

National Bank of the Republic of North Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

April 2019

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 (January - March 2019) and to make a comparison with the latest macroeconomic forecasts (October 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.

According to the latest estimates, the global economic environment is less conducive compared to the October forecasts which caused downward revisions of the global economic growth. Thus, risks to the global economy are still significantly downward, while similar to October the main risk arises from the uncertainty related to the global trade protectionism and the outcome of the negotiations between the United States and China. The other risks relate to the potential major slowdown in China's growth, the prospects for a no-deal Brexit, increased political risks in some EU countries and the potential escalation of geopolitical tensions in several parts of the world. Regarding the **economic developments in the euro area**, as our major trading partner, the latest high-frequency data and household and corporate surveys indicate possibility for further deceleration of the economic growth in the first quarter of 2019. The unemployment rate in February remained at the January level of 7.8%, but still the average for the two months of the first quarter is lower than the achievement in the fourth quarter of 2018 (of 7.9%), indicating that the conditions in the labor market are still favorable. The preliminary estimate for the inflation in the euro area shows its minor deceleration in March (from 1.5% in February to 1.4%). According to the latest estimates, the **EURIBOR** was revised downward especially for 2020, and it is expected to continue to be in the negative zone over the forecast horizon.

Analyzing the quantitative external environment indicators of the Macedonian economy, the **foreign effective demand forecasts** were revised downwards compared to the October forecasts, especially for 2019. Downward revisions for the **foreign effective inflation** were also made throughout the entire forecast horizon. Compared to October, the US dollar is expected to appreciate rather than to remain unchanged in 2019 and to depreciate at a similar pace in 2020. **Forecasts for primary commodities prices on the world markets for 2019 and 2020 are revised in different directions relative to the October forecasts.** Observed by product, the latest assessments of **world oil prices** point to a price fall rather than growth in 2019 and a slower decline in 2020 compared to October. **Metal prices** were subject to upward revisions in the period of forecasts, whereby the copper price is expected to register a smaller decline, while the nickel price is expected to increase rather than to decrease as forecasted in October. Regarding the **prices of primary food products**, revisions are in opposite directions in the forecast period. Thus, in 2019, a fall rather than growth in the price of wheat and a higher increase in the price of corn is envisaged, while in 2020 corrections are smaller and suggest price growth, which would be slightly faster in the wheat and slightly slower in the corn. However, one should bear in mind that the assessments of 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 longer term.

The comparison of the latest macroeconomic indicators with their dynamics forecast in October indicates deviations in some economic segments. The currently available high-frequency data for the period January-February 2019 suggest a continuation of the favorable developments in the economy, visible through the accelerated growth in industry and trade, as well as the significant acceleration in the growth in construction. This, coupled with a rate of growth of the

economic activity in the past 2018 of 2.7% which is above the forecast, corresponds to the expectations for gradual acceleration in the economic growth in the next period. Regarding the changes in **consumer prices**, the performances in the first quarter of 2019 are lower than the October inflation forecast. Thus, with the latest data on the March inflation of 1.4%, the average annual inflation rate in the first quarter of 2019 amounts to 1.2%, which is below the forecasted level. At the same time, the latest assessments point to lower pressures from import prices in 2019, which are input assumptions in the forecasts. Consequently, the risks to the inflation forecast for 2019 of 2% have been currently assessed as downward. Yet, there is still uncertainty around the future movement of world primary commodity prices, especially oil prices.

Recent available foreign reserves data (adjusted for price and exchange rate differentials and price changes of securities) at the end of the first quarter of the year indicate their slight decline. Analyzing growth factors, the transactions on behalf of the government decreased reserves, despite the favorable effects of the further purchase of foreign currency by the National Bank on the foreign exchange market, as well as of the change in the other categories. The analysis of foreign reserves adequacy indicators shows that they are still within the safe zone. Foreign trade performances for the first two months point to the possibility for slightly higher than expected trade deficit for the first quarter of 2019. At the same time, the currency exchange market data as of the second 10-day period of March point to net inflows of private transfers which are close to the expectations for the first quarter of 2019.

As for the monetary sector developments, final data as of February show a monthly increase in **total deposits** (of 1.0%), compared to the decrease in the previous month (0.6%). The monthly increase in total deposits mostly arises from the growth of household deposits and other sectors deposits, i.e. from the growth of denar deposits (including demand deposits). On an annual basis, total deposits in February grew by 11.3%, which exceeds the forecasted growth of 10.5% for the end of the first quarter of 2019, according to the October forecast. Analyzing the credit market, in February, **total private sector loans** registered a monthly growth of 0.6%, following the decrease in the previous month (0.8%). The increase in lending activity mostly arises from the growth of corporate loans, i.e. from denar loans. Annually, the total loans in February were higher by 8.2%, despite the forecast for growth of 9.8% for the first quarter of 2019. Deviations in deposits and loans as of February 2019 are partly a spillover effect of the deviations at the end of 2018.

As of February 2019, the Budget of the Republic of North Macedonia registered a deficit of Denar 2,690 million, mostly financed from domestic sources through a new issue of government securities on the domestic financial markets and through funds withdrawal from the government's account with the National Bank. The deficit in the Budget of the Republic of North Macedonia for the first two months of the year was 15.2% of the deficit planned in the 2019 Budget.

The latest macroeconomic indicators and assessments indicate certain deviations in terms of the forecasted dynamics, but the perceptions about the environment for conducting the monetary policy in certain segments remained mainly unchanged compared to the previous forecasts. At the end of March 2019, foreign reserves (adjusted for price and exchange rate differentials and securities price changes) are slightly lower relative to the end of 2018, but still move within a safe zone. Regarding the economic activity, the solid growth in 2018 above the expectations and the favorable signals from the high frequency indicators for January-February 2019, are in line with the expectations within the October forecasting round for acceleration in the growth of the economy in 2019. In terms of inflation, amid lower than forecasted performances for the first quarter of 2019 and downward revisions of the external assumptions for the period ahead, the current risks are assessed as downward. Observing the monetary sector, the annual deposit growth in February is still higher, while the annual growth of loans is slightly lower than forecasted for the end of the first quarter of 2019.

Better signals for the economic activity at the beginning of 2019

During the first two months of 2019, there were favorable developments in the domestic economy, on the supply side. **Industrial output** is characterized by intensified annual growth, driven by the favorable performances in the energy sector and the manufacturing industry. The main driving activities within the manufacturing industry are predominantly those in which the foreign export facilities are active, but certain traditional activities, such as the metal industry and the production of food products and beverages, are also characterized by favorable developments. A moderate acceleration in the annual growth is observed in the **turnover in the total trade**, as a result of the positive developments in all three types of trade (wholesale trade, retail trade and trade in motor vehicles). In January, there was a high annual growth rate in **construction**, reflecting the favorable performances in building construction and civil engineering, but also the low base effect. Also, in January, there was an increase in the total turnover in **catering** compared to the same month last year. In accordance with the positive performances in the domestic economy, the **surveys** indicate an increase in the optimism among economic agents.

Selected economic indicators/ ¹			2018					2019			
	2016	2017	Q1	Q2	Q3	Q4	2018	Jan.	Feb.	Mar	Q1
I. Real sector indicators											
Gross domestic product (real growth rate, y-o-y) ²	2.8	0.2	0.9	3.0	3.0	3.7	2.7				
Industrial production ³											
y-o-y	3.4	0.2	5.2	4.9	5.1	6.4	5.4	12.0	7.3		
cumulative average	3.4	0.2	5.2	5.0	5.0	5.4	5.4	12.0	9.6		
Inflation ⁴											
CPI Inflation (y-o-y) ⁵	-0.2	2.4	1.5	1.5	1.6	1.2	0.9	1.2	1.1	1.4	1.2
CPI Inflation (cumulative average)	-0.2	1.4	1.5	1.5	1.5	1.5	1.5	1.2	1.1	1.2	1.2
Core inflation (cumulative average)	1.3	2.3	1.6	1.6	1.6	1.5	1.5	1.3	1.0	0.9	0.9
Core inflation (y-o-y)	1.3	2.3	1.6	1.5	1.7	1.3	1.5	1.3	0.7	0.6	0.9
Labor force											
Unemployment rate	23.7	22.4	21.6	21.1	20.8	19.4	20.7				
II. Fiscal Indicators⁶											
(Central Budget and Budgets of Funds)											
Total budget revenues	169,356	179,673	43,369	47,275	45,992	51,847	188,483	14,925	15,134		
Total budget expenditures	185,407	196,561	46,502	48,680	48,462	56,439	200,083	15,633	17,116		
Overall balance (cash)	-16,051	-16,888	-3,133	-1,405	-2,470	-4,592	-11,600	-708	-1,982		
Overall balance (in % of GDP) ¹	-2.7	-2.7	-0.5	-0.2	-0.4	-0.7	-1.8	-0.1	-0.3		
III. Financial indicators ⁶											
Broad money (M4), y-o-y growth rate	6.2	5.1	7.5	10.1	11.7	11.8	11.8	12.0	11.2		
Total credits, y-o-y growth rate	-0.1	5.4	5.7	6.2	7.9	7.3	7.3	7.8	8.2		
Total credits - households	7.0	9.2	9.4	9.7	10.1	10.3	10.3	9.9	9.6		
Total credits - enterprises	-5.3	2.3	2.3	2.9	5.7	4.5	4.5	5.7	6.9		
Total deposits (incl. demand deposits), y-o-y growth rate/⁷	6.1	5.0	7.6	10.6	12.3	12.1	12.1	12.2	11.3		
Total deposits - households	2.5	6.1	7.3	7.9	8.4	9.5	9.5	9.3	8.8		
Total deposits - enterprises	13.4	2.1	4.1	11.6	16.8	9.5	9.5	10.6	9.5		
Interest rates ⁸											
Interest rates of CBBills	3.75	3.25	3.0	3.0	2.75	2.50	2.50	2.50	2.50	2.25	2.25
Lending rates											
denar rates	7.0	6.6	6.3	6.2	6.0	5.9	6.1	5.8	5.8		
f/x rates (aggregated, incl. f/x and denar with f/x clause)	5.7	5.3	5.0	4.9	4.8	4.8	4.9	4.7	4.7		
Deposit rates											
denar rates	2.5	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0		
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8		
IV. External sector indicators											
Current account balance (millions of EUR)	-275.5	-102.9	-144.5	23.9	195.8	-107.1	-31.9				
Current account balance (% of GDP)	-2.8	-1.0	-1.3	0.2	1.8	-1.00	-0.3				
Trade balance (millions of EUR)⁹	-1,777.4	-1,817.7	-474.9	-431.5	-381.9	-523.1	-1,811.1	-154.8	-146.5		
Trade balance (% of GDP)	-18.0	-18.1	-4.4	-4.0	-3.6	-4.9	-16.9	-1.4	-1.3		
import (millions of EUR)	-6,106.7	-6,824.9	-1,783.6	-1,889.8	-1,845.4	-2,153.1	-7,024.8	-570.1	-675.3		
export (millions of EUR)	4,329.3	5,007.2	1,309.5	1,458.3	1,463.1	1,630.0	5,860.8	415.3	528.9		
rate of growth of import (y-o-y)	5.3	11.8	12.6	9.8	11.9	15.1	2.9	1.5	17.0		
rate of growth of export (y-o-y)	5.9	15.7	14.0	14.7	15.8	23.1	17.0	-1.9	15.0		
Foreign Direct Investment (millions of EUR)	316.9	180.0	235.4	74.1	-1.5	313.8	621.9				
External debt											
Gross external debt (in millions of EUR)	7,216.6	7,372.5	8,251.3	8,420.0	8,396.6	7,907.5	7,907.5				
public sector	3,445.3	3,461.8	4,053.1	4,077.9	3,986.3	3,756.2	3,756.2				
public sector/GDP (in %)	35.4	34.4	37.8	38.0	37.1	35.0	35.0				
private sector	3,771.2	3,910.7	4,198.2	4,342.2	4,410.3	4,151.3	4,151.3				
Gross external debt/GDP (in %)	74.2	73.2	76.9	78.4	78.2	73.7	73.7				
Gross official reserves (millions of EUR)¹⁰	2,613.4	2,336.3	2,577.1	2,642.2	2,709.1	2,867.3	2,867.3	2,877.6	2,864.6	2,866.6	2,866.6

¹ While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2018, the projected level from the NBRM projections from October 2018 is used.

² The quarterly data for 2017 are preliminary, while for 2018 are estimated (Press release for quarterly data on GDP as of 08.03.2019). The annual data for 2016 is final, and for 2017 is preliminary data (Announcement for annual data for GDP from 28.09.2018).

³ The changes of Index of industrial production are according to base year 2015=100.

⁴ CPI calculated according to COICOP 2018=100.

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

⁶ 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).

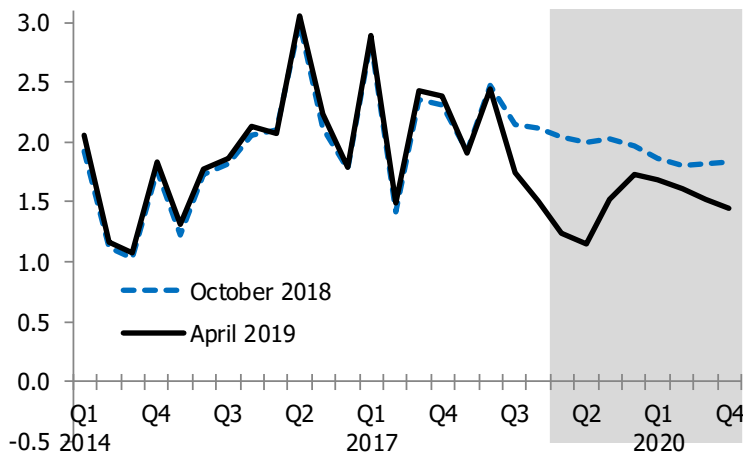
⁷ It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.

