

National Bank of the Republic of North Macedonia
MONETARY POLICY AND RESEARCH DEPARTMENT



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

August 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 (April - July 2019) and to make a comparison with the latest macroeconomic forecasts (April 2019). 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 performance with domestic variables and the effect of these changes on the environment for monetary policy conduct.

The latest data on the global economic activity in the first half of 2019 show a larger deceleration in the growth compared to the expectations in the April forecast. Hence, part of the international organizations¹ made downward revisions of the forecasts for the global economic growth. Risks around the forecasts mainly remain downward. Namely, risks to the growth still mainly refer to the possibility for escalation of trade tensions between the major economies in the world, and then also to the increased probability of a larger deceleration in the growth of systemically important economies, such as China and the euro area, the prospects for a no-deal Brexit especially after the election of the new prime minister, the more pronounced financial vulnerability in conditions of an increase in the risk aversion, increased disinflationary pressures, as well as the geopolitical risks in global terms. Regarding the **economic developments in the euro area**, as our major trading partner, the preliminary GDP forecasts for the second quarter of 2019 show a minimal deceleration in the annual growth rate to 1.1% (1.2% in the previous quarter). At the same time, the latest household and corporate surveys in July also indicate growth at a similar pace in the third quarter of 2019. In contrast, labor market conditions continued to improve in the second quarter, with the unemployment rate declining to 7.6% (7.8% in the first quarter of 2019). Regarding the inflation in the euro area, the initial assessment for July was 1.1%, which is a deceleration in the growth of prices compared with the previous month (of 1.3%), amid a slower growth of core inflation and energy prices. According to the latest estimates, the **EURIBOR** was revised downward especially for 2020, expecting to be more negative, but generally stable in the period of forecasts, unlike the April forecast, when its gradual normalization was expected. The delayed normalization is in line with the announcements of the ECB at the meeting held in July to maintain interest rates at the current or lower levels at least by the end of the first half of 2020, thus emphasizing the readiness to intervene, using all available instruments, if the mid-term target for the inflation rate is not achieved.

Analyzing the quantitative external environment indicators of the Macedonian economy, the foreign effective demand and inflation registered no significant changes compared to the April forecasts. Observing the exchange rate, the US dollar is expected to register a greater appreciation in 2019 and a similar depreciation rate in 2020, compared with the previous forecasts. Compared with April, the **forecasts for primary commodities prices on the world markets for 2019 are revised in different direction**. Namely, the prices of oil, corn and nickel are revised upwards, while the prices of wheat and copper are revised downwards. **For 2020, the forecasts of almost all prices were corrected downwards, except of the nickel price, which was revised upwards**. However, the movements and the assessments of the prices of primary commodities are extremely volatile, which creates greater uncertainty about their future dynamics and effects on the domestic economy, especially in the longer term.

The comparison of the latest macroeconomic indicators of the domestic economy with their forecast dynamics within the April forecasting round indicates certain deviations in the individual segments of the economy. The currently available high-frequency data for the second quarter of the year mainly point to continuation of the economic growth, but probably at a

¹ OECD, Economic Prospects, May 2019; the World Bank, Global Economic Prospects, June 2019; IMF, World Economic Outlook, July 2019.

slower pace than expected. The trade turnover continued to grow at a similar pace, but industry registered a slowdown in growth compared to the previous quarter, while construction activity declined. The growth of economic activity in the first quarter of 2019 was close to the forecast, and for the time being it is still early to give assessments of the risks about the forecast for the whole year. **Regarding the changes in consumer prices**, the performances in July are lower than the April inflation forecast. Amid mainly upward revision of external input assumptions in the inflation forecast for the entire 2019 and currently lower inflation than forecasted, the assessments say that the risks to the inflation forecasts for this year are balanced. However, the uncertainty around the future movement of world primary commodity prices remains more pronounced.

Foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) during July 2019 registered a slight decline. Analyzing growth factors, the regular servicing of external liabilities of the country in July contributed to the reduction in the foreign reserves, which was largely offset by the National Bank's purchase of foreign currency on the foreign exchange market. However, since the beginning of the year, foreign reserves registered an increase, which is in line with the expected movements for the entire 2019. The analysis of the adequacy indicators shows that they are still within the safe zone. Available data for the external sector for the third quarter of the year are limited. In the currency exchange market, data as of July currently point to somewhat more favorable performances than forecasted for the third quarter. Regarding the external position in the second quarter, foreign trade statistics, as of the second quarter, show lower than expected trade deficit, amid simultaneously higher export and import component.

As for the monetary sector developments, final data as of June show a monthly increase in **total deposits** of 0.8%, which is almost equally due to the increase in the deposits of all sectors (households, corporations and other sectors). Analyzing the currency, the monthly growth of deposits was mostly driven by deposits in domestic currency. On an annual basis, total deposits in June grew by 10.6%, amid forecasted annual growth of 10.2% for the second quarter of 2019. Analyzing the credit market, **total private sector loans** in June registered a monthly growth of 0.7%, amid growth of loans extended to both sectors. Analyzing the currency structure, the growth in total loans largely results from foreign currency loans, amid growth of loans in domestic currency. On an annual basis, total loans in June grew by 8.1%, amid forecasted annual growth of 8.4% for the second quarter of 2019.

In the first half of 2019, the Budget of the Republic of North Macedonia registered a deficit of Denar 7,031 million mostly financed by using government deposits with the National Bank and by government borrowing on the domestic financial market. The budget deficit constitutes 39.7% of the deficit envisaged in the Budget for 2019.

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 remained mainly unchanged compared to the previous forecasts. Foreign exchange market developments remain favorable, whereby the National Bank purchased foreign currency during July, and foreign reserves remain in the safe zone. Regarding the economic activity, the currently available high-frequency data for the second quarter of the year mainly point to continuation of the economic growth, but probably slower than expected, but for the time being it is still early to give assessments of the risks about the forecast for the whole year. Regarding the inflation, the current risks are assessed as balanced, amid lower performances as of July 2019 relative to the forecast, but revisions in an upward direction in the external input assumptions for the period ahead, as well as their pronounced volatility. Observing the monetary sector, the performances in deposits and loans do not show larger deviations compared to the forecasts.

A brief overview of the decisions on the monetary policy of the Fed and the ECB

The slowdown of the global economic growth, the constant uncertainty, the increased tensions in international trade, as well as disinflationary pressures, are the main reasons that contribute to the further delay of the accommodative nature of the monetary policy in the developed economies. Thus, after the period of gradual normalization of the interest rate, which began from December 2015, **in July 2019 the Fed made a decision on new reduction of the target of its policy rate** of 25 b.p., at a level from 2% to 2.25%. At the same time, the Fed announced that from August 2019 it would terminate the reduction of the amount of securities in its balance sheet, i.e. two months earlier than the plan announced in March 2019. At the same time, the **ECB's** policy rate has remained unchanged for a longer period, but the last meeting in July emphasized the need for **greater adjustability of the monetary policy in the long term** if the mid-term target for the inflation rate is not achieved. Thus, it was decided that interest rates would be maintained at the current or **lower** level at least by mid-2020, and the need **to act with all available instruments** was also emphasized, including a new purchase of securities (quantitative easing), initially announced in March this year. Namely, it concerns launch of a third program of targeted long-term refinancing operations (TLTRO III), which will start to be applied on a quarterly basis from September 2019 to March 2021, in order to maintain the favorable credit conditions offered by the banks and support the transmission of monetary policy.

Selected economic indicators ^{1/}			2018					2019								
	2016	2017	Q1	Q2	Q3	Q4	2018	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.
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				4.1					
Industrial production^{3/}																
y-o-y	3.4	0.2	5.2	4.9	5.1	6.4	5.4	12.0	7.3	7.5	8.8	5.5	1.2	-2.7	1.1	
cumulative average	3.4	0.2	5.2	5.0	5.0	5.4	5.4	12.0	9.6	8.8	8.8	7.9	6.5	4.8	4.8	
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	1.9	1.4	0.3	1.2	0.8
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	1.4	1.4	1.2	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	0.9	0.9	0.9	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	1.1	0.9	0.9	1.0	1.0
Labor force																
Unemployment rate	23.7	22.4	21.6	21.1	20.8	19.4	20.7				17.8					
II. Fiscal Indicators^{6/}																
(Central Budget and Budgets of Funds)																
Total budget revenues	169,356	179,673	43,369	47,275	45,992	51,869	188,505	14,925	15,134	16,017	46,076	17,798	16,742	15,595	50,135	
Total budget expenditures	185,407	196,561	46,502	48,680	48,462	56,427	200,071	15,634	17,116	16,520	49,270	18,828	17,510	17,634	53,972	
Overall balance (cash)	-16,051	-16,888	-3,133	-1,405	-2,470	-4,558	-11,566	-709	-1,982	-503	-3,194	-1,030	-768	-2,039	-3,837	
Overall balance (in % of GDP) ^{1/}	-2.7	-2.7	-0.5	-0.2	-0.4	-0.7	-1.8	-0.1	-0.3	-0.1	-0.5	-0.1	-0.1	-0.3	-0.6	
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	11.7	11.7	13.3	10.6	10.5	10.5	
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	9.0	9.0	8.9	8.3	8.1	8.1	
Total credits - households	7.0	9.2	9.4	9.7	10.1	10.3	10.3	9.9	9.6	9.7	9.7	9.3	9.6	9.9	9.9	
Total credits - enterprises	-5.3	2.3	2.3	2.9	5.7	4.5	4.5	5.7	6.9	8.2	8.2	8.5	7.0	6.4	6.4	
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	11.9	11.9	13.4	10.7	10.6	10.6	
Total deposits - households	2.5	6.1	7.3	7.9	8.4	9.5	9.5	9.3	8.8	8.7	8.7	9.6	8.8	9.0	9.0	
Total deposits - enterprises	13.4	2.1	4.1	11.6	16.8	9.5	9.5	10.6	9.5	12.1	12.1	16.9	11.3	10.1	10.1	
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	2.25	2.25	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	5.7	5.8	5.7	5.7	5.6	5.7	
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	4.7	4.7	4.7	4.6	4.6	4.7	
Deposit rates																
denar rates	2.5	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	
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	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	-59.9	-63.3	-39.3	-162.5					
Current account balance (% of GDP)	-2.9	-1.0	-1.3	0.2	1.8	-1.00	-0.3	-0.6	-0.6	-0.4	-1.5					
Trade balance (millions of EUR)^{9/}	-1,786.2	-1,816.2	-474.2	-431.6	-382.3	-523.1	-1,811.1	-154.8	-149.7	-151.8	-456.2	-228.9	-159.7	-81.9	-470.5	
Trade balance (% of GDP)	-18.0	-18.1	-4.4	-4.0	-3.6	-4.9	-16.9	-1.4	-1.3	-1.3	-4.0	-2.0	-1.4	-0.7	-4.2	
import (millions of EUR)	-6,176.5	-6,834.9	-1,783.6	-1,889.8	-1,845.4	-2,153.1	-7,671.9	-570.1	-679.5	-740.6	-1,990.3	-760.8	-718.5	-614.8	-2,094.1	
export (millions of EUR)	4,390.3	5,018.7	1,309.5	1,458.3	1,463.1	1,630.0	5,860.8	415.3	529.8	588.9	1,534.0	531.9	558.8	532.9	1,623.6	
rate of growth of import (y-o-y)	6.5	10.7	12.3	9.6	11.8	15.0	12.2	1.5	17.8	14.9	11.6	22.1	14.9	-4.2	10.8	
rate of growth of export (y-o-y)	7.4	14.3	13.3	14.4	15.8	23.0	16.8	-1.9	15.2	38.2	17.1	13.2	10.5	10.4	11.3	
Foreign Direct Investment (millions of EUR)	316.9	180.0	235.4	74.1	-1.5	313.8	621.9	-28.7	0.3	6.8	-21.6					
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				8,304.2					
public sector	3,445.3	3,461.8	4,053.1	4,077.9	3,986.3	3,756.2	3,756.2				4,095.2					
public sector/GDP (in %)	35.7	34.6	37.8	38.0	37.1	35.0	35.0				36.3					
private sector	3,771.2	3,910.7	4,198.2	4,342.2	4,410.3	4,151.3	4,151.3				4,209.1					
Gross external debt/GDP (in %)	74.7	73.6	76.9	78.4	78.2	73.7	73.7				73.5					
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	2,877.4	2,864.3	2,866.4	2,866.4	2,874.4	2,901.4	2,928.2	2,928.2	2,927.1

^{1/} In calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2019, the projected level from NBRNM's last forecasting round is used.

^{2/} The quarterly data for 2017 are preliminary, while for 2018 and 2019Q1 are estimated (Press release for quarterly data on GDP as of 07.06.2019). The annual data for 2016 is final, and for 2017 is preliminary data (Announcement for annual data for GDP from 28.05.2018).

^{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).

