	-6.824,9	-561,8	-577,1	-644,7	-1.783,6	-623,2	-625,1	-635,6	-1.883,9	
Export (millions of EUR)	4.087,6	4.329,3	1.148,6	1.270,9	1.263,0	1.324,7	5.007,2	422,5	460,0	426,2	1.308,7	469,9	505,5	464,2	1.439,5	
rate of growth of import (y-o-y)	5,4	5,3	16,7	10,5	7,1	13,2	11,8	24,6	10,6	5,5	12,6	10,2	1,3	17,8	9,4	
rate of growth of export (y-o-y)	9,1	5,9	16,8	20,3	10,0	16,1	15,7	28,5	19,9	-2,3	13,9	17,3	16,2	6,6	13,3	
Foreign Direct Investment (millions of EUR)	202,8	316,9	111,4	-10,0	-50,5	178,1	229,1	64,9	101,0	67,4	233,3					
External debt																
Gross external debt (in millions of EUR)	6.290,5	7.216,6	7.715,9	7.717,7	7.642,9	7.403,4	7.403,4				8.298,0					
public sector	2.933,7	3.445,3	3.819,9	3.741,0	3.710,2	3.461,7	3.461,7				4.053,0					
public sector/GDP (in %)	32,4	35,4	37,9	37,2	36,9	34,4	34,4				38,5					
private sector	3.356,9	3.771,2	3.896,0	3.976,8	3.932,8	3.941,7	3.941,7				4.245,0					
Gross external debt/GDP (in %)	69,4	74,2	76,7	76,7	75,9	73,6	73,6				78,7					
Gross official reserves (millions of EUR) <sup>9</sup>	2.261,7	2.613,4	2.534,4	2.399,9	2.271,4	2.336,3	2.336,3	2.577,4	2.566,3	2.577,1	2.577,1	2.588,4	2.610,7	2.642,2	2.642,2	2.623,0

<sup>1</sup> While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2017, the projected level from the NBRM projections from October 2016 is used.

<sup>2</sup> Preliminary data for 2015. Estimated data for 2016.

<sup>3</sup> The changes of Index of industrial production are according to base year 2010=100.

<sup>4</sup> CPI calculated according to COICOP 2016=100.

<sup>5</sup> Inflation on annual basis corresponds to end-year inflation (December current year/December previous year)

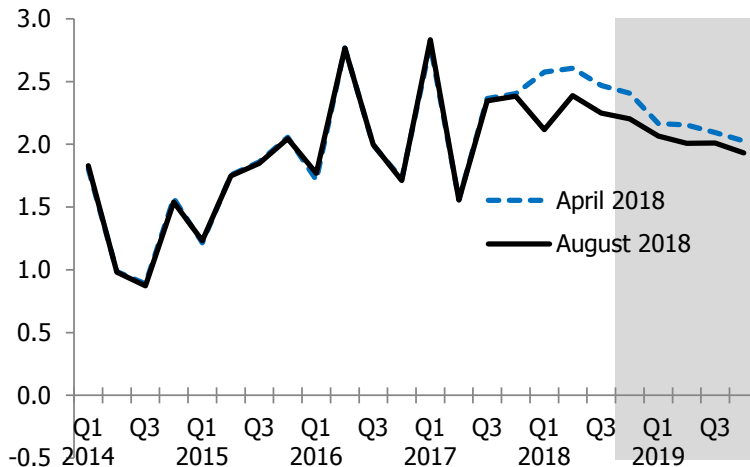
<sup>6</sup> The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since June 2018).

<sup>7</sup> As of June 2018 data for active and passive interest rates are compiled according to the new methodology of NBRM.

<sup>8</sup> Trade balance according to foreign trade statistics (on c.i.f. base).

<sup>9</sup> The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

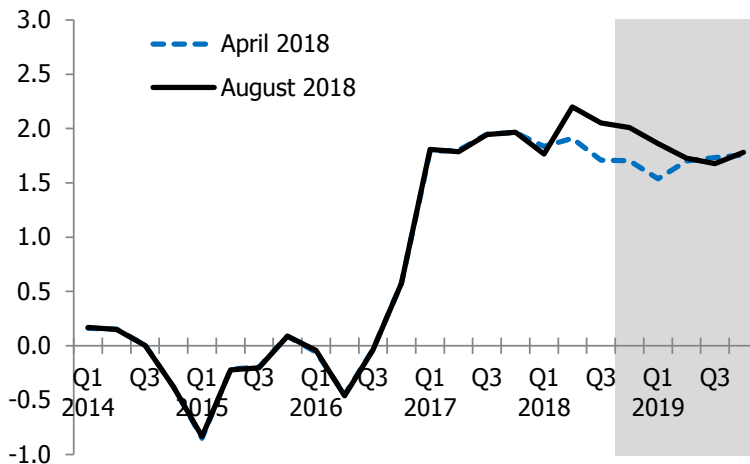
**Foreign effective demand**  
(annual changes in %)



The latest estimates of the quantitative indicators for the external environment point to changes in external assumptions in different directions<sup>4</sup>.

**Foreign effective demand** has been revised downwards relative to the April forecasting round. Thus, foreign demand is now expected to grow by 2.2%, in 2018 (versus 2.5% in April) and 2.0%, in 2019 (versus 2.1% in April). The downward revision is largely due to the lower expected growth of the German economy.

**Foreign effective inflation**  
(annual rates in %)

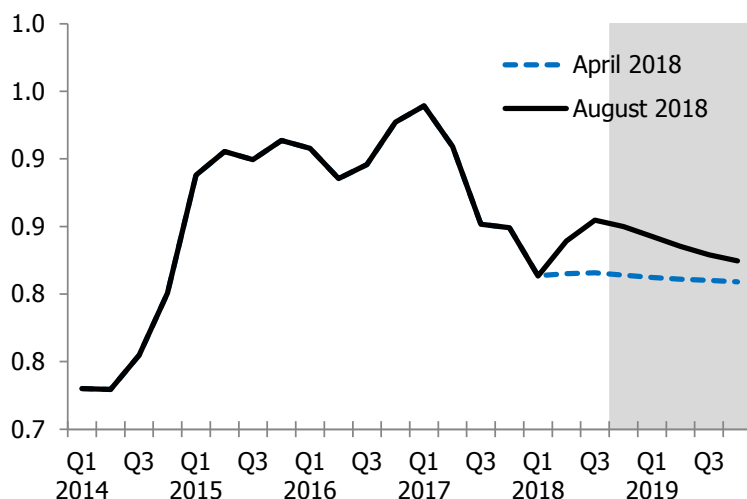


On the other hand, the latest expectations of the **foreign effective inflation** for 2018 and 2019 are slightly higher than the April forecasts. Thus, the foreign effective inflation is now expected to equal 2.0% and 1.8%, compared to 1.8% and 1.7% in April, respectively. The revision of foreign inflation is mainly a result of estimates for higher imported inflation from Serbia, Croatia<sup>5</sup> and Germany.

<sup>4</sup> Changes are in comparison with the expectations with the April forecast.

<sup>5</sup> Inflation in Serbia and Croatia has been adjusted for the changes in the exchange rate.

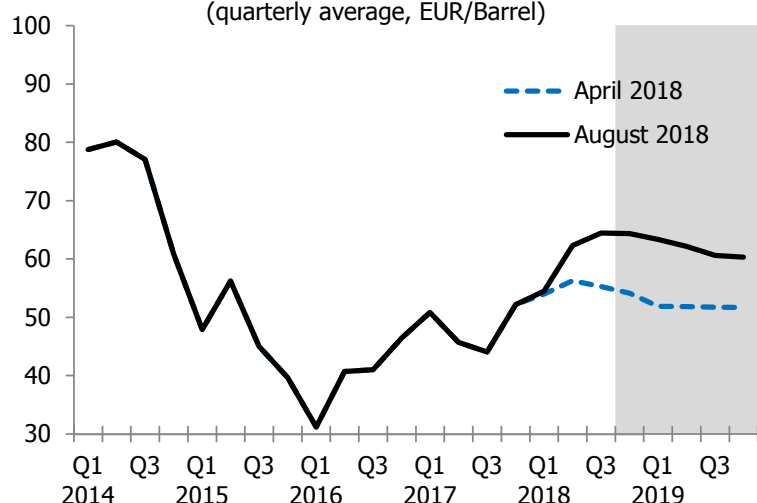
EUR/USD exchange rate



**The euro/US dollar exchange rate** for 2018 has been revised upwards (smaller depreciation of the US dollar due to the increased political risks in the euro area and the worsened economic performance of Germany in the first quarter), while for 2019, a small downward revision was made (greater depreciation of the US dollar).

Brent oil

(quarterly average, EUR/Barrel)

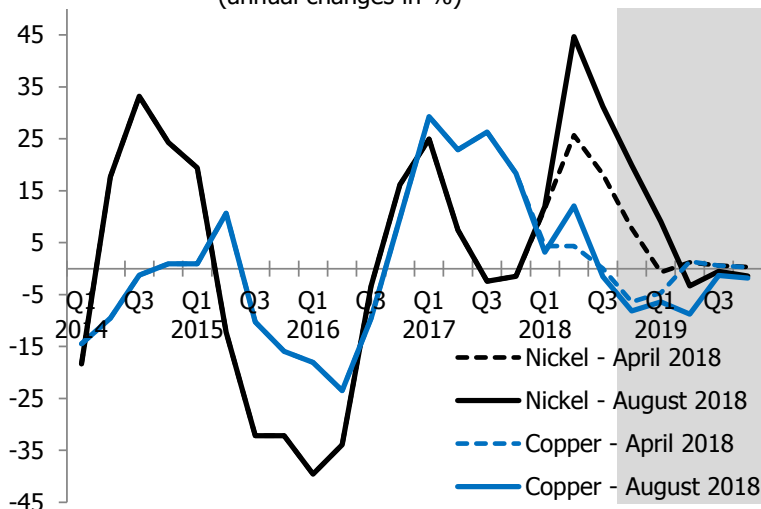


**Oil price<sup>6</sup>** for 2018 was considerably revised upward which is generally due to the high demand for oil on a world scale, the geopolitical tensions between the United States and Iran and the expectations of a lower supply worldwide<sup>7</sup>. For 2019, oil price has also been revised upward, thereby now expecting minimal growth, as opposed to the decline expected in April.

<sup>6</sup> For the analysis of prices of oil, metals and primary food products, various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals are used.

<sup>7</sup> On 6 July 2018, the President of the United States made a decision to additionally impose sanctions on Iran (after the previously imposed sanctions on 8 May 2018) that will come into effect from November 2018, and it is expected that they will mainly affect the oil sector. Also, the expectations are that these sanctions may have adverse effects on the world supply, i.e. that the United States and Saudi Arabia will not be able to cover the lack by the supply as a result of the imposition of sanctions on Iran.

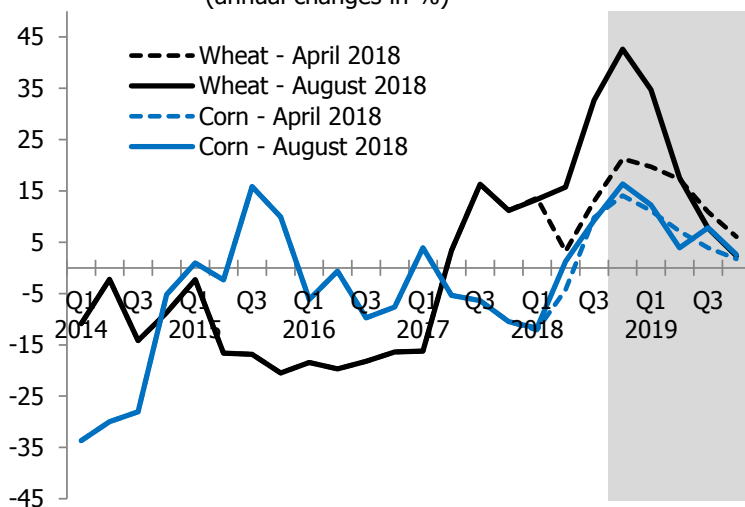
**Nickel and copper prices in EUR**  
(annual changes in %)



**The nickel price has been revised upward for 2018 and 2019.** With the latest estimates, in 2018, almost double the growth of the nickel price is expected in general as a result of the lower levels of world inventories, as well as the expectations for increased world demand, which are largely driven by the automotive industry<sup>8</sup>. In 2019, the nickel price is still expected to register a small increase, as in April.

**The copper price for 2018 has been revised upward,** mainly reflecting the expected changes in the dynamics of the euro/US dollar exchange rate (seen in dollars, the adjustment in the price is downward). On the other hand, the copper price is expected to register sharper decline for 2019, a shift which is mainly associated with the expectations for a gradual slowdown in the Chinese economy and with the renewed political and trade tensions between the United States and China.

