

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



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

December 2018

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 (September - November 2018) 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.

Within October - November period, the international organizations rounded up new projections for the global economy, within which downward revisions to global economic growth were made. In addition, the negative risks for the global economy in this period are similar to those highlighted in the October projection cycle, with the main risk still arising from the possible further escalation of trade protectionism on a global scale, despite the agreement reached between the United States and China for the temporary delay of the planned increase in trade tariffs at the beginning of 2019. Other risks relate to the possible faster tightening of global financial conditions, and the effects particularly on emerging economies, as well as increased political risks in some EU countries and the potential escalation of geopolitical risks in some parts of the world. In terms of the economic developments in the euro area, as our most significant economic partner, the preliminary GDP projections for the third quarter of 2018 show an annual growth of 1.7%, which is moderate deceleration compared to the second quarter of 2017 (2.2%). On the other hand, the latest high-frequency data and surveys of households and enterprises indicate similar, or higher economic growth in the last quarter of the year. At the euro area's labor market, favorable conditions still prevail, with the unemployment rate declining to 8.1% in the third quarter (8.3% in the previous quarter), while staying at that level also in the first month of the fourth quarter. Regarding inflation in the euro area, the estimated data for November point to its further deceleration to 2% (from 2.2% in October), as a result of the lower growth in all components. The biggest slowdown was observed in energy inflation, while the changes were smaller in food and core inflation. According to the latest estimates, **the EURIBOR interest rate** in 2018 and 2019 is expected to be the same or similar to the one in the October projection, while a significant downward revision was made for 2020, when it is expected that it will remain in the negative zone, as opposed to the assessments for a positive rate in the October cycle.

Analyzing the quantitative external environment indicators of the Macedonian economy, the foreign effective demand forecast was minimally revised downwards for 2018 and 2019, while for 2020 it was minimally revised upwards compared to the October forecast. On the other hand, **foreign effective inflation** forecasts were revised upwards minimally for the entire projection cycle. Compared to October it is expected that the US dollar will register a somewhat smaller depreciation in 2018, appreciation instead of the unchanged value in 2019 and a similar depreciation rate in 2020 of the one expected in October. **Forecasts for primary commodities prices on the world markets for 2018 and 2019 were generally revised downwards in relation to the October forecasts, while for 2020, most prices were revised upwards.** Observed by individual products, the latest assessments of **world oil prices** point to downward corrections, given lower expected price growth in 2018 and decline, instead of increase, in 2019. On the other hand, the revision of the changes in oil prices in 2020 is upward, thus now expecting lower prices relative to October. **Metal prices** in 2018 and 2019 were revised downwards relative to the October forecasts, with expectations for lower rise in the prices of nickel and copper this year and larger decrease in the following year. On the other hand, estimates of a drop in 2020 for the prices of these metals remain, envisaging smaller drop in the price of nickel and a larger decrease in the price of copper. Regarding the prices of **primary food products**, revisions are in opposite directions for

the projection period. Thus, in 2018 and 2019, a lower growth in the price of wheat and a higher increase in the price of corn is envisaged, while for 2020 the expectations for growth of the prices of these products remain, although it is now higher in the price of wheat, and lower in the price of corn. However, considering that price estimations for these commodities are extremely volatile, this creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term.

The comparison of the latest macroeconomic indicators with their forecast dynamics within the October forecast round does not indicate major deviations in the individual segments of the economy. According to the published estimates for GDP, economic activity in the third quarter registered solid growth (3.0%), slightly higher than the projected rate in the October projections (2.5%). This upward deviation is mainly explained by the higher export growth and, consequently, the more favorable net export demand, as well as the higher growth of public and private consumption relative to the expectations in the October projections, while the fall in gross investments is higher than expected. For the fourth quarter, given a limited scope of available data, the situation in the economy can hardly be assessed precisely, although part of the data point to continuation of the favorable movements in the economy in this quarter of the year (intensified increase in the activities in industry and trade in October). Regarding changes in consumer prices, the inflation rate in November was 1.2%, and is slightly lower than the forecasted. However, cumulatively, the registered annual inflation rate of 1.5% in the period January-November 2018 is in line with the October forecast. Amid current inflation lower than the one forecasted in October, as well as announcements for increase in the domestic bread prices, as well as external input assumptions revised in divergent directions, the risks regarding the inflation forecast for 2018 are currently assessed as balanced. The uncertainty related to the expected future movement of the world prices of primary products, remains.

Recent available data on changes in foreign reserves (adjusted for the effects of price and exchange rate differentials and price changes of securities) in the period October - November 2018 indicate to a growth. Analyzed by the factors of change, the growth was mainly driven by the NBRM interventions towards net purchase on the foreign exchange market, while the servicing of the government liabilities on the basis of external debt acted in the opposite direction. Analyzing the available data in the external sector for the last quarter of the year, the data on the currency exchange market as of November point to a possibility for private transfers in line with the forecasted performance in October. The performances in the foreign trade statistics in October also point to a trade deficit that is within the forecasts. Regarding the performances in the balance of payments, the data on the third quarter of 2018 indicate a higher surplus in the current account compared to the October projection, as well as somewhat higher net financial outflows than expected for this period. The analysis of foreign reserves adequacy indicators shows that they remain in a safe zone.

As for the monetary sector developments, the final data as of October show a monthly increase in **total deposits** (of 0.9%), unlike the decrease in the previous month (of 0.3%). Analyzing by sector, the monthly increase in total deposits is mostly a result of the growth of corporate deposits, amid simultaneous growth of household deposits, as well. Analyzing the currency structure, the increase in total deposits was mostly due to the foreign currency deposits, given significant contribution also of denar deposits (including demand deposits). On an annual basis, total deposits in October grew by 12.2%, given the forecasted growth of 10.2% for the fourth quarter of 2018, according to the October forecast. Analyzing the credit market, in October, **total loans** of the private sector increased by 0.5% on a monthly basis and continued to increase but at moderately slower pace compared to the previous month (monthly growth of 1.2%). The growth of lending activity in October, almost equally arises from loans granted to households and corporations. By currency, the monthly growth of total loans entirely results from loans in domestic currency, given a monthly drop of foreign currency loans. On an annual basis, total loans in October grew by 8.2%, amid forecasted growth of 8.4% for the fourth quarter of 2018.