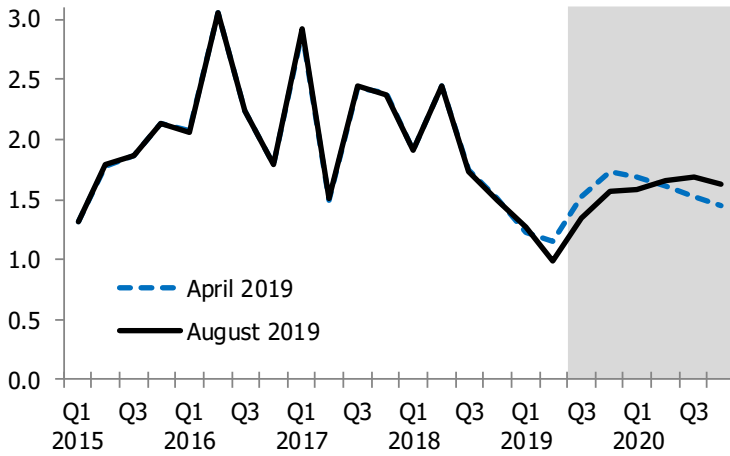
^{7/} It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.

^{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.

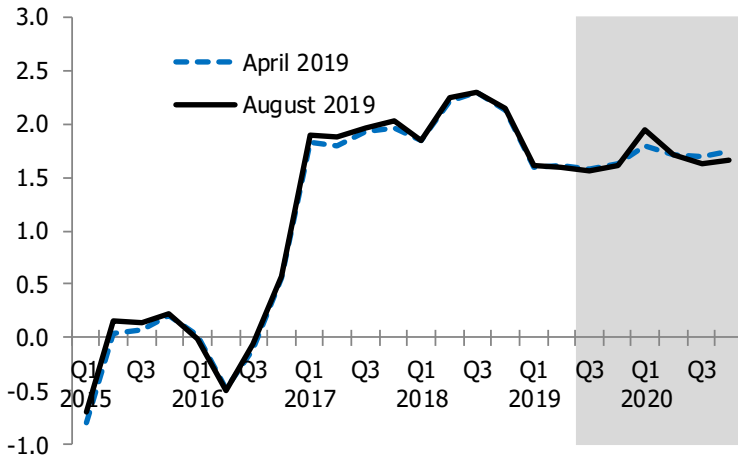
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the foreign effective demand was minimally revised downwards for 2019, relative to the April forecasting round. Thus, it is now expected that the growth will equal 1.3% (1.4% in April), largely due to the expectations for a lower economic growth in Germany, and then in Serbia and Greece. On the other hand, for 2020 there are no changes, still expecting the growth to amount to 1.6%.

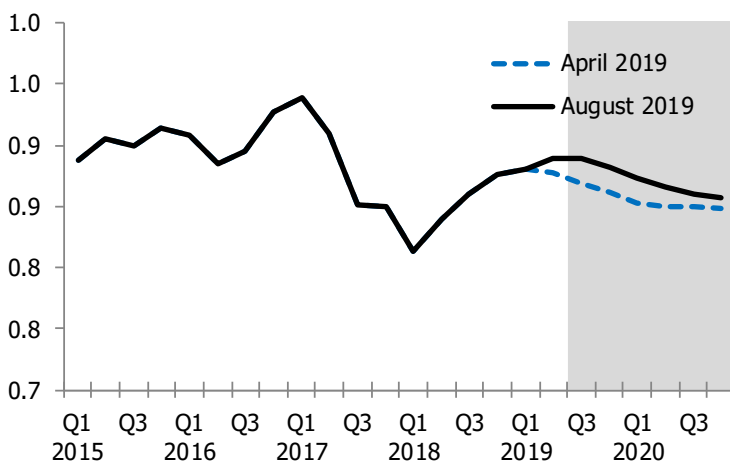
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

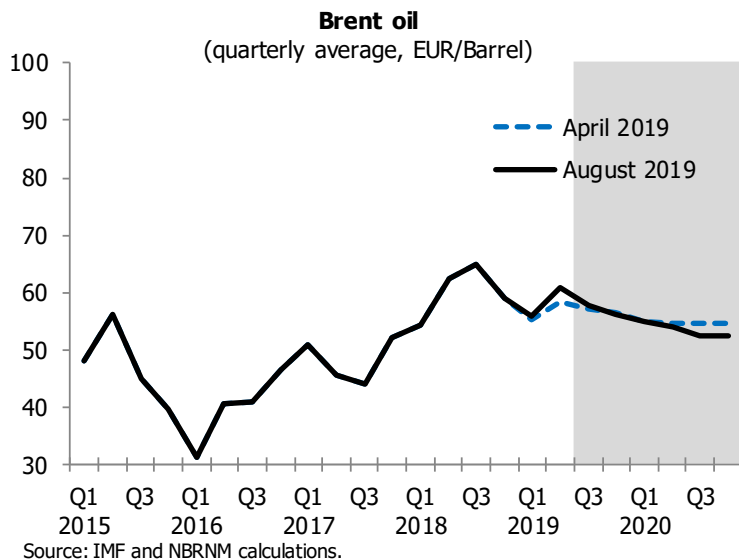
Regarding the foreign effective inflation, the assessments of the April forecasting round were maintained, i.e. it is expected that it will equal 1.6% and 1.8% in 2019 and 2020, respectively.

EUR/USD exchange rate

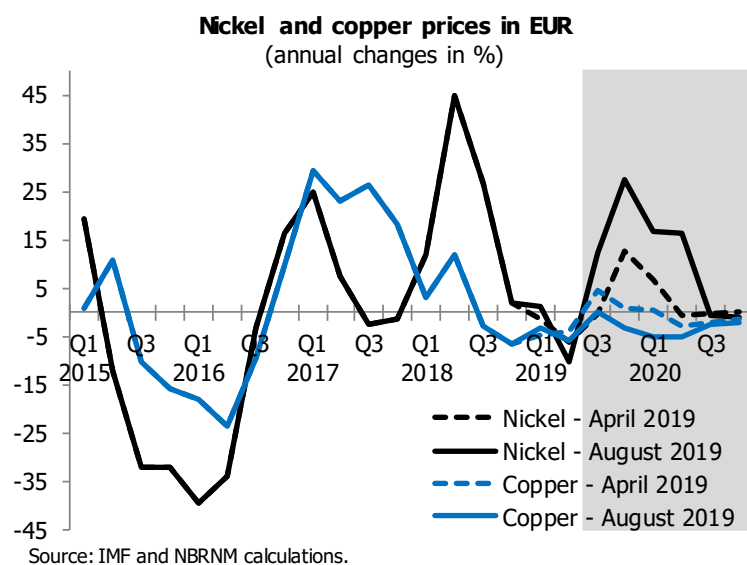


Source: Consensus forecasts and NBRNM calculations.

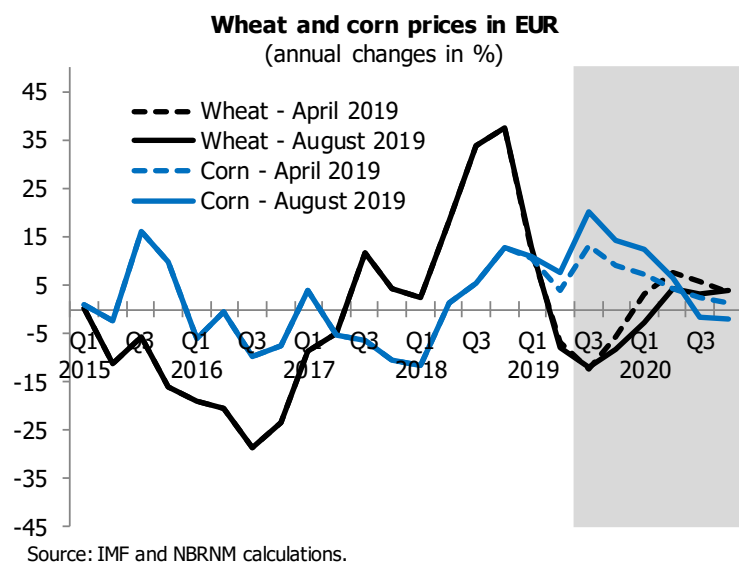
The latest euro/US dollar exchange rate estimates resulted in an upward revision for 2019, i.e. a greater appreciation of the US dollar against the euro is expected. This shift mostly reflects the more favorable performance of the economic indicators in the USA, the expectations for deteriorating economic performances in the euro area, as well as the expectations for an additional monetary stimulus of the ECB in the period ahead. For 2020, a similar rate of depreciation of the US dollar against the euro as in the April forecasts is expected.



According to the latest estimates, the oil price² for 2019 was revised slightly upwards compared with the April forecasts, now expecting a somewhat smaller decline in prices than forecasted in April. Such revision largely reflects the reduced level of inventories of oil in the USA and the geopolitical tensions between the USA and Great Britain with Iran. On the other hand, for 2020, the oil price was revised downwards, now expecting larger decline in prices than that in the April forecasting round.



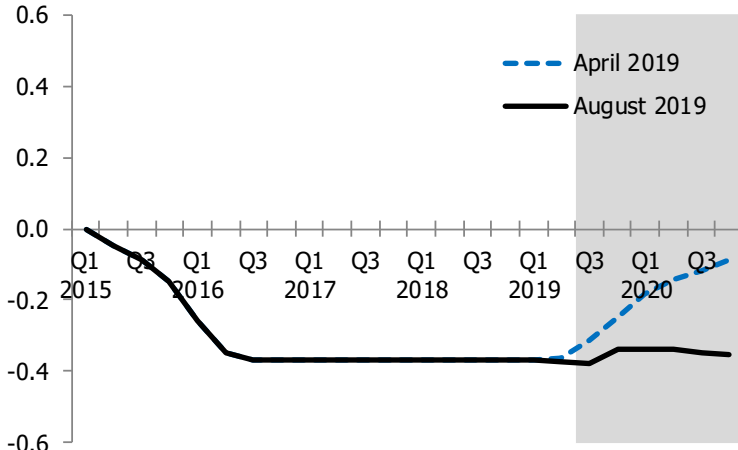
Copper prices for 2019 and 2020 have been revised downwards. Thus, sharper decline in the copper price than forecasted in April is now expected, mainly due to trade tensions between the USA and China, as well as the expectations for deceleration of the global economic activity. On the other hand, the nickel prices for 2019 and 2020 have been revised upwards, so that it is now expected faster growth of the nickel price than previously expected in April. The upward revision is mostly due to the increased demand for this metal by the industry of electric cars and the risk of introducing a ban on the export of nickel by Indonesia.



Wheat prices for 2019 and 2020 have been revised downwards, so that it is now expected a slightly larger decline in 2019 and a smaller growth in 2020, compared to the April forecasts. The downward revision largely reflects the favorable expectations on the supply side (larger harvest in Europe, the US and Ukraine). An upward revision for the corn price estimates was made for 2019, now expecting faster growth than forecasted in April, reflecting the bad weather conditions in the USA. On the other hand, the expectations for the growth of the corn prices in 2020 remained almost unchanged.

² 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.

1-month Euribor
(quarterly average, in %)

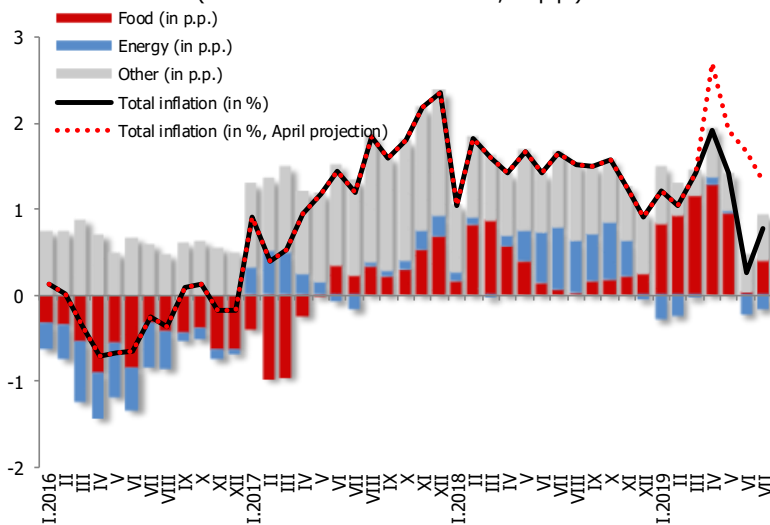


Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the **one-month EURIBOR expected** for 2019 was minimally revised downwards (-0.37%, versus -0.32% in April forecasts), with a major downward revision made for 2020 (-0.35%, versus -0.13% according to the April forecasts). The downward revision is in line with the announcements of the ECB at the meeting held in July to maintain interest rates at the current or lower levels at least by the end of the first half of 2020.

Inflation rate

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



Source: SSO and NBRNM.

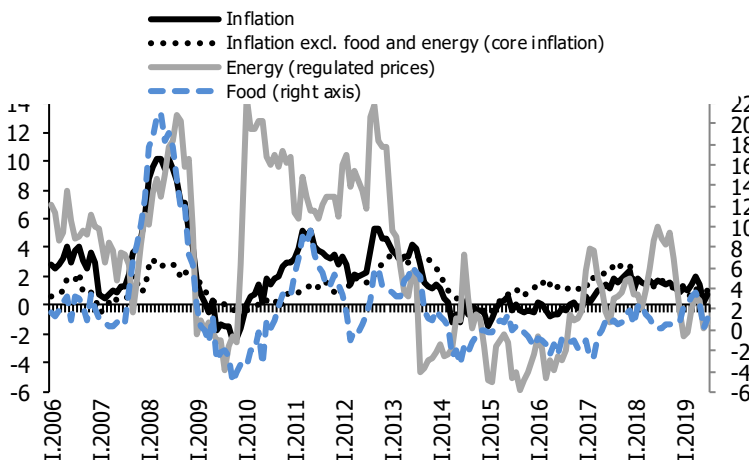
In July 2019, domestic consumer prices registered minimal growth of 0.2% on a monthly basis (compared to the decrease of 1.1% in June)...