**Wheat and corn prices in EUR**  
(annual changes in %)

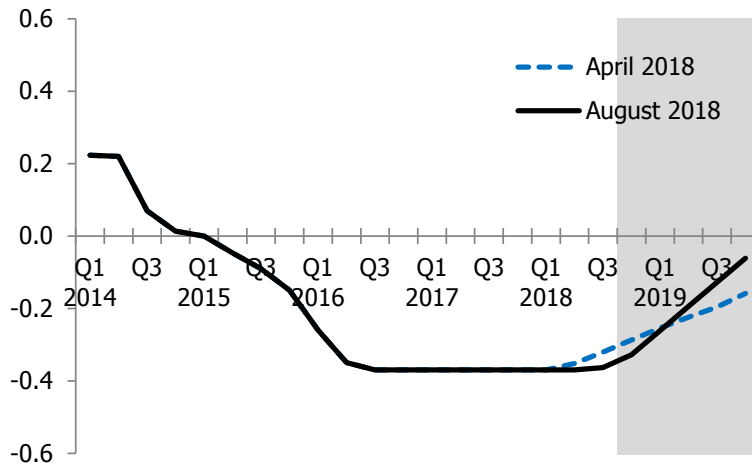


**The prices of primary food products for 2018 have been revised upwards.** Moreover, the higher prices of wheat reflect the expectations for reduction of the world production, as well as a lower level of world inventories. The higher price of corn is completely a result of the expected changes in the euro/US dollar exchange rate (the price expressed in dollars has been adjusted downwards). Wheat and corn prices have also been slightly revised upwards for 2019.

<sup>8</sup>According to Wood Mackenzie's estimates, the demand for nickel by the automotive industry in the production of electric batteries by 2025 will be 220,000 tons annually, while according to UBS, this figure is even larger, i.e. by 2025 the demand will be from 500,000 to 600,000 tons annually. An additional factor that contributes to the increase in the nickel price are also the efforts of research establishments to increase the share of nickel in electric car batteries, from the current 60% to 80%.

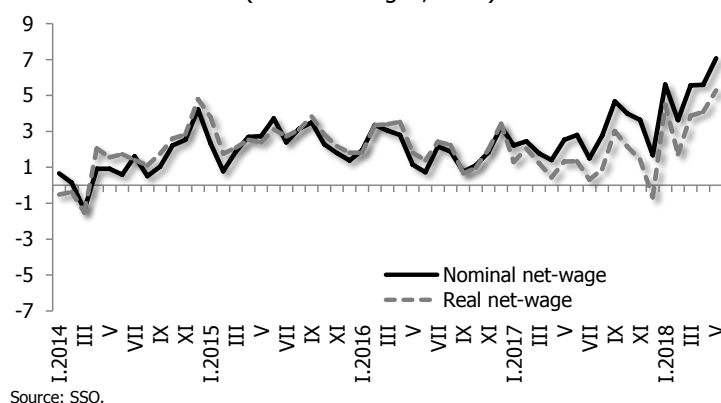


**1-month Euribor**  
(quarterly average, in % )



**The one-month EURIBOR** has been moderately revised downwards for 2018. Thus, according to recent estimates, the one-month EURIBOR is expected to be -0.36% (-0.33% in the April forecasts). These developments largely reflect the ECB's announcement on keeping the interest rates at the current level at least by the end of the summer of 2019. On the other hand, for 2019, the one-month EURIBOR has been revised upwards and is now expected to be -0.16, compared to -0.21% in April.

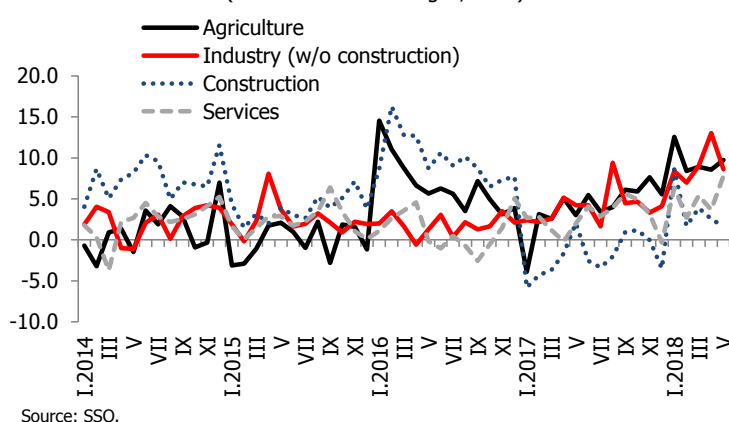
**Average net-wage**  
(annual changes, in %)



In May 2018, the average net wage registered a nominal annual growth of **7.1%**, which is a growth acceleration of 1.5 percentage points, compared to the previous month. The increase in the minimum wage in September last year<sup>9</sup> in part contributes to the annual growth as well.

Upward movement of wages was registered in most of the activities, with highest growth recorded in: "facilities for lodging and food service activities", "financial and insurance activities" and "information and communication", and wages in the manufacturing industry and mining also recorded a solid growth. On the other hand, in May, lower wages were paid only in "professional, scientific and technical activities" and "transport and storage".

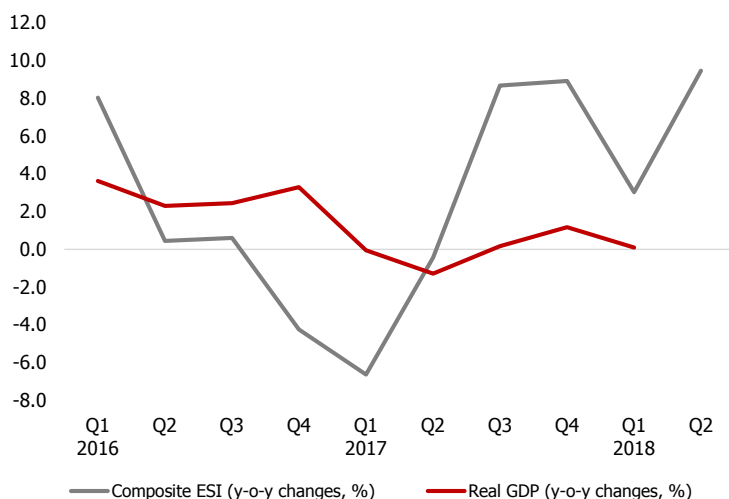
**Average monthly net wage paid by sectors**  
(nominal annual changes, in %)



Amid moderate increase in the consumer prices, in May, the **real wages increased by 5.3%**.

In the first two months of the second quarter, the net wage registered a nominal and real annual growth slightly higher than the expected movements for the second quarter within the April forecast.

**Economic sentiment indicator and GDP**



The available data on the key macroeconomic indicators of the domestic supply and aggregate demand suggest **economic growth in the second quarter of the year**. The results obtained from the surveys that measure the perceptions of economic agents for

the situation in the economy are also in the same direction<sup>10</sup>, which mainly suggests more favorable perceptions of agents in the second quarter compared to the same period of the previous year.

The growth of the **industrial output** continued in the second quarter of the year, at almost the same pace compared to the growth in the first quarter. This increase was mostly driven by the increase in the production in the

<sup>9</sup> On 19 September 2017, the Assembly of the Republic of Macedonia adopted the amendments to the Law on the Minimum Wage of the Republic of Macedonia. Pursuant to the amendments, starting with the payment of the salary for September 2017, the amount of the minimum wage in the Republic of Macedonia for all sectors in the economy is set at Denar 17 300 in gross amount, i.e. Denar 12 000 in net amount.

<sup>10</sup> It refers to the surveys conducted by the European Commission to measure the economic confidence of entities in an economy. The composite indicator of economic confidence is obtained as a weighted average from the confidence indicators for consumers and confidence indicators for individual economic sectors (construction, industry, retail trade and services).

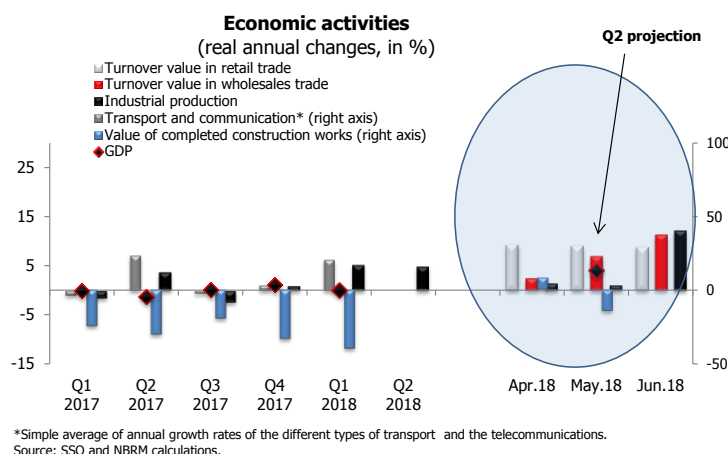
manufacturing industry, and the growth of the production in the energy sector also made a positive, but more moderate contribution, while the production in mining continued to fall. Within the manufacturing industry, the growth, as before, is mainly explained by the production in the activities in which the major foreign export capacities (motor vehicles, electrical equipment, machinery and devices) are present, as well as in "manufacture of fabricated metal products, except machinery and equipment". A moderate positive contribution in this quarter was also made by the manufacture of furniture and textile, as well as the manufacture of metals, the manufacture of which registered a decline in the first quarter. For some of the other traditional activities, the unfavorable movements remain.

In the second quarter of the year, there was faster growth of **total trade**, given higher turnover registered in all types (wholesale trade, retail trade and trade in motor vehicles).

Within the **catering services**, the positive developments continued also in the period April - May 2018, but at a slower pace compared to the developments in the first quarter. Thus, the number of tourists and overnight stays increased, and the turnover increased as well.

On the other hand, the annual decline in **construction** continued in the period April - May, but at a significantly slower pace<sup>11</sup>. Such movements are the result of the growth of the building construction activity, as well as the significant deceleration of the decline in civil engineering.

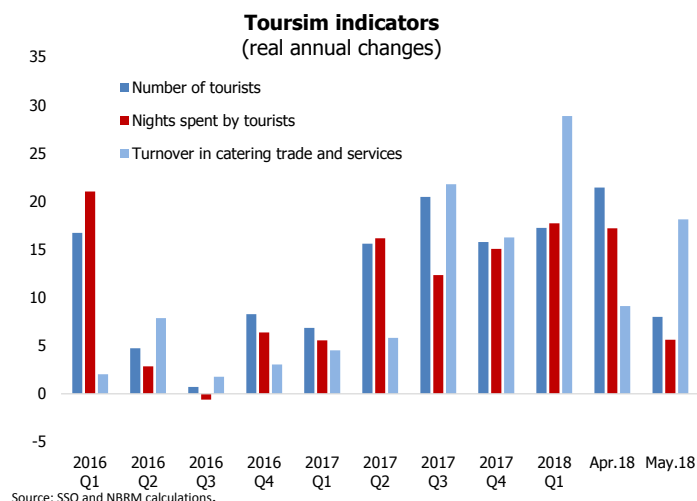
On the side of aggregate demand, the **private consumption** indicators<sup>12</sup> for the second quarter mainly point to its further growth, amid favorable performances and rapid growth in the main components of disposable income (wages, pensions and private transfers), lending to households and retail trade, and growth was recorded also in the import of consumer goods, as well as the revenues from VAT, after the



## INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2017				2018				
	Q1	Q2	Q3	Q4	Q1	Q2	April	May	June
	real annual changes in %								
Gross domestic product	0.0	-1.3	0.2	1.2	0.1	-	-	-	-
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	4.9	1.5	1.1	12.1
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	-	8.0	-14.3	-
Retail and wholesale trade	3.0	4.4	4.7	3.9	5.7	8.2	5.6	8.8	10.2
Retail trade	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.2	9.0	8.7
Wholesale trade	8.9	10.4	11.2	8.4	5.2	6.8	2.4	6.9	11.2

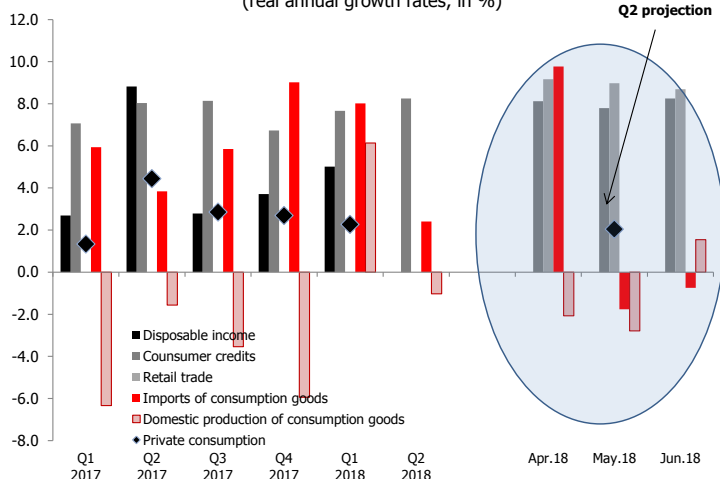
\*annual rates in % from base index 2015=100.  
Source: SSO and NBRM's own calculations.



<sup>11</sup> According to the revised data of the SSO, in April, construction increased.

<sup>12</sup> From the private consumption indicators, data on wages and private transfers refer to the period April - May 2018, while data on loans to households, pensions, retail trade, import of consumer goods and domestic production of consumer goods refer to the period April - June 2018.