In the fiscal sector, in the January - October 2018 period, the Budget of the Republic of Macedonia registered a deficit of Denar 5,967 million, which was mostly funded by external sources, by net inflows from the Eurobond of the Republic of Macedonia issued in January 2018, with part of these funds being kept as deposits on the government account with the National Bank. Smaller portion of the budget deficit was funded through new issue of government securities on the domestic financial markets. The deficit in the Budget of the Republic of Macedonia was 33.1% of the deficit planned in the 2018 Budget.

In general, the latest macroeconomic indicators and assessments indicate certain deviations in terms of the forecasted dynamics, but the perceptions about the environment for monetary policy conduct are somewhat more favorable than before. The movements on the foreign exchange and currency exchange markets remain favorable, given increase in the foreign reserves. Foreign reserves adequacy indicators remain in the safe zone. The increase in the economic activity in the third quarter is solid, slightly exceeding the expectations, and thus together with the revised estimations for the performance in the first half of the year creating perspectives for attaining the projected economic growth for the entire 2018. Risks to the inflation are still assessed as balanced, having in mind the slightly lower performance than forecasted, amid current divergent revision to the world prices of some primary commodities used as inputs in the forecasts, as well as the announcements for increase in the bread prices. Within the monetary sector, the annual growth in deposits and loans in October for now is within the growth forecasted for the fourth quarter of the year.

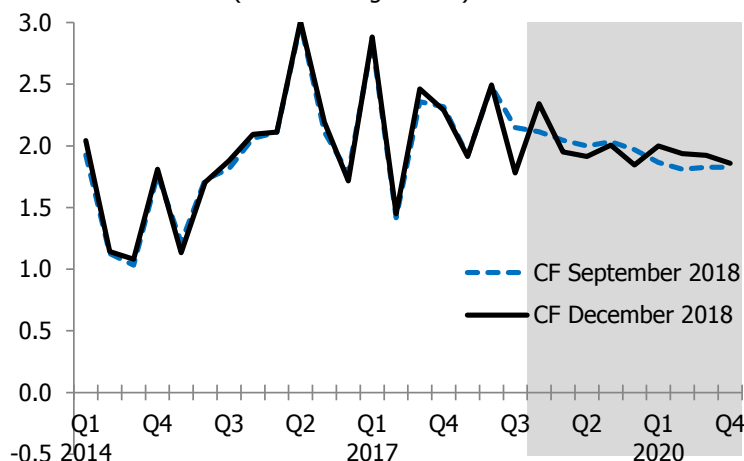
Increase in the economic activity of 3% in the third quarter of 2018

According to the estimated data of the SSO in the third quarter of the year, the annual real economic growth rate is 3%, as in the second quarter of the year. Observed from the production side, the main growth generator is the activities group, such as trade, transport and tourism. The construction continued to contribute negatively to the growth, but, as in the second quarter, its unfavorable impact is significantly weaker compared to the beginning of the year. From the aspect of demand, in the third quarter, the favorable performances on the export side are the main factor for the high positive contribution of net exports to the total economic growth. Domestic demand, driven by the growth in personal and public consumption, has positive contribution, despite the continued decline in gross investments.

