

**National Bank of the Republic of Macedonia**  
Monetary policy and research department



**Recent Macroeconomic Indicators  
Current Situation Report**

February 2014

## **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 (November 2013 - February 2014) and to make a comparison with the latest macroeconomic projections (October 2013). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous cycle of projections. The review is focused on the changes in the external assumptions and performance of domestic variables and on how these changes are reflected in the environment for monetary policy conduct.**

**The global economic environment has not undergone major changes compared to the period of the last assessments.** The latest economic indicators for the Euro area are favorable and point to further moderate pace of growth also during the last quarter of 2013. The latest assessments imply growth in the economic activity in 2014, which is expected to accelerate during 2015. Economic recovery is expected to be slow, while the downward risks are still predominant and are associated with the uncertain developments on the financial markets, especially in emerging economies, the possibility of weaker than estimated domestic and export demand, as well as the slow and inadequate implementation of the structural reforms in the Euro area Member States. However, despite the risks to the economic recovery and further slowing of the inflation rate in the Euro area (with greater intensity than expected), at its last meeting in February 2014, ECB maintained the policy rate unchanged. This decision was explained with the current assessments for the absence of risks of deflation in the Euro area over the medium term, and the need for new information, primarily related to the latest macroeconomic projections, events in the developing countries, as well as data on GDP for the last quarter, which would be available by the next meeting in March and would contribute to bringing an appropriate decision on the monetary policy stance. In this context, the ECB reaffirmed its willingness to conduct accommodative monetary policy until needed. **Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the assessments for the foreign effective demand for 2014 are within the October projection, while for 2015, a slightly higher growth is now expected. Changes in the expectations about the prices of commodities diverge.** The latest assessments for the world **oil prices** for the period 2014-2015, still point to a decline, however with greater intensity than expected in the October projections for 2014, while for 2015 the change is in the opposite direction. Assessments for the movement of **metal prices** are, on average, less favorable compared to the last projection. On the other hand, movements in the world **prices of primary food products** still point to favorable price movements compared with the previous projection.

**The comparison of recent macroeconomic indicators with their projected dynamics within the October cycle of projections gives a different picture in different segments. In terms of the individual indicators relevant for the monetary policy, in the absence of new data on inflation since the beginning of the year, predominantly downward risks to the inflation projection for 2014 of 2.3% are still expected.** Such assessments are based on different initial conditions, i.e. inflation rate achieved as of end 2013, which is lower than projected, and the revisions of the assumptions for the external variables.

**According to the latest available data as of the beginning of February 2014, foreign reserves (adjusted for price changes and exchange rate differences) decreased compared to the end of 2013, which is consistent with the projected trajectory of foreign reserves in the first quarter according to October projections.** The volume of data in the external sector is limited, which makes it impossible to assess the realization of the October projection for the first quarter. Since the beginning of 2014, new data has only been available for the currency exchange market, and they show a net purchase of foreign assets. However, these data cover too short a period of one month, which is insufficient for drawing conclusions on the inflows from private transfers in the context of the October projections. Data on exports and imports are as of December 2013 and they show lower trade deficit in relation to that projected for the fourth quarter, due to the higher exports than expected with the projection. Such movements were one of the factors that contributed to the current account deficit, which for the period October-November 2013 was significantly lower compared to that projected for the fourth quarter. On the other hand, data as of November show significantly lower net inflows in the capital and financial account compared with the projections.

**Regarding the real sector,** the available **high frequency indicators of the economic activity** suggest further growth of the domestic economy also during the last quarter of 2013. The expected growth dynamics is similar to that in the third quarter, amid further positive achievements on the part of the key economic sectors, primarily construction and industrial sector. **Regarding the monetary sector,** the last quarter of 2013 was marked by significantly positive developments in the credit market, which resulted in exceeding the October projection for credit growth. According to the latest monetary indicators as of January 2014, total loans are within the October projection, which envisages 5.3% annual growth for the first quarter. Analyzed on a monthly basis, January is characterized by a slower credit growth, which again is entirely directed toward the household sector. Volume of loans to companies slightly declined on a monthly basis. According to recent data, the deposit growth continued in January, but at a slower pace, which is common for this time of the year. Recent data indicate likely achievement of the deposit growth projection for the first quarter of 2014. **The latest assessments for the level of EURIBOR for 2014 indicate a somewhat higher level compared to the October projection, while for 2015 it was subject to a moderate downward revision.**

***Recent macroeconomic indicators and assessments do not point to major changes in the perceptions for the environment and the risks regarding the assessments made under the October projections. In general, all the macroeconomic variables are within the projections, except for inflation.*** Namely, amid lower than projected inflation rate achieved by the end of 2013, and downward revisions to the assumptions for the external variables, downward risks to the inflation projection for 2014 prevail. In the absence of new data, the conclusion about the still high level of core inflation remains. Indicators of economic activity suggest that the economy will continue to grow in the fourth quarter (probably with similar intensity as in the third quarter), which is still not expected to create imbalances. The decline of foreign reserves is common for this time of the year and is within the expectations. However, the risks of uncertainty in the external environment are still present, and the repeated downward revision of the metal prices on the world market could have adverse effects on the external position of the Macedonian economy. In terms of lending, although downward risks remain emphasized, credit growth in January was in line with the projection for

the first quarter. Banks' short-term expectations, presented in the latest Lending Survey<sup>1</sup>, are also favorable and point to further increase in the supply of and demand for loans.

---

<sup>1</sup> From January 2014.

**According to the new projections, foreign effective demand in 2013 was revised upward...**

... amid improved assessments for the annual economic growth in almost all countries...

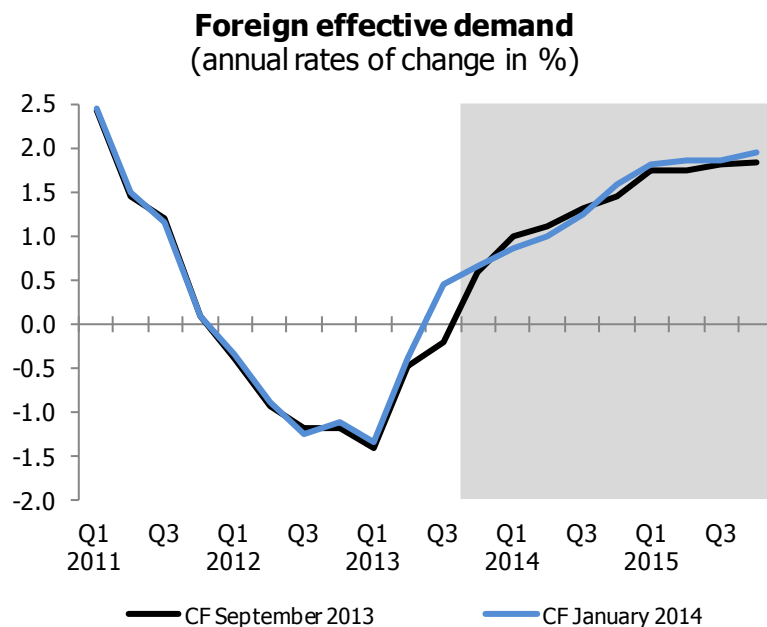
... wherefore the estimated annual decline in foreign demand amounted to -0.2% versus the October projection of -0.4%...

The main reasons for the revision were the faster GDP growth of Serbia<sup>2</sup> and the expectations for a slower decline in the economic activity in Greece.

**No changes were registered in the assessments for growth of foreign demand in 2014 (expected growth of 1.2%)...**

**... although for 2015, a slightly faster growth of 1.9% is now expected (1.8% in October)...**

... mainly due to the expectations for better economic performance of the German economy.



Source: "Consensus Forecast" and NBRM estimates.

<sup>2</sup> The data on the annual growth of Serbia's GDP in 2013 includes better initial assessment for the fourth quarter and upward revisions of data in the previous three quarters.

**Foreign effective inflation registered in 2013, amounted to 1.9%, which is a downward deviation compared with the October projection of 2.3%.**

**The latest projections indicate lower foreign inflation also in 2014...**

... which is now expected to amount to 1.3%, versus the October projection of 2%...

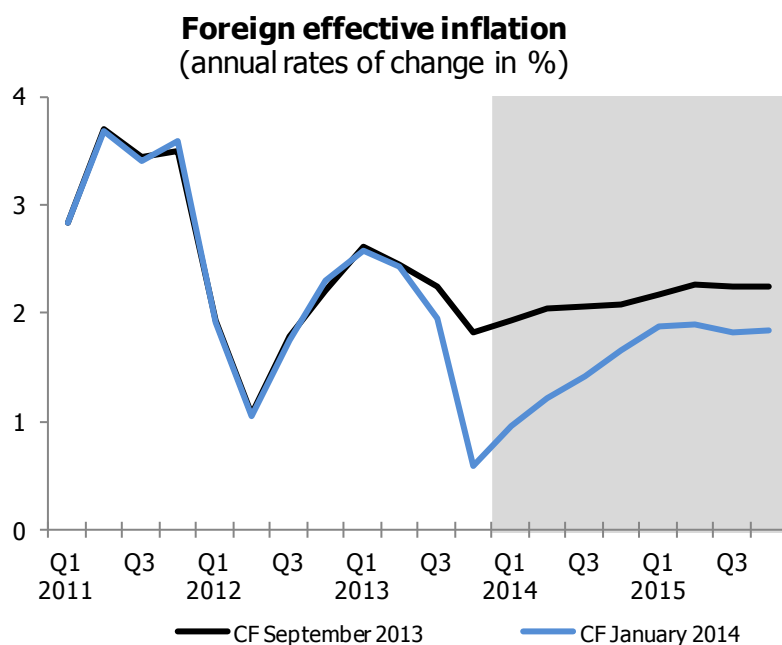
... amid downward revisions of the projected inflation with all our import partners.