⁸ As of June 2018 data for active and passive interest rates are compiled according to the new methodology of NBRM.

⁹ Trade balance according to foreign trade statistics (on c.i.f. base).

¹⁰ The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

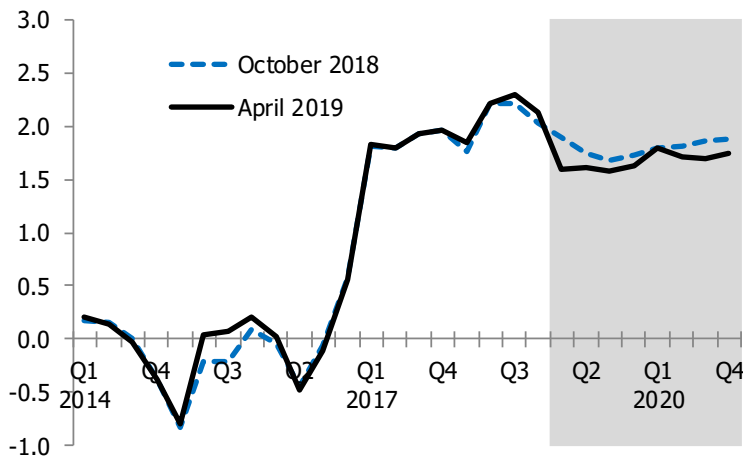
Foreign effective demand
(annual changes in %)



In 2018, the growth of the **foreign effective demand** equals 1.9%, which is a downward deviation from the October forecast of 2.2%.

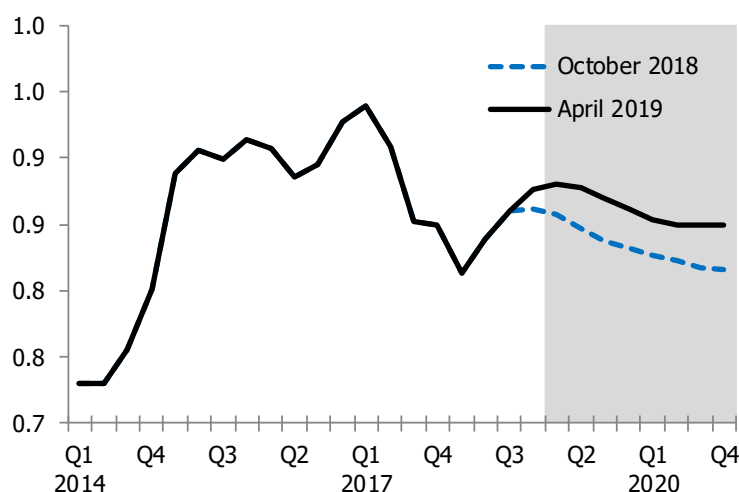
In the latest estimates for 2019 and 2020, the foreign demand was revised downwards, so that the growth is expected to amount to 1.4% and 1.6% in 2019 and 2020, respectively (2% and 1.8%, respectively, according to the October forecasts). The downward revision is largely due to the expectations for a slower growth of the German economy.

Foreign effective inflation
(annual rates in %)



A downward revision for the **foreign effective inflation** estimates was also made for the entire forecast period. Namely, the growth in 2019 and 2020 is now expected to equal 1.6% and 1.8%, respectively (versus 1.8% and 1.9% in October), mostly as a result of the expectations for a slower price growth in Germany and Italy.

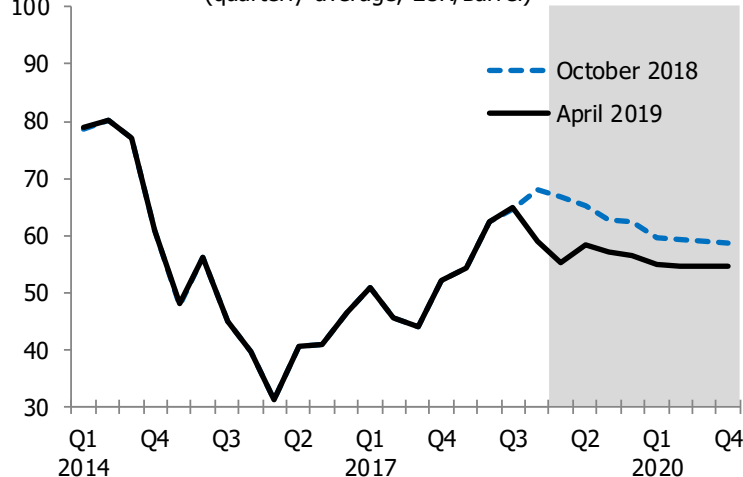
EUR/USD exchange rate



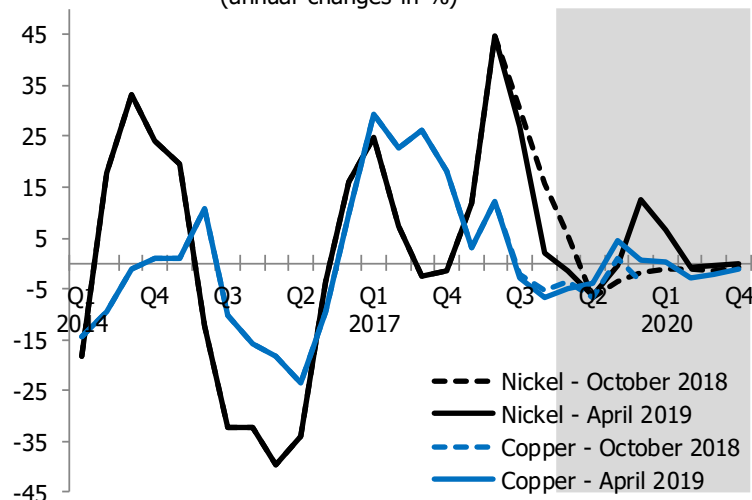
The latest **euro/US dollar exchange rate** estimates resulted in an upward revision for the entire forecast period. Thus, it is now expected a moderate appreciation of the US dollar in 2019 (instead of an unchanged value) and a slightly smaller depreciation in 2020. In circumstances of increased political risks in the euro area, such assessments largely reflect the expectations for a lower growth of the euro area in the period ahead, as well as the announcement that the ECB will keep interest rates low for a period longer than initially announced.

Brent oil

(quarterly average, EUR/Barrel)



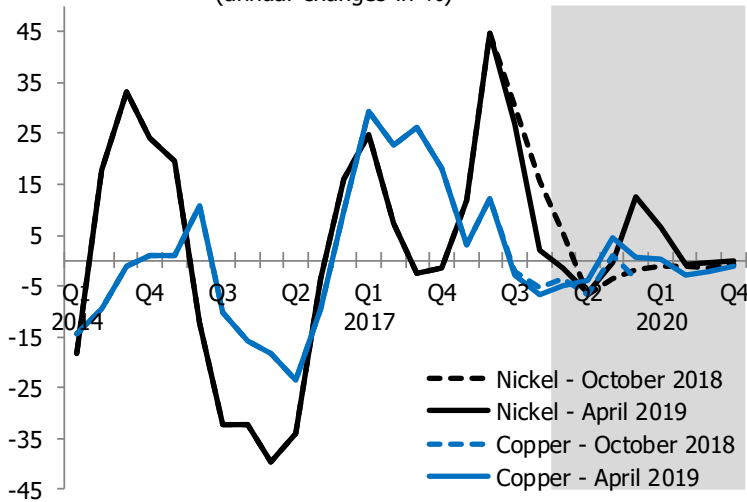
According to the latest estimates for 2019, the **oil price**¹ was significantly revised downwards compared to October (expected fall rather than growth), largely as a result of the expectations for a lower global oil demand amid contracted global economic activity. On the other hand, for 2020, a smaller price fall is expected, compared to the October forecasts.

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

The prices of nickel and copper in 2019 denominated in euros have been revised upwards, while the prices expressed in US dollars have been revised downwards. These differences arise as a result of the expected changes in the euro/US dollar exchange rate. On the other hand, the metal prices in both euros and US dollars in 2020 were revised upwards.

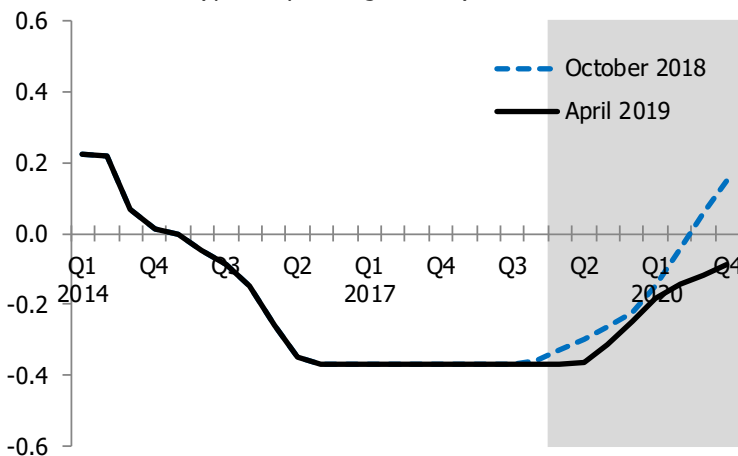
¹ The analysis of prices of oil, metals and primary food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

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



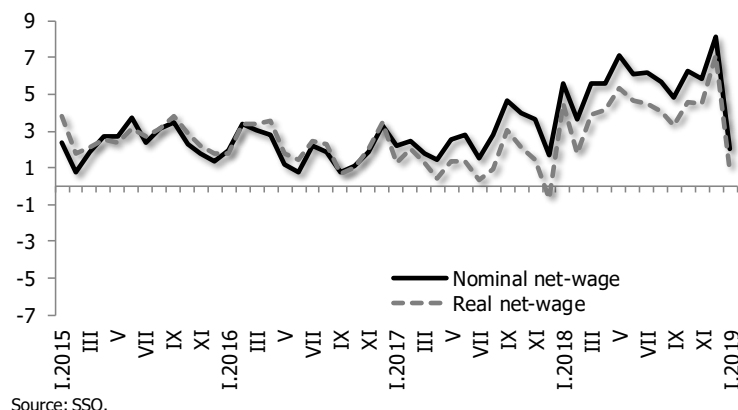
According to the latest estimates for 2019, the **wheat price** was significantly revised downwards compared with the October forecasts, now expecting price fall (contrary to the growth forecasted in October). The downward revision is largely due to the good weather and the expectations for a larger world production of wheat. On the other hand, the **corn price** was significantly revised upwards (expected faster growth than forecasted in October), largely as a result of the globally reduced inventory level. For 2020, smaller changes have been made in the forecasts for the growth in food prices (a slight upward revision of the wheat price and a slight downward revision of the corn price).

1-month Euribor
(quarterly average, in %)



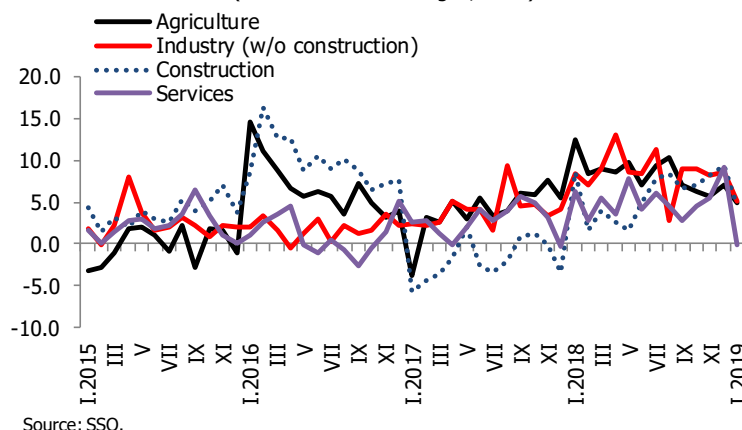
According to the latest estimates, the **one-month EURIBOR expected** for 2019 was minimally revised downwards (-0.32% versus -0.28% in October forecasts), with downward revision also made for 2020 (-0.13% versus 0.01% according to the October forecasts). EURIBOR's trend in the negative zone corresponds with expectations that the ECB will keep the rates low for a period longer than initially announced.

Average net-wage
(annual changes, in %)



In January 2019, the nominal annual growth rate of the average net wage amounted to 2%² (a significant slowdown compared to the nominal annual growth of 8.1% in December 2018, partially due to the higher base effect). The growth is dispersed in most of the activities, from which, we should highlight the growth in the "health and social care activities"³, mining, education and in agriculture, as more pronounced. Also, a solid growth rate of wages is observed in the activity "information and communications", in construction and the energy sector, while the activity "art, entertainment and recreation" showed a significant nominal drop in the average net wage (after the high growth in the previous month).

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



Amid moderate increase in the consumer prices on an annual level, in January, the net wage registered real annual growth of 0.8%.

However, wages in January are lower than expected for the first quarter in 2019 according to the October forecasts.