Selected economic indicators ¹	2015		2016		2017				2018													
	2015	2016	Q1	Q2	Q3	Q4	2017	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun	Q2	Jul.	Aug	Sep	Q3	Oct.	Nov	
I. Real sector indicators																						
Gross domestic product (real growth rate, y-o-y)²	3.9	2.8	1.0	-1.8	0.1	1.6	0.2				0.9				3.0				3.0			
Industrial production³																						
y-o-y	4.9	3.4	-1.5	3.7	-2.4	0.9	0.2	8.4	3.1	4.6	5.2	1.5	1.1	12.1	4.9	8.4	2.1	4.5	5.1	6.4	6.4	
Cumulative average	4.9	3.4	-1.5	1.2	-0.1	0.2	0.2	8.4	5.6	5.2	5.2	4.2	3.5	5.0	5.0	5.5	5.1	5.0	5.0	5.0	5.2	
Inflation⁴																						
CPI Inflation (y-o-y) ⁵	-0.4	-0.2	0.6	1.2	1.5	2.1	2.4	1.1	1.9	1.6	1.5	1.4	1.7	1.4	1.5	1.7	1.5	1.5	1.6	1.5	1.2	
CPI Inflation (cumulative average)	-0.3	-0.2	0.6	0.9	1.1	1.4	1.4	1.1	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	
Core inflation (cumulative average)	0.5	1.3	1.9	2.0	2.2	2.3	2.3	1.6	1.7	1.7	1.7	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	
Core inflation (y-o-y)	0.5	1.3	1.9	2.1	2.6	2.8	2.3	1.6	1.9	1.5	1.7	1.5	1.9	1.3	1.6	1.7	1.7	1.5	1.6	1.4	1.1	
Labor force																						
Unemployment rate	26.1	23.7	22.9	22.6	22.1	21.9	22.4				21.6				21.1				20.8			
II. Fiscal Indicators																						
(Central Budget and Budgets of Funds)																						
Total budget revenues	161,207	169,356	42,734	43,633	44,592	48,714	179,673	13,328	14,060	15,981	43,369	17,084	15,237	14,958	47,279	15,599	15,385	15,020	46,004	17,037	15,993	
Total budget expenditures	180,632	185,407	46,279	48,377	47,946	54,559	196,561	13,930	16,755	15,817	46,502	16,493	17,090	15,101	48,684	18,557	14,752	15,168	48,477	15,993	16,477	
Overall balance (cash)	-19,425	-16,051	-3,545	-4,744	-2,754	-5,845	-16,888	602	-2,695	164	-3,133	591	-1,853	-143	-1,405	-2,958	633	148	-2,473	1,044	1,044	
Overall balance (in % of GDP) ⁶	-3.5	-2.7	-0.6	-0.8	-0.4	-0.9	-2.7	-0.1	-0.4	0.0	-0.5	0.1	-0.3	0.0	-0.2	-0.5	0.1	0.0	-0.4	0.2	0.2	
III. Financial indicators⁸																						
Broad money (M4), y-o-y growth rate	6.9	6.2	4.2	7.5	6.2	5.1	5.1	5.2	7.3	7.5	7.5	8.0	10.2	10.1	10.1	11.5	11.7	11.7	11.7	11.7	11.7	11.7
Total credits, y-o-y growth rate	9.6	-0.1	-1.1	4.1	4.1	5.4	5.4	5.8	6.7	5.7	5.7	6.7	6.1	6.2	6.2	6.2	6.2	7.9	7.9	8.2	8.2	8.2
Total credits - households	12.9	7.0	6.6	9.5	9.8	9.2	9.2	9.7	9.9	9.4	9.4	9.6	9.6	9.7	9.7	10.0	9.9	10.1	10.1	10.5	10.5	10.5
Total credits - enterprises	7.3	-5.3	-7.2	-0.4	-0.9	2.3	2.3	2.4	3.7	2.3	2.3	2.1	2.9	2.9	2.9	2.7	2.7	5.7	5.7	6.0	6.0	6.0
Total deposits (incl. demand deposits), y-o-y growth rate⁷	6.4	6.1	4.2	7.4	5.9	5.0	5.0	5.2	7.4	7.6	7.6	8.3	10.5	10.6	10.6	12.1	12.2	12.3	12.3	12.2	12.2	12.2
Total deposits - households	4.1	2.5	1.8	6.5	5.6	6.1	6.1	5.5	6.4	7.3	7.3	8.2	8.9	7.9	7.9	9.0	8.8	8.4	8.4	8.2	8.2	8.2
Total deposits - enterprises	13.0	13.4	8.8	10.8	5.6	2.1	2.1	2.5	7.1	4.1	4.1	4.1	9.3	11.6	11.6	13.5	13.7	16.8	16.8	15.4	15.4	15.4
Interest rates⁸																						
Interest rates of CB/Bills	3.25	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.0	3.0	3.0	3.0	3.0	3.0	2.75	2.75	2.68	2.75	2.75	2.75
Lending rates																						
denar rates	7.4	7.0	6.8	6.7	6.6	6.4	6.6	6.3	6.3	6.3	6.3	6.2	6.2	6.2	6.2	6.1	6.1	6.0	6.0	6.0	6.0	
fx rates (aggregated, incl. fx and denar with fx clause)	6.2	5.7	5.4	5.3	5.2	5.1	5.3	5.0	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.8	4.8
Deposit rates																						
denar rates	2.9	2.5	2.3	2.2	2.1	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
fx rates (aggregated, incl. fx and denar with fx clause)	1.3	1.0	0.9	0.9	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
IV. External sector indicators																						
Current account balance (millions of EUR)	-177.1	-275.5	-135.4	-90.8	189.4	-66.1	-102.9	-41.7	-1.2	-105.8	-148.7	-3.0	49.5	-26.1	20.5	72.0	61.1	69.1	202.2	1.9	1.9	1.9
Current account balance (% of GDP)	-2.0	-2.8	-1.3	-0.9	1.9	-0.7	-1.0	-0.4	0.0	-1.0	-1.4	0.0	0.5	-0.2	0.2	0.7	0.6	0.7	0.7	0.7	0.7	0.7
Trade balance (millions of EUR)⁹	-1,713.6	-1,777.4	-435.1	-450.8	-385.9	-545.9	-1,617.7	-139.3	-117.0	-210.6	-474.9	-153.1	-119.7	-158.8	-431.5	-160.1	-145.8	-76.0	-381.9	-180.6	-180.6	-180.6
Trade balance (% of GDP)	-18.9	-18.0	-4.3	-4.5	-3.8	-5.4	-18.1	-1.3	-1.1	-2.1	-4.5	-1.5	-1.1	-1.5	-4.1	-1.5	-1.4	-0.7	-3.6	-1.7	-1.7	-1.7
import (millions of EUR)	-5,801.1	-6,106.7	-1,583.8	-1,721.7	-1,648.8	-1,870.6	-6,824.9	-561.8	-577.1	-644.7	-1,783.6	-623.0	-625.1	-641.8	-1,883.9	-641.0	-598.0	-606.0	-1,845.0	-780.2	-780.2	-780.2
export (millions of EUR)	4,087.6	4,329.3	1,148.6	1,270.9	1,263.0	1,324.7	5,207.2	422.5	460.0	426.2	1,308.7	469.9	505.5	482.9	1,495.5	480.8	452.2	530.0	1,463.1	599.6	599.6	599.6
rate of growth of import (y-o-y)	5.4	5.3	16.7	10.5	7.1	13.2	11.8	24.6	10.6	5.5	12.6	10.2	1.3	18.9	9.4	16.6	11.2	8.0	11.9	-25.2	-25.2	-25.2
rate of growth of export (y-o-y)	9.1	5.9	16.8	20.3	10.0	16.1	15.7	28.5	19.9	-2.3	13.9	17.3	16.2	10.9	13.3	15.6	17.5	14.7	15.8	27.5	27.5	27.5
Foreign Direct Investment (millions of EUR)	202.8	316.9	96.5	-22.3	-63.0	168.8	180.0	66.3	94.2	68.6	229.1	42.3	44.1	0.9	87.4	4.5	21.9	-32.4	-5.9	-5.9	-5.9	-5.9
External debt																						
Gross external debt (in millions of EUR)	6,290.5	7,216.6	7,699.7	7,705.4	7,627.6	7,372.5	7,372.5				8,268.4				8,432.9							
public sector	2,933.7	3,445.3	3,819.9	3,741.0	3,710.2	3,461.8	3,461.8				4,053.1				4,077.9							
public sector/GDP (in %)	32.4	35.4	37.9	37.2	36.9	34.4	34.4				38.5				38.8							
private sector	3,356.9	3,771.2	3,879.9	3,964.3	3,917.4	3,910.7	3,910.7				4,215.3				4,355.0							
Gross external debt/GDP (in %)	69.4	74.2	76.5	76.5	75.8	73.2	73.2				78.6				80.2							
Gross official reserves (millions of EUR)¹⁰	2,261.7	2,613.4	2,534.4	2,399.9	2,271.4	2,336.3	2,336.3	2,577.4	2,566.3	2,577.1	2,577.1	2,588.4	2,610.7	2,642.2	2,642.2	2,622.8	2,698.6	2,709.1	2,709.1	2,759.4	2,771.6	2,771.6