**Indicative variables for private consumption**  
(real annual growth rates, in %)



Source: SSO and NBRM calculations.

decline registered in the previous quarter<sup>13</sup>.

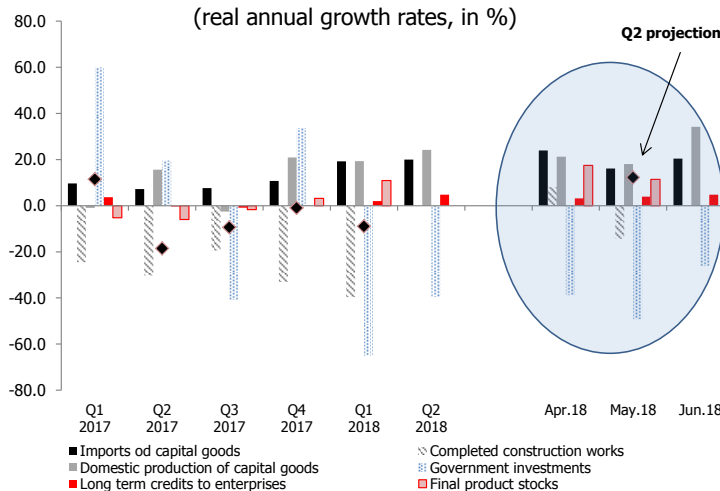
The available short-term data on the **investment activity**<sup>14</sup> are generally favorable in the second quarter of 2018, with further growth of long-term lending to enterprises, industrial production, domestic output and import of capital goods, as well as growth of foreign direct investments.

On the other hand, the fall in the activity in the construction sector and government capital investments continued in the second quarter, although the two categories registered a significant slowdown in the pace of fall.

The data on **foreign trade** point to a narrowing of the deficit in the second quarter of the year, given higher nominal growth in the export than in the import of goods.

Budget performances in the second quarter of the year indicate a rise in public consumption, mainly as a result of the higher health care transfers<sup>15</sup>, and growth was recorded also in the expenditures on goods and services and the transfers to local governments.

**Indicative variables for investments**  
(real annual growth rates, in %)

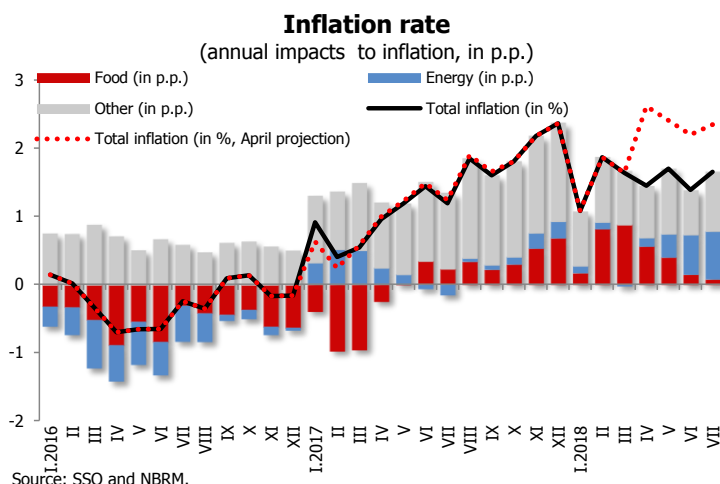


Source: SSO and NBRM calculations.

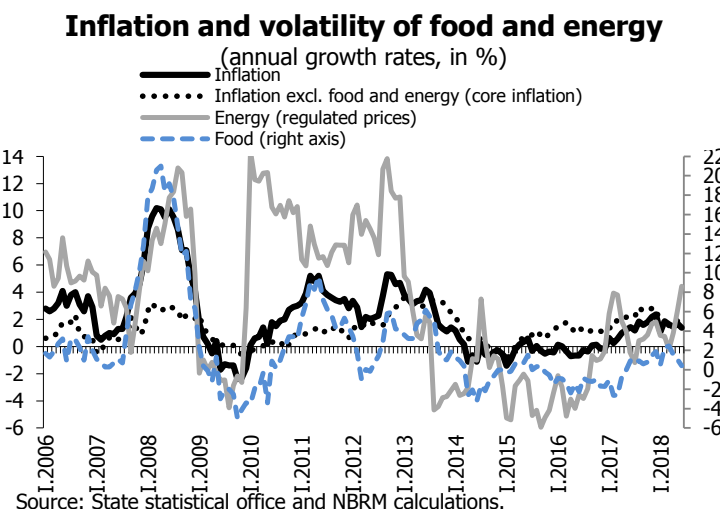
<sup>13</sup> According to the private consumption indicators, only the domestic production of consumer goods registered a decrease in the period April - June 2018.

<sup>14</sup> From the indicators for gross investments, data on completed construction works and foreign direct investments relate to the April - May 2018 period, while data on long-term corporate loans, government capital investments, industrial production, imports of investment products and domestic production of capital goods refer to the April - June 2018 period.

<sup>15</sup> Most of these assets relate to expenditures on goods and services of the Health Insurance Fund.

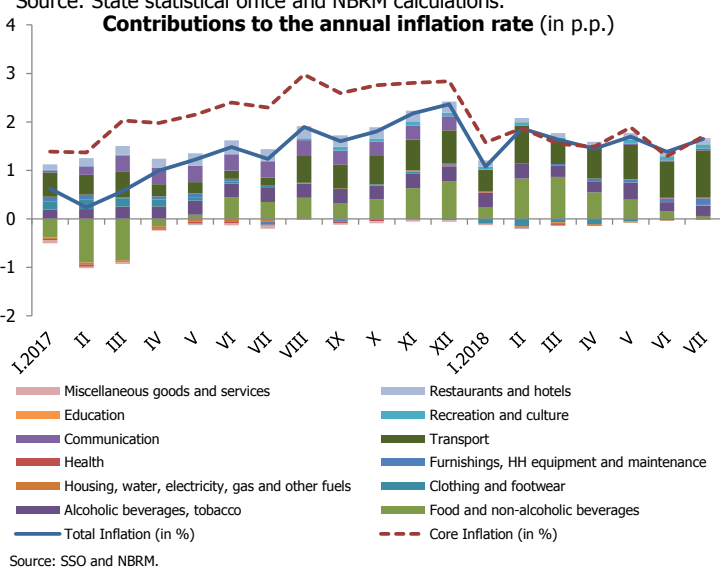


In July 2018, domestic consumer prices fell by 0.3%<sup>16</sup> on a monthly basis (in June they were unchanged), influenced by the lower food and energy prices, while core inflation registered an upward movement on a monthly basis.



The annual inflation rate equaled 1.7% in July (compared to 1.4% in June), which is still a downward deviation compared to the April forecast.

By individual price category, downward deviation is present in food prices, while energy prices and core inflation are generally in line with the forecast.



Core inflation rate in July amounted to 0.5% on a monthly basis, whereas on an annual basis the increase amounted to 1.7% (1.3% in June).

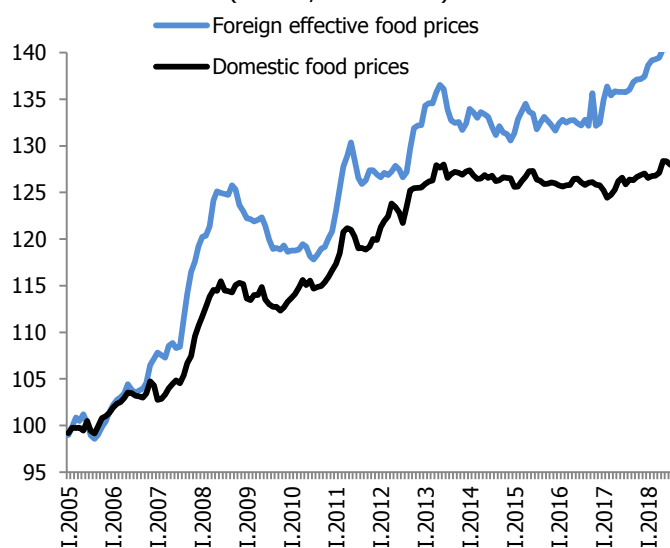
The annual growth structure of core inflation is similar since the beginning of the year. Namely, in July, the annual growth is associated with the growth in the prices of most categories within core inflation, with the greatest positive contribution being made by the prices of air transport and tobacco<sup>17</sup>.

<sup>16</sup> Analyzed by groups of products, the highest contribution to the monthly fall in prices in July was that of vegetables, influenced by seasonal factors.

<sup>17</sup> The annual growth of the price of tobacco in July reflects the increase in the prices of cigarettes in April, May and in July, in the eve of the increase in excise duties on cigarettes since the beginning of July 2018. The increase in excise duties of 0.20 denars/piece is envisaged to be made each year, as of 1 July 2023.

### Foreign effective food prices\* and domestic food prices

(indices, 2005 = 100)



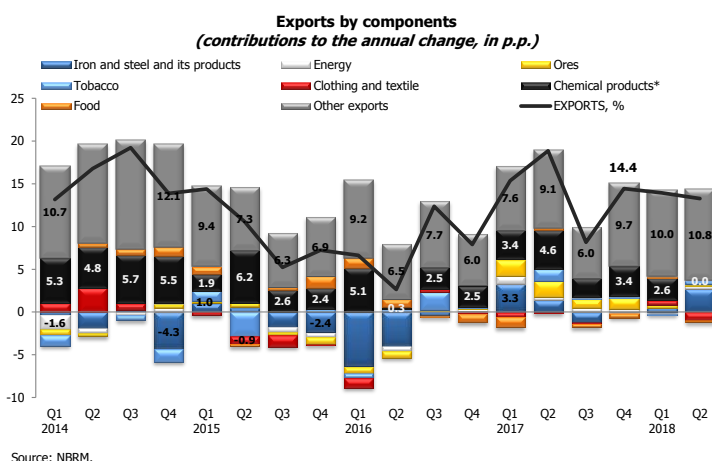
\* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with Macedonia.

Source: State statistical office, Eurostat and NBRM calculations.

**The expected price movements of external input assumptions in the inflation forecast for the whole of 2018 have been revised upward.**

Thus, the latest oil prices estimates for 2018 indicate faster growth compared to the expectations of the April forecasts. At the same time, the expectations for the prices of cereals (wheat and corn) indicate greater upward pressure, compared to the expectations of April.

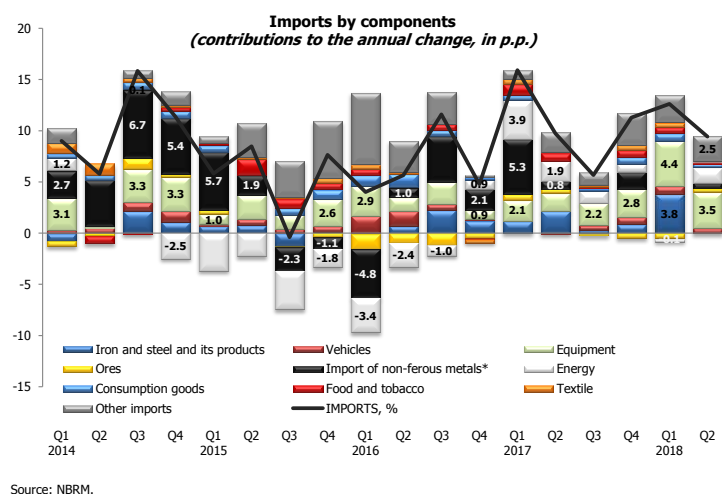
**Amid current inflation lower than forecasted in April and an upward adjustment in external input assumptions, for now, the risks regarding the inflation forecast are estimated as balanced.** However, due to the volatility of the world prices of primary products, there is still uncertainty about their forecasted movement.



In the second quarter of 2018, the intensified growth of exports compared to imports contributed to a slight decrease in the foreign trade deficit of 1.4% on an annual basis.

**Export of goods** in the second quarter registered an annual growth of 13.3%, driven primarily by the good performance of the new export-oriented facilities. Exports of iron and steel made a significant positive contribution to the total growth. The other export categories have not registered significant changes.

Compared with the April forecast, the realized export in the second quarter was higher than the expectations. Significant upward deviations were registered in the export of part of the new production facilities, as well as in the export of iron and steel and tobacco.

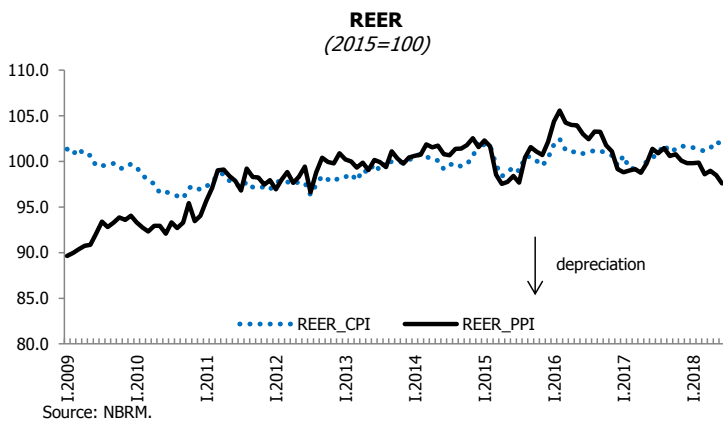


**The import of goods** in the second quarter increased by 9.4% on an annual basis, reflecting the growth in almost all import categories, and primarily the import of equipment and machinery and the import of raw materials for new industrial facilities and the higher energy imports, mainly due to the growth of import prices of oil derivatives.