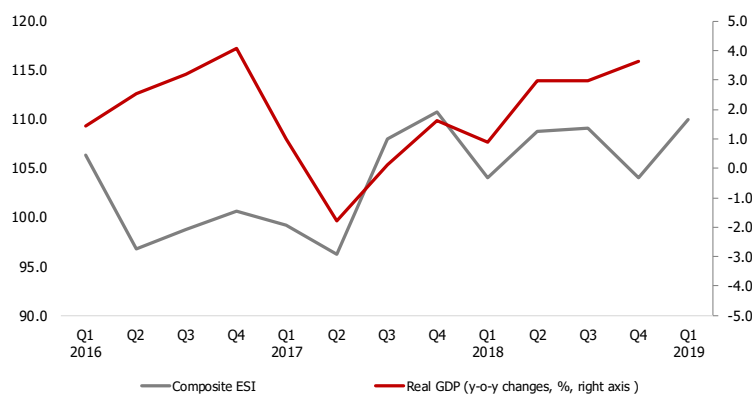
High-frequency data on the supply and demand side for the period January-February 2019 generally show favorable performances and indicate a continuation of the positive developments in the domestic economy in the first quarter of 2019. In line with the positive developments in the economy, the surveys for the first quarter indicate generally increased optimism among economic agents regarding the economic situation⁴ compared to the same quarter last year, but also compared to the previous quarter.

² The gross wage registered a nominal annual growth of 3.3%, which is higher than the growth of the net wage, as a result of the increase in the rates at which contributions for compulsory pension and disability insurance and compulsory health insurance are paid, and due to the introduction of progressive personal income tax rates from early 2019. The rates at which contributions are paid in 2019 are 18.4% for compulsory pension and disability insurance and 7.4% for compulsory health insurance (previously these rates were 18% and 7.3%). The income tax, for the income acquired by labor, the income from self-employment, the income from copyrights and related rights and the income from the sale of own agricultural products, is paid at progressive rates as follows: 10% personal income tax rate for income up to Denar 90,000 (monthly tax base) and 18% of part of the income over Denar 90,000 (a proportional tax rate - a so-called "flat-rate tax" was previously applied, which equaled 10%).

³ According to the RNM Budget for 2019, the wages of specialists are planned to be increased by 10% starting from January and additional 5% starting with the payment of the September wage in 2019, and the wages of other medical personnel in the public health institutions are also planned to be increased by 5%, starting with the payment of the January wage in 2019.

⁴ It refers to the surveys conducted by the European Commission to measure the economic confidence of agents 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). Starting from January 2019, the European Commission revised the structure of consumer confidence indicator, and accordingly, the composite indicator of economic confidence. For more information on the new methodological changes visit: https://ec.europa.eu/info/files/revised-consumer-confidence-indicator_en

Economic sentiment indicator and GDP

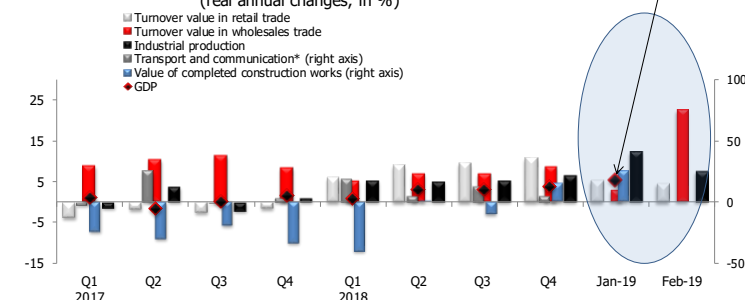


According to the latest high frequency data on the supply side, the economic performance is generally favorable.

In the first two months of 2019, there was a moderate acceleration in the annual growth of the **turnover in the total trade**, as a result of the favorable performances in the three types of trade (wholesale trade, retail trade and trade in motor vehicles).

Favorable movements and acceleration in the annual growth in the period January-February are also typical of the **industrial output**, and the main drivers of the growth are the energy sector and the manufacturing industry. Analyzing the manufacturing industry, in the first two months of 2019, an especially significant contribution was made by the activities in which the export facilities with foreign capital are active, such as the production of machines and devices and motor vehicles. Positive contribution was also made by the production of metals, basic pharmaceutical products and electrical equipment, and the production of food products and beverages. On the other hand, a significant decline in activity and a negative contribution to the total growth rate of industrial output was registered in the manufacturing of fabricated metal products.

Economic activities
(real annual changes, in %)



INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan.	Feb
<i>real annual changes in %</i>										
Gross domestic product	1.0	-1.8	0.1	1.6	0.9	3.0	3.0	3.7	-	-
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	4.9	5.1	6.4	12.0	7.3
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	24.9	-
Retail and wholesale trade	3.0	4.4	4.7	3.9	5.8	8.2	7.3	9.2	4.0	15.1
Retail trade	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	10.5	5.2	4.5
Wholesale trade	8.9	10.4	11.2	8.4	5.2	6.8	7.0	8.6	3.0	22.5

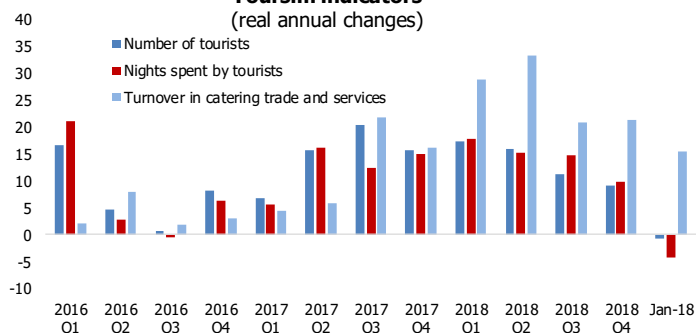
* real growth rates are calculated by the NBRNM, by dividing nominal growth rates with annual inflation, measured by CPI.
Source: SSO and NBRNM staff calculations.

In January, **construction** recorded a high annual growth rate. Despite the low base effect, this significant acceleration in the growth compared to the fourth quarter of 2018 indicates further improvement of the situation in this sector. Drivers of the growth in construction are the performances in both the building construction and the civil engineering.

In January, **catering** registered an increase in the total turnover, while the number of tourists and overnight stays registered a slight decrease compared to January last year.

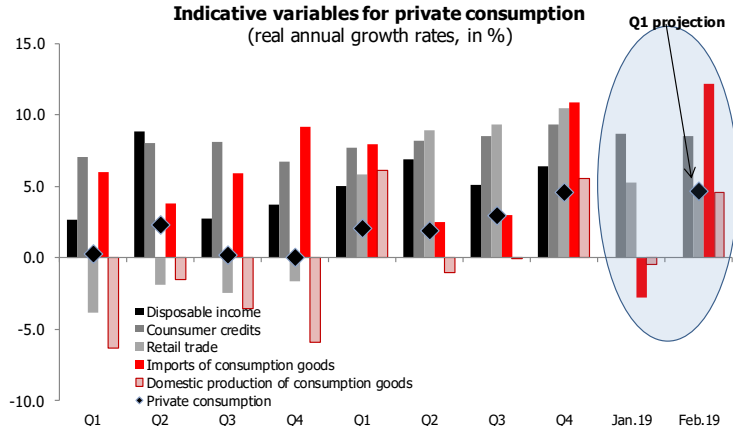
Most of the available **aggregate demand** indicators point to a continuation of the growth of economic activity in the first quarter of the year.

Tourism indicators
(real annual changes)



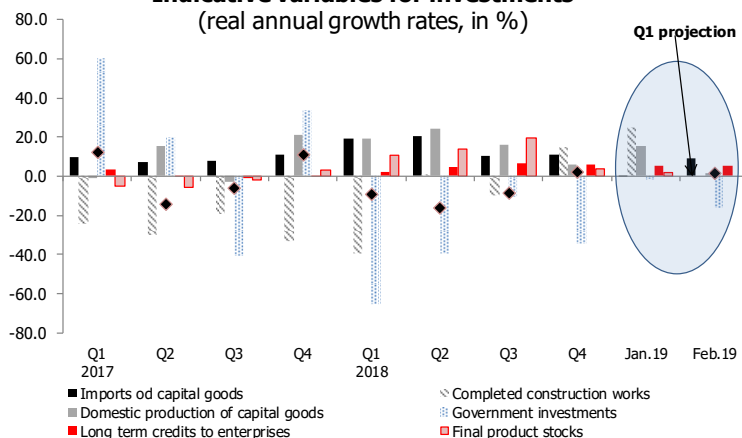
Source: SSO and NBRNM calculations.

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



Source: SSO and NBRNM calculations.

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



Source: SSO and NBRNM calculations.

Indicators of the movements in **private consumption**⁵ for now point to further growth of this expenditure GDP component in the first quarter of the year. Growth was recorded in almost all sources of financing of private consumption. Thus, from the main categories of disposable income, wages and pensions increased, while private transfers declined. The stable increase of household loans also continued. The short-term indicators of private consumption dynamics are also favorable, given the growth of retail trade, domestic production of consumer goods, import of consumer goods, with growth also being observed in VAT revenues.

The high frequency data on the **gross investments**⁶ in the period January - February 2019 are mainly favorable. Thus, long-term corporate loans, domestic production of capital goods and imports of investment products increased on an annual basis. Also, in January, there was a strong acceleration in the annual growth of the activity in the construction sector. On the other hand, adverse movements were registered in government capital investments, foreign direct investments.

Foreign trade data in the period January-February 2019 indicate potential deficit expansion in the first quarter, on an annual basis.

The data for January and February 2019 indicate an annual growth of **public consumption** in the first quarter, amid growth in almost all categories⁷ of public consumption.

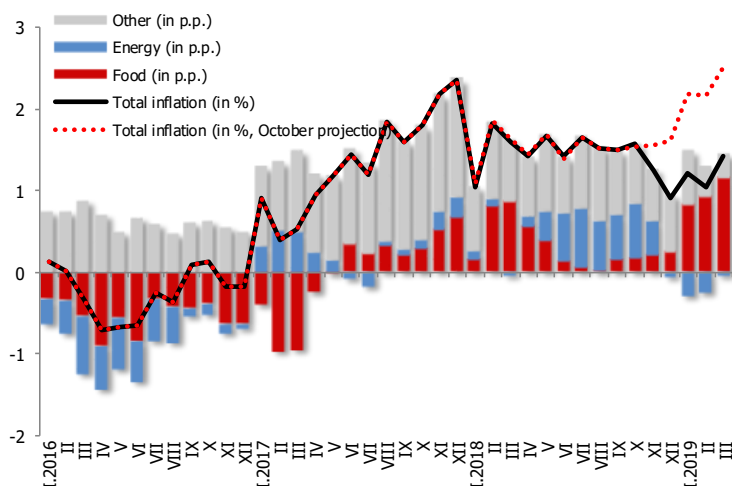
⁵ Data on wages and private transfers are as of January 2019, while data on household loans, pensions, retail trade, domestic production of consumer goods, import of consumer goods and VAT revenues refer to the period January - February 2019.

⁶ Data on completed construction works and foreign direct investments are as of January 2019, 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 January - February 2019 period.

⁷ In the period January - February 2019, only the transfers to the PDIF registered a decline.

Inflation rate

(annual contribution to inflation, in p.p.)



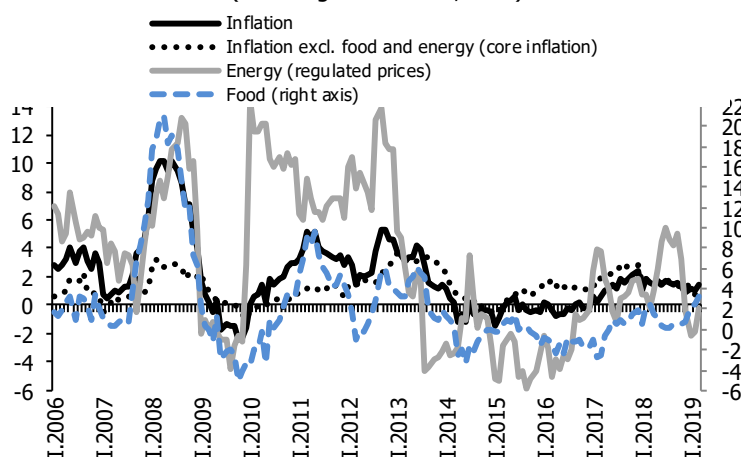
Source: SSO and NBRNM.

In March 2019, **domestic consumer prices** increased by 0.4%⁸, after the stagnation in February...

...amid growth of food prices and energy prices, while core inflation remained unchanged on a monthly basis.

Inflation and volatility of food and energy

(annual growth rates, in %)

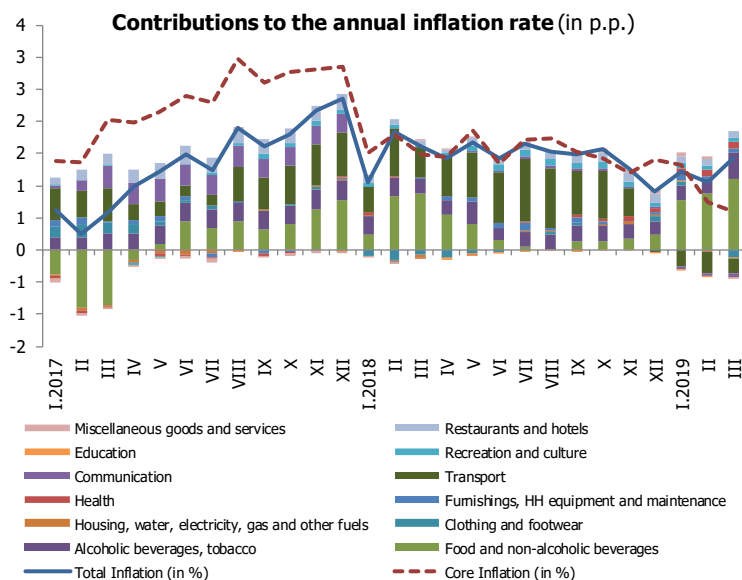


Source: State statistical office and NBRNM calculations.