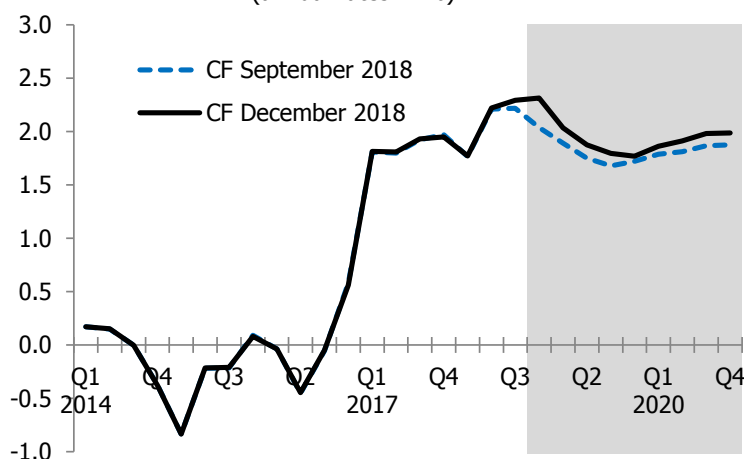
/1 While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2018, the projected level from the NBRH projections from October 2018 is used.
/2 The quarterly data for 2016 are preliminary, while for 2017 and 2018 are estimated (Press release for quarterly data on GDP as of 06.12.2018). The annual data for 2018 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 CDDIP 2015=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 NBRH.
/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 %)



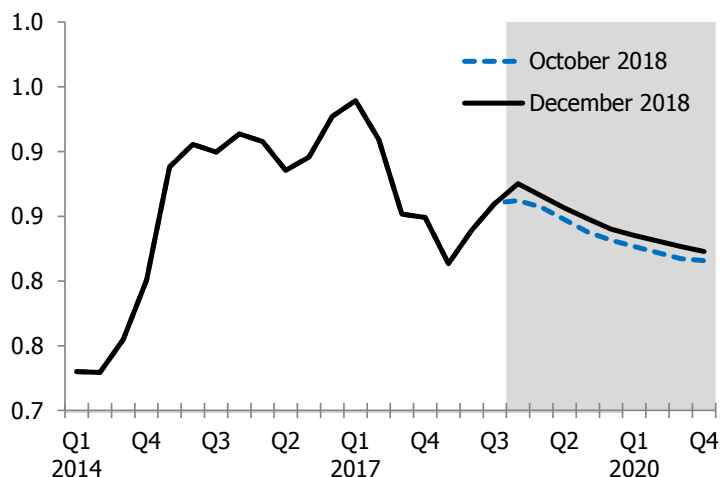
According to the latest estimations for the foreign effective demand , minimal downward revision for 2018 and 2019 was made, compared to the October projection cycle. Thus, foreign demand is now expected to grow by 2.1%, in 2018 (versus 2.2% in October) and 1.9%, in 2019 (versus 2% in October). On the other hand, in 2020, minimal upward revision was made to the foreign demand, and now it is expected the growth to be 1.9% compared to 1.8% in October. The revisions are largely due to the expectations for a lower growth of the German economy in 2018 and 2019 and for a higher growth in 2020.

Foreign effective inflation
(annual rates in %)



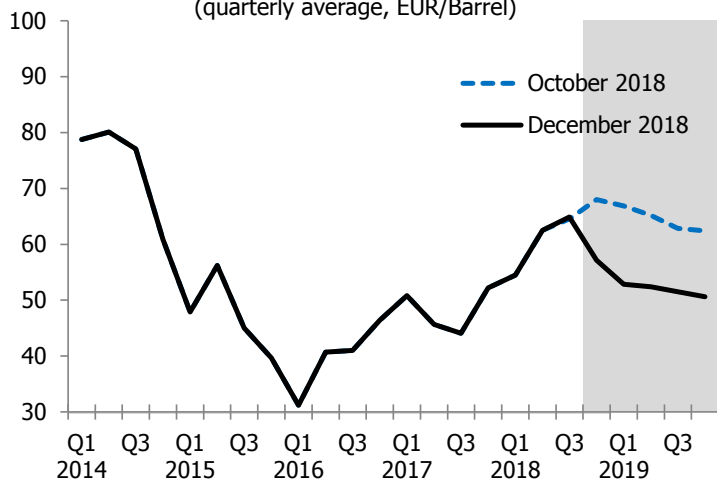
Regarding foreign effective inflation, the estimations for the entire forecast period were minimally revised upwards compared to the October estimations... Thus, it is now expected that foreign effective inflation would equal 2.2% in 2018, 1.9% in 2019 and 2% in 2020 (2.1%, 1.8% and 1.9%, respectively, in October). The upward revision is largely due to estimations for higher imported inflation from Bulgaria for the entire projection period.

EUR/USD exchange rate



The euro/US dollar exchange rate for 2018 and 2019 was revised upwards, so now expecting smaller depreciation of the US dollar and slight appreciation in 2019. The upward revision is largely a result of lower inflation and expectations for lower growth in the euro area and market expectations that the process of normalization of the ECB monetary policy will start later than announced. On the other hand, the foreign effective inflation has undergone a minimal downward revision in 2020 (larger depreciation of the US dollar).

Brent oil (quarterly average, EUR/Barrel)



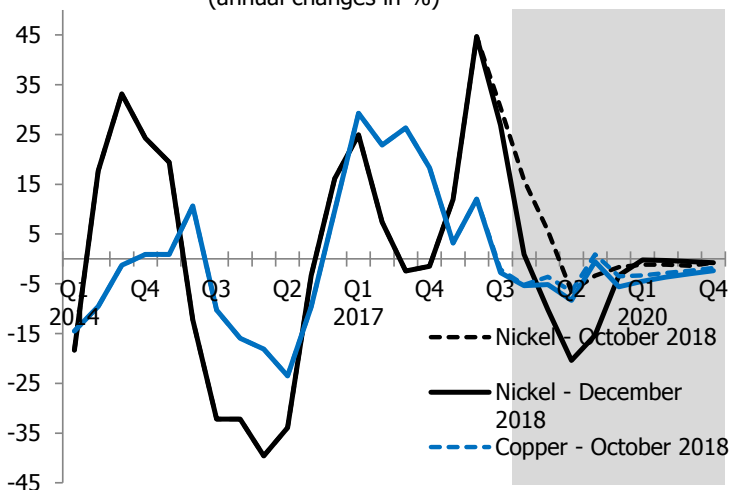
The latest oil price¹ estimations for 2018 and 2019 were revised downwards compared to October. Namely, in conditions of lower world demand and higher inventory expectations, lower growth in 2018 is now expected and a significant drop in price, rather than growth, in 2019. For 2020, the revisions of this fuel are upward, with a lower drop in oil prices now compared to October.²