...with a positive contribution from core inflation (growth of the prices of air traffic), amid unchanged prices in the energy component, while the food component again registered a decrease (predominantly as a result of the strong decline in the price of vegetables).

The annual inflation rate equaled 0.8% in July (0.3% in June) and is below the expected rate with the April forecasting round. Analyzing by category, a downward deviation from the April forecast was registered in food and energy prices, while core inflation registered an upward deviation.

Inflation and volatility of food and energy

(annual growth rates, in %)

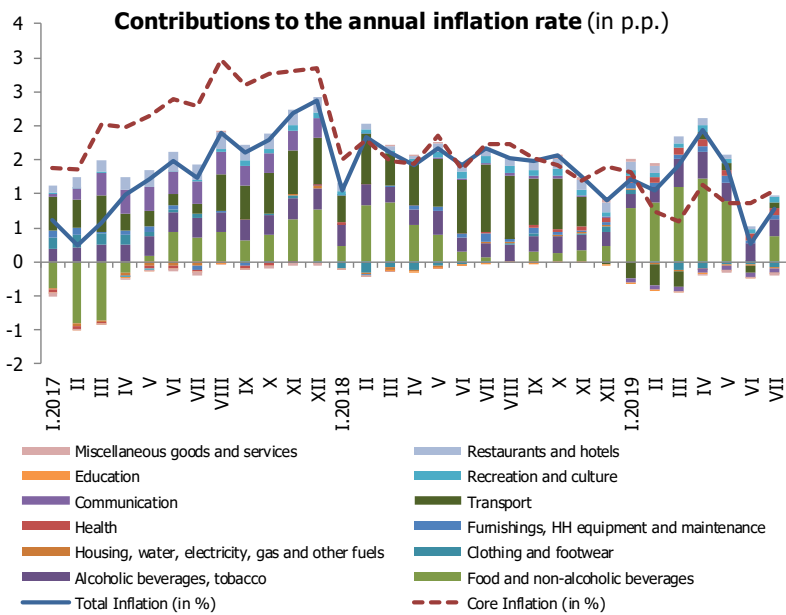


Source: State statistical office and NBRNM calculations.

The core inflation rate in July increased by 0.6% on a monthly level (0.1% in June), while on an annual level it remained at the level of around 1% (as it was in June). Similar to the previous month, the annual growth of core inflation is predominantly associated with the higher positive contribution of the prices of tobacco³, and a more significant positive contribution this month was also made by the prices of transport services, primarily of air traffic.

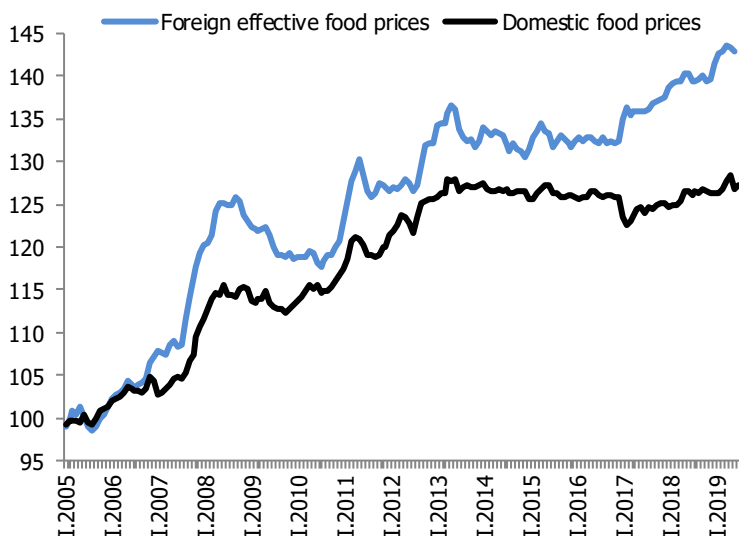
The expected price movements of the external input assumptions in the inflation forecast for 2019 were mainly revised upwards. Considering the currently lower inflation than forecasted in April, on the one hand, and the generally upward revision of external assumptions, on the other, risks to the inflation forecast for 2019 for now have been assessed as balanced. Yet, the movement of global primary commodities prices remains uncertain.

³ The annual growth of tobacco price in July 2019 reflects the increase in the prices of cigarettes in April and May 2019, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece each year as of 1 July 2023.



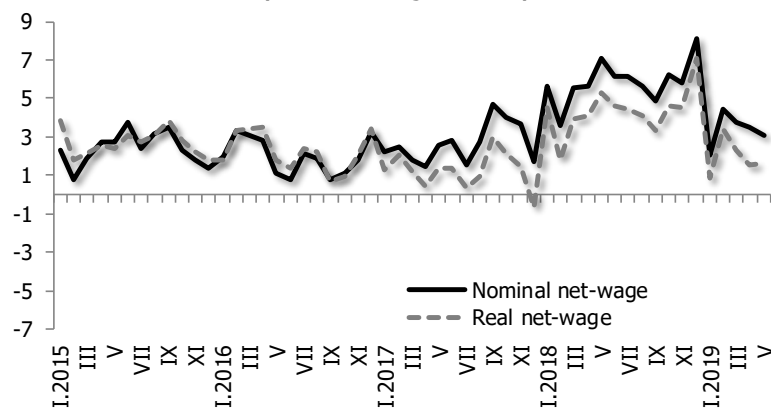
Source: SSO and NBRNM.

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.

Average net-wage
(annual changes, in %)



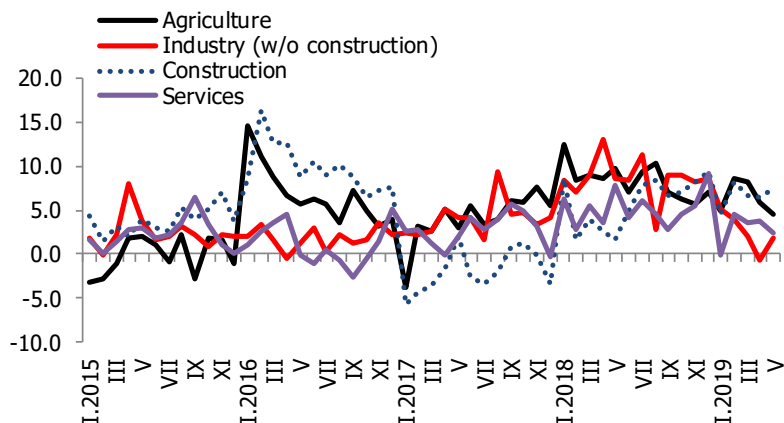
Source: SSO.

In May, the average net wage registered a nominal annual growth rate of 3.1% (in April the annual growth of the wage was 3.5%). The increase in the wage in May reflects, in part, the spillover effect of the annual adjustment of the growth of the legally determined minimum net wage in April⁴, as well as the effect of the increase in wages in certain segments of the public sector⁵.

Regarding the structure, growth is registered in almost all activities⁶, from which the growth in “transport and storage”, “health and social care activities” and in construction, stands out as more significant.

Amid moderate growth of consumer prices on an annual level, **in May, the net wage registered real annual growth of 1.7%.**

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



Source: SSO.

Wages in the first two months of the second quarter are higher than expected for the second quarter in 2019 according to the April forecasts.

High-frequency data on the supply and demand side in the second quarter of 2019, currently indicate relatively favorable developments in the domestic economy. Regarding the economic agents’ perceptions for the economic situation⁷, the surveys for the second quarter of the year indicate their retention in the positive zone.

According to the latest short-term data on the supply side, the developments in the economy in the second quarter of the year are mainly favorable and point to continued growth in economic activity, but with more moderate intensity.

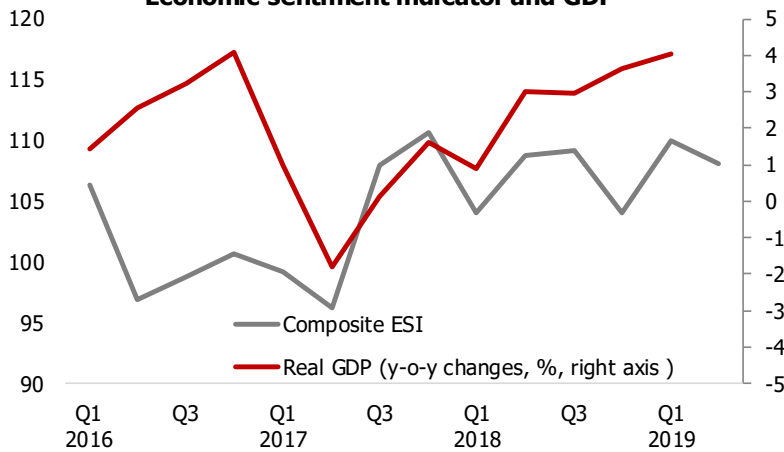
⁴ The amount of minimum wage according to the Law on Minimum Wage (Official Gazette of the Republic of North Macedonia No. 59/19) which is paid for the period from April 2019 to March 2020 is Denar 17,943 in gross amount, i.e. Denar 12,507 net wage (before this period, the minimum wage was Denar 17,370 gross and Denar 12,165 net) in accordance with the adjustment with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth (with one third of the growth of each indicator, respectively).

⁵ There was an increase in the wages of 5% for the employees in health, education and in kindergartens starting with the September wage in 2018. The RNM Budget for 2019 increased the wages of specialists by 10% from January and increased the wages by 5% of other medical personnel in the public health institutions with the payment of the January wage in 2019 (an additional increase in the wages of specialists of 5% is planned, starting with the payment of the September wage in 2019). Also, the Decision of the Government of the Republic of North Macedonia adopted in May 2019, leveled the wages of around 2,900 employees in the field of culture, national and local institutions, starting from the April wage for 2019.

⁶ Lower wages in May 2019 (on an annual basis) were paid only in the activities: “accommodation facilities and catering services” and “activities related to real estate”.

⁷ It refers to the surveys of 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

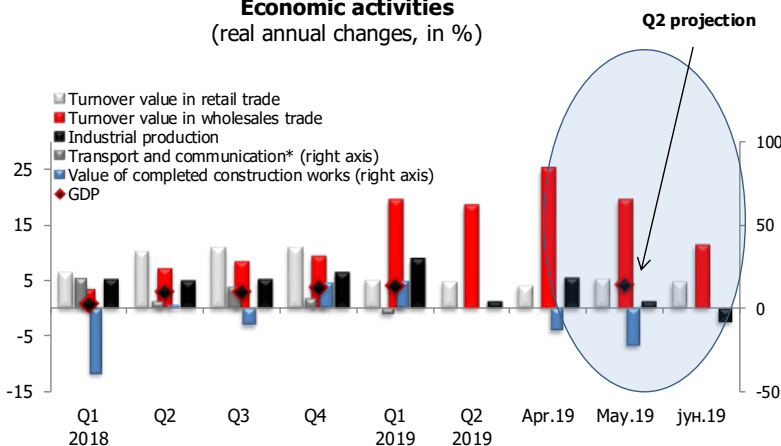


Source: State statistical office and European Commission.

In the second quarter, the **turnover in the total trade** continued to grow at a similar pace as in the first quarter of the year, amid growth in all categories (wholesale trade, retail trade and trade in motor vehicles).

Industrial output registered a slowdown in growth in the second quarter, amid smaller growth in May and decline in June. The growth in industry in the second quarter is due to the growth in the energy and the mining sectors, while the manufacturing industry registered a slight decline. This shift in the manufacturing industry is due to the lower production in most of the activities, and the largest negative contribution was made by the manufacturing of fabricated metal products, amid high base effect. On the other hand, the second quarter of 2019 registered continued growth of the production in the activities in which the foreign export facilities are active, such as the production of machines and devices and the production of electrical equipment. An additional positive contribution was also made by the production of basic pharmaceutical products and the production of textile.

Economic activities (real annual changes, in %)



*Simple average of annual growth rates of the different types of transport and the telecommunications. Source: SSO and NBRNM calculations.

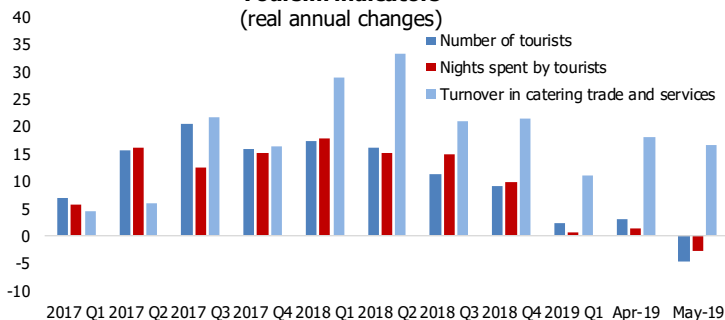
On the other hand, the activity in **construction** in the period April - May decreases on an annual basis. The negative performances in the total completed construction works are mainly due to the fall in civil engineering (amid higher base effect), but a negative contribution was also made by building construction.