The annual inflation rate was 1.4% in March (1.1% in February), which is a downward deviation from the October forecast.

Structurally observed, all three categories registered downward deviation from the forecast, particularly energy prices and core inflation.

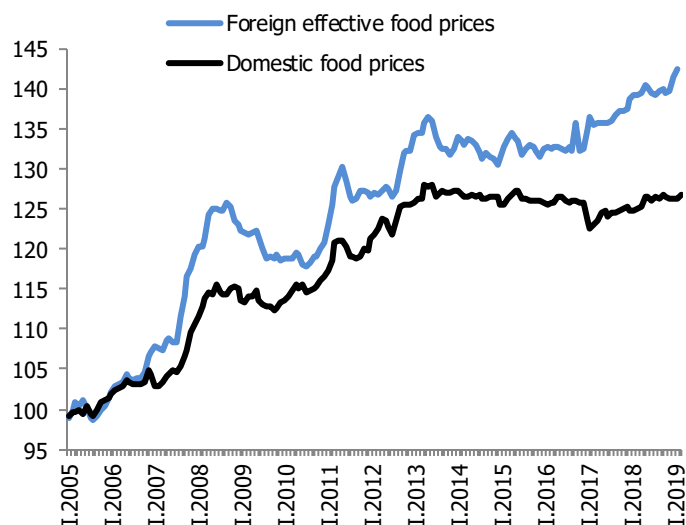
⁸ Observed by group of products, the highest positive contribution was made by the higher prices of fruit and vegetables, tobacco prices, as well as the higher prices of liquid fuels. On the other hand, the highest negative contribution was made by the lower prices of air transport, clothing and footwear.



The core inflation rate in March 2019, on a monthly basis, remained at the level of the previous month, while the annual growth reduced to 0.6% (compared to 0.7% in February). Observed by sub-components of core inflation, the highest positive contribution on a monthly basis was made by the higher tobacco prices, while the highest negative contribution was made by the lower prices of air transport, clothing and footwear.

The growth structure of the annual core inflation in March was similar to the previous month, i.e. the most pronounced positive contribution was made by tobacco prices⁹, and to a lesser extent by prices of hotel and restaurant services, and prices of health and hospital services.

Foreign effective food prices* and domestic food prices (indices, 2005 = 100)



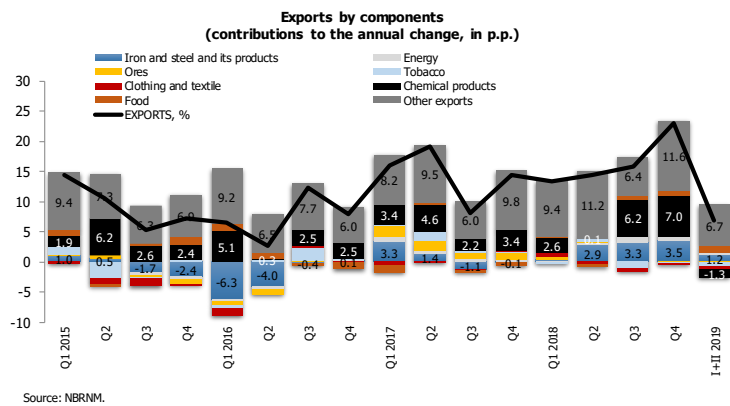
* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.

The expected movements of primary commodities prices and foreign effective inflation, as external assumptions underlying inflation forecast for 2019 were mainly revised downwards.

Amid current inflation lower than forecasted in October, as well as external assumptions revised mainly downwards, risks to the inflation forecast for 2019 are currently considered downwards. Yet, there is still uncertainty around the future movement of world primary commodity prices, especially oil prices.

⁹ The annual growth of tobacco price in March reflects the increase in the prices of cigarettes in April, May and July 2018, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023.

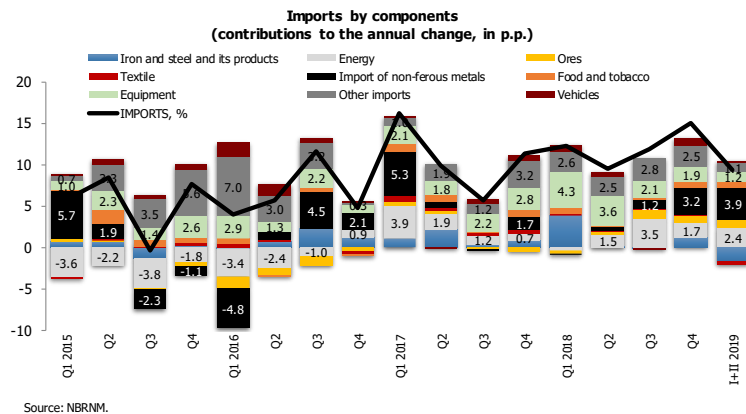
¹⁰ In the past performances in primary commodities prices, minor differences are evident, which are due to the change in the source. Namely, due to discontinuity in the series of data from the database of the IMF, for the period from July 2017 to March 2019, the October inflation forecast uses data from the Pink Sheet database of the World Bank. Given that the data on the prices from the database of the IMF are available again, they are reused from April 2019, including for the period backwards, due to their greater correlation with domestic prices.



In the first two months of 2019, **foreign trade deficit widened by 17.8% annually** due to the faster growth of the import relative to the growth of the export component.

Export of goods in the same period increased by 6.9% largely due to the export of part of the new production facilities in the economy, and with a smaller contribution of the export of iron and steel and food.

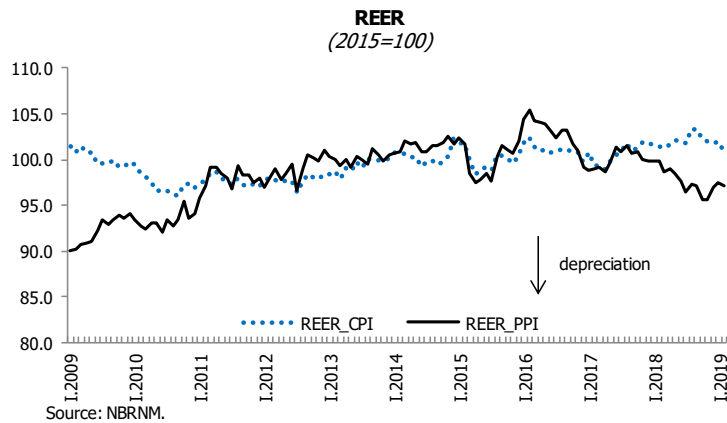
Compared to the October forecast, the performances with the first two months of the year point to the possibility for higher exports than expected for the first quarter, predominantly conditioned by the favorable deviations in the export activity of part of the new capacities in the economy.



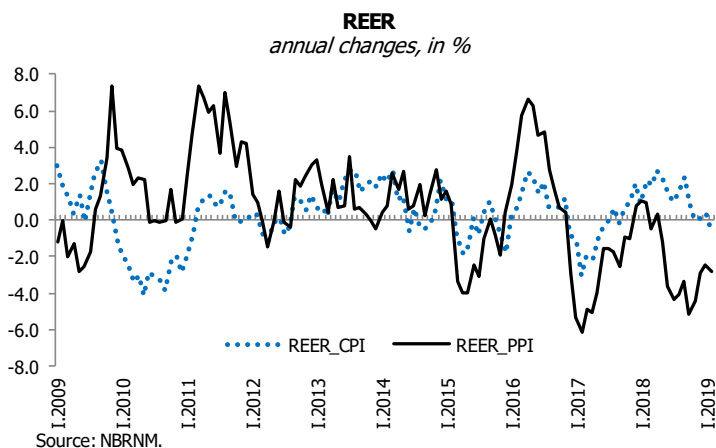
In the period January-February 2019, the **import of goods** increased by 9.4% annually, reflecting the growth of the import of raw materials for some of the new industrial capacities, as well as the energy imports. In contrast, import of iron and steel decreased.

Import of goods in these two months of 2019 points to the possibility of imports higher than forecasted for the first quarter of 2019, as a result of the higher import pressures from the raw materials component of the new export companies, but also the higher energy imports.

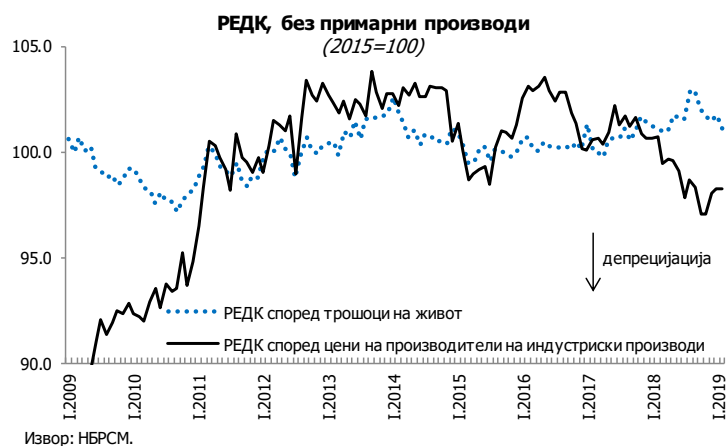
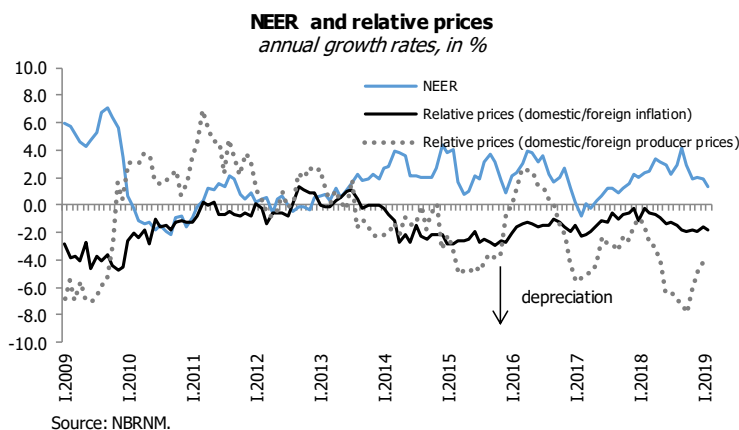
Considering these deviations in both components of foreign trade, one can expect a slightly higher trade deficit than forecasted for the first quarter of 2019, according to the October forecast.



In February 2019, **price competitiveness indicators of the domestic economy improved on an annual basis**. The REER index deflated by consumer prices depreciated by 0.5%, while the REER index deflated by producer prices registered a more pronounced depreciation of 2.8%.

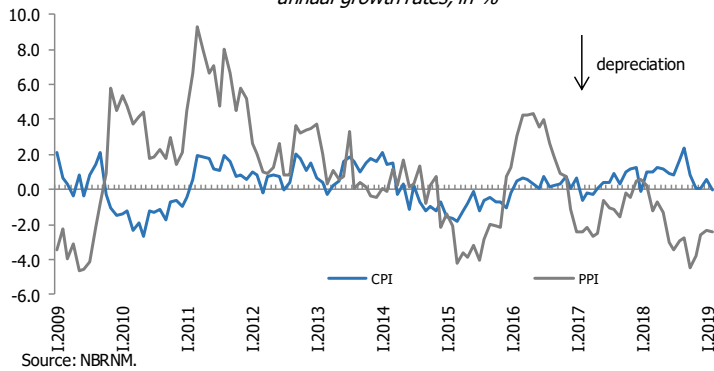


These developments are partially due to the favorable changes in relative prices, with 1.8% decrease in the relative consumer prices, and faster decrease of 4.1% in the relative producer prices. The movement of NEER that appreciated by 1.3% acted in the opposite direction mostly as a result of the depreciation of the Turkish lira and the Russian ruble.



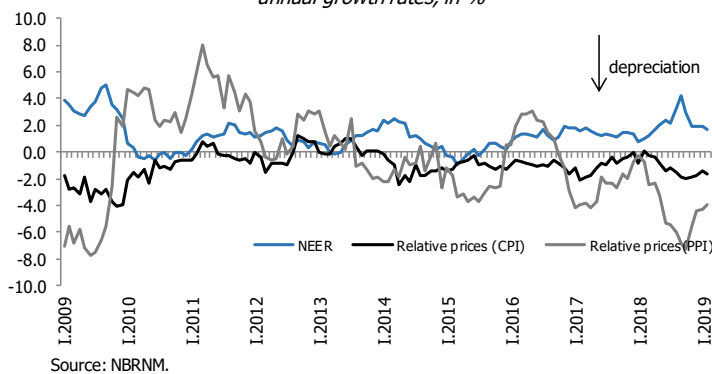
The analysis of REER indices, measured using weights based on the foreign trade without primary commodities points to the same movements. Namely, the REER deflated by consumer prices registered minimal depreciation of 0.1%, while the REER deflated by producer prices depreciated by 2.4%.