The latest estimations for the copper prices underwent downward forecast for the entire forecast round, compared to October. Thus, now it is expected a slightly lower growth in the price of copper in 2018 and a greater decrease in 2019 and 2020 compared to the October projection. The downward revision is largely due to trade tensions between the US and China and the China's expectations for lower demand as a result of the expectations of slowing the

¹ The analysis of prices of oil, metals, primary food products and the foreign exchange rate of the euro/US Dollar, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

² As a result of the sharp drop in oil prices in November, on 7 December 2018, a meeting of OPEC member states was held in Vienna, where it was decided to reduce oil production by an additional 1.2 million barrels a day in the first 6 months of 2019. The OPEC's latest decision could trigger an upward pressure on expected oil price changes in the upcoming period.

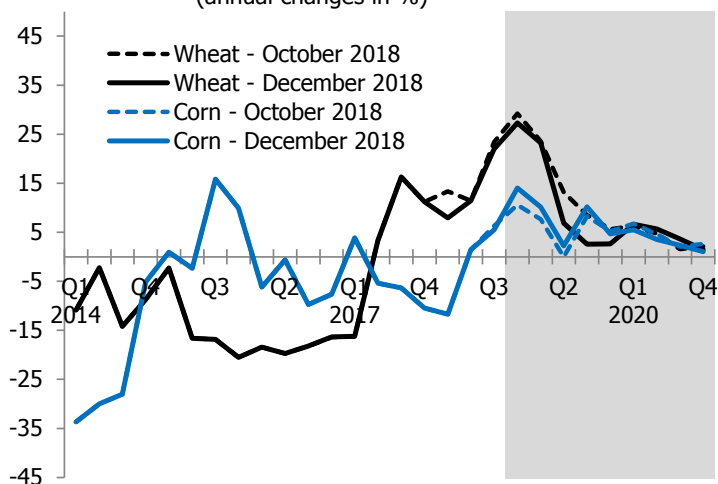
Nickel and copper prices in EUR
(annual changes in %)



country's economic growth in the medium run.

The nickel price has also been revised downwards for 2018 and 2019. With the latest estimations, smaller increase than the October forecast and significantly larger decrease in 2019 is expected. Downward revision of the nickel price is largely a result of the expectations for lower demand by China and the car industry³. On the other hand, for 2020, the nickel prices were revised downwards slightly, now expecting a slower fall than forecasted in October.

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

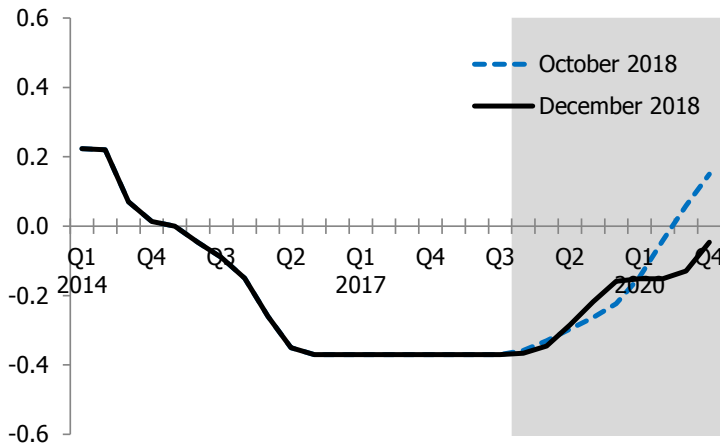


The wheat prices for 2018 and 2019 have been revised downwards. Thus, lower price growth is expected than the the growth projected in October. Downward revision of prices is largely a result of the expectations for a significantly higher level of production in China and projections for a higher level of world inventory. On the other hand, an upward revision was made for 2020, expecting a slightly higher growth in wheat price compared to October projection.

On the other hand, an upward revision of the estimates for the price of corn for 2018 and 2019 was made, now expecting a slightly higher increase in the price compared to October. Upward revision of corn prices is largely a reflection of the expectations for lower world inventories, largely driven by the fall in inventories in Argentina, Brazil, China and the United States. On the other hand, for 2020, nickel prices were revised downwards, now expecting a slower growth compared to the forecasted in October.

³ In November, the German company BASF announced that it is working on a new method of making electric batteries that would increase the battery life and consequently reduce the dependence on nickel in the manufacture of the batteries themselves.

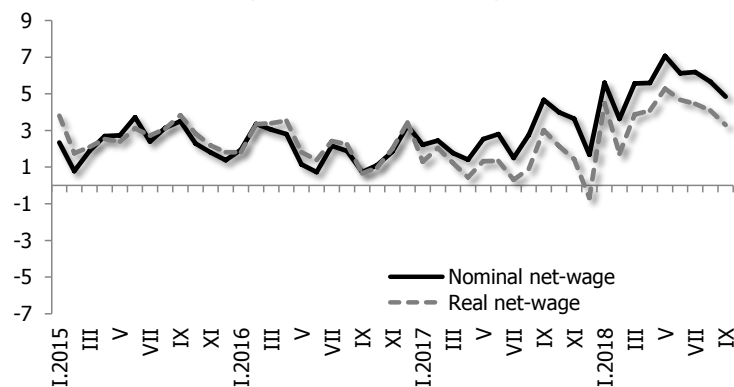
1-month Euribor
(quarterly average, in %)



The expectations for the one-month Euribor for 2018 and 2019 are unchanged or similar to October projections, and it is expected that it will equal -0.37% this year and -0.25% the following year (-28% in October). On the other hand, for 2020, a downward revision of the one-month Euribor was made, and now it is expected to equal -0.12% rather than 0.01% in October. The downward revision mostly reflects the market expectations for slower normalization of the ECB's monetary policy than previously expected.⁴

⁴ At the ECB's regular meeting in October, the European Central Bank, decided to maintain the current interest rate, and continue the ECB's quantitative easing program until December 2018 with a reduced scale (Euro 15 billion monthly).