In that framework the largest negative contribution was that of the lower inflation projections in the countries from the neighborhood (Serbia, Bulgaria and Croatia).

**Similarly, also for 2015, lower inflation is expected with almost all trade partners...**

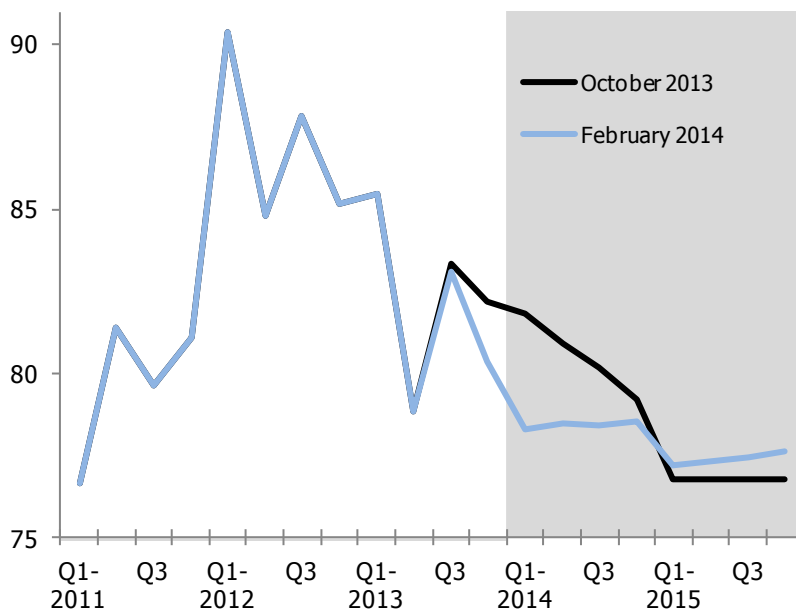
... resulting in a downward revision of the effective inflation compared to October (1.9% versus 2.2%)...

... with the greatest contribution of the projected inflation in Serbia (entirely due to the higher expected depreciation of its currency) and Bulgaria.



Source: "Consensus Forecast" and NBRM estimates.

**Brent oil**  
(quarterly average, EUR/Barrel)



Source: IMF, "Bloomberg" and NBRM estimates.

**In the first quarter of 2014, a sharper decline in oil prices, compared with the October projection, is expected ...**

... amid lower expected global oil demand.

**Also, a downward revision in the oil price is made for the entire 2014...**

... having in mind the projections for growth in the oil supply, mainly from non-OPEC countries and the effects of the Fed's tapering.

**Oil prices are expected to continue to decline in 2015, although the decline is now expected to be lower compared with October.**

**In the first quarter of 2014, a sharper decline is expected in the nickel and copper prices, compared to the October projection.**

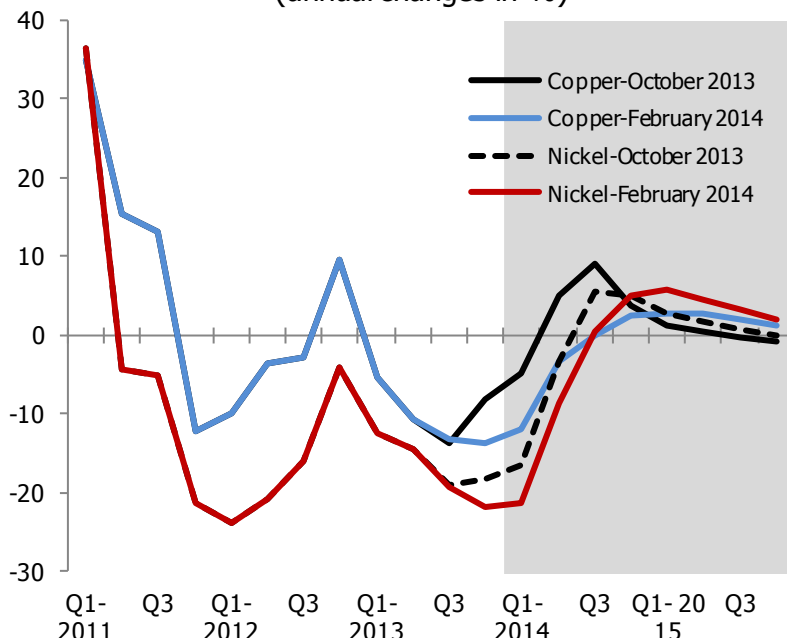
**On annual basis, for 2014, a significant downward revision of the projected metal price changes is made ...**

... amid sharper decline in the price of nickel and drop instead of rise in the price of copper...

.. and continued downward pressures from the favorable conditions in the supply of these metals.

The main risk to the future price of nickel is the export ban introduced by Indonesia<sup>3</sup> in January 2014,

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



Source: IMF, "Bloomberg" and NBRM estimates.

<sup>3</sup> Indonesia is the world's largest exporter of nickel ore.

although the initial effect on the markets was quite limited, given the accumulated stocks of this metal and the skepticism about the implementation of this policy.

**In 2015, faster recovery of nickel and copper prices is expected, whose growth will be higher than the October projection.**

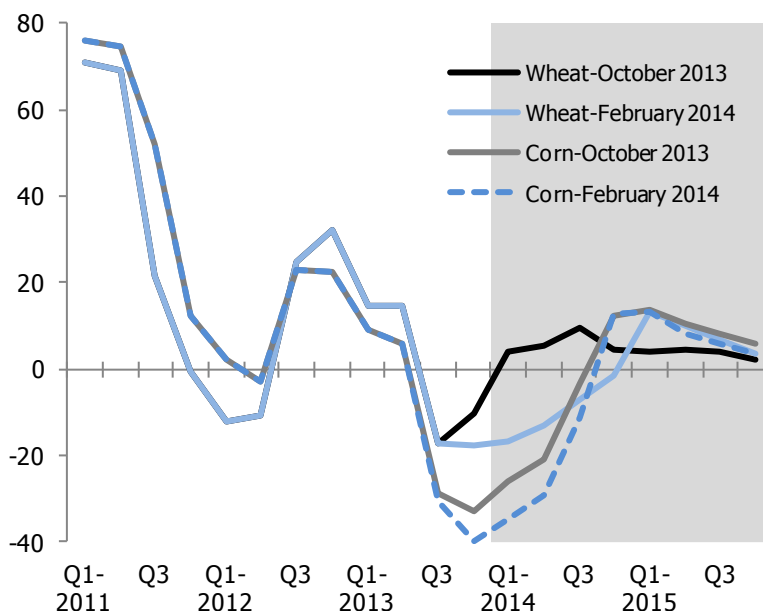
**In the first quarter, and throughout 2014, a significant downward deviation in the prices of primary food products, between the current and the October projection, is expected...**

... amid a decline instead of increase in the price of wheat and a larger decline in the price of corn...

... with the main reasons for these changes being the solid inventories accumulated last year and the continuous improvement of the prospects for the production from the next harvest.

**The projection for 2015 indicates faster growth in wheat prices and slower growth in the price of corn compared with the October projections.**

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



Source: IMF, "Bloomberg" and NBRM estimates.



**It is estimated that the one-month Euribor will be 0.19% in the first quarter, which is higher than the October projection of 0.12%...**

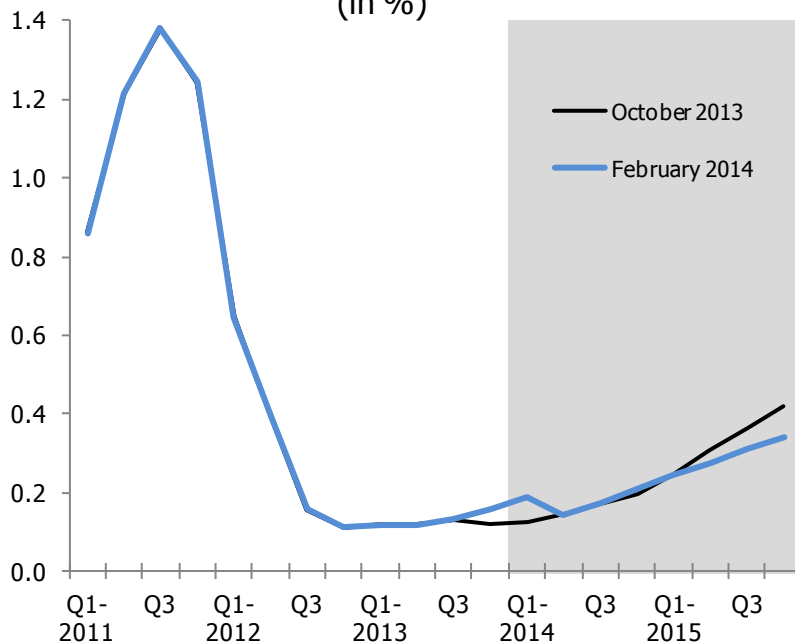
... with this growth being mainly due to the downward changes in the excess liquidity in the Euro area.