In the period April - May, **catering** registered a slight decrease in the number of tourists and overnight stays, while the turnover in catering registered an annual increase.

	2017				2018				2019				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun
	<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	4.1	-	-	-	-
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	4.9	5.1	6.4	8.8	1.1	5.5	1.2	-2.7
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	15.1	-	-13.4	-22.3	-
Retail and wholesale trade	3.0	4.4	4.7	3.9	4.9	8.8	8.6	10.0	13.5	12.6	16.3	13.3	8.2
Retail trade	-3.9	-1.9	-2.5	-1.6	6.4	9.9	10.8	10.9	4.7	4.6	3.9	5.2	4.6
Wholesale trade	8.9	10.4	11.2	8.4	3.2	7.1	8.2	9.3	19.4	18.5	25.1	19.5	11.3

* 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.

Toursim indicators (real annual changes)



Source: SSO and NBRNM calculations.

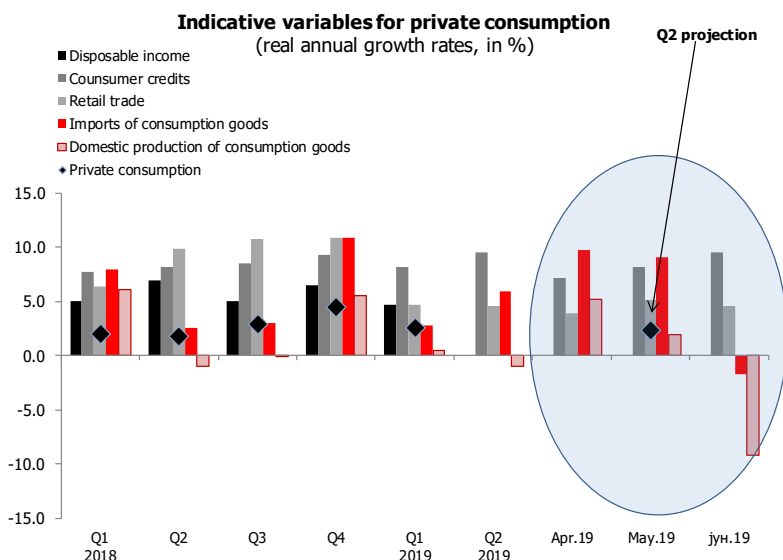
On the **aggregate demand** side, most of the available indicators point to continued growth in economic activity in the second quarter of the year.

Most of the available short-term data on **private consumption**⁸ currently point to growth of this component in the second quarter of the year. Regarding the main categories of disposable income, wages and pensions registered an annual growth. At the same time, the increase of household loans also continued, at faster pace compared to the previous quarter. Annual growth was also registered in retail trade, import of consumer goods and gross revenues from VAT, and a downward change was registered in domestic production of consumer goods.

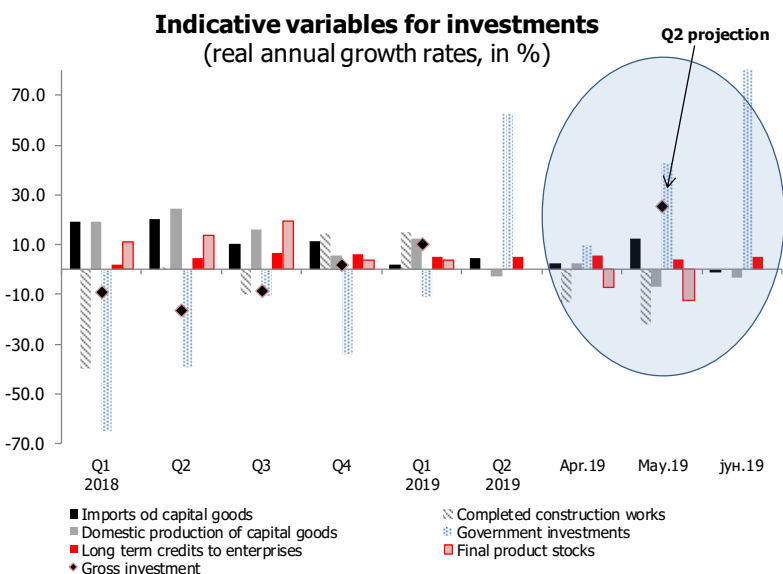
Regarding the high frequency data on **gross investments**⁹ available for the second quarter of 2019, there was an acceleration in the annual growth of the import of investment products and government capital investments. The steady growth of long-term corporate loans also continued, and an annual growth was also registered in industrial output (although slower compared to the previous quarter). On the other hand, unfavorable trends were registered in the domestic production of capital goods and in the construction sector.

Foreign trade data as of the second quarter of 2019 indicate a narrowing of the deficit, amid higher nominal growth of the export than the import of goods.

Budget performances in the second quarter of the year point to continued growth in **public consumption** on an annual level, amid growth in all categories of public consumption.



Source: SSO and NBRNM calculations.

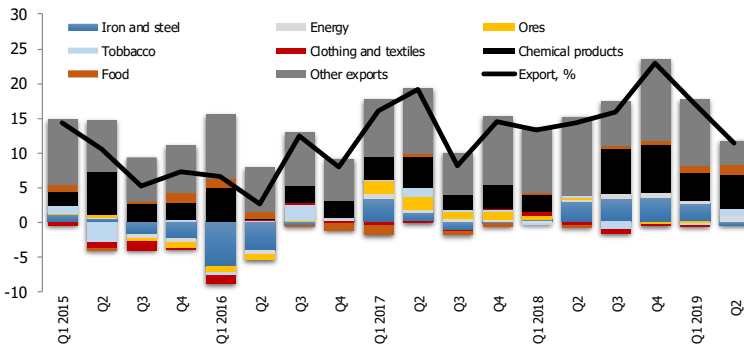


Source: SSO and NBRNM calculations.

⁸ Data on wages are as of May 2019, while data on household loans, pensions, retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT are as of June 2019.

⁹ Data on completed construction works are as of May 2019, while data on long-term corporate loans, government capital investments, industrial production, imports of investment products and domestic production of capital goods are as of June 2019.

Export by components
(contribution to the annual change, in p.p.)



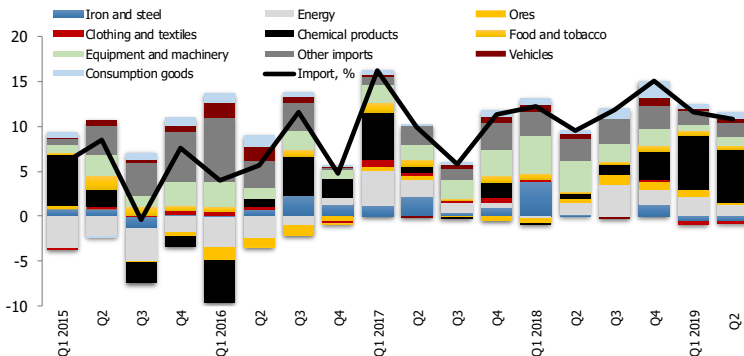
Source: NBRNM.

In the second quarter of 2019, **foreign trade deficit registered a slight widening of 9% on an annual basis**, amid growth of both the export and the import component.

During the second quarter, the **export component** registered an annual growth of 11.3%, mostly due to the higher exports of part of the new production facilities in the economy, as well as of part of the traditional export sectors (mainly food and tobacco).

Compared to the April forecast, the performances in the second quarter of 2019 are higher than the export expected for this period. Significant upward deviations were registered in the export of part of the new production facilities, as well as in the export of tobacco and food.

Import by components
(contribution in the annual change, in p.p.)



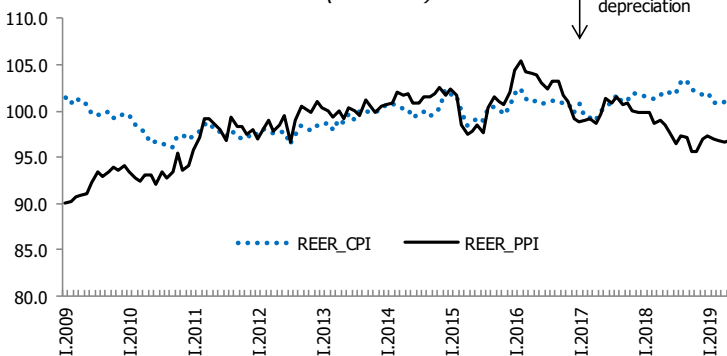
Source: NBRNM.

In the second quarter, the **import of goods** grew by 10.8% annually, reflecting the growth in most import categories, primarily the higher import of raw materials for the new industrial facilities and the higher energy imports.

Import of goods in the second quarter is higher than expected according to the April forecast, as a result of the upward deviations in the import of raw materials of part of the new export facilities, as well as the higher energy imports.

The performance of foreign trade components during the second quarter of 2019 results in a trade deficit, which is lower than expected in the April forecast.

REER
(2015=100)

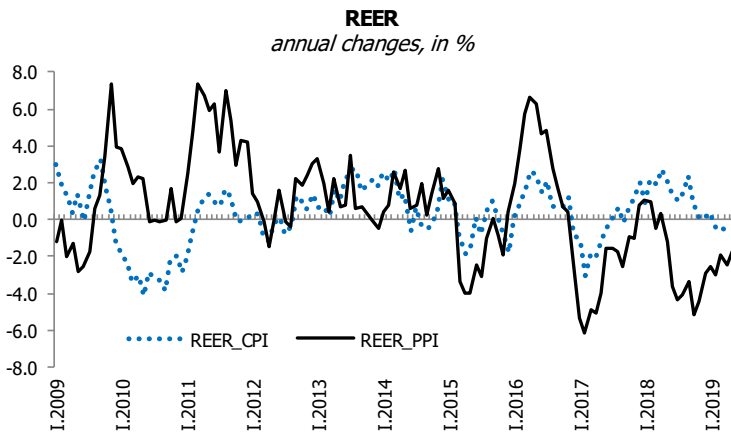


Source: NBRNM.

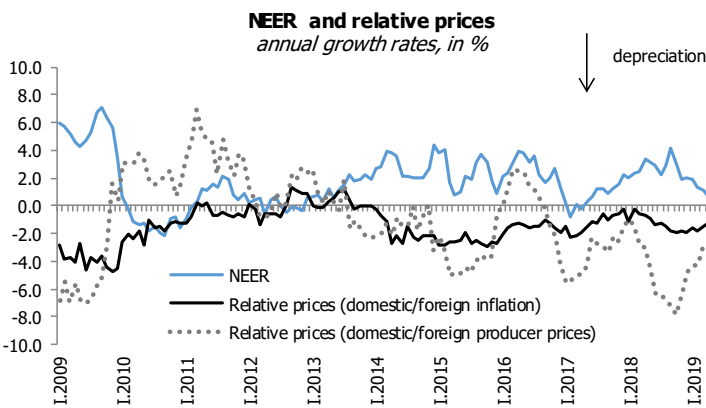
In June 2019, price competitiveness indicators of the domestic economy improved on an annual basis. The REER index deflated by consumer prices depreciated by 1.4%, while the REER index deflated by producer prices registered a minimal depreciation of 0.1%.

These developments are due to the favorable changes in relative prices, whereby the relative consumer prices are lower by 2.2%, while the

relative producer prices are lower by 0.9%. The movement of NEER that slightly appreciated by 0.8% acted in the opposite direction, mostly due to the depreciation of the Turkish lira.



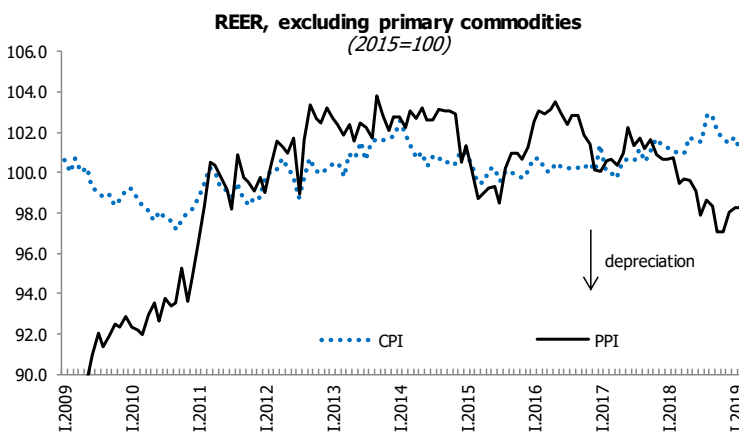
Source: NBRNM.