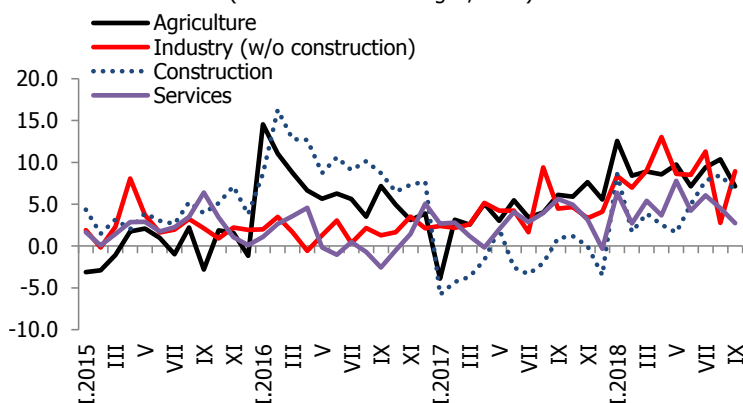
Average net-wage
(annual changes, in %)



Source: SSO.

In September 2018, the average net wage registered a nominal annual growth of 4.8% (a minor growth acceleration of 0.9 percentage points compared to June 2018), which partially reflects the exhaustion of the positive effect of the comparison base due to increase in the minimum wage in September last year⁵. Wage growth was registered in most activities⁶, with the most pronounced one being recorded in "mining and quarrying", "information and communication", "health care and social care", as well as education⁷.

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



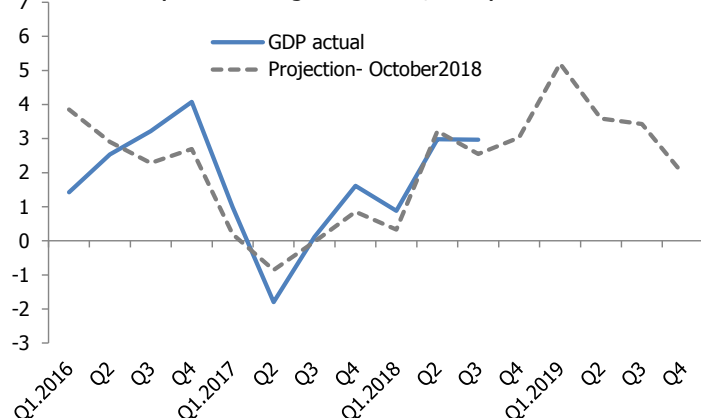
Source: SSO.

Amid moderate increase in consumer prices, in September, the **real wages increased by 3.3%**.

In the third quarter of 2018, net wages registered nominal and real growth in line with expected movements for the third quarter within the October projection.

In the third quarter of 2018, the annual real GDP growth rate was 3%, which is identical with the growth in the second quarter of the year. The growth rate in the third quarter is slightly higher than expected from the October projection cycle (2.5%), mainly as a result of the higher export growth and, consequently, the more favorable net export demand, as well as the higher growth of public and personal consumption, relative to the expectations in the October projections. On the other hand, in the third quarter the gross investments registered a drop, much severe than expected in October forecast.

Gross domestic product
(real annual growth rates, in %)



Source: SSO and NBRM projections. There are changes in the series as a result of regular revisions by SSO.

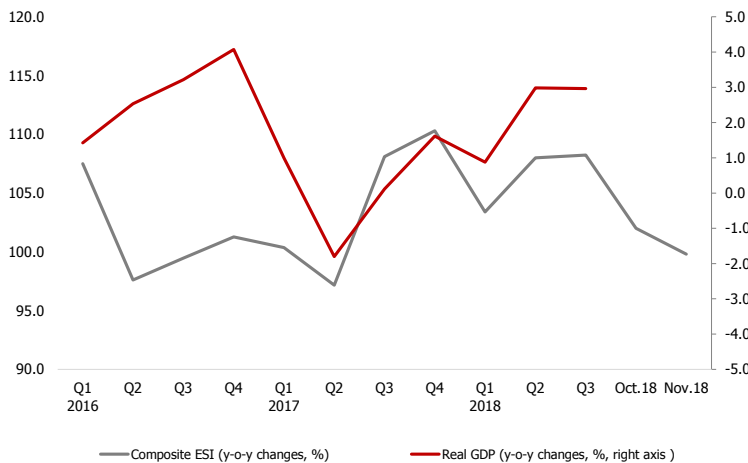
Positive contribution to the annual GDP growth rate had also domestic and net export demand. Observed by demand components, the largest individual positive contribution accounts for the exports, which is the main factor for the high positive contribution of net exports to the total economic growth. The

⁵ On 19 September 2017, the Assembly of the Republic of Macedonia adopted the amendments to the Minimum Wage Law of the Republic of Macedonia. Pursuant to the amendments, from the wage for September 2017, the amount of the minimum wage in the Republic of Macedonia for all sectors in the economy is set to Denar 17 300, gross, or Denar 12 000, net.

⁶ A wage reduction in September 2018 was recorded only in the activities "art, entertainment and recreation", "professional, scientific and technical activities", "transport and storage" and "financial activities and insurance activities".

⁷ On 22 September 2018, the government's decision to raise salaries by 5% for staff in kindergartens, schools and hospitals was announced, starting with the pay for September 2018.

Economic sentiment indicator and GDP



Source: State statistical office and European Commission.

positive contribution of domestic demand is driven by the growth of personal and public consumption, despite the further fall in gross investments.

From the aspect of the production side, in the third quarter, the largest contributor to the GDP growth was the group from the activities trade, transport and tourism, as well as the growth of industry. On the other hand, the construction still registers negative contribution to the total increase, but smaller compared to the beginning of the year.⁸

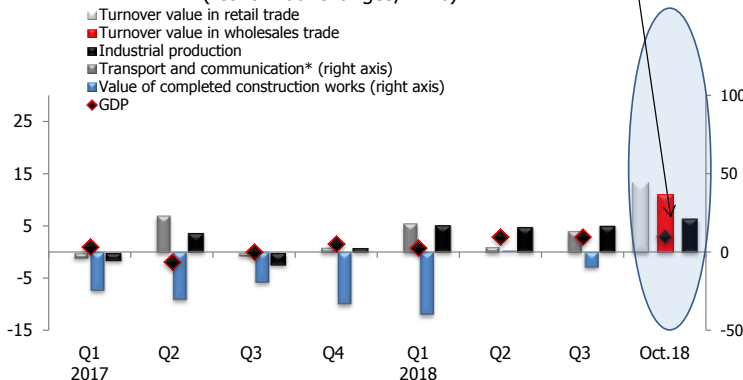
Having in mind the economic developments in the fourth quarter of the year, in conditions of limited scope of available data, it is hard to give more precise estimation. With regard to the perceptions of the economic agents for the economic environment⁹, the surveys referring to the October - November period mainly indicate less favorable perceptions.