Imports of goods in the second quarter were moderately higher than expected according to the April forecast, as a result of the upward deviations in the import of equipment and machinery and ores, with simultaneously lower imports in part of the new industrial facilities.

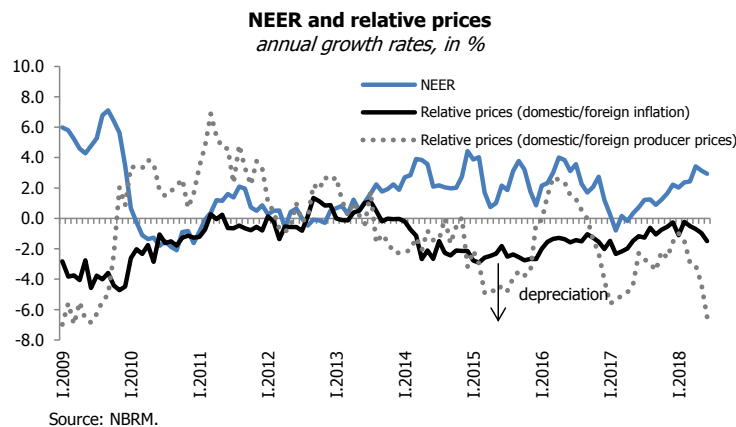
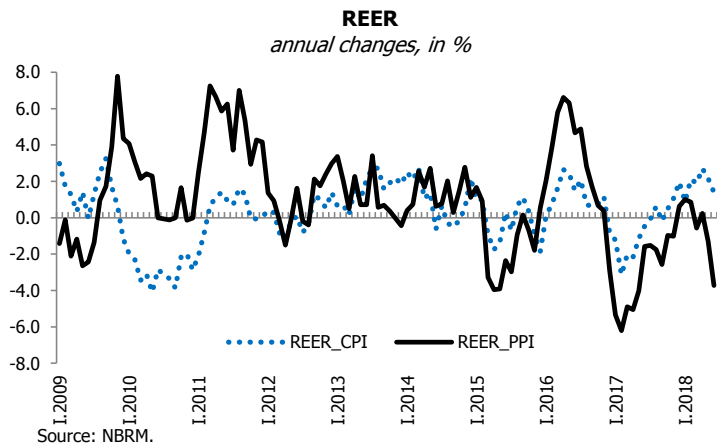
The performances of the foreign trade components indicate a trade deficit that is lower than expected for the second quarter of 2018, according to the April forecast.

**In June 2018, price competitiveness indicators of the domestic economy registered divergent movements compared to the same period last year.**

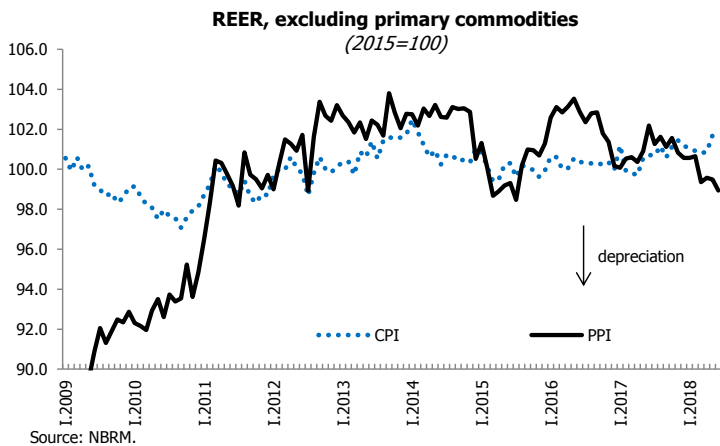


The REER index deflated by consumer prices have appreciated by 1.4% on an annual basis and the REER index deflated by producer prices have registered a more pronounced depreciation of 3.7%.

Thereby, favorable trends of the relative prices were registered, given annual fall in relative consumer costs and relative prices of industrial products of 1.5% and 6.5%, respectively. The movement of the NEER, which appreciated by 2.9% on an annual basis, acted in the opposite direction, mostly as a result of the depreciation of the Turkish lira and the Russian ruble.

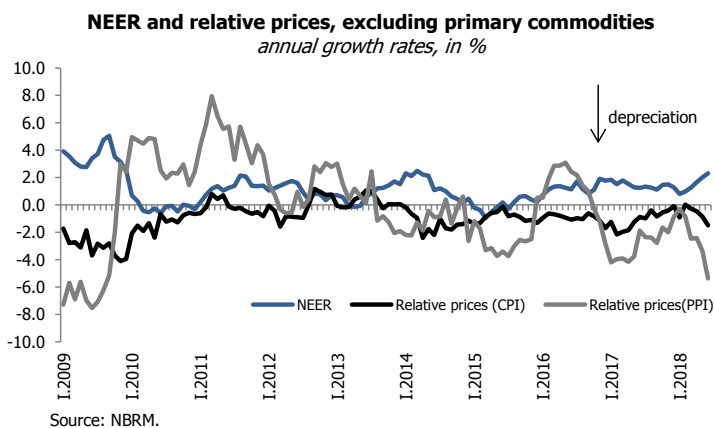
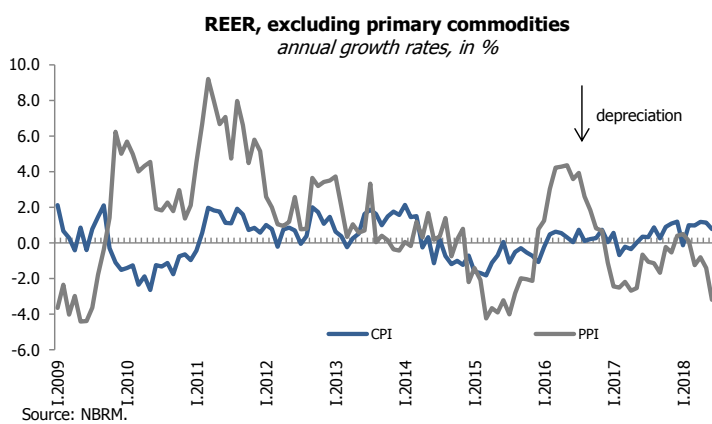






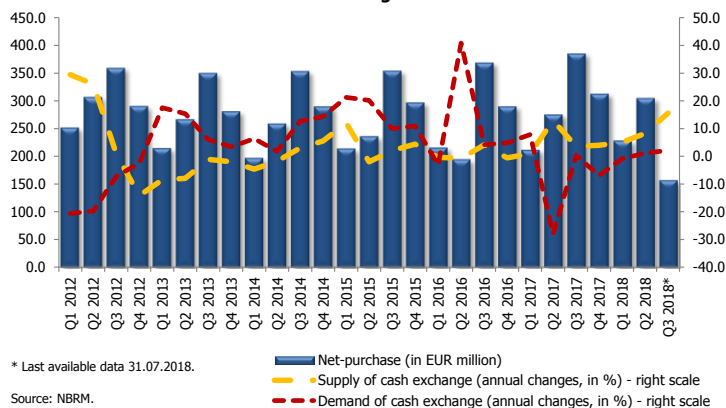
The analysis of REER indices, as measured using weights based on the foreign trade without primary commodities<sup>18</sup>, also shows similar movements. Thus, in June 2018, the REER index deflated by consumer prices appreciated by 0.8%, while the REER deflated by producer prices depreciated by 3.2%.

On an annual basis, the relative consumer prices and the relative producer prices decreased by 1.5% and 5.4%, respectively. At the same time, the NEER has appreciated by 2.3% on an annual basis.

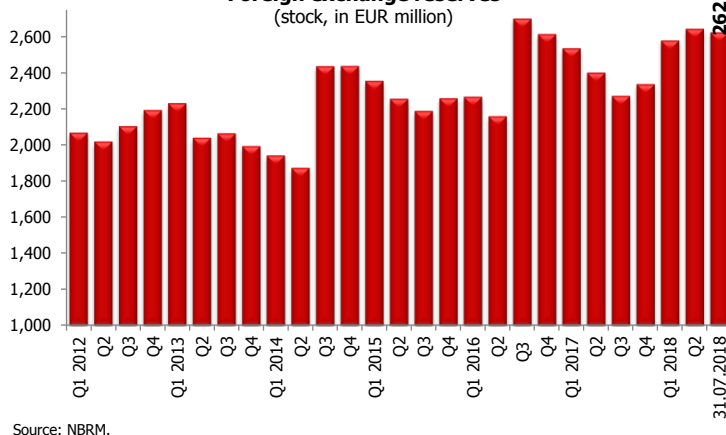


<sup>18</sup> Primary commodities not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

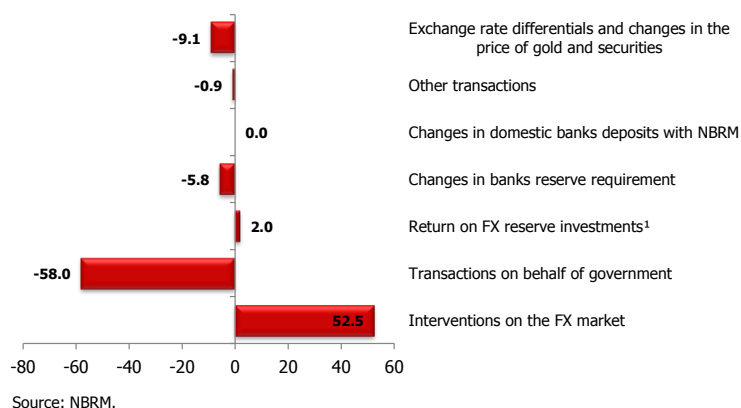
Cash exchange market

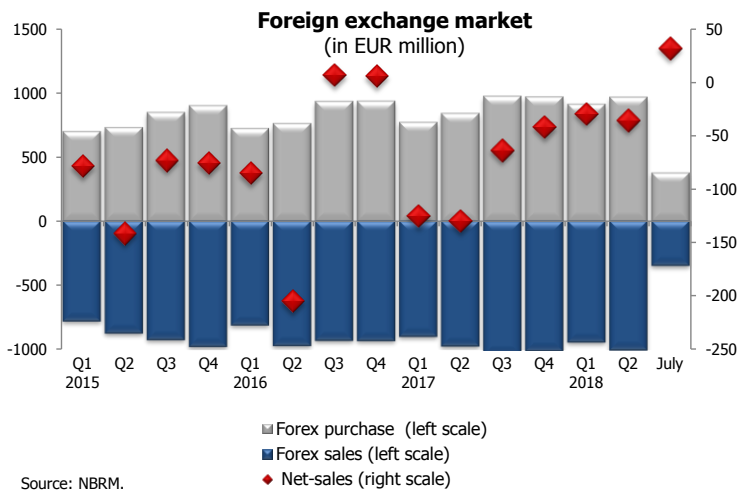


The net purchase on the currency exchange market registered in July 2018 equaled Euro 157.3 million, which is annual increase of 19.2%. These developments are the result of the higher supply of and demand for foreign currency (by 15.6% and 2.2%, respectively).

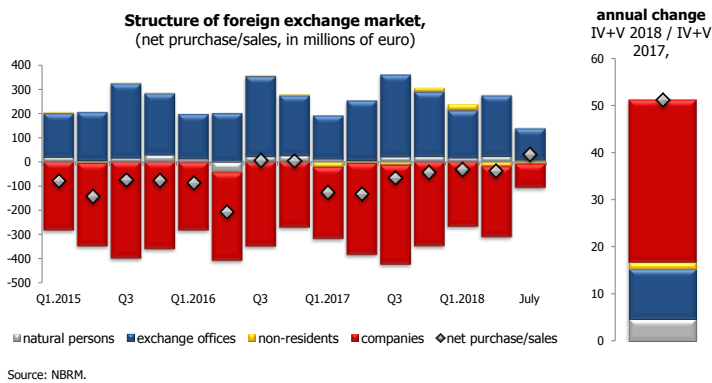
Foreign exchange reserves  
(stock, in EUR million)

On 31 July 2018, gross foreign reserves amounted to Euro 2,622.8 million, which is a decrease of Euro 19.4 million compared to the end of the second quarter of 2018. The decrease in the foreign reserves mainly arises from the NBRM's transactions on behalf of the government, primarily as a result of the regular servicing of the external debt, and to a lesser extent, from price and exchange rate differentials. At the same time, the NBRM interventions on the foreign exchange market acted towards significant purchase of foreign currency, while the other flows had a more moderate effect on the changes in the foreign reserves in the analyzed period.