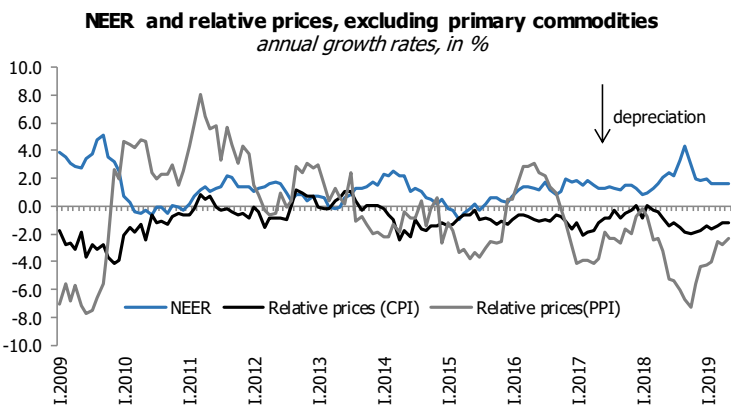
Source: NBRNM.

REER indices, as measured using weights based on the foreign trade without primary commodities, in June 2019, registered divergent movements. Thus, the REER index deflated by consumer prices depreciated by 0.8%, while the REER deflated by producer prices appreciated by 0.3%.

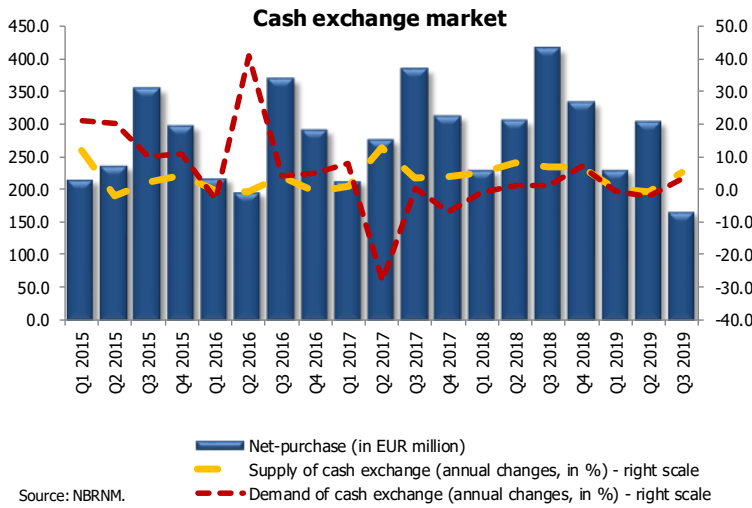
The relative consumer prices and the relative producer prices were lower by 2.0% and 1.0%, respectively, given the annual appreciation of the NEER of 1.3%.



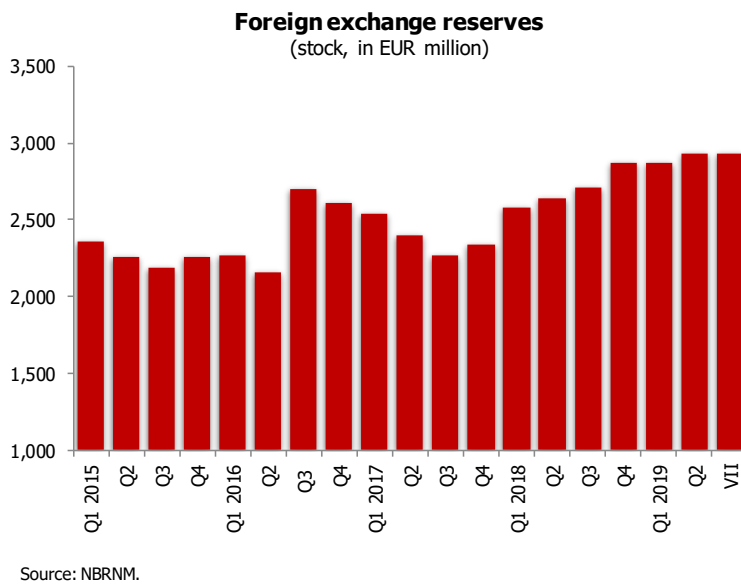
Source: NBRNM.



Source: NBRNM.

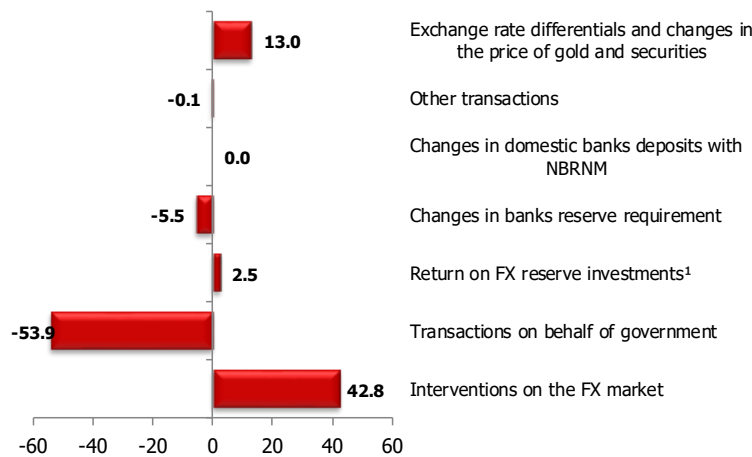


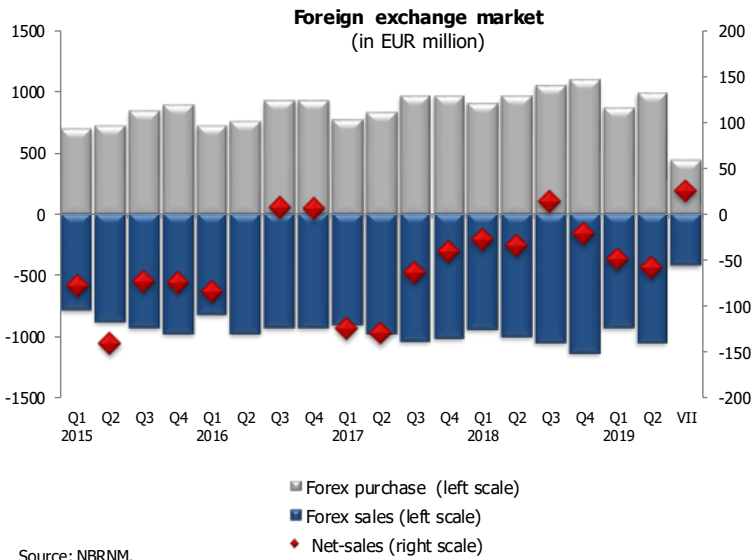
The net purchase on the currency exchange market registered in July 2019 equaled Euro 166.3 million, which is annual increase of 5.7%. Such performances are the result of the growth of supply of and demand for foreign currency (5.3% and 3.4% respectively).



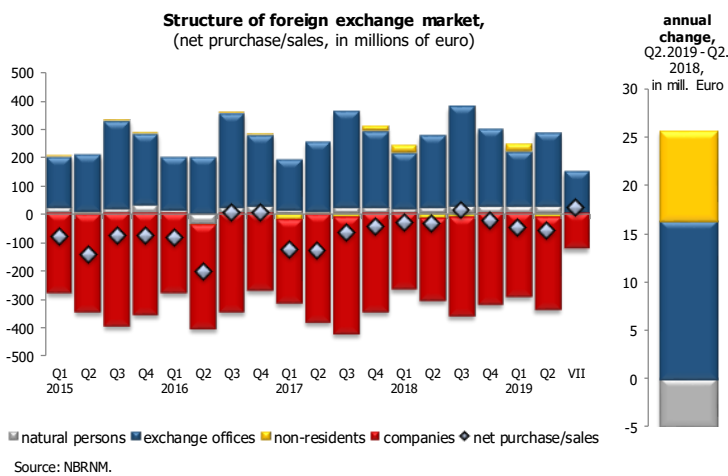
As of 31 July 2019, the gross foreign reserves stood at Euro 2,927 million, which is an unchanged level compared to the end of the second quarter. The National Bank interventions on the foreign exchange market with purchase of foreign currency affected positively the level of foreign reserves, while the transactions on behalf of the government acted in the opposite direction. The remaining flows had no significant impact on the shifts in foreign reserves in the analyzed period.

Factors of change of the foreign reserves in July 2019 (in EUR million)





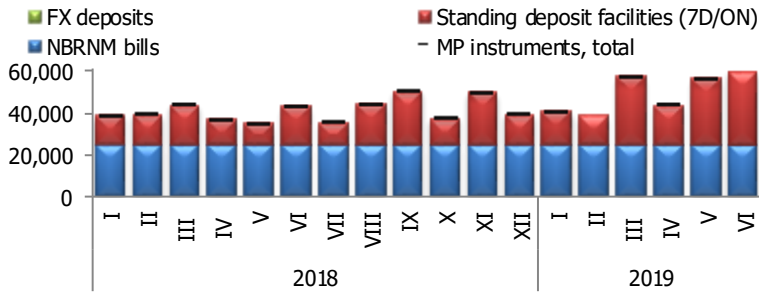
In July 2019, the banks' foreign exchange market reported a net purchase of foreign currency of Euro 25.5 million, by Euro 6.5 million less than the same period last year. This annual change is a result of the faster growth in the demand for relative to the growth in the supply of foreign currency.



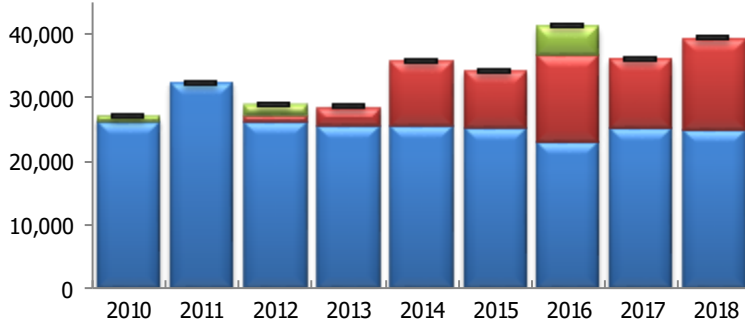
Sector-by-sector analysis shows that such shifts mostly result from the higher net sales of companies.

Monetary policy instruments

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



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



Source: NBRNM

In June, the monetary instruments increased, amid a larger amount of banks' assets placed in deposits with the National Bank and unchanged stock of CB bills¹⁰. Thus, the stock of monetary instruments at the end of June was slightly higher than forecasted for the end of the second quarter of 2019¹¹.

The net foreign assets of the National Bank at the end of June are slightly higher than forecasted for the end of the second quarter of 2019.

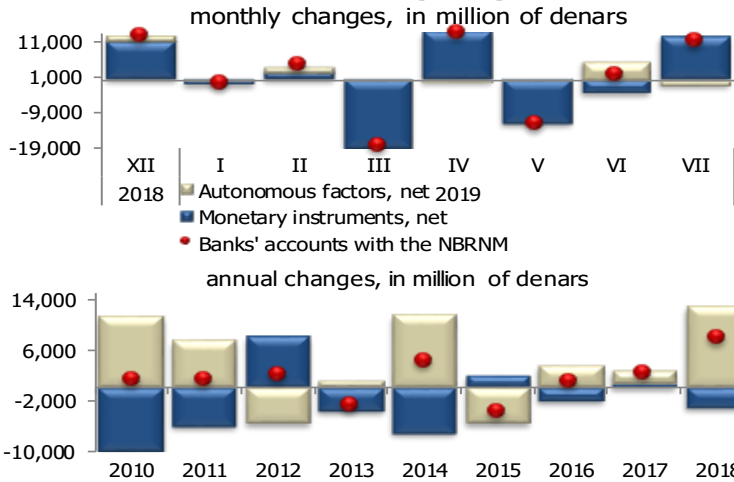
The total government deposits with the National Bank registered a monthly decrease, so that their stock at the end of June is slightly lower than forecasted for the end of the second quarter of 2019.

Amid increase in banks' total reserves with the National Bank and insignificant growth of currency in circulation, the reserve money increased compared with the previous month and at the end of June was slightly higher compared to the forecast for the end of the second quarter of 2019.

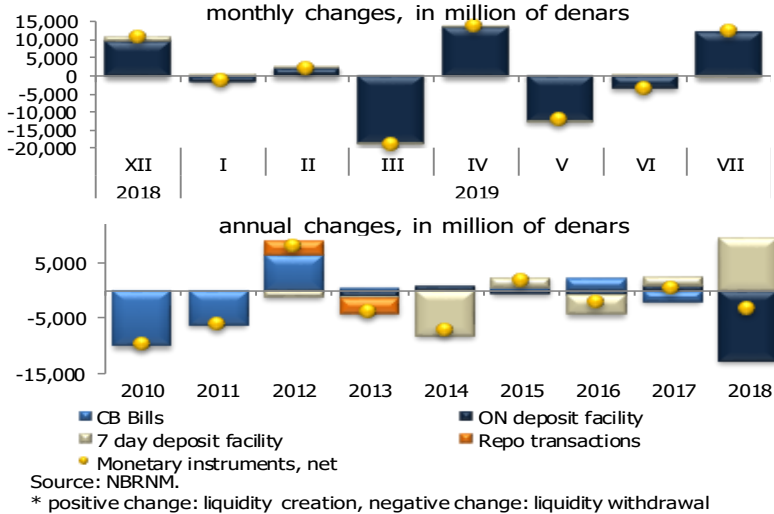
¹⁰ At the CB bills auction of the National Bank held on 12 June 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.25% and maturity of 28 days.