However, considering the ECB's announcement that it will closely monitor the developments in the money market and would intervene if it finds that the growth of interbank interest rates is unfounded, in the following quarters, the foreign interest rate is expected to move along the trajectory projected in October, though, because of the first quarter, in 2014 on average, its level will be slightly above the October projection (0.18% versus 0.16%).

**In 2015, the estimated Euribor was moderately revised downward, compared with the October projection, and it is now projected at 0.29% (0.33% in October).**

Throughout the entire period of projections, it is still expected that the Euribor will rise at a moderate pace, reflecting the expectations for gradual normalization of the money market in the Euro area.

**1M Euribor**  
(in %)



Source: "Consensus Forecast" for 2014, "Bloomberg" for 2015 and NBRM estimates.

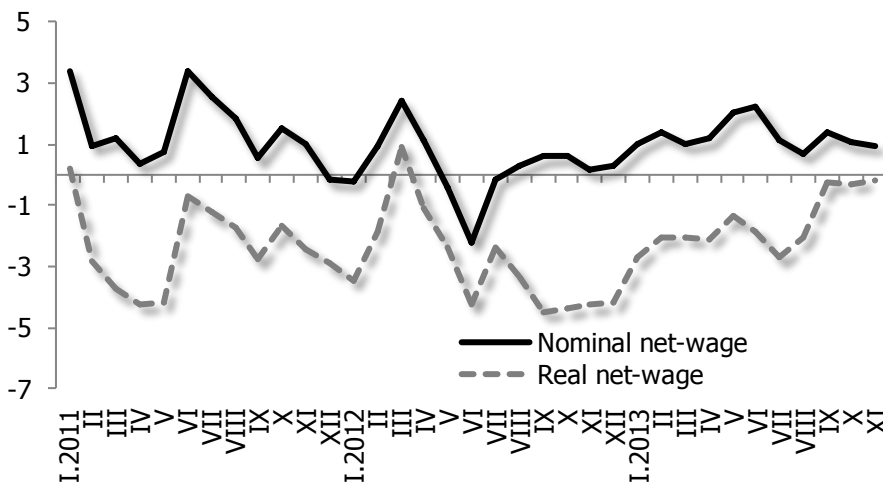
The nominal annual growth of the average **net wage** in November 2013 was 0.9%, whereby the net wages in the October-November period registered growth identical with that in the third quarter (1%)...

... given the higher growth rates of the wages in the energy sector, transport and "health and welfare". Wage growth was also observed in the real estate activity, construction and "information and communications", while more significant decline in wages was registered in the "professional, scientific and technical activities" and "water supply".

**Such performances in the first two months of the fourth quarter were slightly weaker than expected in the October projection (expected growth of 1.4%).**

Given the annual inflation of 1.1%, **real wages** registered an annual decline of 0.2% also in November 2013, (slightly slower decline than that in the previous month), which according to the dynamics, is an improvement compared with the third quarter (down from 1.7%).

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



Source: SSO.

The available data for the last quarter of 2013 indicate continuation of the annual growth of the domestic economy, with similar dynamics as in the third quarter...

... amid further positive developments in some of the key economic sectors.

**Industrial production** continued to grow in the fourth quarter with a high annual rate of 6.4%<sup>4</sup>...

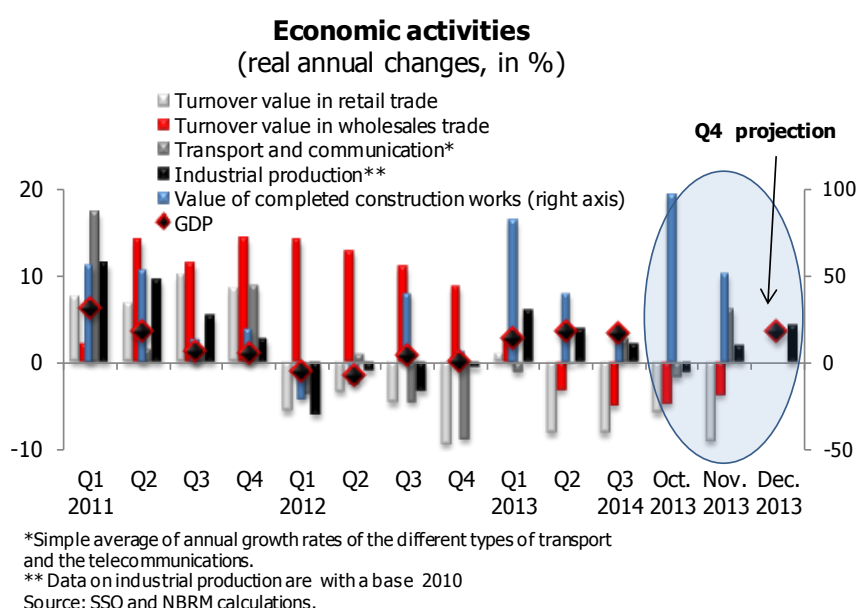
... under the influence of the increased production of machinery and equipment, food and beverages, as well as the good results in printing and textile...

... in circumstances of annual growth of industrial capacity utilization<sup>5</sup>.

The annual growth in industry was significantly faster compared to the previous three quarters...

... amid accelerated growth of the food industry, growth of the metal industry (after the decline in the previous quarters), as well as the significantly smaller decline in the production of paper.

Significant intensification of growth was registered also in



<sup>4</sup> Refers to the data on the industrial production with base period and weights of 2012, which includes the latest changes in the structure of the industrial production. In the fourth quarter of 2013, the annual growth of the index with a base period in 2010 was 1.6%.

<sup>5</sup> From the Survey on the business tendencies in the manufacturing industry of the SSO.

the **construction sector** in the first two months of the fourth quarter of 2013, amid high real annual growth rate of completed construction works (71.6% on average).

Data on **transport** in the first two months of the fourth quarter of 2013, point to continued growth, at a similar pace as in the previous quarter...

... and the performances in the turnover of catering in the first two months of the last quarter (as an indicative category for the movements in the activity "hotels and restaurants") are also in a positive direction.

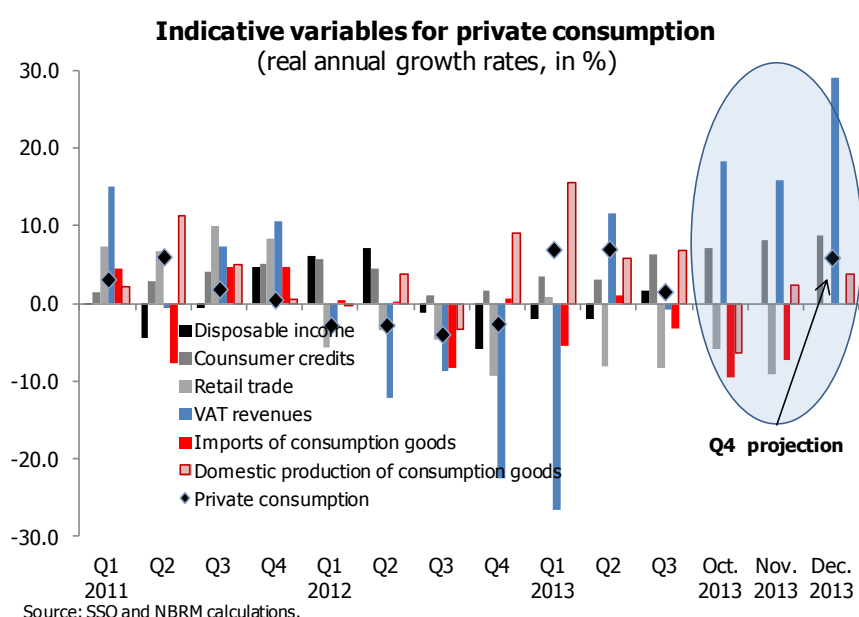
Apart from these activities, real decline was registered in **retail trade and wholesale trade**, but with less intensity.

**Available indicators of aggregate demand are basically in line with the expectations from the October projection for moderate growth in GDP in the last quarter of 2013.**

High frequency data on **private consumption** for the fourth quarter indicate slightly more favorable movements compared with the previous quarter...

... as a result of the intensified lending to the household sector in the fourth quarter...

... the fast real growth of net revenues from VAT registered in the fourth quarter, after the



decline in the previous quarter...

... the continuing acceleration of the annual growth of pensions and the significant slowdown in the annual decline in real wages in October and November...

... and the slower annual decline in retail trade.

On the other hand, domestic production of consumer goods stagnated in the fourth quarter, after the growth registered in the previous quarter...