Regarding the high frequency indicators of the economic situation from the aspect of offer, data on trade and industrial sector are available for October.

Thus, the growth in **the trade turnover** intensified given the registered increase in all types (wholesale trade, retail trade and trade in motor vehicles) accelerated in October.

In October, the annual increase in the **industrial output** equaled 6.4%, which means dynamics acceleration compared to the third quarter. Such favorable movements in the industrial output are a result of the higher production in all sectors (manufacturing industry, mining and energy sector). Analyzing the manufacturing industry, the highest positive contribution to the growth was registered in the production of machines and devices, with solid growth in other sectors of the major foreign export facilities, as well as in some of the traditional

Economic activities
(real annual changes, in %)



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

	2017				2018			2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	August	septembe	October
	<i>real annual changes in %</i>									
Gross domestic product	1.0	-1.8	0.1	1.6	0.9	3.0	3.0	-	-	-
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	4.9	5.1	2.1	4.5	6.4
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	-0.6	17.0	-
Retail and wholesale trade	3.0	4.4	4.7	3.9	5.7	8.2	7.3	5.7	6.7	11.7
Retail trade	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	8.6	9.7	13.4
Wholesale trade	8.9	10.4	11.2	8.4	5.2	6.8	7.0	4.9	6.0	11.2

* real growth rates are calculated by the NBRM, by dividing nominal growth rates with annual inflation, measured by CPI.
Source: SSO and NBRM's own calculations.

⁸ Beside the construction sector, fall in the value added in the third quarter is registered in the activities "agriculture", "information and communication", and "public administration, defense and compulsory social insurance, education and activities of health and social care".

⁹ 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).

sectors.¹⁰

On the side of aggregate demand, the private consumption indicators mainly point to its further growth also in the fourth quarter, amid growth in the stock of pensions, household loans, retail trade, as well as the growth in import of consumer goods and domestic production of consumables.

From the indicative categories for **gross investments in October, growth was registered in** the long-term corporate lending, import of investment products, as well as in industrial output and domestic production of capital goods, while government capital investments registered a decline.

The data on **the foreign trade** in October point to the widening of the deficit, given growth of both exports and imports.

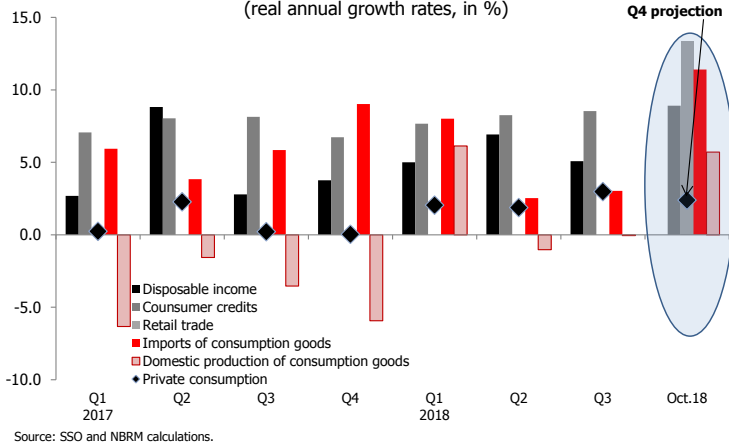
Budget performance for October 2018 show increasing **public consumption** mainly as a result of the growing transfers to the local government, employment agency, as well as health care¹¹.

The favorable labor market developments continued in the third quarter of 2018...

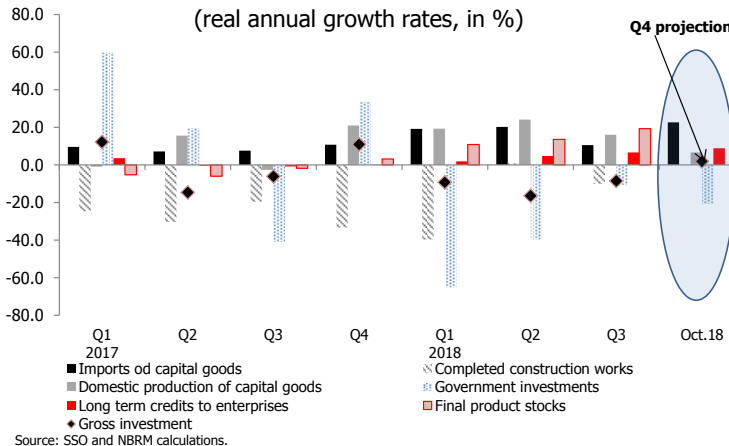
...given the further decline in the unemployment rate, which was reduced to 20.8% in the third quarter (21.1% in the previous quarter)...

...and annual increase in the number of employed persons of 2.2%.¹²

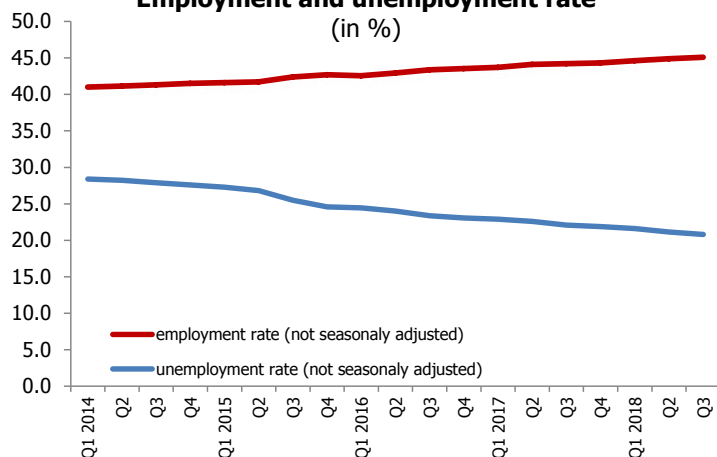
Indicative variables for private consumption
(real annual growth rates, in %)



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



Employment and unemployment rate
(in %)