¹¹ The performance comparisons are against the April forecasts of the National Bank.

Banks liquidity*

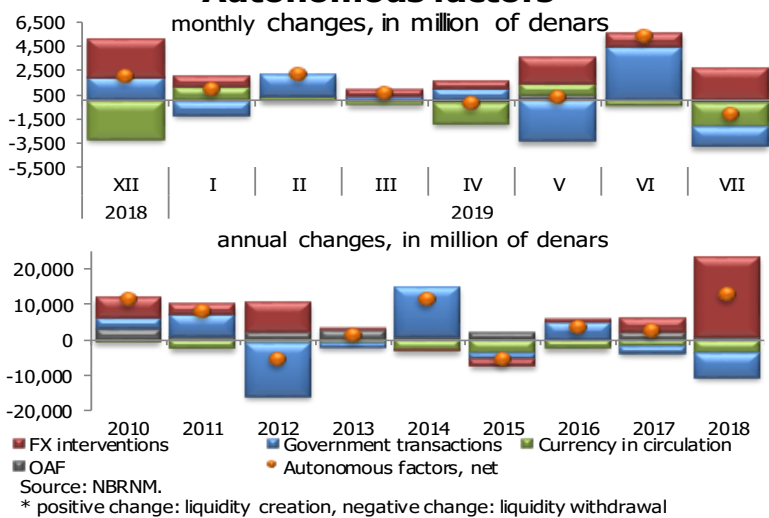


Monetary policy instruments*

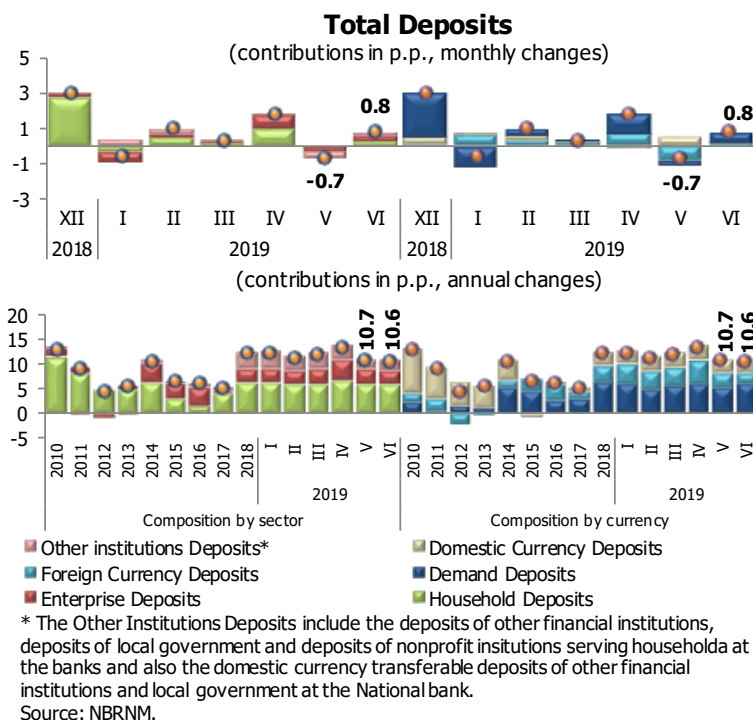


According to the operational data on liquidity flows, the **liquidity of the banking system increased in July**, as a result of the lower stock of monetary instruments (mainly overnight deposits), amid unchanged stock of CB bills¹². In July, the autonomous factors, net, slightly reduced the banks' liquidity.

Autonomous factors*

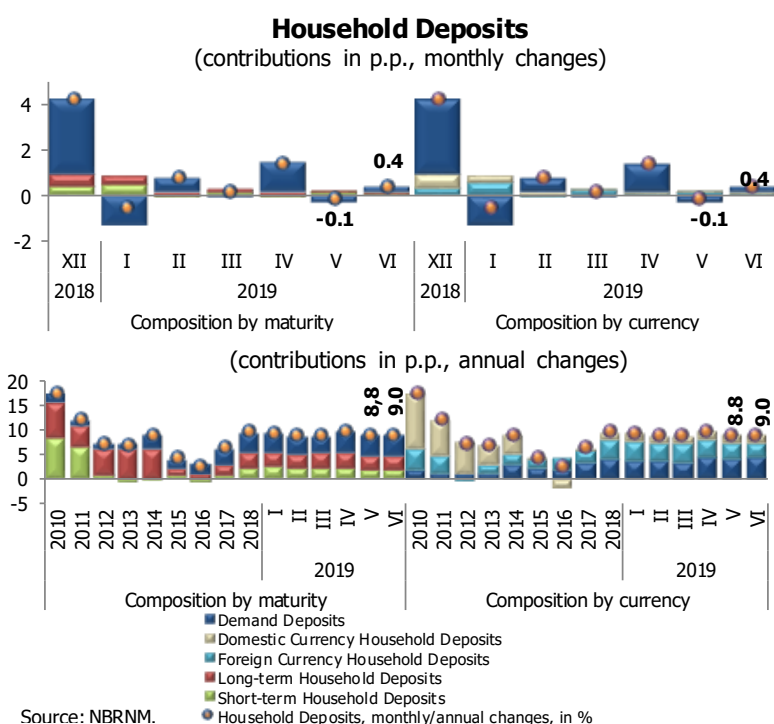


¹² At the CB bills auction of the National Bank held on 10 July 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.25% and maturity of 35 days.



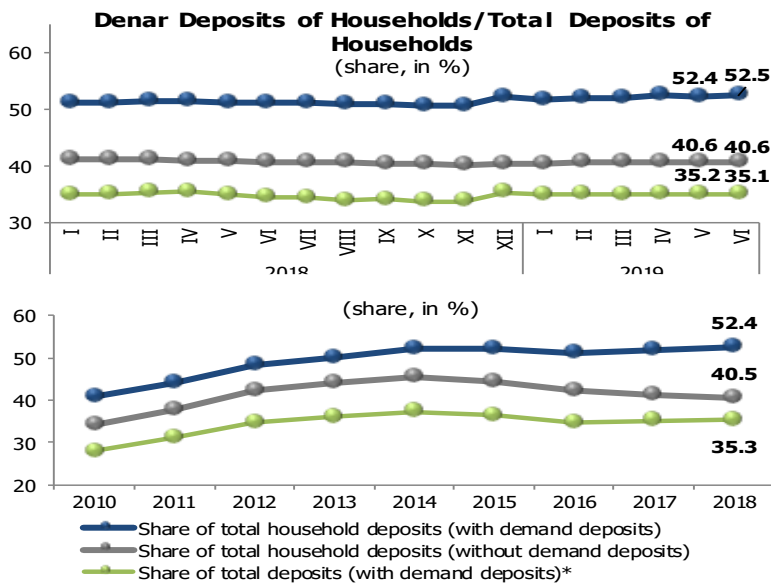
Total deposits¹³, after the reduction in the previous month, in June registered a monthly growth of 0.8%, which stems from the increase in the deposits of all sectors, especially of households and corporations. Analyzing the currency, the greatest contribution to the monthly growth was made by deposits in domestic currency (including demand deposits). In the second quarter, total deposits registered an increase, which exceeded the growth forecasted for the second quarter of the year.

In June, the annual growth rate of total deposits was 10.6%, which is slightly above the annual growth forecasted for the second quarter of 2019 (of 10.2%) in April. Observed by sector, the growth was mostly driven by household deposits, amid positive, but smaller contribution of corporate deposits and other sectors deposits. Observed by currency, most of the growth is due to deposits in domestic currency (including demand deposits), with a positive, but smaller contribution of foreign currency deposits.



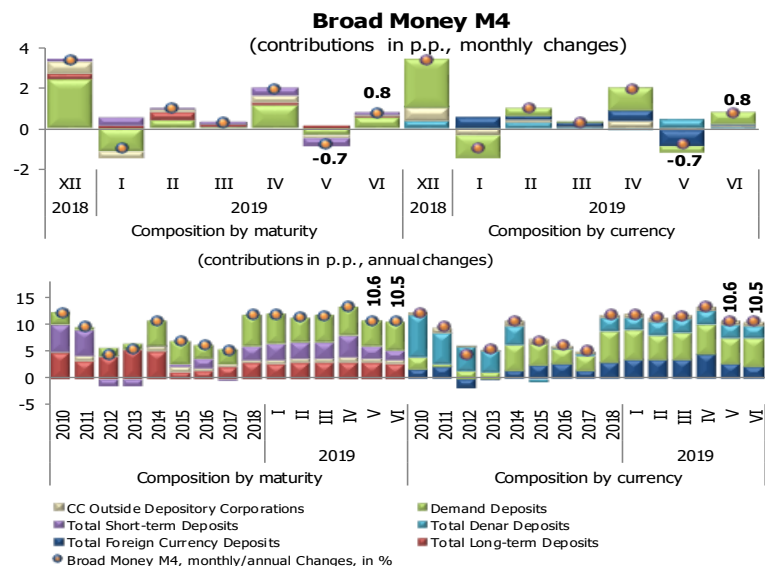
Household deposits, after the reduction in May, registered a monthly growth of 0.4% in June, which is mostly due to denar deposits, i.e. demand deposits. The share of denar deposits (including demand deposits) in total household deposits at the end of June was 52.5% (52.4% in May). **On annual basis, the increase in the household deposits in June amounts to 9.0%.**

¹³ 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.nspj.

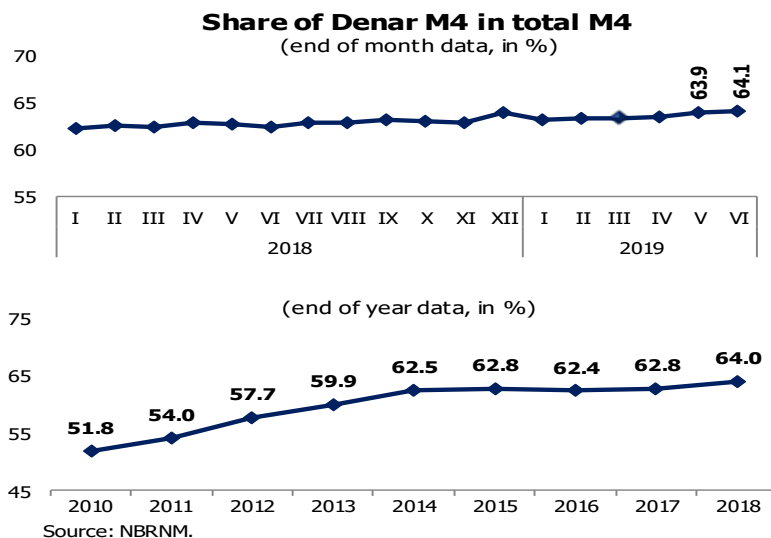


* Includes deposits at Banks and Saving Houses
Source: NBRNM.

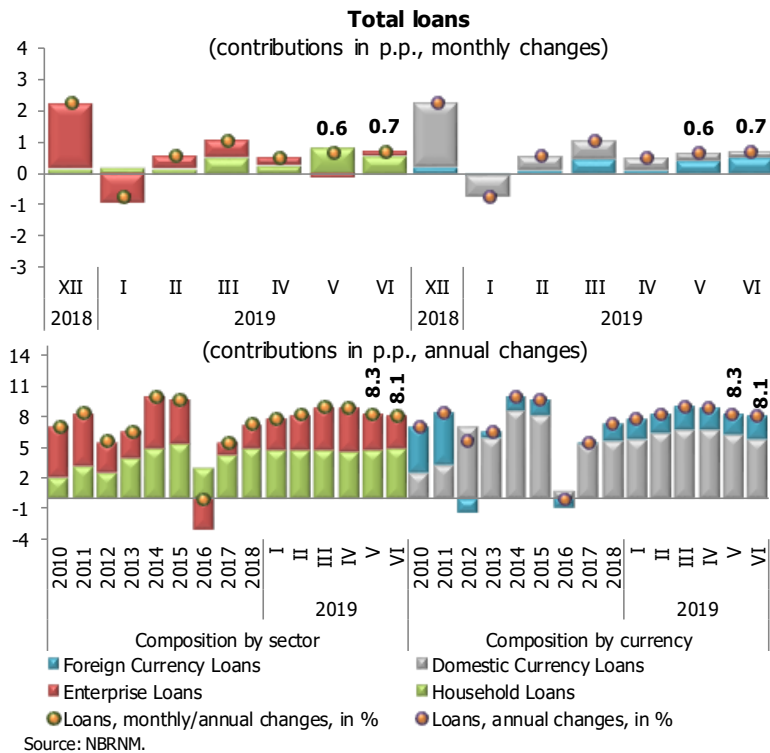
In June, broad money measured through M4, after the fall in the last month, registered a monthly increase of 0.8%, which is mostly due to the increase in demand deposits and short-term deposits, while long-term deposits remained unchanged. Analyzed by currency, the growth mainly results from the increase in the denar components, with a positive contribution of foreign currency deposits. At the end of June, the denar share of money supply in total broad money M4 was 64.1% (63.9% in the previous month). In June, broad money increased by 10.5% annually, slightly exceeding the annual growth of 10.1% forecasted for the second quarter of 2019.