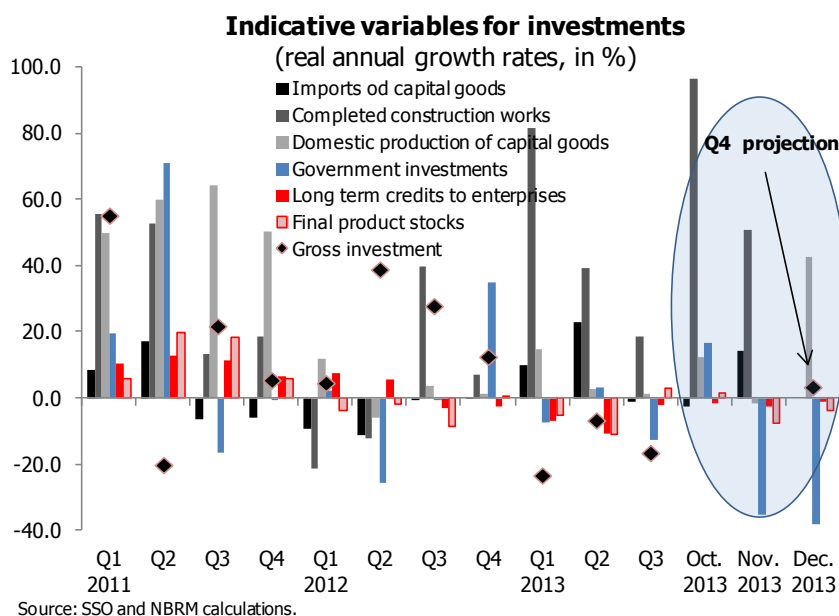
... amid intensified decline in imports of goods for private consumption in October and November compared to the third quarter...

... and the decline in private transfers also accelerated. The latest available indicators of the **investment activity** suggest its growth in the fourth quarter after falling in the previous quarter...

... under the influence of the fast and accelerated growth of construction in October and November...

... significant acceleration of the growth in domestic production of capital goods in the fourth quarter...

... amid growth in the import of investment goods in the first two months of the last quarter, after the decline in the previous



quarter...

... and growth of foreign direct investments in October and November, but at a slower pace.

In the last quarter of 2013, the negative movement in the long-term lending to the domestic corporate sector slowed down, but there are still negative growth rates of government capital investment...

... amid a decline in the inventories of finished products in the fourth quarter, in contrast to the increase from the previous quarter.

Nominal data on **foreign trade** point to a narrowing of the trade deficit in the last quarter of 2013, compared to the same period last year, contrary to the expectations from the October projection for slight widening of the trade deficit.

The narrowing of the deficit is registered amid growth in the exports and decline in the imports of goods.

Available data on **public consumption** in the last quarter of 2013 indicate a small and slower annual decline compared to the previous two quarters, contrary to the expectations for stagnation in the October projection.

## EXTERNAL SECTOR

In the last quarter of 2013, amid growth in the exports and simultaneous decline in the imports, **the trade deficit fell by 15.6%, on an annual basis...**

... which is a stronger contraction than that expected for the last quarter according to the October projection.

In the fourth quarter, **exports of goods** recorded an annual growth of 6.5%, mainly driven by the export activity of the new export-oriented facilities and the higher exports of equipment and machinery. Additionally, exports of iron and steel and tobacco, also gave a positive contribution to the annual growth...

... while the exports of energy and ores, having registered a more significant annual decline (of 68.2% and 17.6%, respectively) acted in the opposite direction.

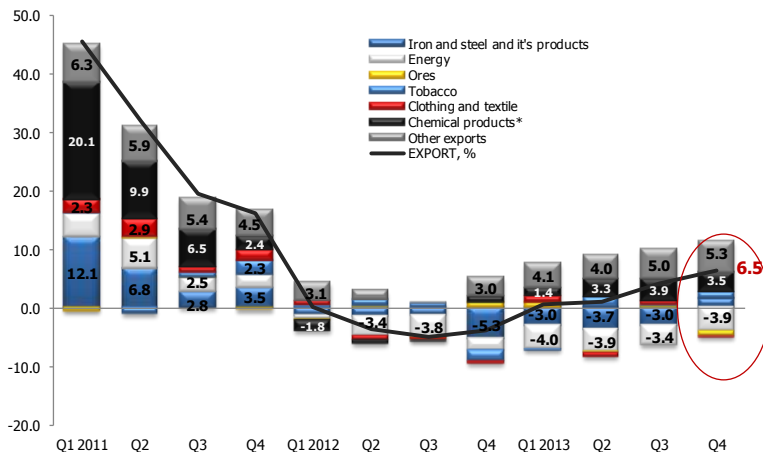
*Compared with the last projection, in the last three months exports were higher than expected, with positive deviations in all export components except energy, where the performances were somewhat weaker than projected.*

**Imports of goods** in the fourth quarter registered an annual decline of 2.6%, mainly due to the sharp drop in energy imports (of 27.8%). Imports of iron and steel, vehicles and food also contributed to the annual decline in the imports.

*Realized imports in the fourth quarter were slightly higher than projected for the last quarter of the year. The largest upward deviation was registered in the import of raw materials for the chemical industry, while the import of consumer goods, iron and steel, other imports, ores and equipment, and machinery were lower than projected.*

**The significantly improved export performance in the last quarter, amid slightly higher than projected imports, resulted in**

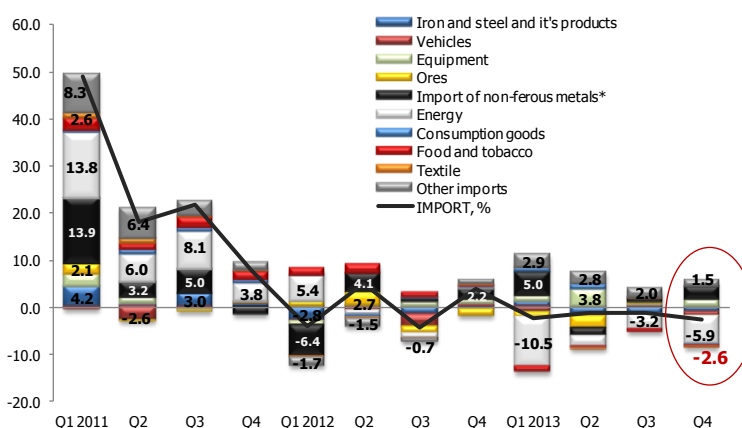
**Exports by components**  
(contributions to the annual change, in p.p.)



Source: NBRM.

\* The following data depict the overall exports of one major export capacity in the free industrial zone.

**Imports by components**  
(contributions to the annual change, in p.p.)



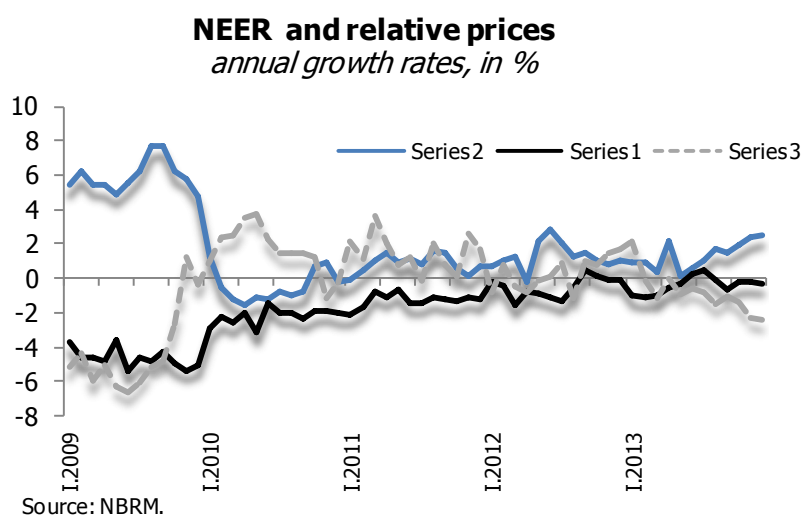
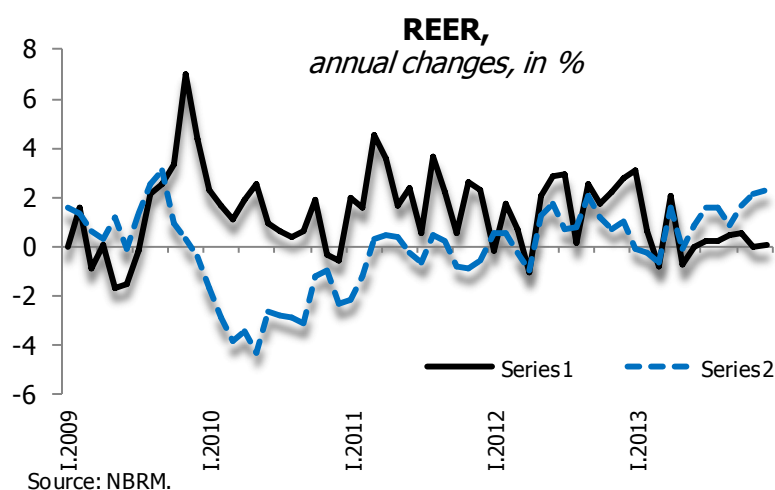
Source: NBRM.

\* The following data depict the overall exports of one major export capacity in the free industrial zone.

### lower trade deficit relative to that projected for the fourth quarter.

Latest assessments for the movement of world market prices of metals (nickel and copper prices) for 2014 and 2015, on average, are less favorable compared to the last projection. Oil prices are expected to decline, however with greater intensity than expected in October 2014, while in 2015 changes in the opposite direction are expected. On the other hand, the movements in the world market prices of food continue to show more favorable price movements, compared with the previous projection.