REER, excluding primary commodities
annual growth rates, in %

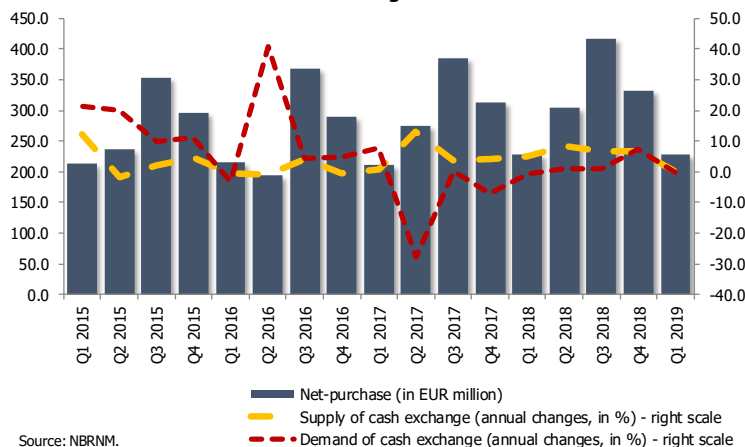


On an annual basis, the relative consumer prices and the relative producer prices decreased by 1.7% and 4%, respectively. At the same time, the NEER has appreciated by 1.6% on an annual basis.

NEER and relative prices, excluding primary commodities
annual growth rates, in %

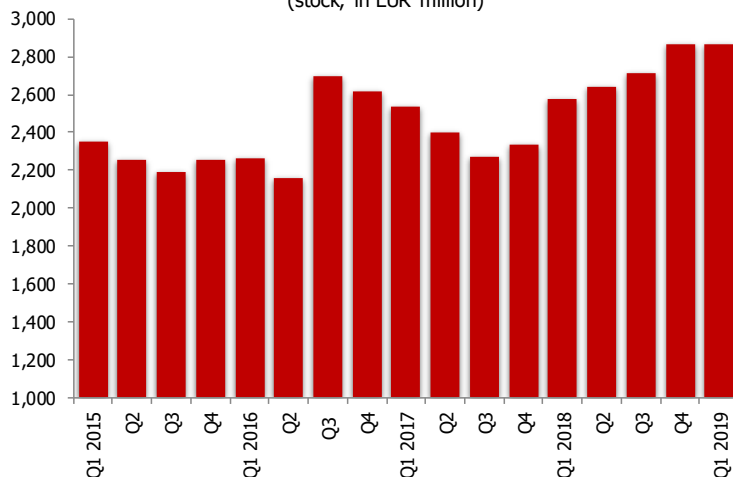


Cash exchange market



The net purchase on the currency exchange market in the period from 1 January to 31 March 2019 was Euro 228.9 million, which is a small increase of 0.2% compared to the same period last year. These developments are the result of the fall in the demand for foreign currency, amid almost stagnant supply.

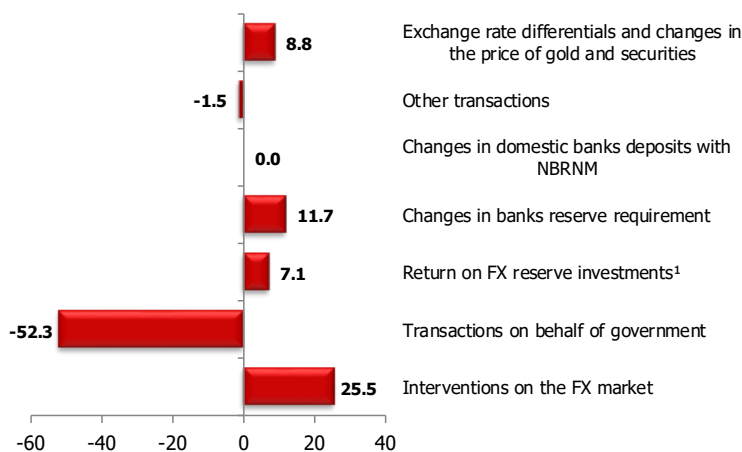
Foreign exchange reserves
(stock, in EUR million)



Source: NBRM.

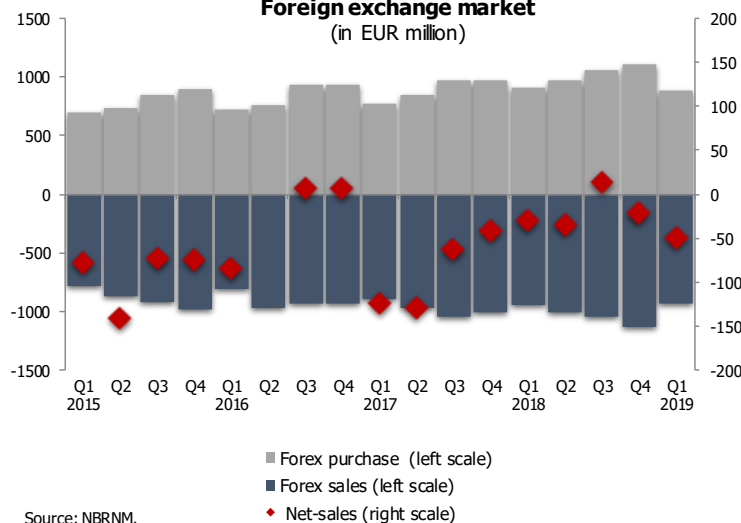
As of 31 March 2019, the gross foreign reserves stood at Euro 2,866.6 million, which is almost unchanged level compared to the end of 2018 (a decline of Euro 0.7 million). The NBRNM interventions on the foreign exchange market were still aimed at purchase of foreign currency, and positive developments were also realized in the other categories, with the exception of the transactions on behalf of the government which decreased foreign reserves.

Factors of change of the foreign reserves
in January - March 2019
(in EUR million)



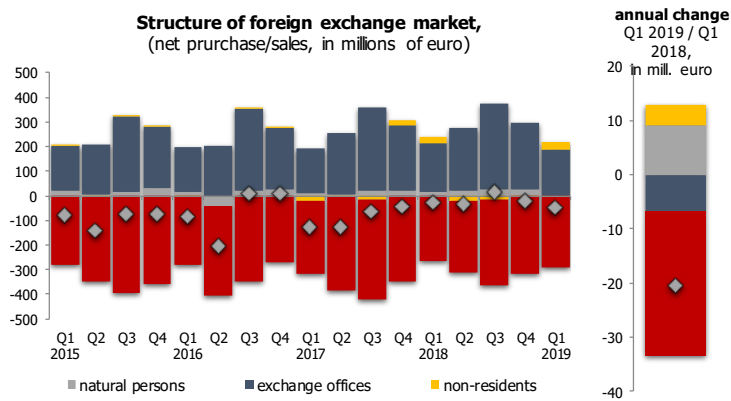
Source: NBRNM.

Foreign exchange market
(in EUR million)



Source: NBRNM.

In the period January-March 2019, the foreign exchange market of banks reported a net sale of foreign currency of Euro 49.6 million, by Euro 20.5 million higher compared to the same period last year. This annual change is a result of the more pronounced decrease in the supply of foreign currency relative to the decrease in the demand.

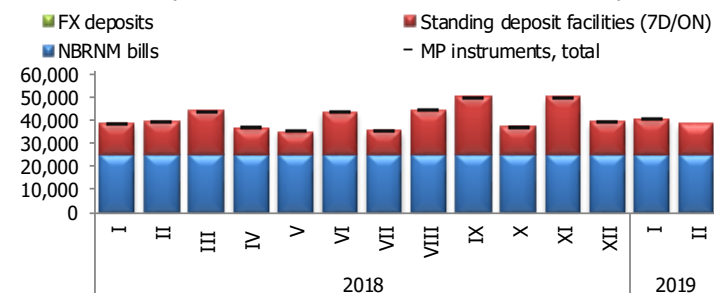


Source: NBRNM.

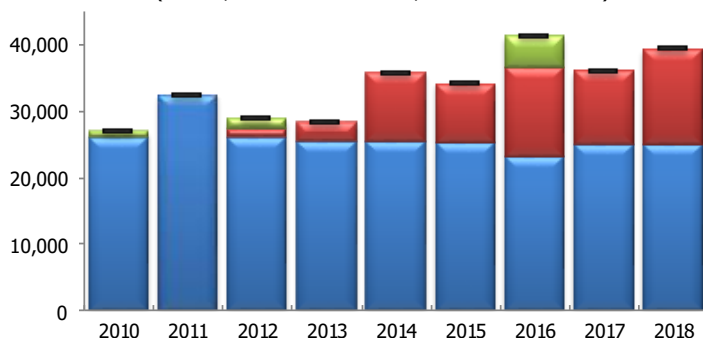
Sector-by-sector analysis shows that this annual change mostly arises from the higher net sales by companies, as well as the lower net purchase in the exchange offices sector. On the other hand, natural persons and non-residents registered a higher net purchase compared to the same period last year.

Monetary policy instruments

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



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



Source: NBRNM

In February, the monetary instruments decreased, amid a smaller amount of banks' assets placed in deposits with the National Bank, while the stock of CB bills¹¹ remained unchanged. Thus, the stock of monetary instruments at the end of February was lower than forecasted for the end of the first quarter of 2019¹².

A small monthly decrease was registered also in the net foreign assets of the National Bank, which, despite the decrease, at the end of February is slightly higher than forecasted for the end of the first quarter of 2019.

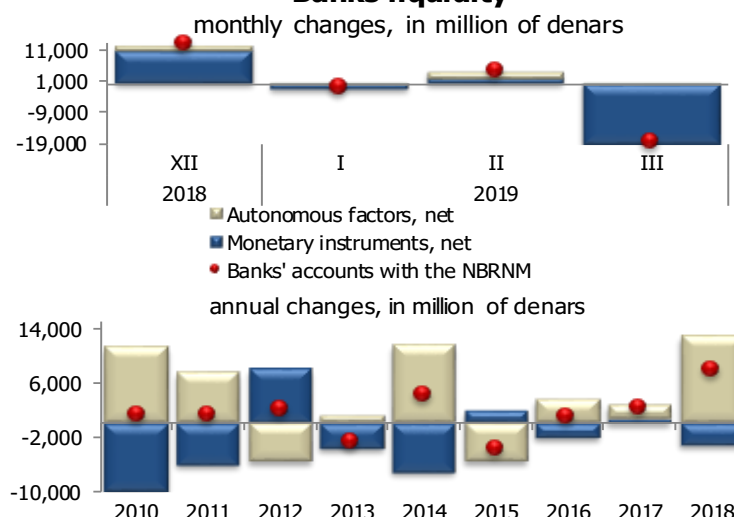
The total government deposits with the National Bank registered a moderate monthly decrease, whereby, their stock at the end of February is higher than forecasted for the end of the first quarter of 2019.

Amid growth of banks' total reserves with the National Bank, the reserve money registered a small monthly increase and was higher at the end of February compared with the forecast for the end of the first quarter of 2019.

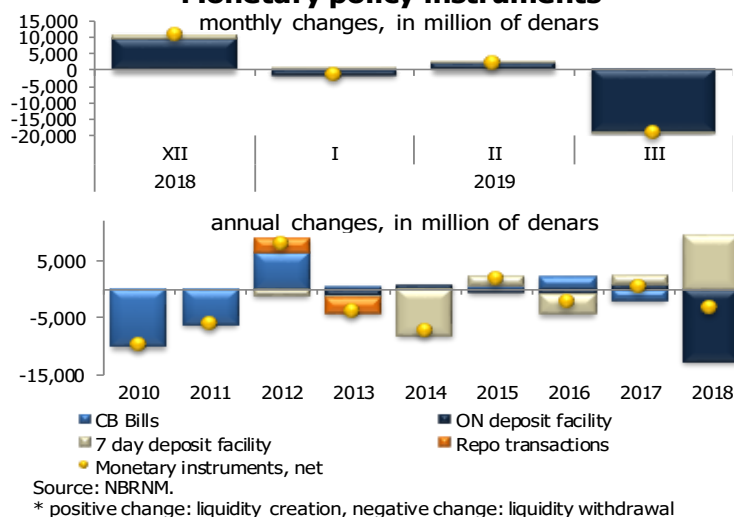
¹¹ At the CB bills auction of the National Bank held on 13 February 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.5% and maturity of 28 days.

¹² The performance comparisons are against the October forecasts of the National Bank.