Factors of change of the foreign reserves in July 2018  
(in EUR million)



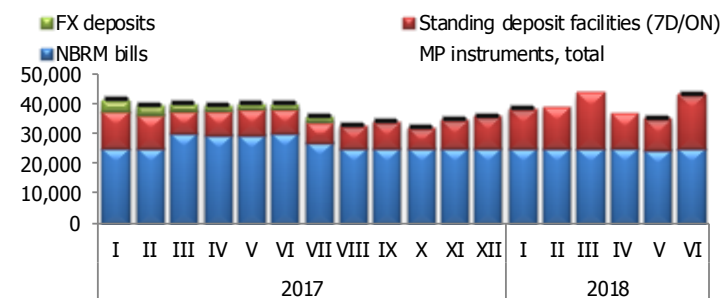
In July 2018, the foreign exchange market of banks registered a net purchase of foreign currency of Euro 32 million, versus the net sale of Euro 19.3 million in the same period last year. This annual change is mainly due to the higher growth in the supply of foreign currency, with a slight decline in the demand for foreign currency.



Sector-by-sector analysis shows that such shifts mostly result from the lower net sales of companies. The higher net purchase by exchange offices also acted in the same direction, but to a lesser extent. Both natural persons and non-residents have not registered significant changes on an annual basis.

## Monetary policy instruments

(stocks, end of month data, in MKD million)

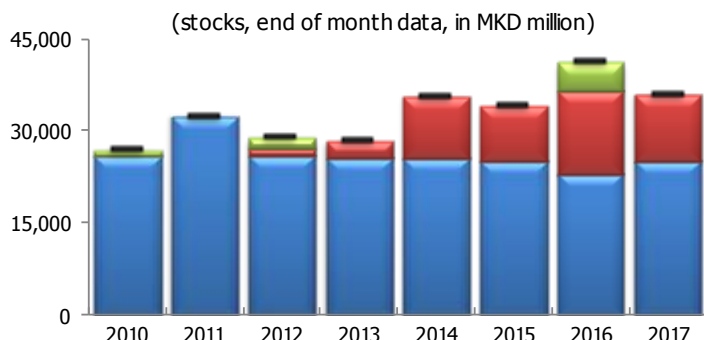


**In June, monetary instruments registered monthly increase.** The increase fully reflects the higher stock of banks' funds placed in short-term deposits with the NBRM, while the stock of the main instrument was unchanged<sup>19</sup>. Accordingly, the level of monetary instruments at the end of June was higher than expected for the end of the second quarter of the year<sup>20</sup>.

**The net foreign assets of the NBRM also registered monthly increase.** The increase in June is the result of the growth of the foreign assets of the NBRM (in conditions of foreign exchange interventions of the NBRM with purchase of foreign currency from market makers), amid more moderate growth of the foreign liabilities of the NBRM. Compared with the forecast for the end of the second quarter, the NBRM's net foreign assets at the end of June are higher than expected.

**In June, government deposits recorded a small growth on a monthly basis,** driven by the growth of foreign currency deposits, with a small decrease in denar deposits. Compared with the forecast for the end of the second quarter, **the total government deposits at the end of June are higher.**

In circumstances of higher amount of banks' funds placed in short-term deposits with the NBRM and thus reducing the banks' liquid assets on accounts with the NBRM, **reserve money in June registered monthly drop, whereby their level is lower than forecasted for the end of the second quarter.**



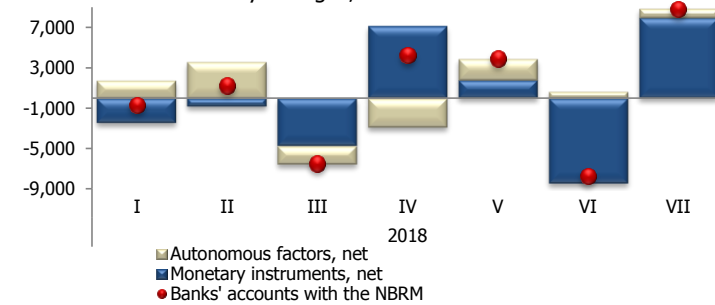
Source: NBRM

<sup>19</sup> At the CB bills auction of the NBRM, held on 13 June 2018, CB bills in the amount of Denar 25,000 million, at an interest rate of 3.00% and maturity of 35 days were offered and sold.

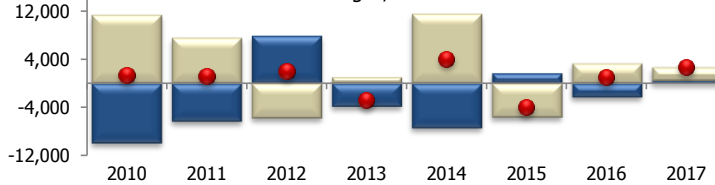
<sup>20</sup> The comparisons of the performances are in relation to the forecasted categories of the NBRM Review with the April 2018 forecast.

## Banks liquidity\*

monthly changes, in million of denars



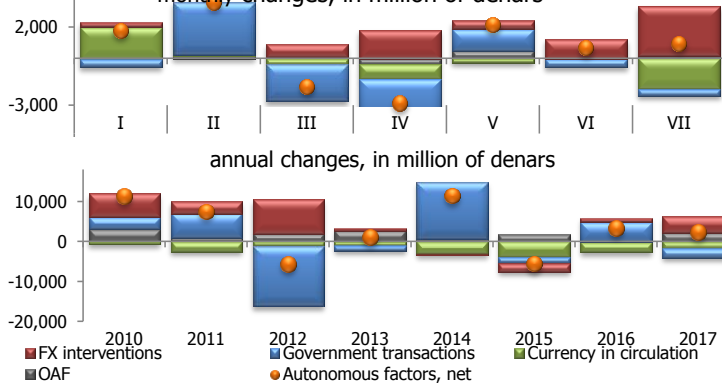
annual changes, in MKD million



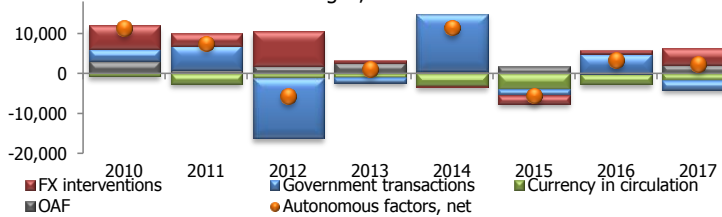
Source: NBRM.

## Autonomous factors\*

monthly changes, in million of denars



annual changes, in million of denars

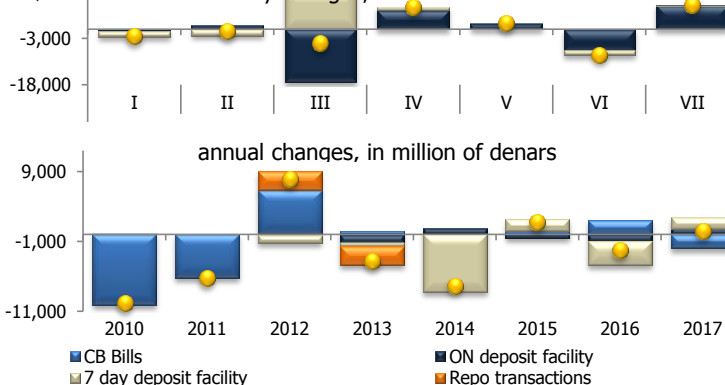


Source: NBRM.

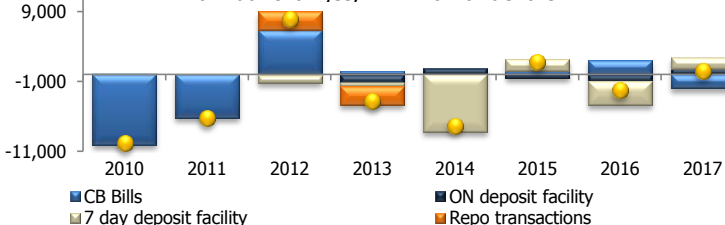
\* positive change: liquidity creation, negative change: liquidity withdrawal

## Monetary policy instruments\*

monthly changes, in million of denars



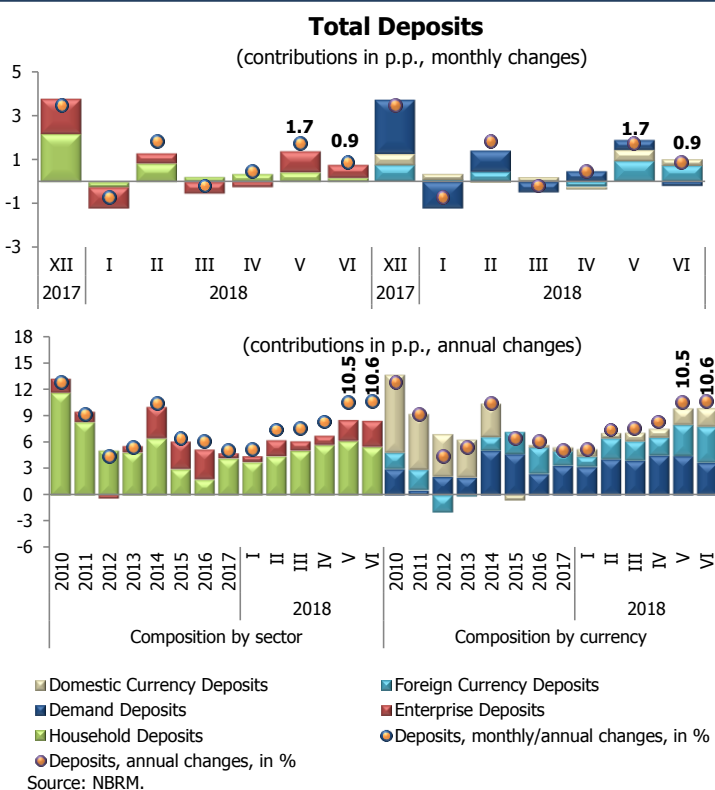
annual changes, in million of denars



Source: NBRM.

\* positive change: liquidity creation, negative change: liquidity withdrawal

Unlike the June changes, **in July, the liquidity of the banking system increased.** According to the operational data on liquidity flows, the growth mostly reflects the lower amount of banks' funds placed in short-term deposits with the NBRM, as of the end of the month. From the autonomous factors, the foreign exchange interventions of the NBRM in July acted towards creating liquidity in the system, with purchase of foreign currency by the NBRM from market makers, while currency in circulation and government deposits with the NBRM acted in the opposite direction, thereby offsetting part of the effect of the foreign exchange interventions.



In June, total deposits<sup>21</sup> registered monthly increase which was lower compared to the previous month. Observed by sector, the monthly increase of 0.9% was dominantly driven by the corporate deposits, whereby a positive, but relatively smaller contribution to the growth was also made by the deposits of households and other financial corporations<sup>22</sup>. Analyzed by currency, the increase was mostly due to foreign currency deposits<sup>23</sup>, and a small positive contribution was also made by denar deposits (including demand deposits).

In the period April - June 2018, total deposits increased, whereby the total deposits at the end of June are higher than expected for the end of the second quarter of 2018.

In June, the annual growth rate of total deposits reached 10.6%, which is above the forecasted growth for the second quarter of 2018 (of 7.4%), pursuant to the April forecast. Observed by sector, the growth was mostly driven by household deposits, whereby a positive, but smaller contribution was also made by corporate deposits. Analyzing the currency structure, most of the growth is due to deposits in domestic currency (including demand deposits), with a positive contribution also being made by foreign currency deposits.

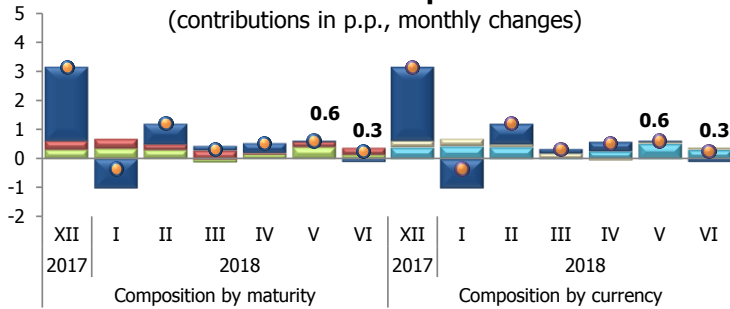
<sup>21</sup> The data from the monetary statistics are in accordance with the methodological changes of the NBRM from June 2018. More information on the methodological changes can be found on the following link: [http://www.nbrm.mk/monetarna\\_statistika\\_i\\_statistika\\_na\\_kamatni\\_stapki.nsp](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp).

<sup>22</sup> Other financial institutions include: investment funds, pension funds, insurance companies, investment funds management companies and pension funds management companies, financial companies and finance leasing companies.