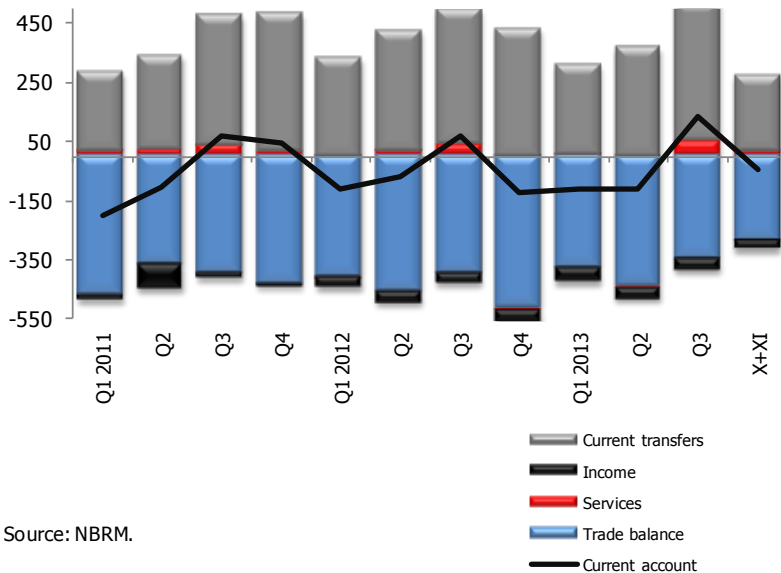
**In December 2013, price competitiveness of the domestic economy deteriorated on an annual basis.** Compared with the same period last year, the REER index, based on the consumer prices appreciated by 2.2%, continuing the trend of moderate appreciation, which started in the second half of the year. REER calculated according to the prices of the producers of industrial products did not change significantly, which is a trend typical for the past six months.



The unfavorable change was solely due to the annual appreciation of the **NEER** index (of 2.5%), caused by the change in the value of the Denar against the Russian Ruble and Turkish Lira. Changes in **relative prices** act in the opposite direction, i.e. the changes according to both indices (CPI and producer prices), indicate a favorable ratio between domestic and foreign prices on an annual basis.



**Main components of the current account**  
(in EUR million)



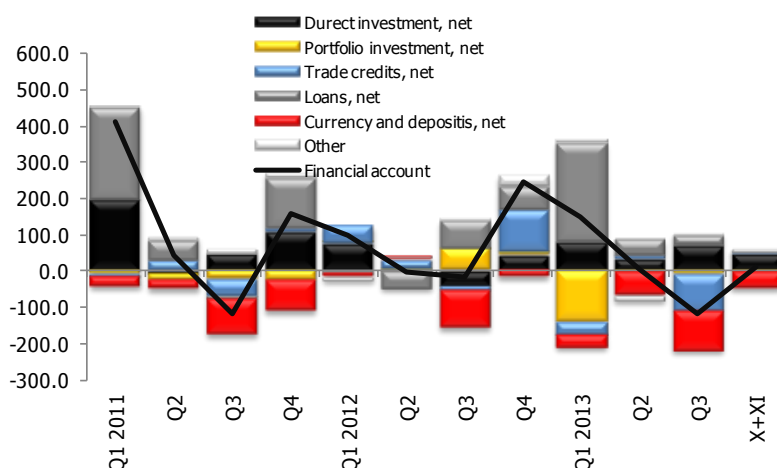
Source: NBRM.

**In the period October-November 2013, the balance of payments current account registered a deficit of Euro 42.1 million (or 0.5% of GDP), and it is significantly lower than expected in the October projection...**

..... mostly due to the better performances in the trade balance, but also because of the realized surplus in services, as opposed to the projected outflows according to the October projection....

... current transfers were at the projected level, while the income deficit was slightly higher than expected in October.

**Financial account components**  
(in EUR million)



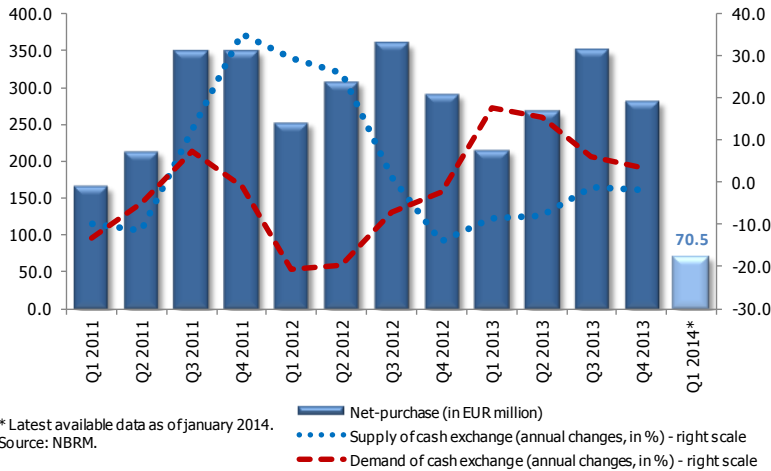
Source: NBRM.

**In October and November, the capital and financial account of the balance of payments** registered net inflows of Euro 15 million or 0.2% of GDP, which is significantly lower than the net inflows expected for the last quarter of 2013, according to the October projection.

Deviations are mainly due to the lower net borrowing abroad (simultaneously lower withdrawals and higher repayments of long-term loans, compared to the projected), higher net outflows in currency and deposits of other sectors (households) and lower net inflows from trade credits.

On the other hand, the realized net inflows of direct investment are higher than those expected in the October projection.

**Cash exchange market**



**Recent data on currency exchange operations, as of January 2014, indicate a more intensive growth in the demand relative to the supply of foreign currency on the currency exchange market...**

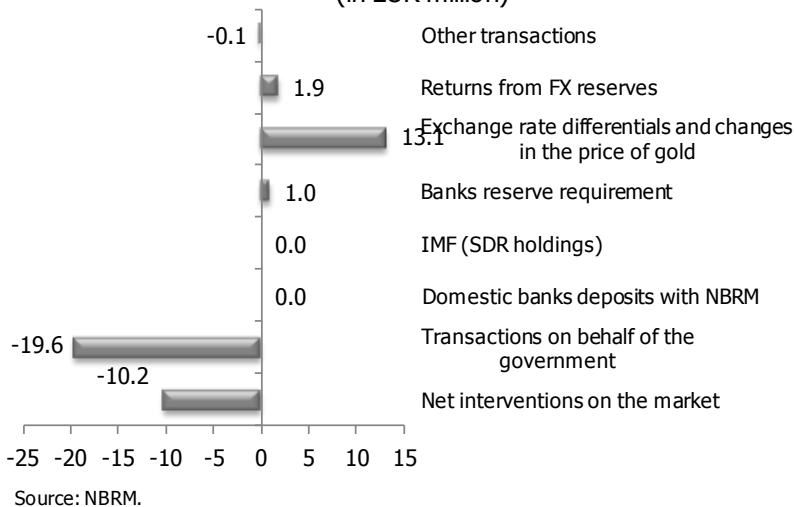
... whereby the realized net purchase on the currency exchange market in January 2014 amounted to Euro 70.5 million, representing an annual growth of 1.9%. Relative to the October projection for the first quarter of this year, the realized net inflows are within the projections.

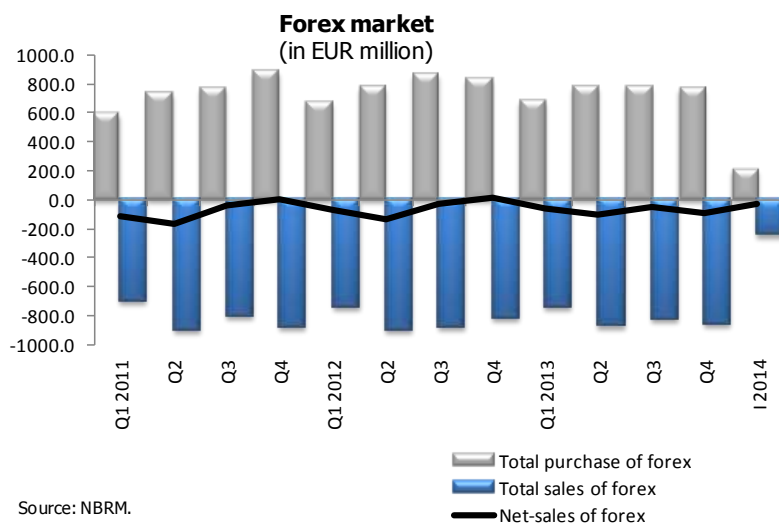
**Foreign exchange reserves**  
(stock, in EUR million)



**As of January 31, 2014, gross foreign reserves stood at Euro 1,979.2 million, which is a decline of Euro 13.9 million compared to the end of the previous year.** Adverse changes in foreign reserves are mostly due to the transactions on behalf of the government and the net sales of foreign currency by the NBRM in the foreign exchange market.