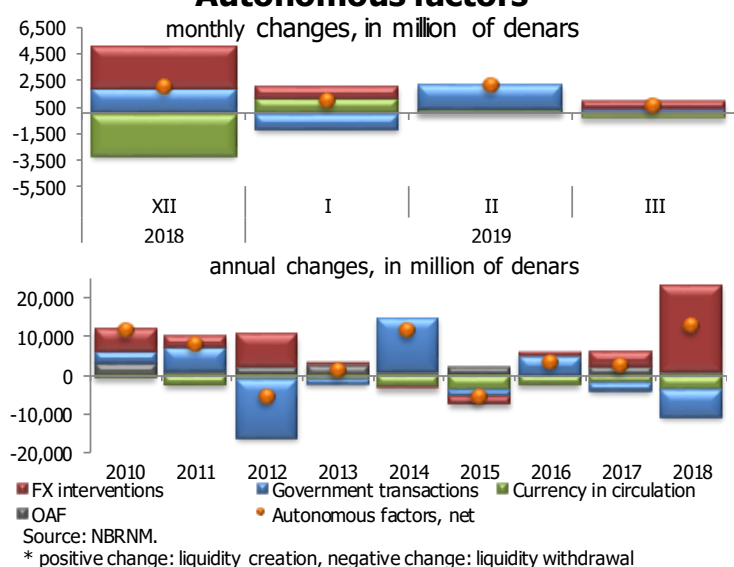
Banks liquidity*



Monetary policy instruments*

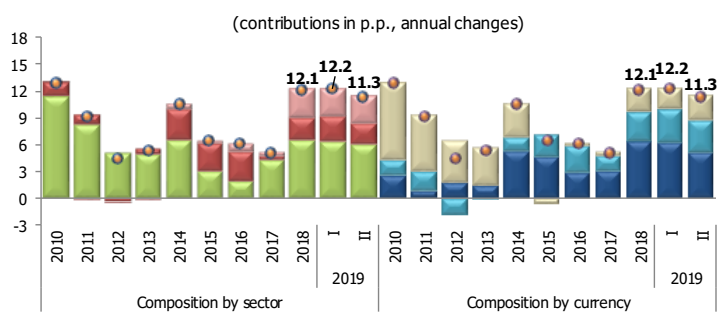
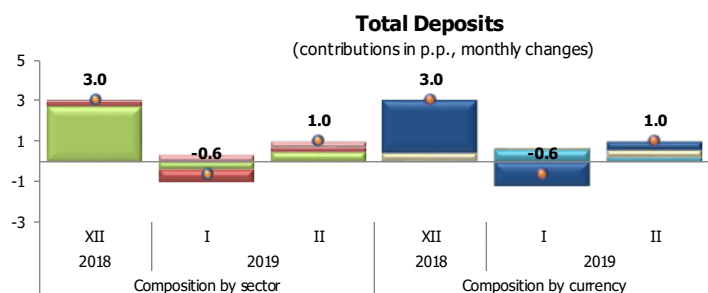


Autonomous factors*



According to the operational data on liquidity flows, **the liquidity of the banking system decreased in March**, mostly as a result of the growth of the banks' placements in short-term deposits with the National Bank (mainly in overnight deposits), while the stock of CB bills remained unchanged¹³. The autonomous factors, net, acted towards small creation of liquid assets in the system.

¹³ At the CB bills auction of the National Bank held on 13 March 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.25% and maturity of 28 days.



■ Other institutions Deposits*
 ■ Foreign Currency Deposits
 ■ Enterprise Deposits
 ■ Deposits, monthly/annual changes, in %
 ■ Domestic Currency Deposits
 ■ Demand Deposits
 ■ Household Deposits
 ■ Deposits, annual changes, in %

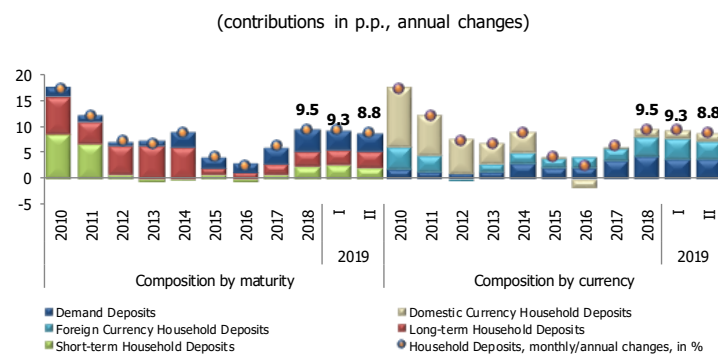
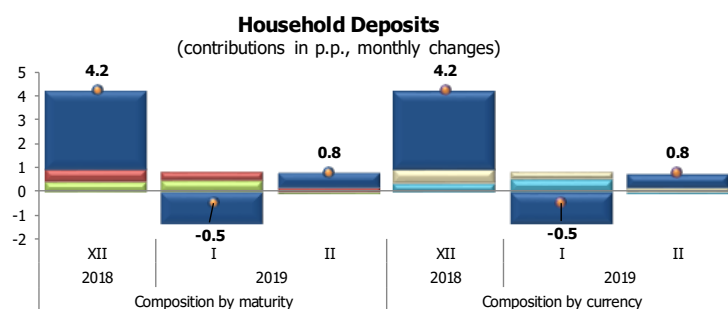
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the National bank.

Source: NBRNM.

Total deposits¹⁴ in February registered monthly increase of 1.0%, mostly due to the growth of household deposits and other sectors deposits, and to a lesser extent to corporate deposits. From currency point of view, the largest contribution to the growth was made by deposits in domestic currency (including demand deposits), amid small growth of foreign currency deposits.

In the period January - February, total deposits registered an increase, which is currently lower than forecasted for the first quarter of the year.

The annual growth rate of total deposits in February was 11.3%, exceeding the forecasted annual growth for the first quarter of 2019 (of 10.5%), as forecasted in October, resulting from the higher level and the positive deviation at the end of 2018. Observed by sector, the growth was mostly driven by household deposits, amid positive, but smaller contribution of corporate and other sectors deposits. From currency point of view, most of the growth is due to deposits in domestic currency (including demand deposits), with a positive but smaller contribution of foreign currency deposits.

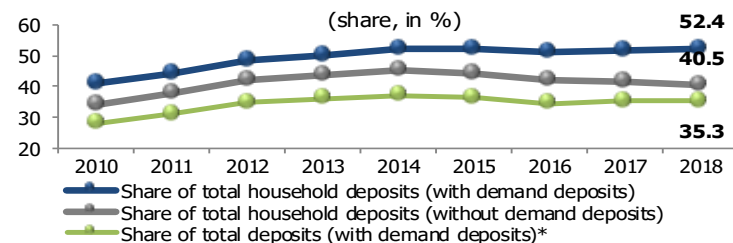
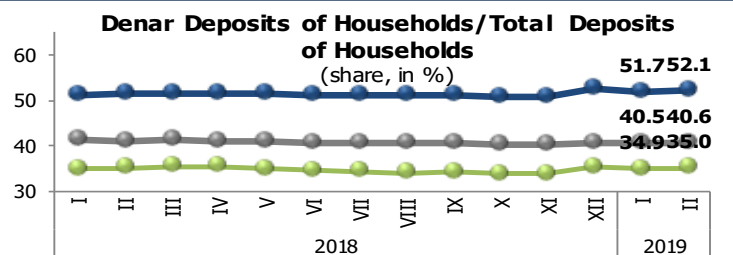


■ Demand Deposits
 ■ Foreign Currency Household Deposits
 ■ Short-term Household Deposits
 ■ Domestic Currency Household Deposits
 ■ Long-term Household Deposits
 ■ Household Deposits, monthly/annual changes, in %

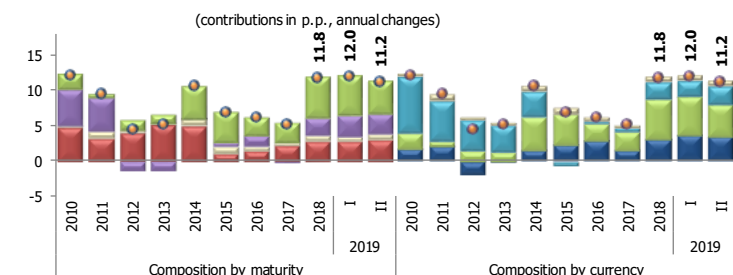
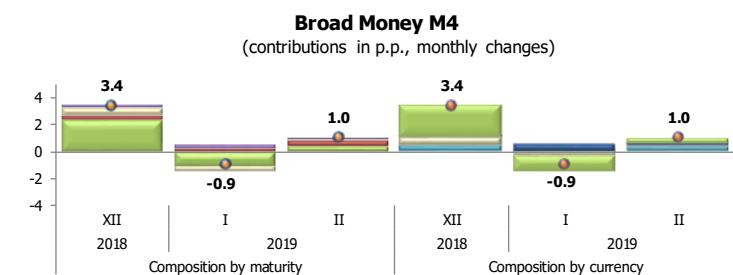
Source: NBRNM.

Household deposits in February registered monthly increase of 0.8%, entirely due to the increase in denar deposits (including demand deposits). The share of denar deposits (including demand deposits) in total household deposits at the end of February was 52.1% (51.7% in January). **The annual increase in household deposits in February was 8.8%.**

¹⁴ Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.



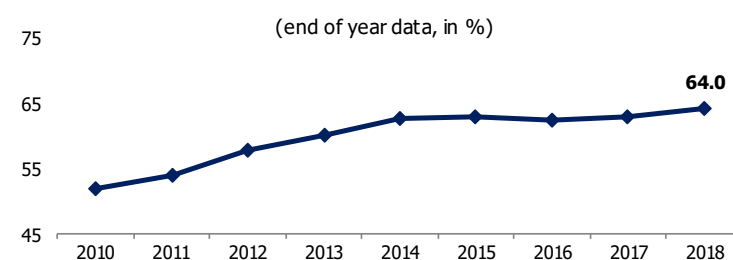
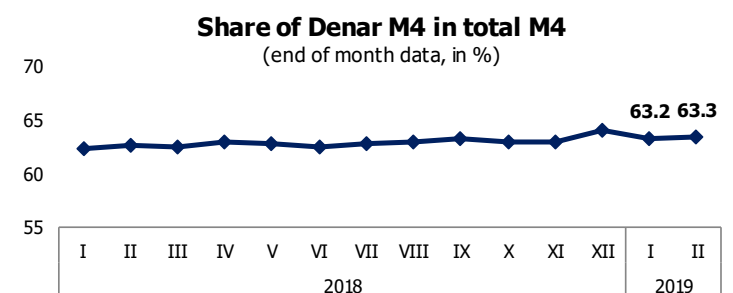
* Includes deposits at Banks and Saving Houses



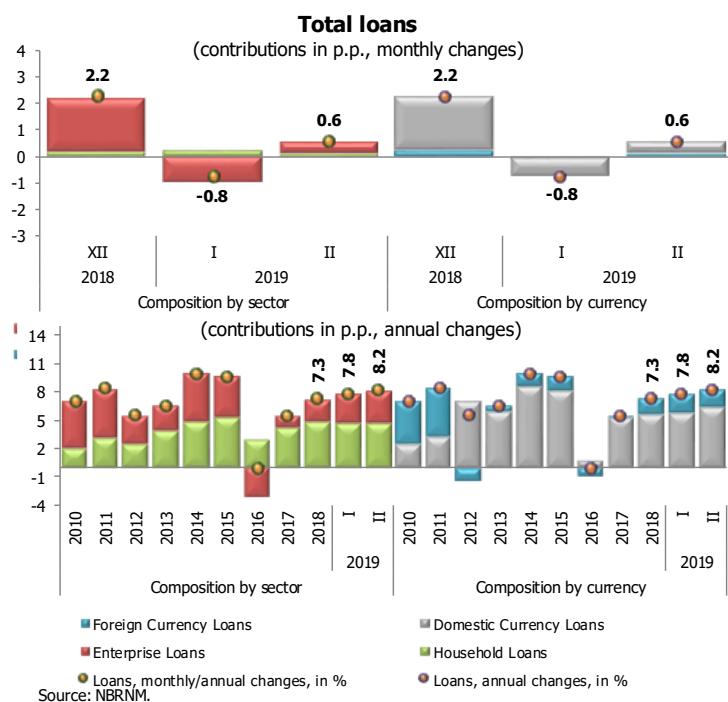
CC Outside Depository Corporations
Total Short-term Deposits
Total Foreign Currency Deposits
Demand Deposits
Total Denar Deposits
Total Long-term Deposits
Broad Money M4, monthly/annual Changes, in %

Source: NBRNM.

In February, broad money measured through M4, registered a monthly increase of 1.0%, with a positive contribution of deposits to all maturity categories. Observed by currency, the growth is predominantly driven by the increase in denar deposits (with demand deposits), amid small growth of foreign currency deposits. At the end of February, the denar share in total broad money was 63.3% (63.2% in the previous month). In February, broad money increased by 11.2% annually, exceeding the growth of 10.2% forecasted for the first quarter of 2019.



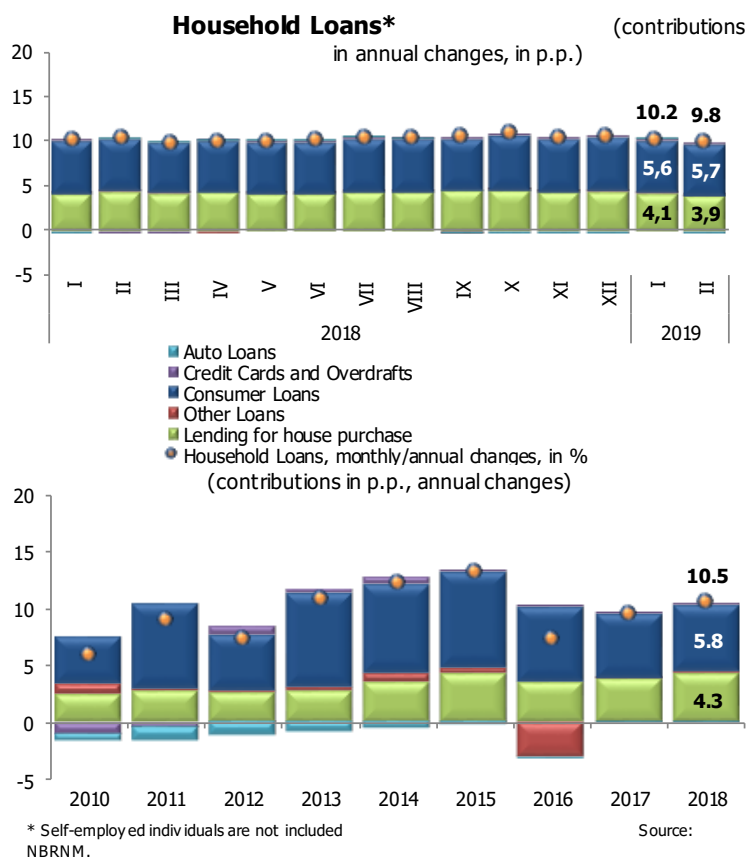
Source: NBRNM.