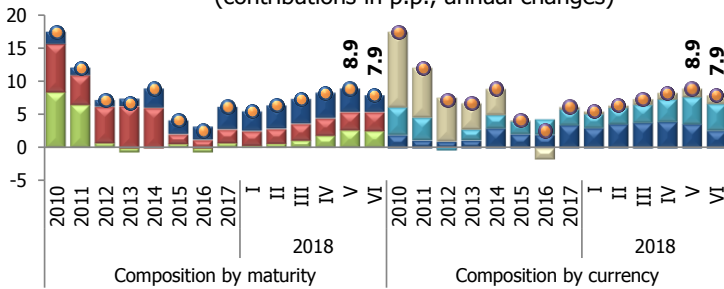
<sup>23</sup> Foreign exchange categories of deposits and loans include components in foreign currency and components with FX clause.

## Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)

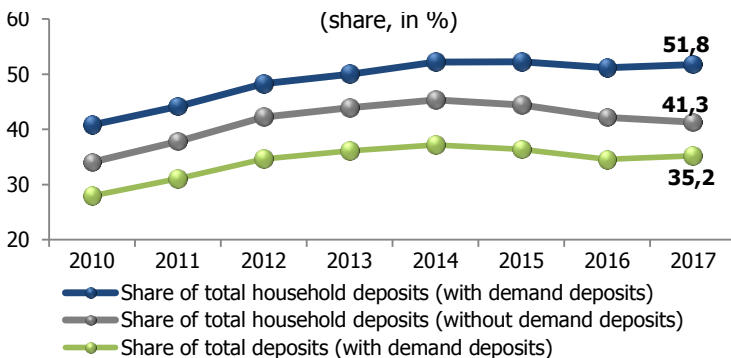
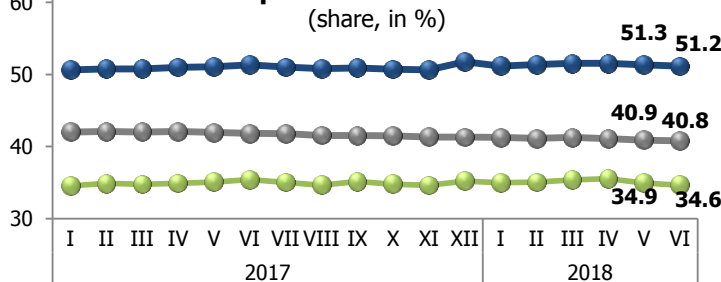


■ Demand Deposits  
■ Foreign Currency Household Deposits  
■ Short-term Household Deposits  
■ Domestic Currency Household Deposits  
■ Long-term Household Deposits  
● Household Deposits, monthly/annual changes, in %

Source: NBRM.

## Denar Deposits of Households/Total Deposits of Households

(share, in %)

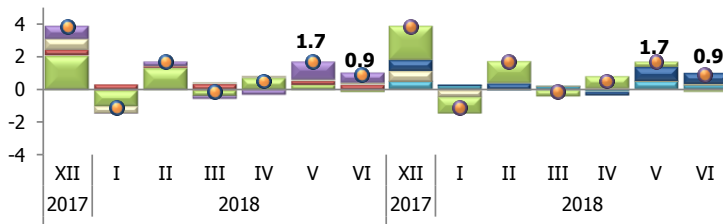


Source: NBRM.

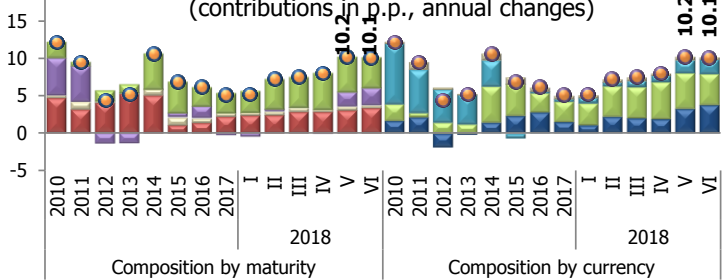
**In June, household deposits continued to grow on a monthly basis, at a moderately slower pace compared to the previous month.** The monthly growth of household deposits of 0.3% is mostly driven by foreign currency deposits, whereby denar deposits (including demand deposits) continue to make a small positive contribution. In June, the share of denar deposits (including demand deposits) in the total household deposits equals 51.2% and is slightly lower compared to the previous month (51.3%). **On annual basis, the increase in the household deposits in June amounts to 7.9%.**

## Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity

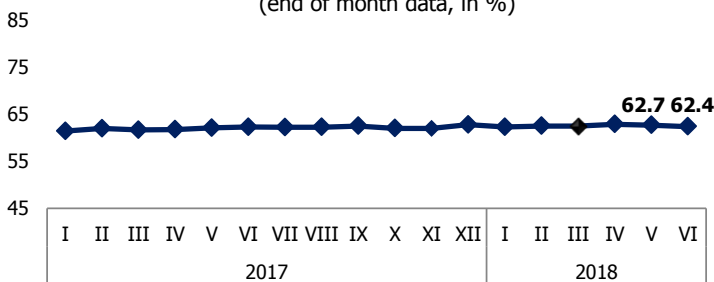
Composition by currency

- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits
- Total Foreign Currency Deposits
- Total Long-term Deposits
- Broad Money M4, monthly/annual Changes, in %

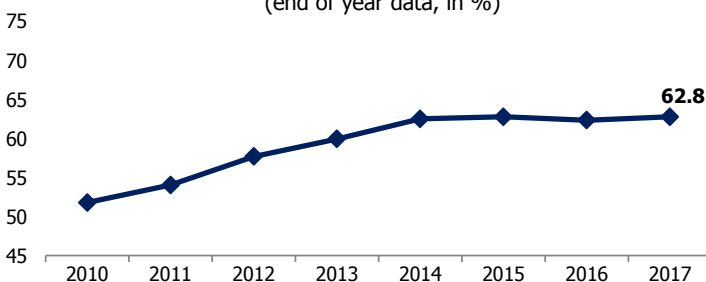
Source: NBRM.

## Share of Denar M4 in total M4

(end of month data, in %)



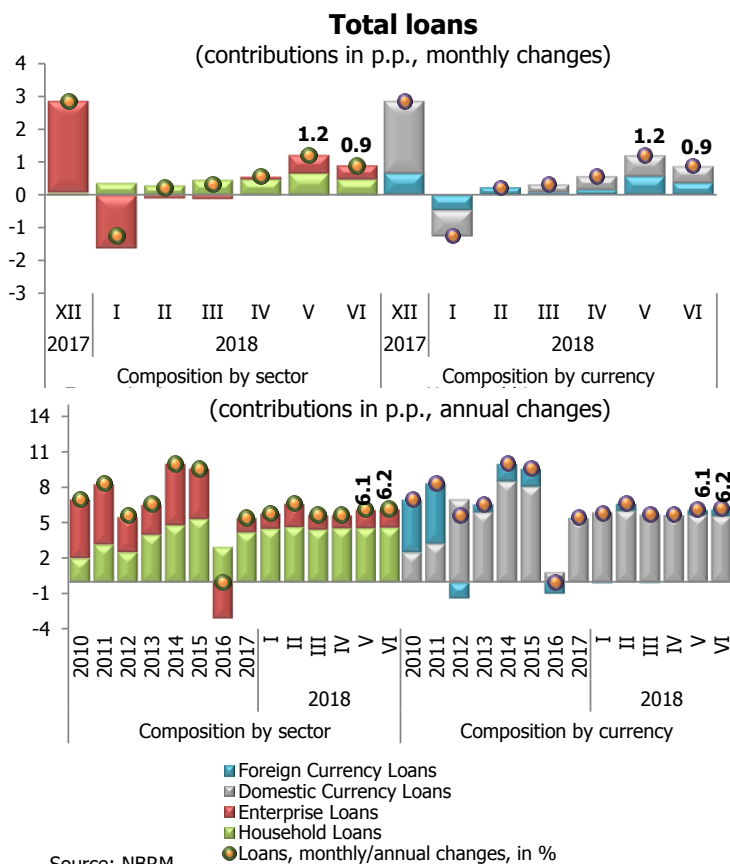
(end of year data, in %)



Source: NBRM.

**In June, the broad money, measured through the broadest monetary aggregate M4, registered monthly increase, which was lower compared to the previous month.** The monthly growth of the broadest money of 0.9%, from a maturity perspective, is dominantly driven by the increase in short-term deposits, with a positive, but smaller contribution also being made by long-term deposits. Observed from the currency point of view, the growth is mostly influenced by foreign currency deposits, while denar deposits (including demand deposits) made a lower positive contribution. In June, the share of the denar share in the total broad money decreased to 62.4% (62.7% in the previous month). **On annual basis, the broad money has increased by 10.1% in June, which is above the forecasted growth of 7.3% for the second quarter of 2018.**





Source: NBRM.

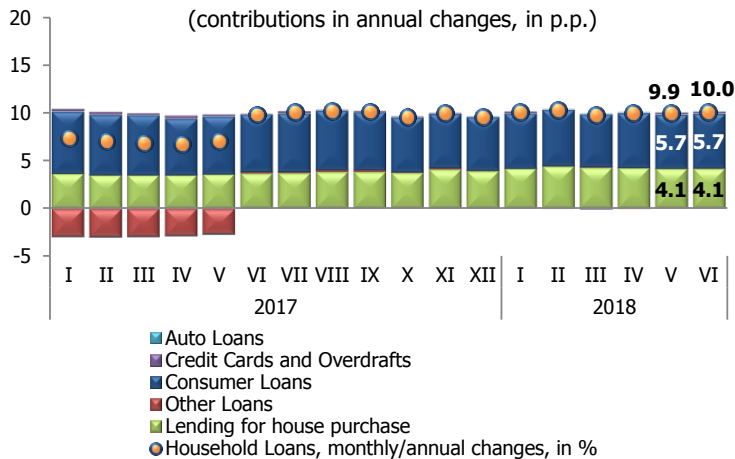
**The total loans to the private sector registered monthly increase in June, which was moderately lower compared to the previous month.** From a sectoral point of view, the monthly growth of loans of 0.9% in June almost equally arises from loans granted to households and enterprises. Analyzing the currency structure, the monthly growth of total loans in June mostly results from loans in domestic currency, whereby the contribution of loans in foreign currency is also positive.

**In the period April - June 2018, total loans increased,** whereby the loans at the end of June are higher than expected at the end of the second quarter of 2018.

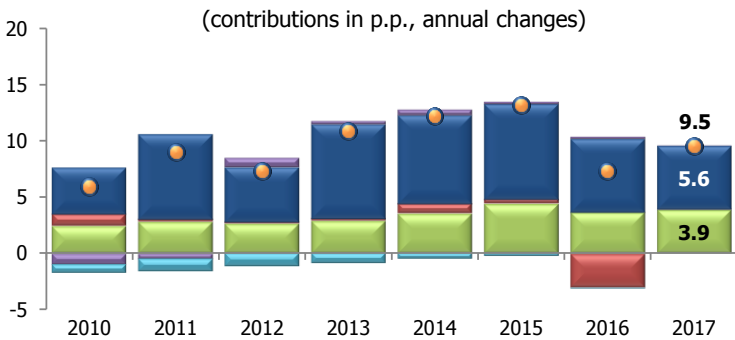
**On annual basis, total loans in June grew by 6.2%, which is above the forecasted growth (of 4.1%) for the second quarter of 2018.** Observing by currency, the annual growth of total loans is still mostly driven by the growth of loans in domestic currency, with a positive, but small contribution also being made by loans in foreign currency. Observed by sector, the annual growth of total loans is still dominantly driven by household loans, while the contribution of loans to corporate sector is also positive, but smaller.

## Household Loans

(contributions in annual changes, in p.p.)



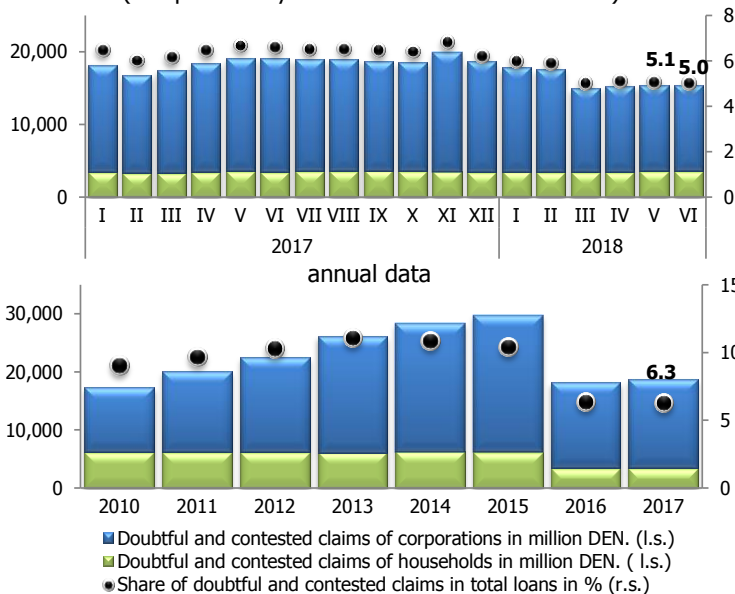
**The annual growth of household loans<sup>24</sup> in June amounted to 10.0%** and was almost entirely driven by consumer and housing loans, contributing by 5.7 and 4.1 percentage points, respectively.



Source: NBRM.