**Factors of change of the foreign reserves January 2014**  
(in EUR million)





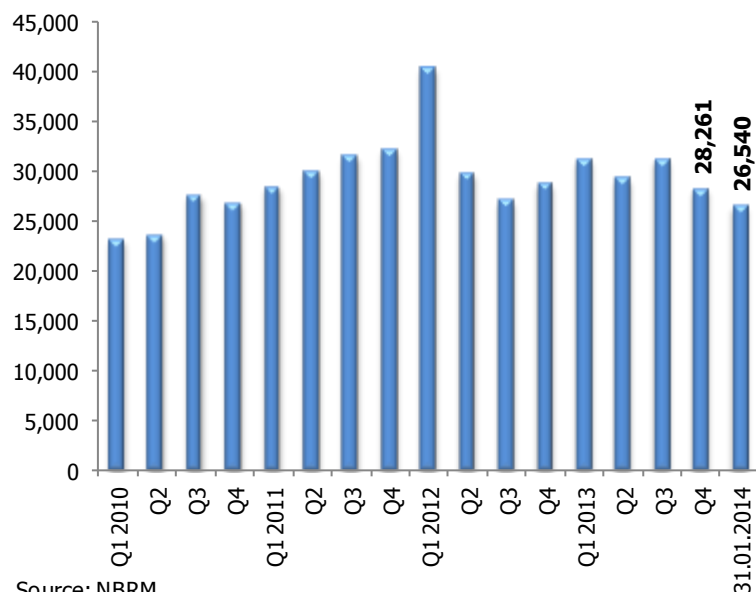
In January 2014, the banks' **foreign exchange market** realized net sales of Euro 32 million, versus the small net sales of Euro 2 million in the first month of 2013. This annual change stems from the almost twice more intensive decline in the supply compared to the demand for foreign currency (by 19.9% and 8.3%, respectively).

The analysis by individual components indicates that the increased net sale of foreign currency is due mainly to the higher net sales of companies, but also of the lower net purchase of foreign currency by natural persons, however in a significantly lower proportion.

Recent developments in the external sector indicate further maintaining of foreign reserves at an adequate level.

## MONETARY SECTOR

**Monetary policy instruments, in MKD million**

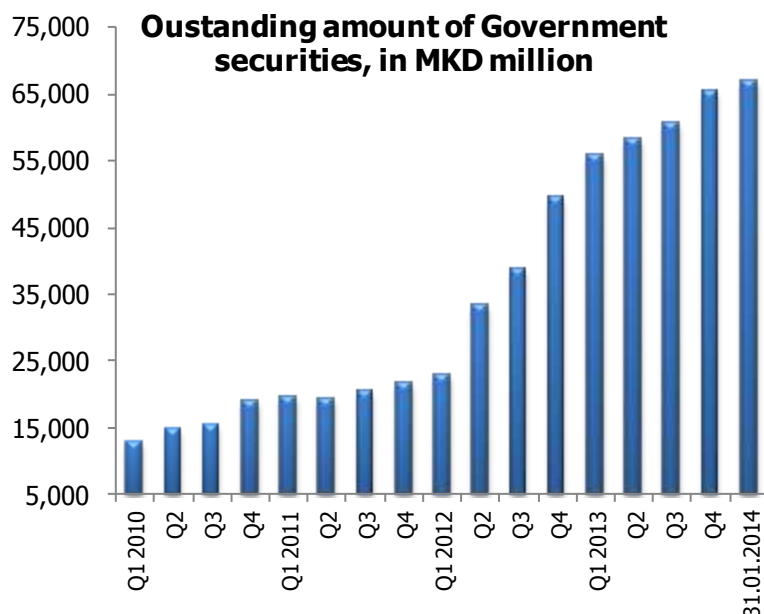


Source: NBRM.

Preliminary data as of January 31, 2014, point to liquidity creation through the monetary instruments relative to the end of the fourth quarter...

... amid reduced net foreign assets of the NBRM, and liquidity creation through the total government deposits.

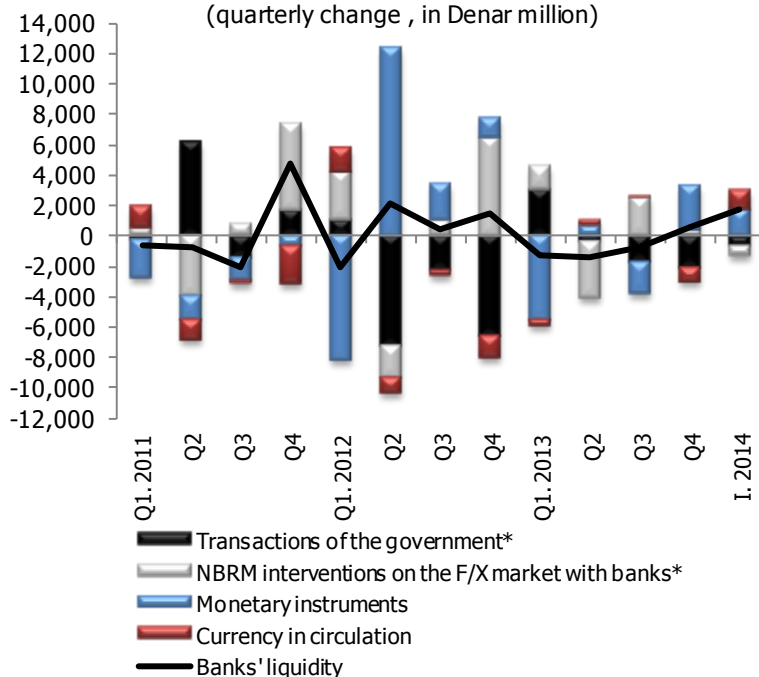
**Outstanding amount of Government securities, in MKD million**



Source: NBRM.

As of January 31, 2014, government securities on the domestic market totaled Denar 66,755 million, which compared to December 2013 represents an increase of Denar 1,436 million.

**Liquidity of the banking system\***  
(quarterly change, in Denar million)

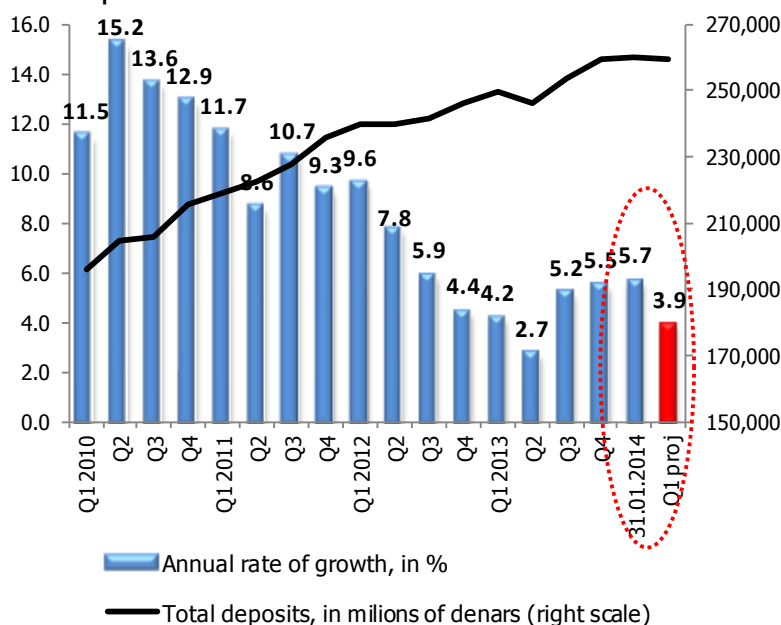


\*Positive change- liquidity creation, negative change- liquidity withdrawal.  
Source: NBRM.

As of January 31, 2014, reserve money increased compared to December...

... amid faster growth of banks' liquid assets and a decline in currency in circulation, contrary to the expectations for growth in both components in the first quarter, according to the October projection.

**Total deposits**



\* include demand money  
Source : NBRM.

Total deposits continued to grow also in January, but with lower intensity compared to the previous month. Deposit growth in this period was completely due to the increase of household deposits, amid registered decline in corporate deposits.

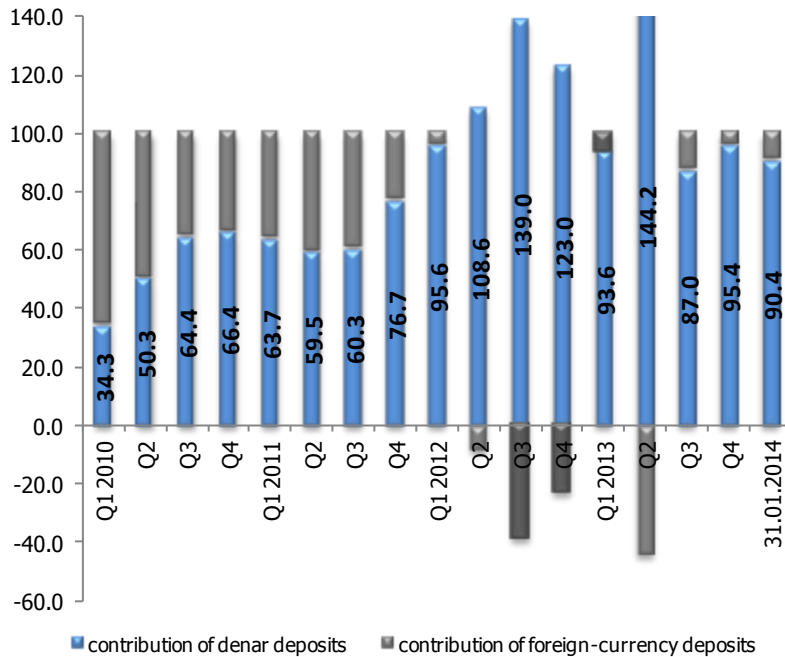
**As of January 31, 2014, the annual growth rate of total deposits amounted to 5.7%<sup>6</sup>, which is above the projection for the first quarter of 2014, of 3.9%.** During January, total deposits increased by Denar 479 million compared to the end of the year. The level of deposits at the end of January was slightly higher than that projected for the end of March.