In February, total loans granted by banks to the private sector registered monthly increase of 0.6%, mostly due to the growth of corporate loans, with a small positive contribution of household loans. Analyzing the currency structure, the growth in total loans almost completely results from loans in domestic currency, amid moderate growth of foreign currency loans.

In the period January - February, total loans registered a slight decline, amid forecasted quarterly growth of loans in the first quarter of the year.

Taking into account the lower loan level at the end of 2018, the annual growth rate of total loans in February was 8.2%, which is slightly below the annual growth for the first quarter of 2019 (of 9.8%) forecasted in October. Observed by sector, the annual growth of total loans mostly results from the household loans, with further stronger positive contribution of corporate loans. Observing the currency, the annual growth of total loans was still mostly driven by the growth of loans in domestic currency, amid minor positive contribution of foreign currency loans.

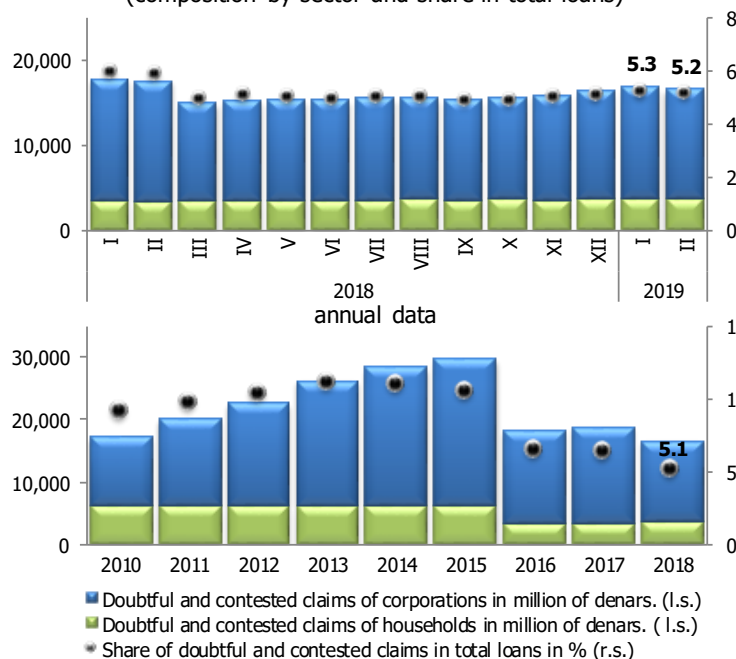


The annual growth of household loans¹⁵ in February amounted to 9.8%, (10.2% in the previous month), and was still almost entirely driven by consumer and housing loans that contributed with 5.7 and 3.9 percentage points, respectively.

¹⁵ Excluding loans of self-employed individuals.

Doubtful and contested claims

(composition by sector and share in total loans)

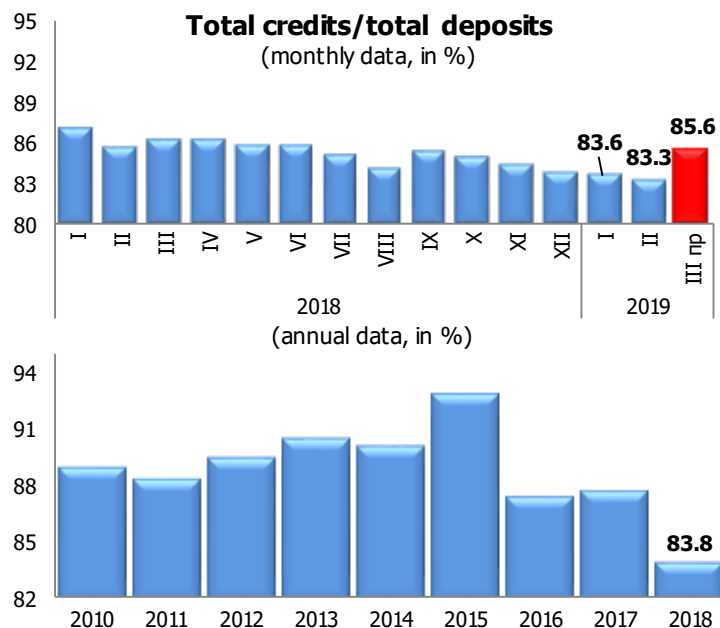


Source: NBRNM.

In February, the share of doubtful and contested claims in total loans was 5.2%, whereby the non-performing loans of the corporate sector still predominate, with significantly lower share of the non-performing loans of the household sector.

Total credits/total deposits

(monthly data, in %)

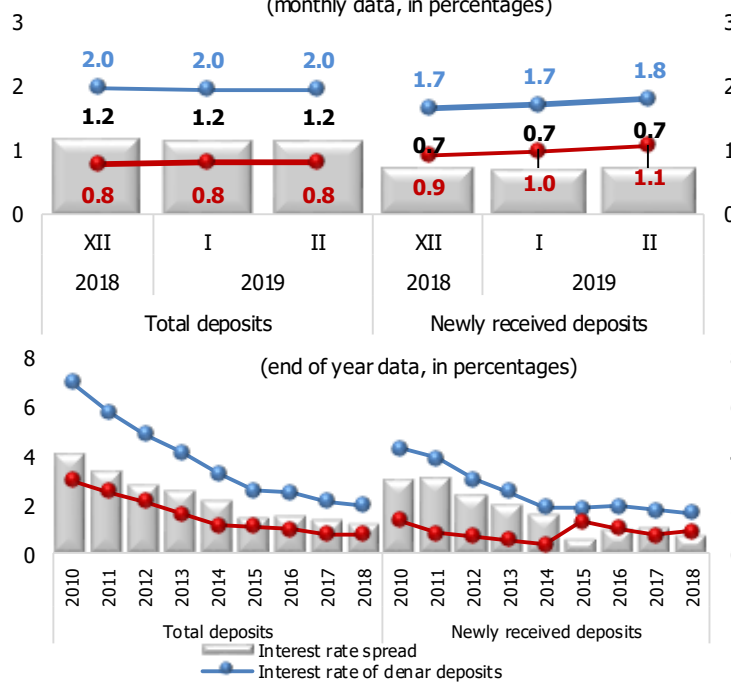


Source: NBRNM.

The utilization of banks' deposit potential for lending to the private sector was 83.3% in February. Given the faster deposit growth than expected, this indicator is lower than the October forecasts for the first quarter of 2019.

Total deposits interest rates

(monthly data, in percentages)

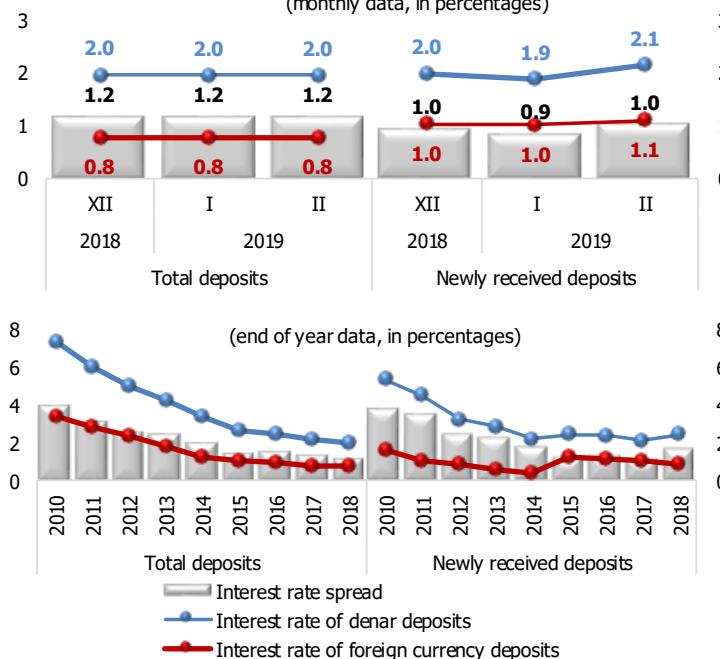


Source: NBRNM.

In February, interest rates on total deposits (denar and foreign currency)¹⁶ registered no changes compared to the previous month, so that the spread between these interest rates is still 1.2 percentage points. For **total newly accepted deposits**, the interest rate spread is still 0.7 percentage points, amid insignificant increase in the interest rate on newly accepted denar and foreign currency deposits (of 0.1 percentage points, respectively¹⁷).

Households' deposits interest rates

(monthly data, in percentages)

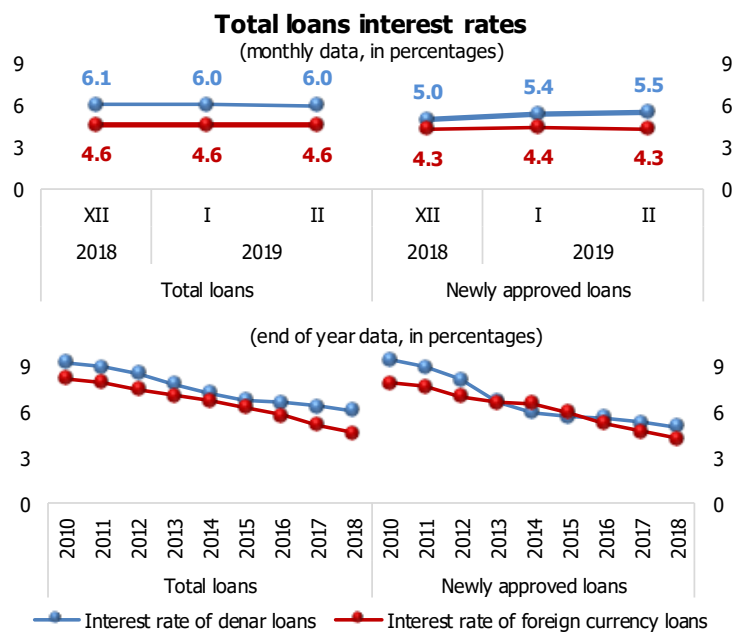


Source: NBRNM.

The interest rates on total household deposits also remained stable compared to the previous month, so that the spread between denar and foreign currency interest rates is still 1.2 percentage points. In the **newly accepted household deposits**, the interest rate on denar and foreign currency deposits increased by 0.2 and 0.1 percentage points, respectively, so that the interest rate spread increased (from 0.9 to 1.0 percentage points).

¹⁶ Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

¹⁷ Regarding the interest rates on the newly accepted deposits, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.



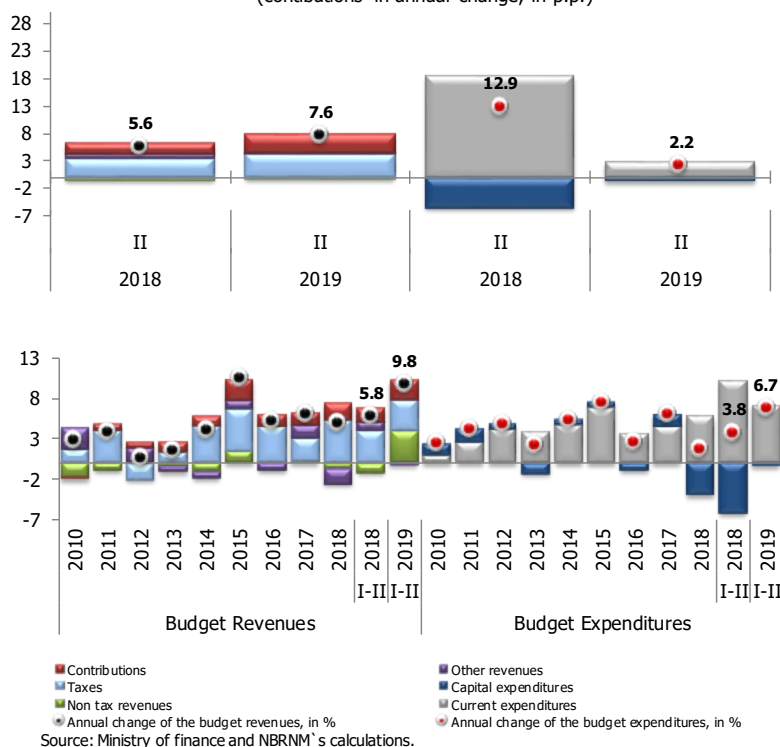
Source: NBRNM.

Interest rates on total household and corporate loans remained unchanged compared to the previous month and amounted to 6% and 4.6%, respectively. For the **newly approved loans**, the interest rate on household loans increased from 5.4% to 5.5%, while the interest rate on corporate loans decreased from 4.4% to 4.3%¹⁸.