## Doubtful and contested claims

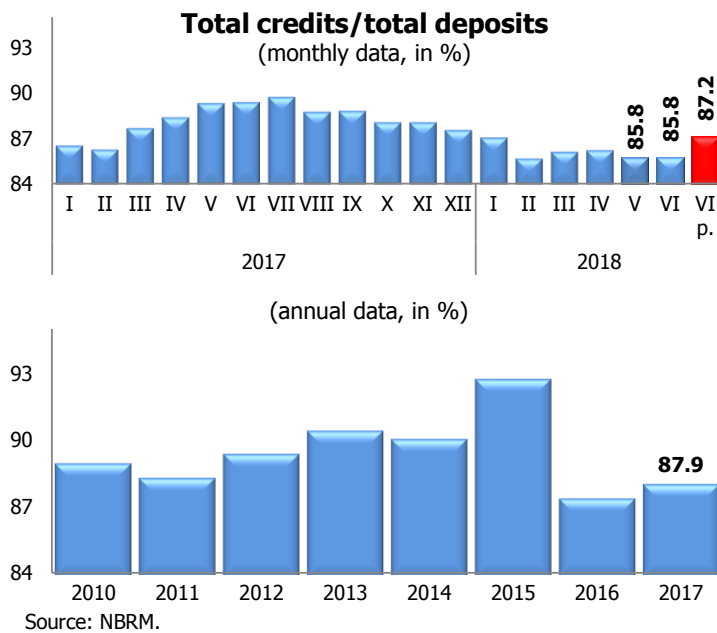
(composition by sector and share in total loans)



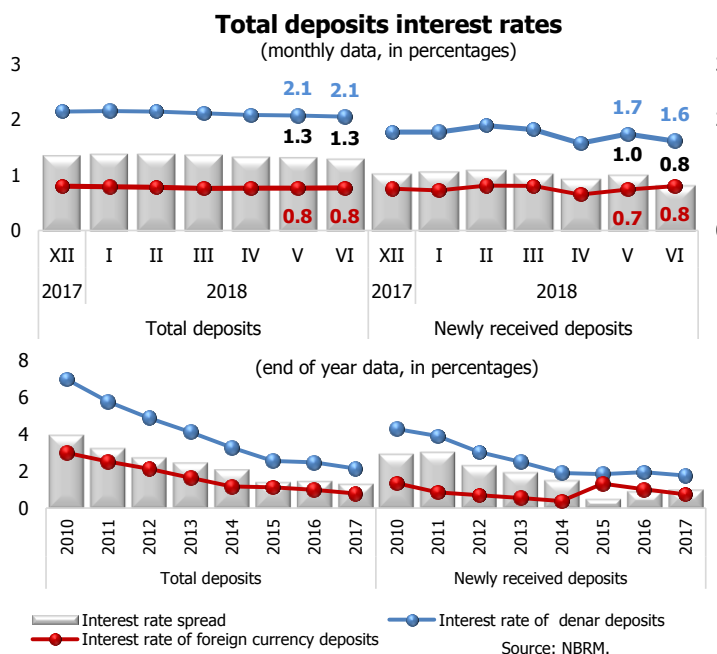
Source: NBRM.

**In June, the share of doubtful and contested claims in total loans minimally decreased compared to the previous month and reduced to 5.0%**, whereby the structure is still dominated by the non-performing loans of the corporate sector, while the share of non-performing loans of the household sector is significantly lower.

<sup>24</sup> Excluding the loans of the self-employed individuals.



**Utilization of the deposit potential for lending to the private sector in June remained at the same level as in the previous month (85.8%).** With the June performance, the loan to deposit ratio is lower compared to the expectations for the second quarter of 2018, according to the April forecast.



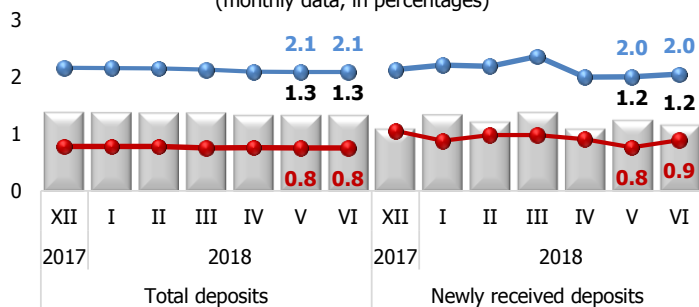
**In June, the interest rates on total deposits<sup>25</sup> (denar and in foreign currency) registered no changes** compared to the previous month, whereby the spread between the interest rates on denar and foreign currency deposits remained at 1.3 percentage points. In the **total newly accepted deposits**, the interest rate spread between denar and foreign currency deposits narrowed from 1.0 percentage points to 0.8 percentage points, with a reduction in interest rates on newly accepted denar deposits of 0.1 percentage point and increase in interest rates on newly accepted foreign currency deposits of 0.1 percentage point<sup>26</sup>.

<sup>25</sup> The data on interest rates are in accordance with the methodological changes of the NBRM from June 2018. More information on the methodological changes can be found on the following link: [http://www.nbrm.mk/monetarna\\_statistika\\_i\\_statistika\\_na\\_kamatni\\_stapki.nsp](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp).

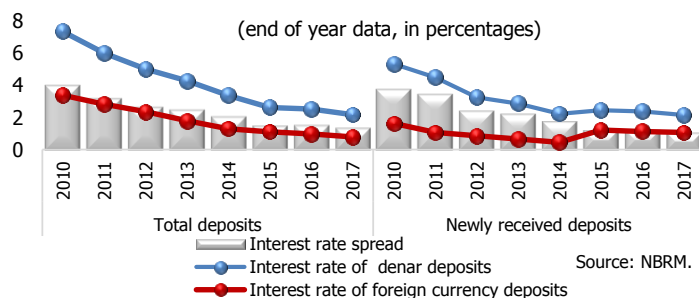
<sup>26</sup> Regarding the interest rates on the newly accepted deposits, it should have in mind that they characterize with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they have been driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.

## Households' deposits interest rates

(monthly data, in percentages)

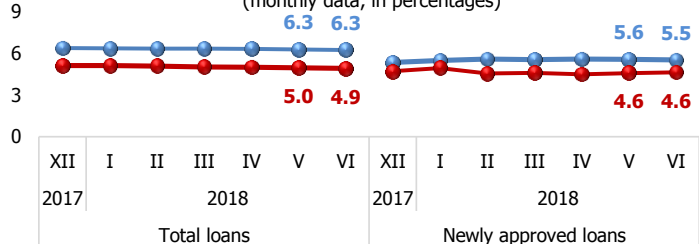


**Interest rates on household deposits** in June also registered no changes, whereby the spread between denar and foreign currency interest rates remained at 1.3 percentage points. Regarding the **newly accepted household deposits**, the interest rates registered minor changes, whereby the interest rate spread in June remained unchanged and equaled 1.2 percentage points.

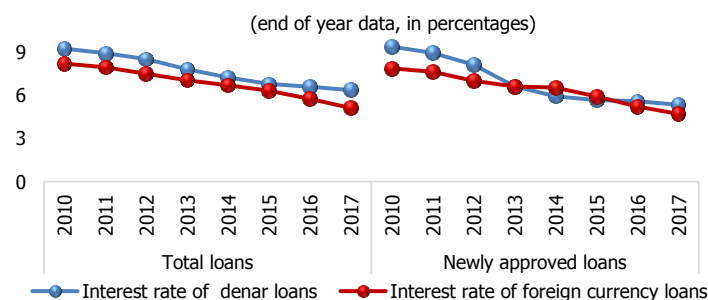


## Total loans interest rates

(monthly data, in percentages)



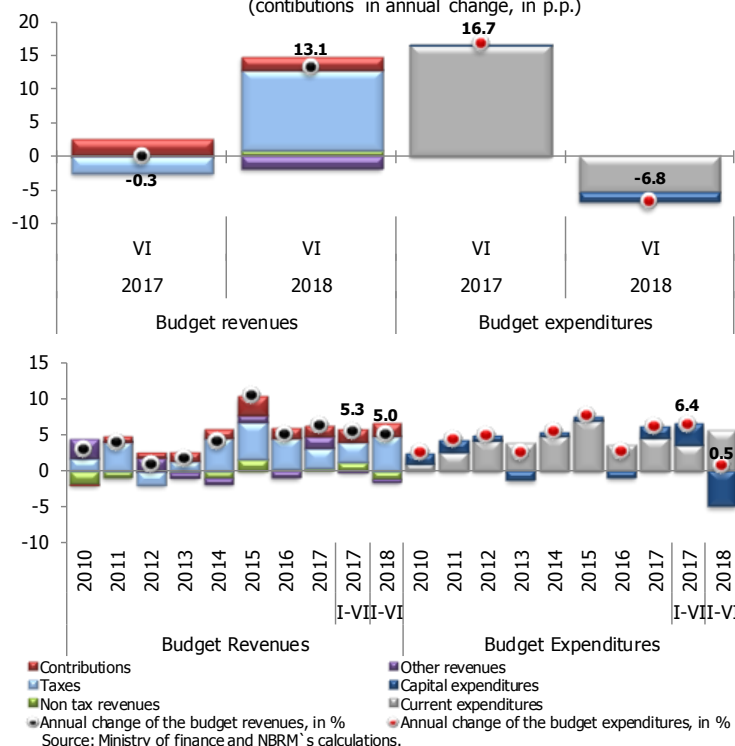
**In June, the interest rates on total household loans** remained at the level of the previous month (6.3%), while interest rates on enterprises decreased by 0.1 percentage point, at the level of 4.9%. In the **newly approved total loans**, the interest rates for households decreased by 0.1 percentage point, to 5.5%, while the interest rates for enterprises remained at the level of the previous month (4.6%)<sup>27</sup>.



<sup>27</sup> Regarding the interest rates on the newly approved loans, it should have in mind that they characterize with variable movements. Volatility of interest rate on newly approved loans results from the fact that they have been driven by the volume of newly approved loans (which can vary from month to month) and their interest rate.

### Budget revenues and expenditures

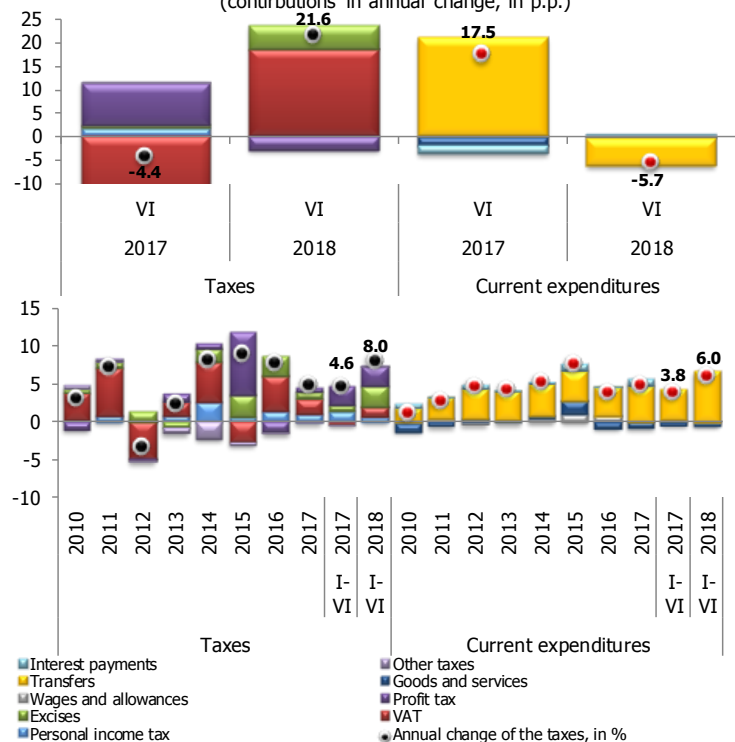
(contributions in annual change, in p.p.)



In the Budget of the Republic of Macedonia (central budget and budgets of the funds), in June 2018, the total budget revenues registered an annual growth, while the total budget expenditures decreased on an annual basis. The increase in the **budget revenues** in June (13.1%, on an annual basis) is mostly due to the tax revenues, which contributed with 12.1 percentage point, and to a lesser extent to contributions and non-tax revenues, which contributed with 1.9 и 0.7 percentage points, respectively. In June, other revenues<sup>28</sup> made a small negative contribution of 1.9 percentage points. Tax revenues in June registered a growth of 21.6%, annually, mostly due to the positive contribution of the income from VAT and excise duties (18.6 and 5.1 percentage points, respectively), while the contribution of income tax is negative and equals 2.9 percentage points. **Budget expenditures** in June registered a decline of 6.8% annually, dominantly as a result of the lower current expenses (contributing by 5.4 percentage points, mainly due to the lower expenditures on transfers), and less of the lower capital expenses (contributing by 1.4 percentage points).