<sup>6</sup> Refers to the total deposits with included transferable Denar deposits of other financial institutions with the NBRM. In April 2013 there was a more significant reduction of this type of transferable deposits. Consequently, the annual rates of total deposits that do not include this type of deposits are higher and amounted to 6.1% in December, i.e. 6.3% in January (preliminary data).

## MONETARY SECTOR

Contribution of Denar and foreign currency deposits to the growth in total deposits (in %)

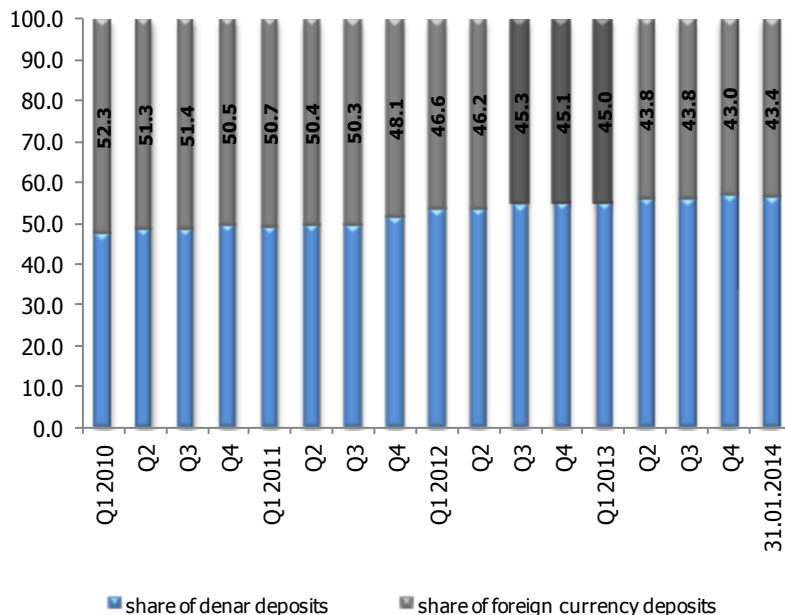
\*Includes demand deposit



**The positive annual growth in total deposits was mainly due to the growth of Denar deposits,** amid moderate positive contribution of foreign currency deposits.

Source: NBRM.

Share of Denar and foreign currency deposits in the total deposits (in%)

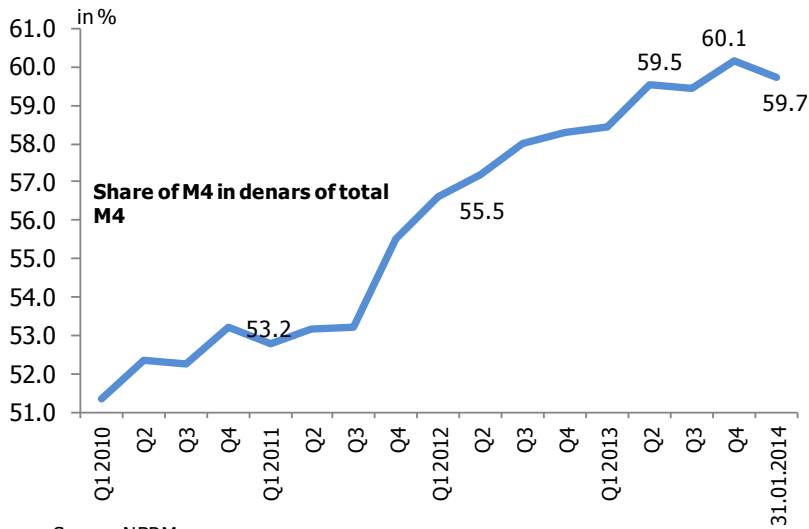


According to the preliminary data as of end January, the currency structure of deposits is insignificantly changed compared to the previous month, with a slight reduction of the share of Denar deposits, and increased share of foreign currency deposits in the total deposits.

Source: NBRM.

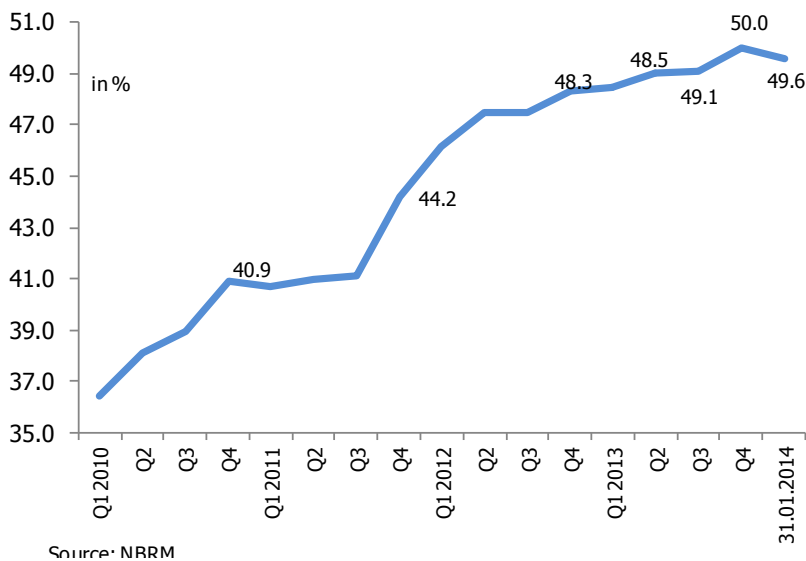
\*Includes demand deposits.

## Share of M4 in Denars in total M4 (in %)



## Share of Denar deposits in the total household deposits, in %

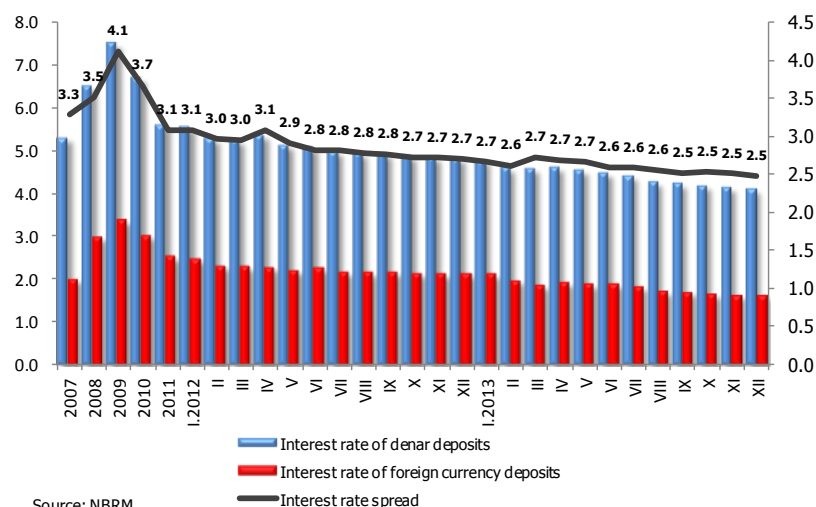
\*Includes demand deposits.



According to the preliminary data for January, household Denar deposits continued to grow but at a slower pace compared to the previous month. This is not an unusual movement for January, when Denar deposits may register slower growth due to declining demand deposits. However, given the more intensive growth of household foreign currency deposits in this period, the share of Denar deposits in total household deposits decreased to 49.6% from 50% in December.

## MONETARY SECTOR

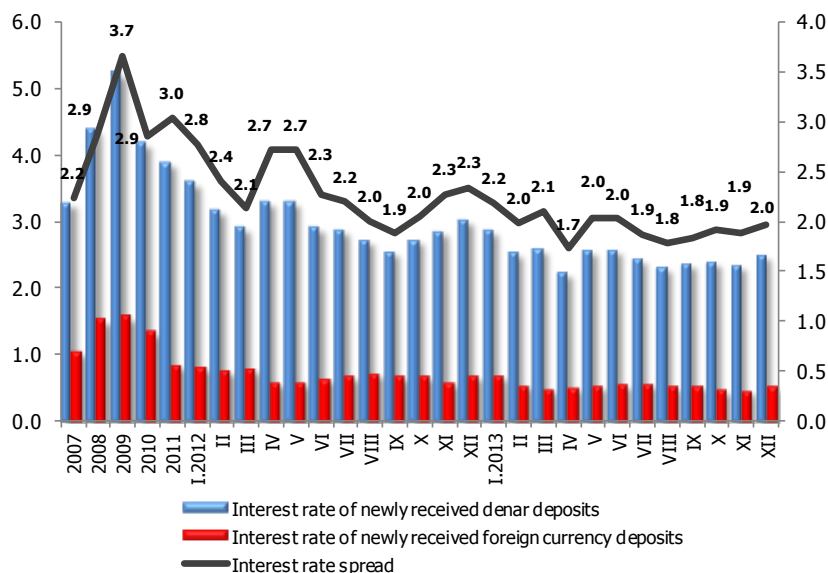
### Interest rates on Denar and foreign currency deposits, in%



Source: NBRM.