Source: NBRNM.



Source: NBRNM.

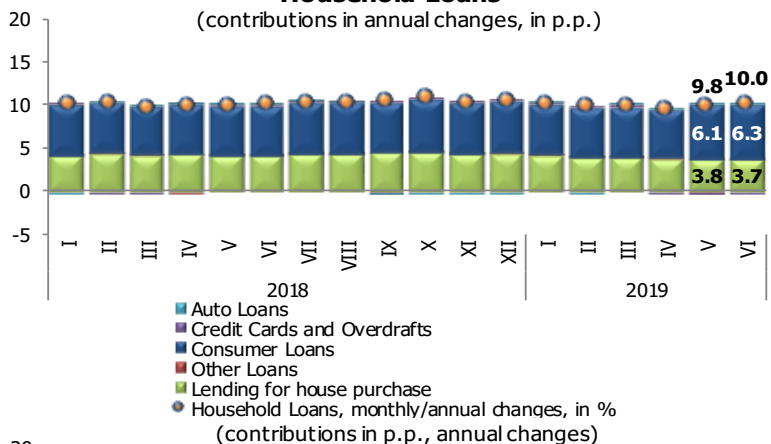


In June, total loans granted by banks to the private sector registered a monthly increase of 0.7, mostly due to the growth of loans to households, with a smaller positive contribution of corporate loans. Analyzing the currency structure, the growth in total loans largely results from foreign currency loans, amid a slower growth of loans in domestic currency. In the second quarter, total loans registered an increase, which is within the forecasted quarterly growth of total loans in the second quarter of the year.

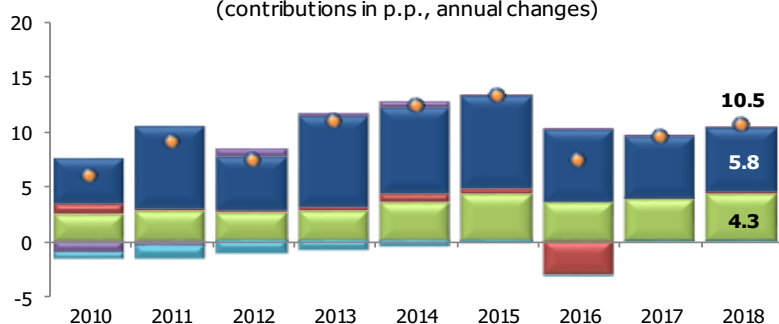
In June, the annual growth rate of total loans was 8.1%, which is slightly below the annual growth forecasted for the second quarter of 2019 (of 8.4%) in April. Observed by sector, the annual growth of total loans largely results from the household loans, with a positive contribution of corporate loans. 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.

Household Loans*

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



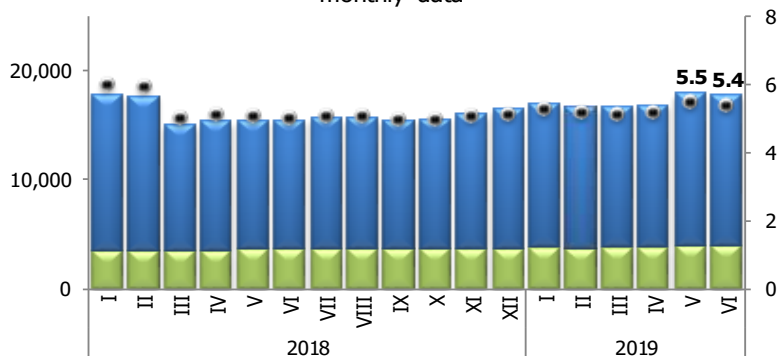
The annual growth of household loans¹⁴ in June amounted to 10.0% (9.8% in the previous month), and was still largely driven by consumer loans that contributed with 6.3 percentage points, with a positive contribution of housing loans (of 3.7 percentage points).



* Self-employed individuals are not included.
Source: NBRNM.

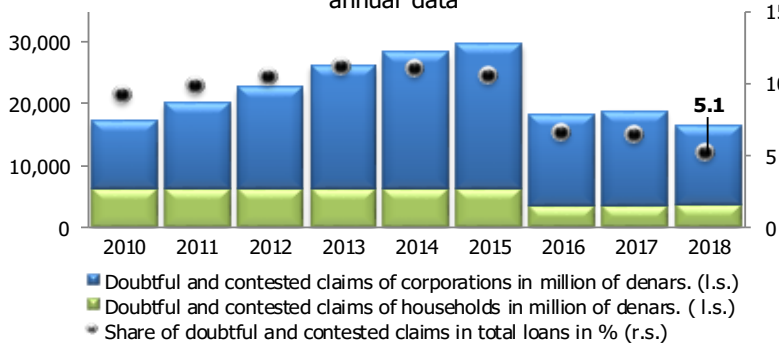
Doubtful and contested claims

(composition by sector and share in total loans)
monthly data



In June, the share of doubtful and contested claims in total loans was 5.4%, whereby the non-performing loans of the corporate sector still predominate, with significantly lower share of the non-performing loans of the household sector.

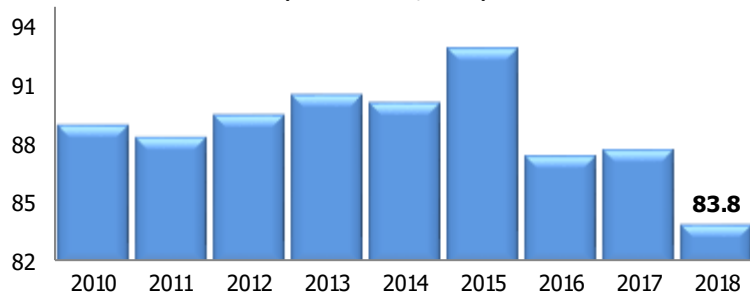
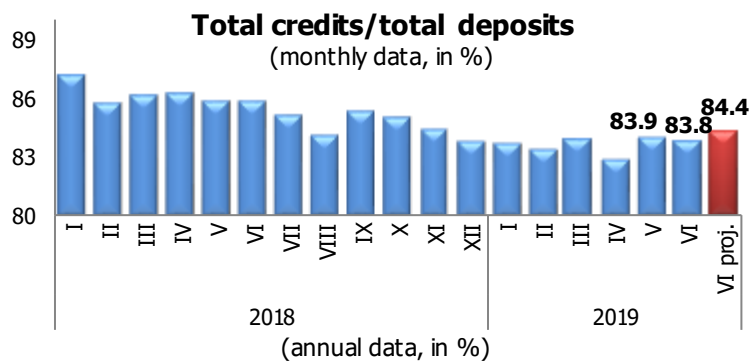
annual data



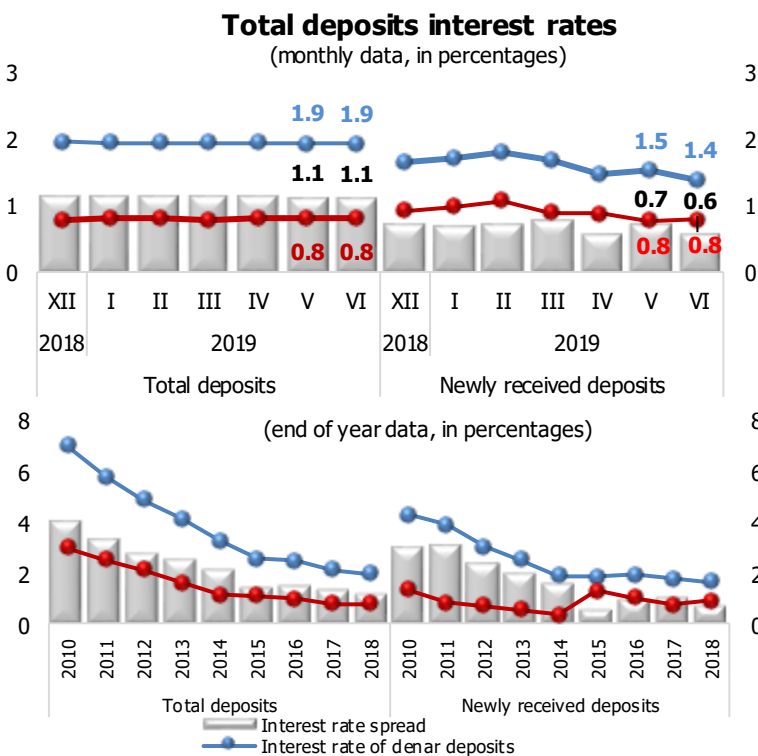
Source: NBRNM.

¹⁴ Excluding loans of self-employed individuals.

The utilization of banks' deposit potential for lending to the private sector was 83.8% in June and is within the forecast for the second quarter of 2019, with the April forecast (84.4%).



Source: NBRNM.



In June, interest rates on total deposits (denar and foreign currency)¹⁵ registered no changes compared to the previous month, whereby the spread between these interest rates remained at 1.1 percentage points. For total newly accepted deposits, the interest rate spread narrowed marginally compared to the previous month (from 0.7 to 0.6 percentage points), amid reduction of the interest rate on newly received Denar deposits (of 0.1 percentage points) and unchanged interest rate on foreign currency deposits¹⁶.

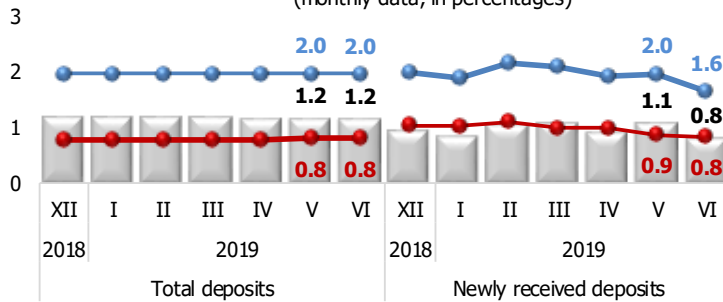
Source: NBRNM.

¹⁵ 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.nspj.

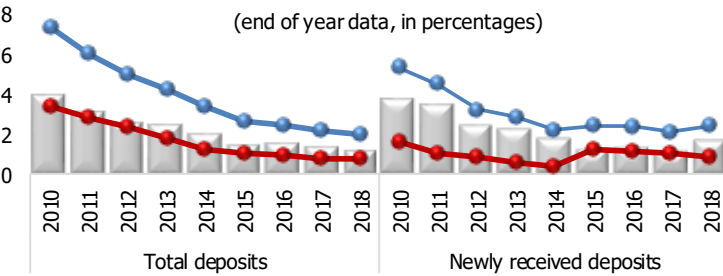
¹⁶ Regarding the interest rates on the newly accepted deposits, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.

Households` deposits interest rates

(monthly data, in percentages)



The interest rates on total household deposits 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 deposits decreased by 0.4 percentage points, while the interest rate on foreign currency deposits decreased by 0.1 percentage points, so that the interest rate spread narrowed (from 1.1 to 0.8 percentage points).

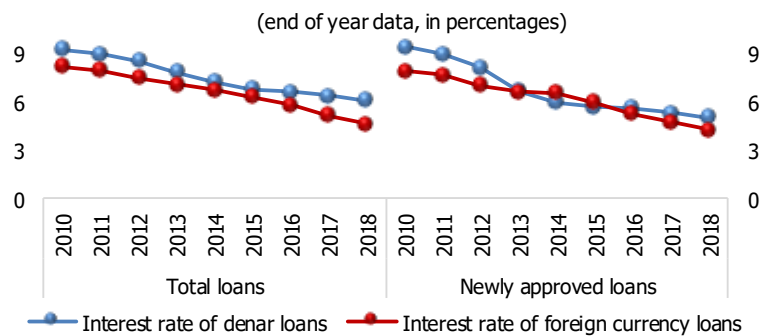
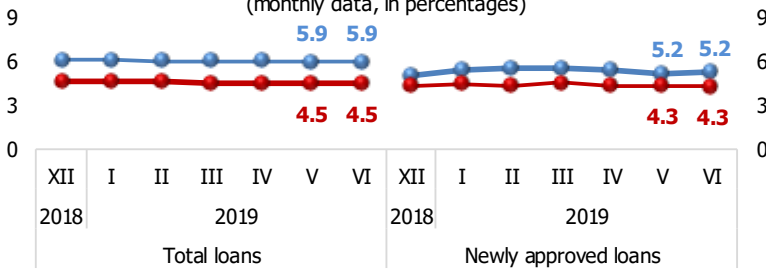


Interest rates on total household and corporate loans registered no changes in June and remained at 5.9% and 4.5%, respectively. For the newly approved loans¹⁷, the interest rates on household and corporate loans in June also registered no changes and amounted to 5.2% and 4.3%.

Source: NBRNM.