¹⁸ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures

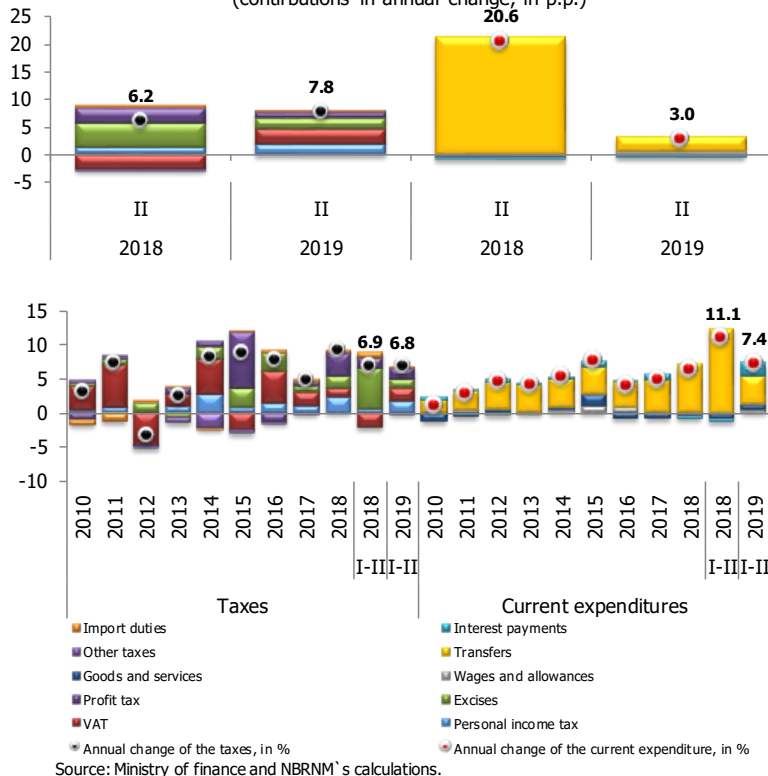
(contributions in annual change, in p.p.)



The Budget of the Republic of North Macedonia (central budget and budgets of funds), in February, registered an annual growth of total budget revenues and expenditures. The growth of budget revenues of 7.6% mostly results from the higher taxes and contributions, with a contribution of 4.3 and 3.3 percentage points, respectively. Within the tax revenues, which increased by 7.8% on an annual basis, higher inflows are recorded in VAT, excises, personal income tax, corporate tax and import duties (with contribution of 2.8 percentage points, 1.9 percentage points, 1.8 percentage points, 1.0 percentage points and 0.2 percentage points, respectively). The growth of **budget expenditures** (2.2% on an annual basis) is entirely due to the higher current expenses by 3.0% (within which transfers dominate), whereas the contribution of capital expenses is still negative.

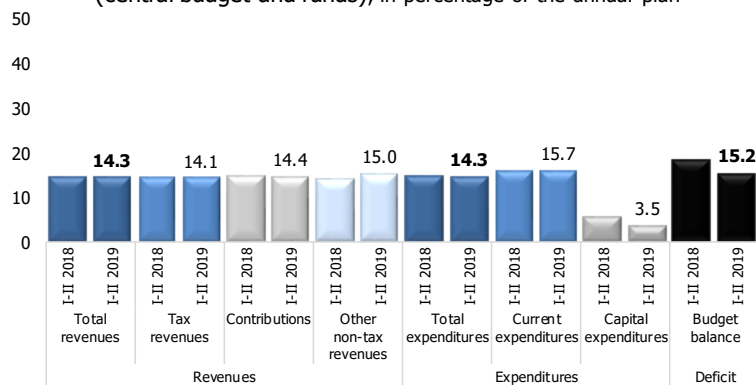
Taxes and current expenditures

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



In the period January - February 2019, total budget revenues and expenditures increased cumulatively compared to the same period last year. The growth of **budget revenues** (of 9.8%) is entirely due to the better performances in taxes, higher non-tax revenues and higher contributions, while other revenues made small negative contribution. **Regarding the budget expenditures**, the growth in the period January-February (6.7%) entirely derives from the higher current expenses, amid negative contribution of capital expenses.

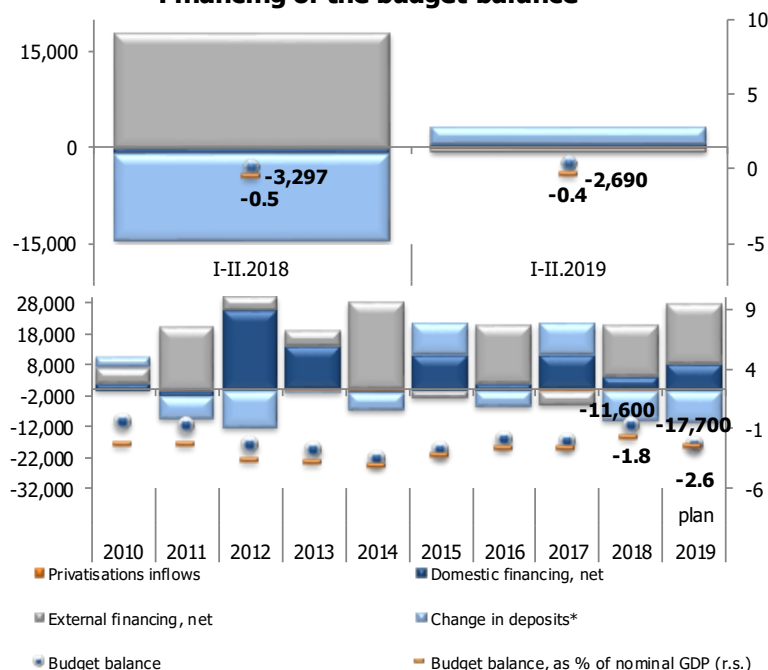
Budget implementation , per categories (central budget and funds), in percentage of the annual plan*



*for 2018, figures are calculated compared to the Budgete rebalance in November 2018.
Source: Ministry of Finance and NBRNM's calculations.

In comparison with the plan of the Budget for 2019, the budget revenues in the period January-February amounted to 14.3% (14.2% in 2018), while the budget expenditures amounted to 14.3% (14.6% in 2018). The budget deficit was 15.2% of the annual plan for 2019 (18.3% in 2018).

Financing of the budget balance



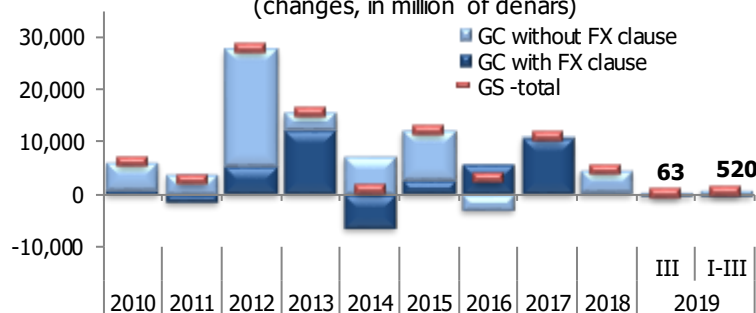
* Positive change: deposits withdrawal; negative change: deposits accumulation.
Source: MoF.

The budget deficit in the first two months of the year amounted to Denar 2,690 million (0.4% of the nominal GDP¹⁹) and was financed by government deposits with the National Bank and by government borrowing on the domestic financial market.

¹⁹ The analysis uses the National Bank's October forecasts for the nominal GDP for 2019.

Government securities

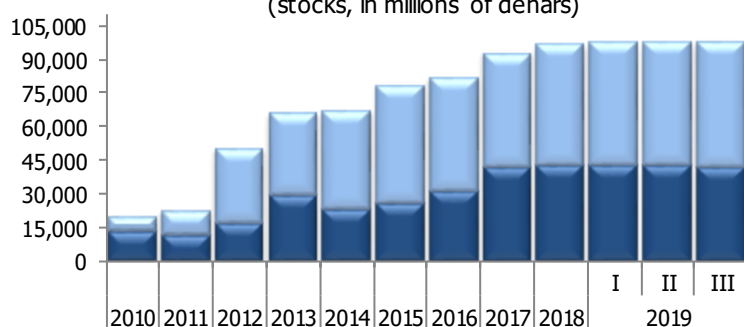
(changes, in million of denars)



In the primary government securities market in March 2019, the stock of issued securities increased on a monthly basis and at the end of the month amounted to Denar 97,729 million. The monthly increase (of Denar 63 million²⁰) completely derives from the increase in government securities without currency clause, amid reduced amount of government securities with currency clause. Compared to the end of 2018, the stock of government securities at the end of March increased by Denar 520 million.

Извор: НБРМ.

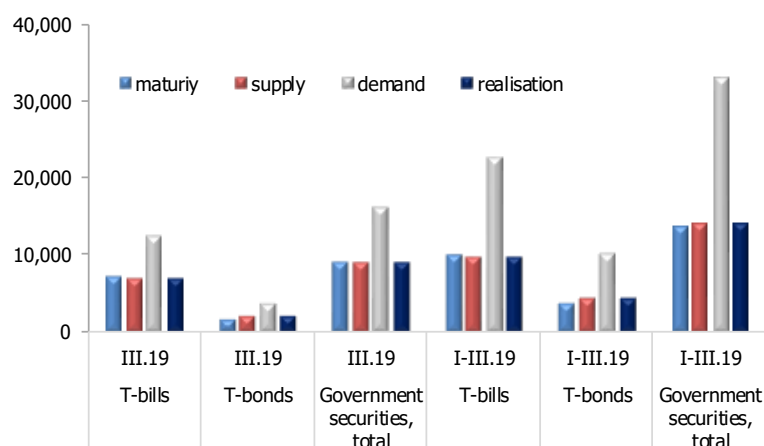
(stocks, in millions of denars)



Source: MoF.

Government securities auctions

in million of denars



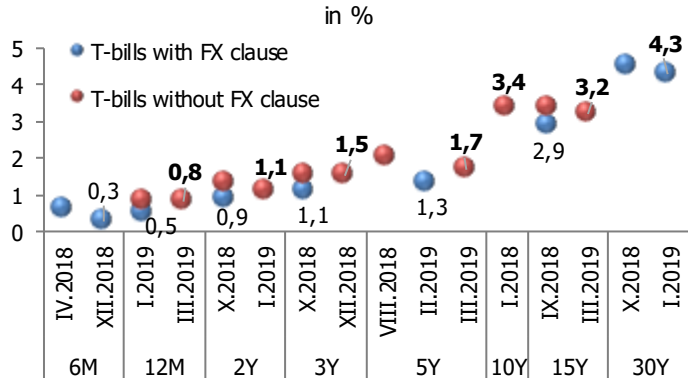
Source: Ministry of finance.

The new issues of government securities were with twelve-month, five-year and fifteen-year maturity²¹, whereby the market participants' interest this month was higher than the offered amount. Amid issue of government securities (treasury bills and government bonds) in a slightly higher amount than the amount due, their stock increased.

²⁰ The Budget plans a domestic government borrowing of Denar 9,225 million for 2019, i.e. increase in the stock of government securities to Denar 106,433 million.

²¹ In March 2019, twelve-month treasury bills, two-year and five-year government bonds fell due.

Interest Rates of Government Securities



Source: Ministry of Finance

The Ministry of Finance reduced the interest rates on the five-year government bonds without currency clause from 2.0% to 1.7%, while the interest rates on the twelve-month treasury bills without currency clause and the fifteen-year government bonds without currency clause remained unchanged (0.8% i.e. 3.2%, respectively).

Box 1: Indicative private consumption and gross capital formation categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION

	2017				2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	December	January	February
	<i>real annual growth rates in %</i>										
Retail trade*	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	10.5	8.7	5.2	4.5
VAT revenues*	3.4	-6.1	4.8	9.7	-6.6	10.1	-9.8	12.5	-2.8	0.5	5.2
Imports of consumption goods*	6.0	3.8	5.9	9.2	8.0	2.5	3.0	10.9	7.6	-2.8	12.2
Domestic production of consumption goods	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	-0.1	5.6	7.7	-0.5	4.6
Consumer credits*	7.1	8.0	8.1	6.7	7.7	8.2	8.5	9.3	9.3	8.7	8.5
Average net wage*	1.5	1.0	1.4	1.0	3.4	4.7	3.9	5.4	7.1	0.8	-
Private net transfers*	-3.4	22.9	0.2	5.0	5.5	9.0	4.2	1.8	1.0	-14.8	-
Pensions*	6.1	7.0	6.0	4.7	2.1	3.4	2.6	4.4	4.4	4.5	4.1

* real growth rates are calculated by the NBRNM, by dividing the nominal growth rates with the annual CPI inflation.

Source: State Statistical Office, Ministry of Finance and NBRNM calculations.

INDICATIVE VARIABLES FOR INVESTMENTS

	2017				2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	December	January	February
	<i>real annual growth rates in %, except for FDI in million denars</i>										
Imports of capital goods*	9.8	7.2	7.7	10.8	19.1	20.2	10.5	11.2	-2.8	-0.6	9.4
Completed construction works**	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	12.0	24.9	-
Domestic production of capital goods	-0.9	15.6	-2.6	20.9	19.3	24.2	16.0	5.7	2.4	15.7	1.7
Government investments*	59.9	19.6	-40.8	33.7	-65.0	-39.5	-10.7	-34.1	-42.7	-1.5	-16.3
Direct Investments***	-2118.7	-3997.0	-5202.8	2481.3	8526.7	5940.0	3829.1	8756.7	7807.0	-3688.7	-
Long term credits to enterprises*	3.6	-0.4	-0.8	0.0	2.0	4.7	6.6	5.9	5.9	5.5	5.3

* real growth rates are calculated by the NBRNM, by dividing the nominal growth rates with the annual CPI inflation.

** real growth rates are obtained using the rate of growth of the construction costs for new housing facilities deflator.

*** real amounts are calculated by NBRNM, by dividing the nominal amounts with the level of the CPI index (base year: 2018=100).

Source: State Statistical Office, Ministry of Finance and NBRNM calculations.