In December, interest rates on Denar and foreign currency deposits remained unchanged compared with the previous month, and the interest rate spread remained stable. The interest rate spread between interest rates on newly received Denar and foreign currency deposits increased minimally.

### Interest rates on newly received Denar and foreign currency deposits, in%

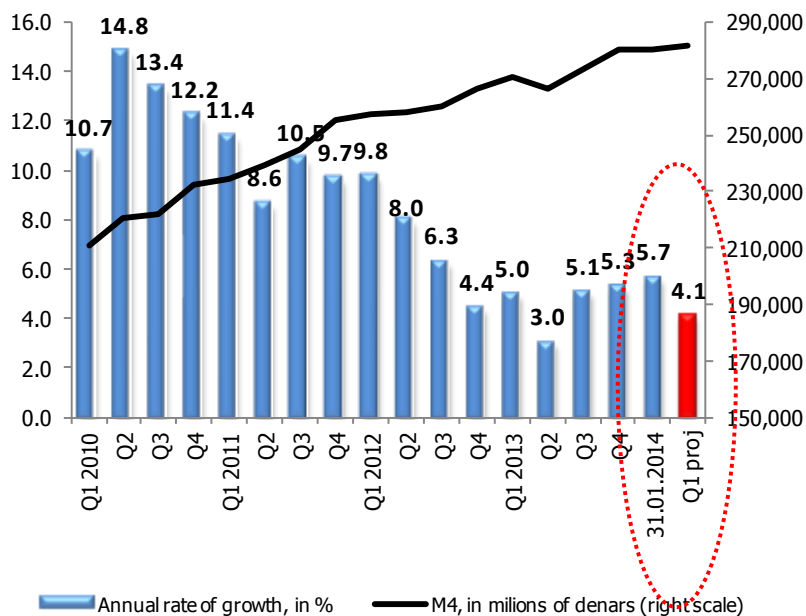


Source: NBRM.



## MONETARY SECTOR

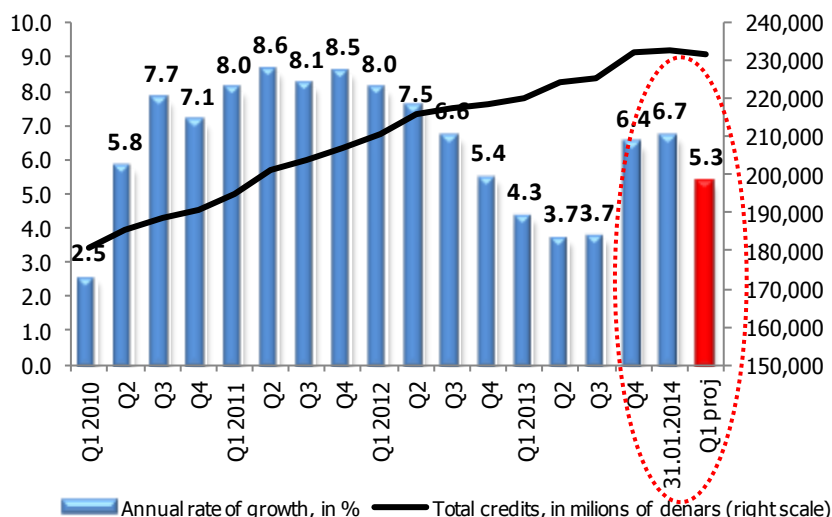
### Broad money, M4



**Faster monetary growth compared to the projected...**

... in circumstances of a more intensive annual growth of total deposits and slower growth of currency in circulation, compared to the projection.

Source: NBRM.  
Total loans



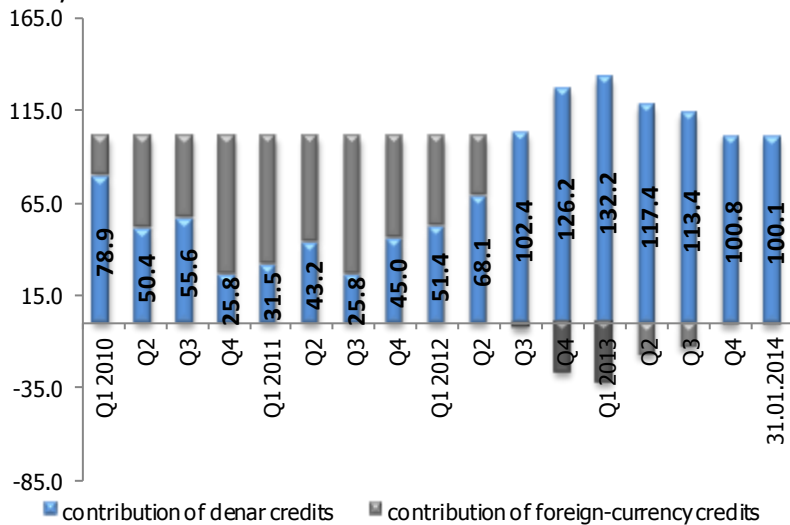
During January, total loans increased moderately compared to the previous month, entirely due to the growth of loans to households, amid reduction in newly granted corporate loans.

**As of January 31, 2014, the annual growth rate of total loans equaled 6.7%<sup>7</sup>, which is above the level projected for the first quarter of 2014.** Moreover, in January, total loans increased by Denar 541 million compared to the end of the year, and their level at the end of January was higher compared to the projection for the first quarter.

<sup>7</sup> Partly because of the upward deviation of credits compared with the projection, at the end of December.

## MONETARY SECTOR

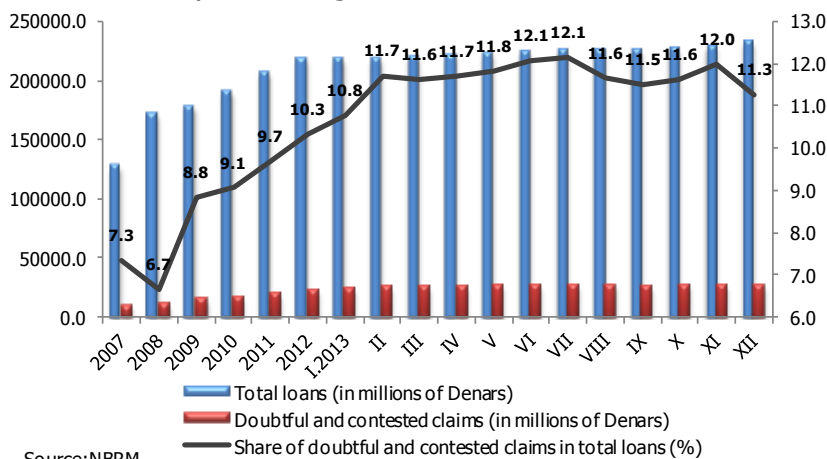
Contribution of Denar and foreign currency loans to total loans, in %



The achieved total annual credit growth was entirely due to the rising Denar loans, with minimal negative contribution of foreign currency loans.

Source: NBRM.

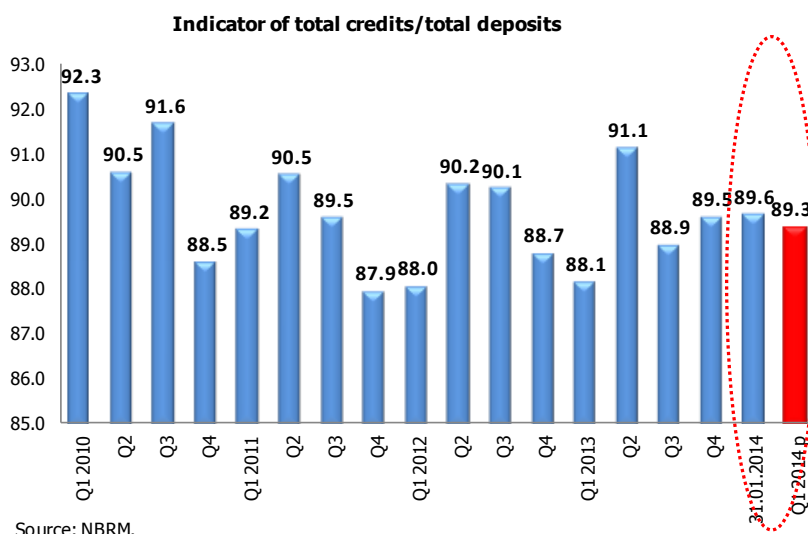
Share of non-performing claims in total loans, in %



In December, there was a monthly decrease in the share of non-performing claims in total loans.

Source: NBRM.

Total loan-deposit ratio, in %



Source: NBRM.

At the end of January, the utilization of the deposit potential for lending to the private sector registered a minimum increase on a monthly basis, and it is above the expected level according to the October projection for the first quarter of 2014.