Total loans interest rates

(monthly data, in percentages)

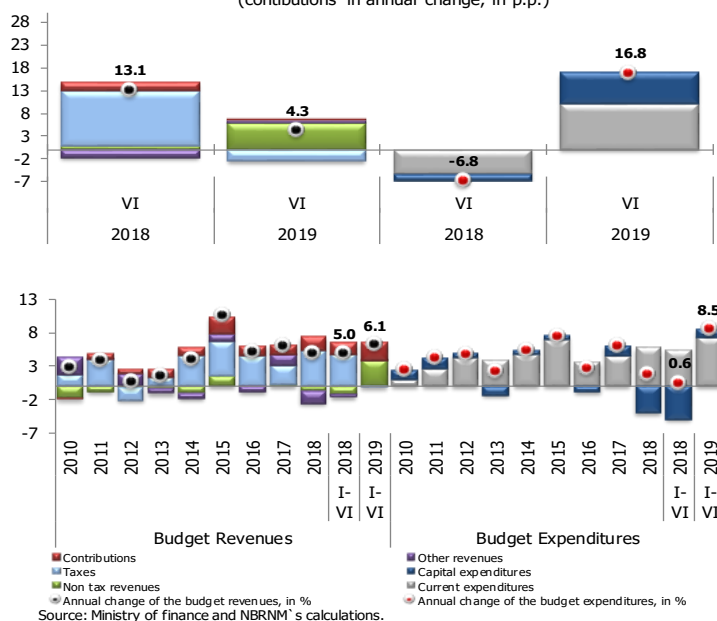


Source: NBRNM.

¹⁷ 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

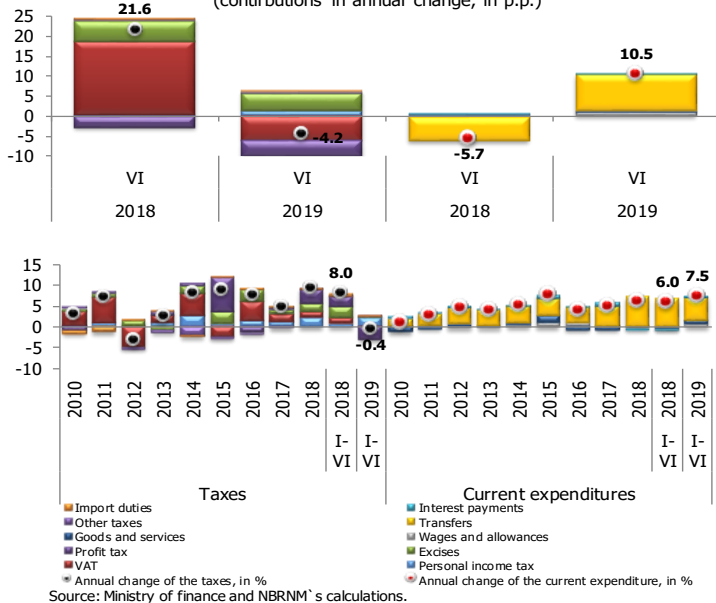
(contributions in annual change, in p.p.)



In the Budget of the Republic of North Macedonia (central budget and budgets of funds), total budget revenues and expenditures increased in June, on an annual basis. The growth of budget revenues of 4.3% mostly results from the higher inflows on the basis of non-tax revenues, other revenues and contributions, with a contribution of 5.7 percentage points, 0.7 percentage points and 0.3 percentage points, respectively, amid a negative contribution of tax revenues (of 2.5 percentage points). In June, tax revenues were lower by 4.2% on an annual basis, whereby lower inflows are recorded in VAT and corporate tax (with a negative contribution of 6.1 and 4.1 percentage points), while the inflows of excises, personal income tax and import duties are higher (contribution of 4.4 percentage points, 1.4 percentage points, and 0.1 percentage points, respectively). The growth of **budget expenditures** (16.8% on an annual basis) in June mostly results from the higher current expenditures (contribution of 10.0 percentage points), amid a pronounced positive contribution of capital expenditures of 6.8 percentage points.

Taxes and current expenditures

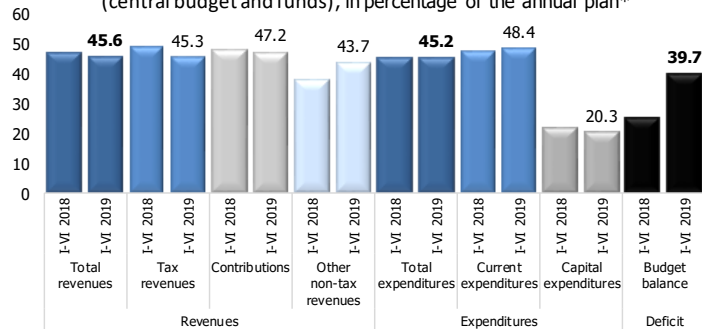
(contributions in annual change, in p.p.)



In the period January - June 2019, total budget revenues and expenditures increased cumulatively compared to the same period last year. The growth of **budget revenues** (of 6.1%) mostly results from the higher non-tax revenues and higher contributions, with a contribution of 3.8 and 2.7 percentage points, respectively. **Regarding the budget expenditures**, the growth in the period January - June (8.5%) stems from the higher current expenditures (contribution of 7.1 percentage points), amid a positive contribution of capital expenditures (of 1.3 percentage points).

Budget implementation, per categories

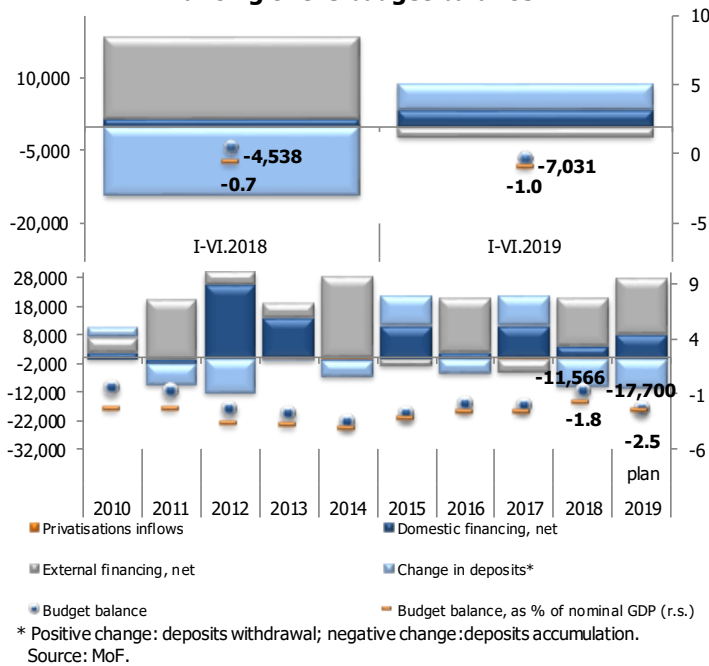
(central budget and funds), in percentage of the annual plan*



In comparison with the plan of the Budget for 2019, the percentage of the budget revenues realized in the period January - June amounted to 45.6% (47.1% in 2018), while the budget expenditures amounted to 45.2%, same as in the previous year. The budget deficit was 39.7% of the annual plan for 2019 (25.1% in 2018).

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

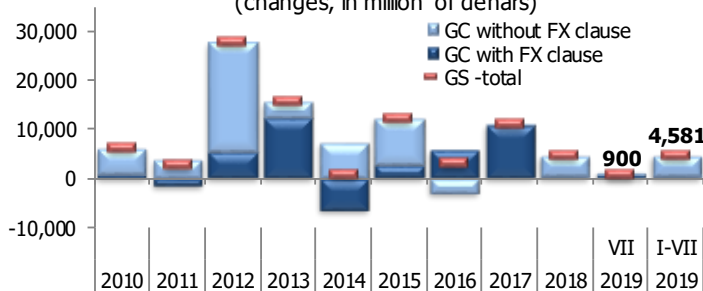
Financing of the budget balance



The budget deficit registered in the first half of the year amounted to Denar 7,031 million (1.0% of the nominal GDP¹⁸) and was mostly financed by using government deposits with the National Bank and by government borrowing on the domestic financial market.

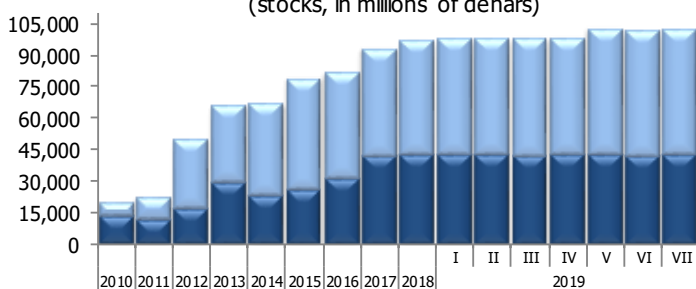
Government securities

(changes, in million of denars)



In the primary government securities market in July 2019, the stock of issued securities increased on a monthly basis and at the end of the month reached Denar 101,789 million. The monthly increase (of Denar 900 million¹⁹) completely derives from the increase in government securities with currency clause, while securities without currency clause registered no changes. Compared to the end of 2018, the stock of government securities at the end of July increased by Denar 4,581 million.

(stocks, in millions of denars)



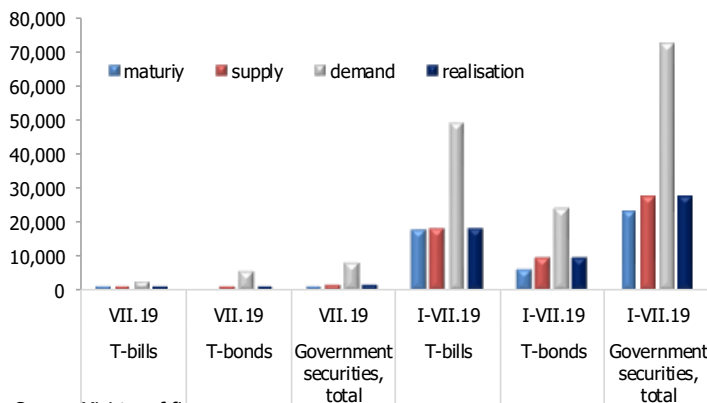
Source: MoF.

¹⁸ The analysis uses the National Bank's April forecasts for the nominal GDP for 2019.

¹⁹ 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.

Government securities auctions

in million of denars

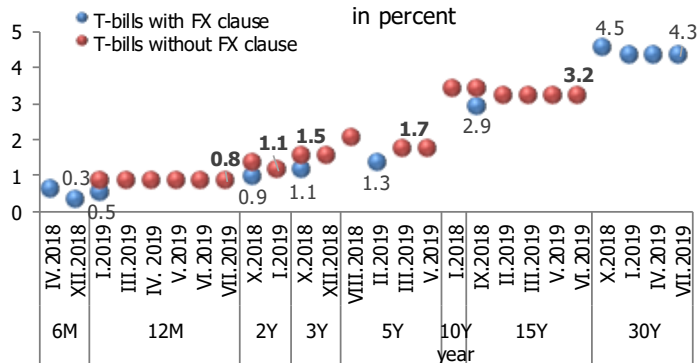


Source: Ministry of finance.

The new issues of government securities in July were with twelve-month and thirty-year maturity²⁰, whereby the market participants' interest this month was higher than the offered amount. Amid issue of government securities in a higher amount than the amount due, their stock in July increased compared to the previous month.

Interest rates of T-Securities

in percent



Source: Ministry of Finance

Interest rates on the newly issued twelve-month government securities without currency clause and thirty-year government securities with currency clause in July amounted to 0.8% and 4.3%, respectively.

²⁰ The twelve-month treasury bills fell due in July 2019.

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	Q1	Q2	April	May	June
	<i>real annual growth rates in %</i>												
Retail trade*	-3.9	-1.9	-2.5	-1.6	6.4	9.9	10.8	10.9	4.7	4.6	3.9	5.2	4.6
VAT revenues*	6.3	6.9	7.2	7.5	3.9	6.5	7.5	7.0	3.5	1.4	3.8	5.5	-5.5
Imports of consumption goods*	6.0	3.8	5.9	9.2	8.0	2.5	3.0	10.9	2.8	5.9	9.8	9.1	-1.9
Domestic production of consumption goods	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	-0.1	5.6	0.5	-1.0	5.2	2.0	-9.2
Consumer credits*	7.1	8.0	8.1	6.7	7.7	8.2	8.5	9.3	8.2	9.6	7.2	8.1	9.6
Average net wage*	1.5	1.0	1.4	1.0	3.4	4.7	3.9	5.4	2.2	-	1.6	1.7	-
Private net transfers*	-3.4	22.9	0.2	5.0	5.5	9.0	4.2	1.8	-2.2	-	-	-	-
Pensions*	6.1	7.0	6.0	4.7	2.1	3.4	2.6	4.4	4.1	2.2	0.8	1.9	3.8

* 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	Q1	Q2	April	May	Jun
	<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	1.9	4.7	2.7	12.4	-1.2
Completed construction works**	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	15.1	-	-13.4	-22.3	-
Domestic production of capital goods	-0.9	15.6	-2.6	20.9	19.3	24.2	16.0	5.7	12.3	-2.9	2.4	-7.1	-3.1
Government investments*	59.9	19.6	-40.8	33.7	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	9.5	42.6	149.5
Direct Investments***	-2118.7	-3997.0	-5202.8	2481.3	8526.7	5940.0	3829.1	8756.7	-13231.3	-	-	-	-
Long term credits to enterprises*	3.6	-0.4	-0.8	0.0	2.0	4.7	6.6	5.9	4.8	4.8	5.5	4.3	4.8

* 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.