### Taxes and current expenditures

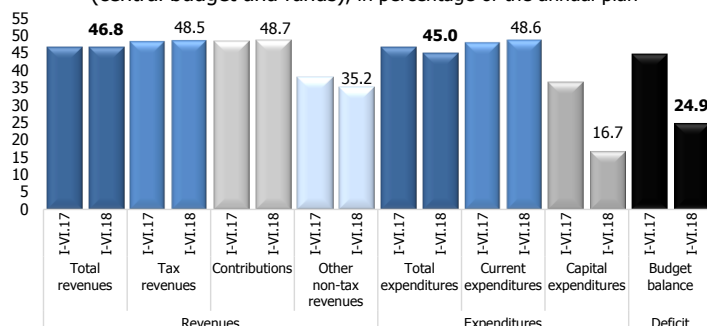
(contributions in annual change, in p.p.)



In the period January - June 2018, total budget revenues and expenditures increased cumulatively compared to the same period last year. Budget revenues increased by 5.0%, which mostly reflects the higher tax revenues, and positive but more moderate is also the effect of contributions (contribution of 4.7 and 1.8 percentage points, respectively). Non-tax and other revenues made a negative contribution to the overall revenue change. In **budget expenditures**, the higher performance (by 0.5%) mostly reflects the higher current expenses (contributing by 5.5 percentage points), while the contribution of capital expenses is negative and equals 4.9 percentage points.

<sup>28</sup> Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

**Budget implementation , per categories**  
(central budget and funds), in percentage of the annual plan\*

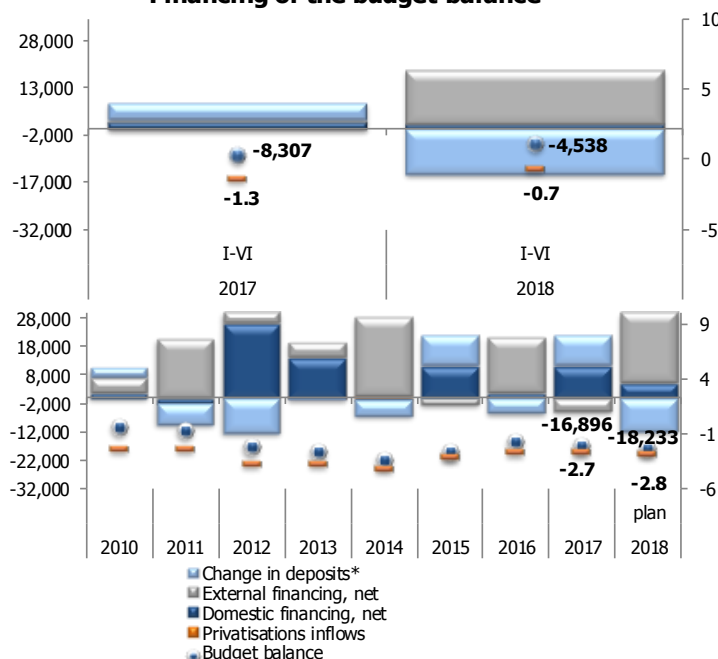


\*for 2017 and 2018, figures are calculated compared to the Budgeted rebalance in August 2017 and the planned Budget for 2018, respectively.

Source: Ministry of Finance and NBRM's calculations.

**Regarding the annual budget plan for 2018**, the rate of execution of budget revenues in the period January - June is at the same level with last year's performances (46.8% in 2017 and 2018). Analyzed by category, the revenues based on total taxes and contributions represent 48.5% and 48.7%, respectively, of the annual plan, while the performance in the category other non-tax revenues was moderately lower and equaled 35.2% of the plan for 2018. **The budget expenditures in the same period constitute 45.0% of the total planned expenditures for 2018** (46.6% in 2017), amid moderately higher rate of execution in current expenses than last year's (48.6% of the annual plan), while the realization of the capital costs is lower and amounts to 16.7% of the annual plan (36.6% of the plan in 2017).

**Financing of the budget balance**



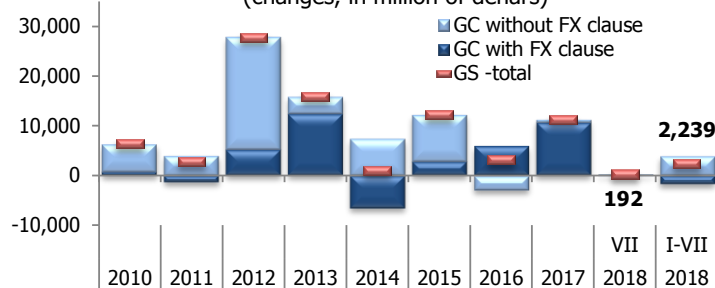
\* Positive change: deposits withdrawal; negative change: deposits accumulation.  
Source: MoF.

**In the period January - June 2018, the Budget of the Republic of Macedonia registered a deficit, which was mostly financed by government borrowing on the international financial markets.** Namely, the realized budget deficit in this period amounted to Denar 4,538 million, which represents 24.9% of the planned deficit for 2018 and 0.7% of the nominal GDP<sup>29</sup>. The budget deficit was mostly financed by external sources, through the issuance of a Eurobond, with one part of the foreign assets being retained as a deposit on the government account with the NBRM. Small portion of the budget deficit was financed through a new issue of government securities on the domestic financial markets.

<sup>29</sup> The analysis uses the NBRM April forecast for the nominal GDP for 2018.

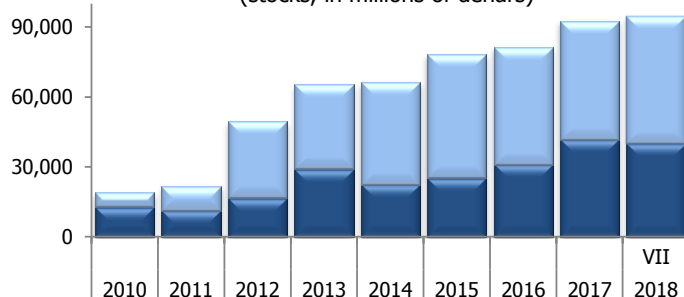
### Government securities

(changes, in million of denars)



**At the end of July 2018, the amount of the total issued government securities on the primary market equaled Denar 94,823 million and registered small monthly increase, with further favorable movements in the currency structure.** The monthly increase (of Denar 192 million), from currency point of view, was entirely a reflection of the increase in government securities in denars, while the amount of government securities with foreign currency component decreased. Compared to the end of 2017, the stock of government securities at the end of July 2018 increased by Denar 2,239 million<sup>30</sup>.

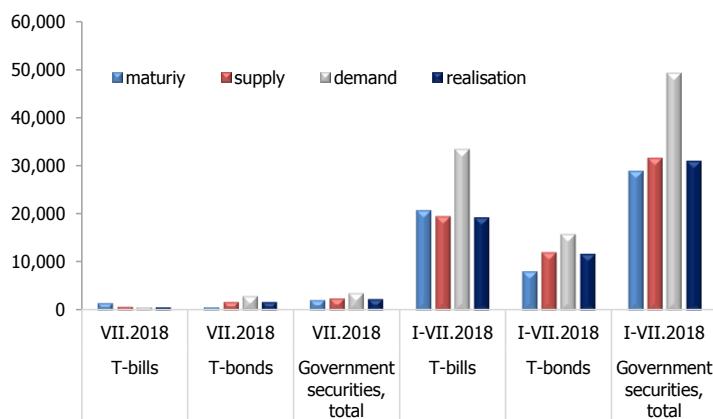
(stocks, in millions of denars)



Source: MoF.

### Government securities auctions

in million of denars



Source: Ministry of finance.

**The Ministry of Finance continued to issue securities with longer maturities.** The new issues of government securities in July were with 12-month, 5 and 30-year maturity<sup>31</sup>, whereby the market participants showed relatively high interest in offered securities in July. Consequently, the amount of the short-term securities (treasury bills) registered a decline, while the amount of the government bonds increased. Compared to the end of 2017, the growth of the stock of government securities is entirely due to the increase in the stock of government bonds, with a slight decline in the stock of the treasury bills.

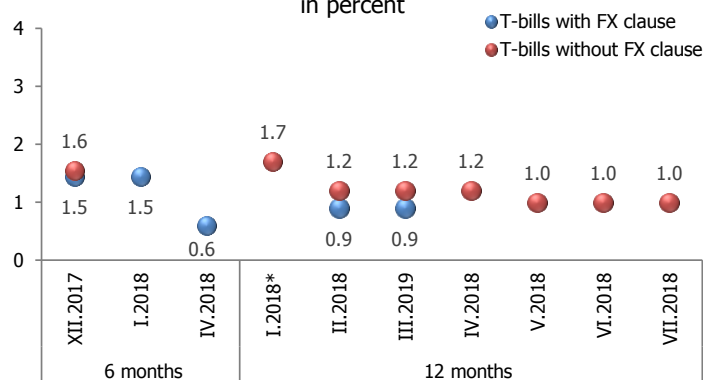
<sup>30</sup> According to the annual Budget plan, domestic government borrowing in the amount of Denar 5,454 million is planned for 2018, i.e. increase in the stock of government securities to Denar 98,038 million.

<sup>31</sup> In July 2018, the 6-month and the 12-month treasury bills and the 5-year government bonds matured.



## Interest rates of T-bills

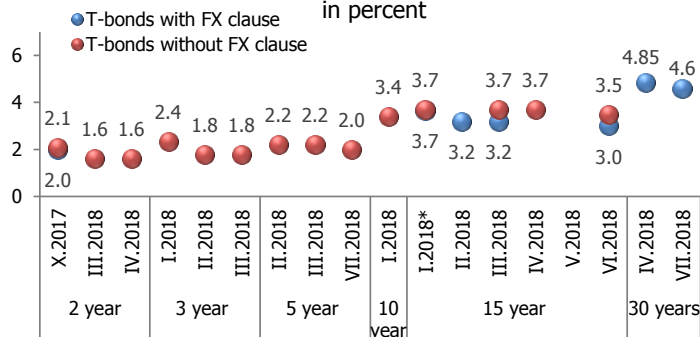
in percent



\*The interest rate on 12m T-bills in January 2018 (1,7%) is a weighted average of the realized amount and the interest rates (1,85% и 1,20%) from the two auctions held in January.  
Source: Ministry of Finance.

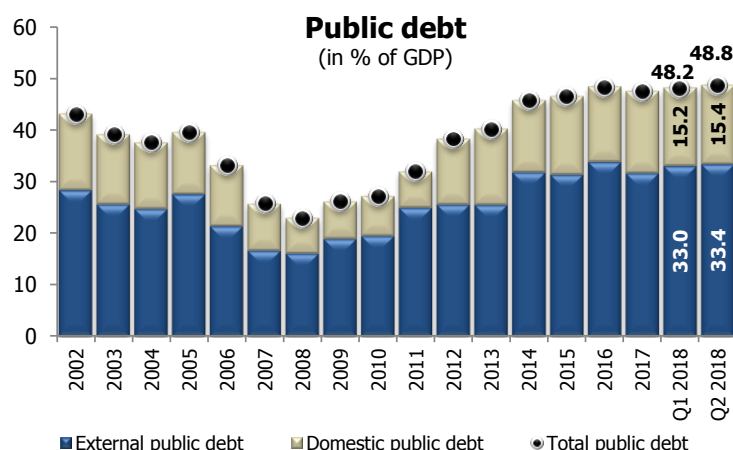
## Interest rates of T-bonds

in percent



\*The interest rate on 15y T-bonds in January 2018 (3,7%) is a weighted average of the realized amount and the interest rates (3,80% и 3,20%) from the two auctions held in January.  
Source: Ministry of Finance

**In July, the Ministry of Finance continued to adjust the interest rates on government securities along the yield curve.** Consequently, the interest rates on the 5-year government bonds without FX clause and the 30-year government bonds with FX clause decreased by 0.2 and 0.25 percentage points, respectively. This adjustment follows the drop in interest rates on 15-year government bonds in June<sup>32</sup>.



Source: NBRM's calculations based on data from the Ministry of Finance.

**At the end of the second quarter of 2018, total public debt<sup>33</sup> equaled 48.8% of GDP<sup>34</sup>,** which is an increase of 0.6 percentage points compared to the previous quarter. The change is mostly due to the increase in the external debt (from 33.0% to 33.4% of GDP), amid growth of the internal debt (from 15.2% to 15.4% of GDP). In the second quarter, the total government debt and the debt of public enterprises (for which the Government has issued a state guarantee) increased by 0.3 and 0.2 percentage points of GDP, respectively.

<sup>32</sup> In June, the Ministry of Finance lowered the interest rate on the 15-year government bonds with and without foreign currency clause by 0.2 percentage points, i.e. from 3.2% to 3.0% and from 3.7% to 3.5%, respectively.

<sup>33</sup> The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14) according to which it is the sum of the government debt and the debt of public enterprises established by the state or municipalities, municipalities within the city of Skopje and the city of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the city of Skopje and the city of Skopje, for which the Government has issued a state guarantee.

<sup>34</sup> The analysis uses the NBRM April forecast for the nominal GDP for 2018.



**August 2018**

- At its regular meeting held on 14 August 2018, the NBRM's Operational Monetary Policy Committee decided to cut CB bill interest rate by 0.25 percentage points, to 2.75%, and the supply of CB bills to be unchanged, at the level of Denar 25,000 million.