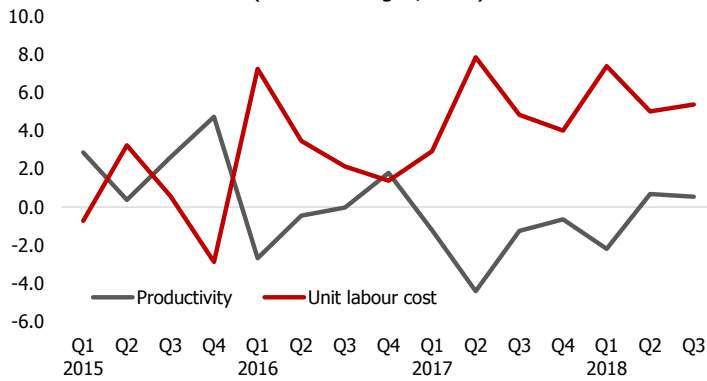


¹⁰ In October 2018, the "production of metals", "furniture production", "production of beverages" and "production of basic pharmaceutical products and pharmaceutical preparations" had a greater positive contribution to the growth of the processing industry.

¹¹ Most of these assets relate to expenditures on goods and services of the Health Insurance Fund.

¹² The largest contribution to the employment growth accounted for the manufacturing industry, and the activities "Technical and scientific activities" and "Transport and storage".

Productivity and Unit labour cost
(annual changes, in %)

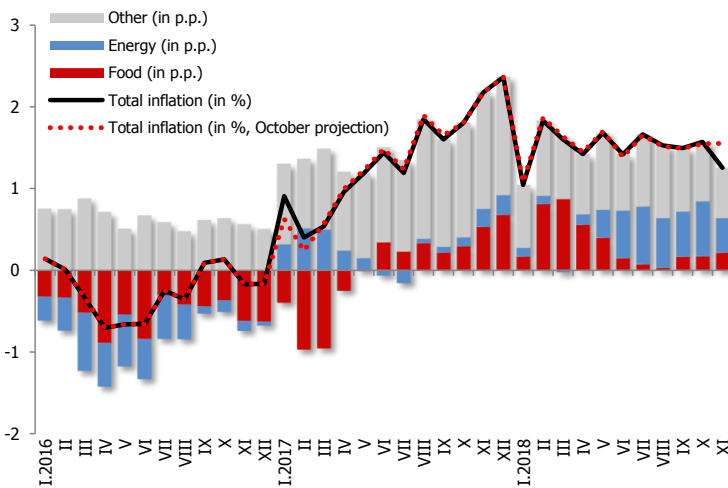


Source: SSO and NBRM calculations.

In the third quarter, the **labor productivity**¹³ registered slight annual rise of 0.6%, which is almost unchanged dynamics compared to the previous quarter. Simultaneously, the **unit labor costs** are higher by 5.4% annually, given slight intensification of the growth pace.

Inflation rate

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



Source: SSO and NBRM.

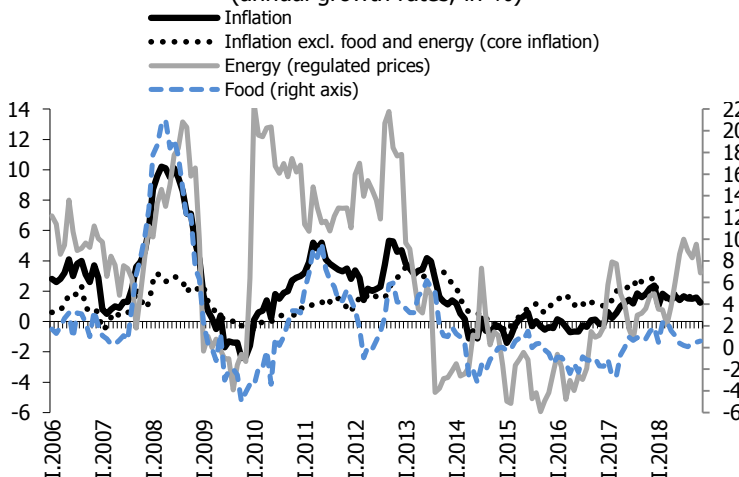
In November 2018, domestic consumer prices decreased by 0.2%¹⁴ on a monthly basis (0.3% increase in October)...

...reflecting the downward movement in energy prices and core inflation, while food prices registered minimal growth on a monthly basis.

The annual inflation rate equaled 1.2% in November (compared to 1.5% in October), which is a downward deviation compared to the October projection.

Inflation and volatility of food and energy

(annual growth rates, in %)



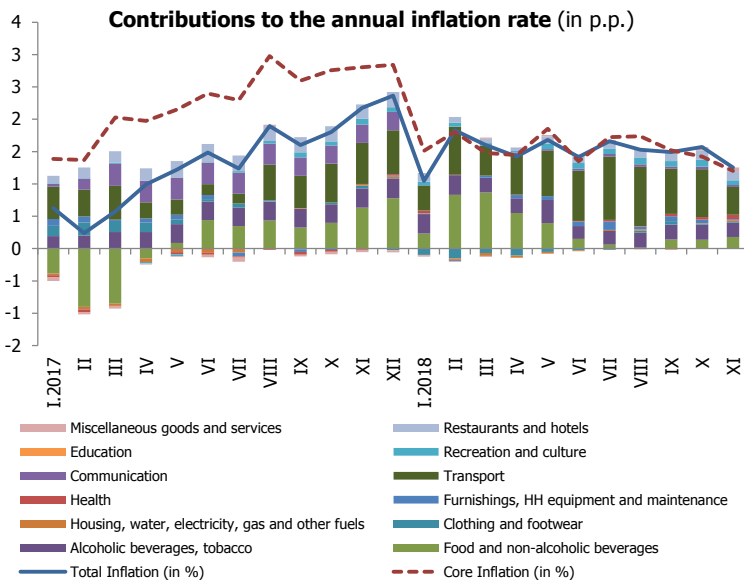
Source: State statistical office and NBRM calculations.

From the viewpoint of structure, downward deviation relative to the projection in registered in all three inflation components (food and energy prices and the core inflation).

The core inflation rate in November registered minimal decrease of 0.1% on a monthly basis, reflected also on the annual growth dynamics that slowed down to 1.1% (compared to 1.4% in October), driven by the annual decline in prices of air transport, as well as the significant slowdown in the annual growth of prices of non-performing products for household maintenance.

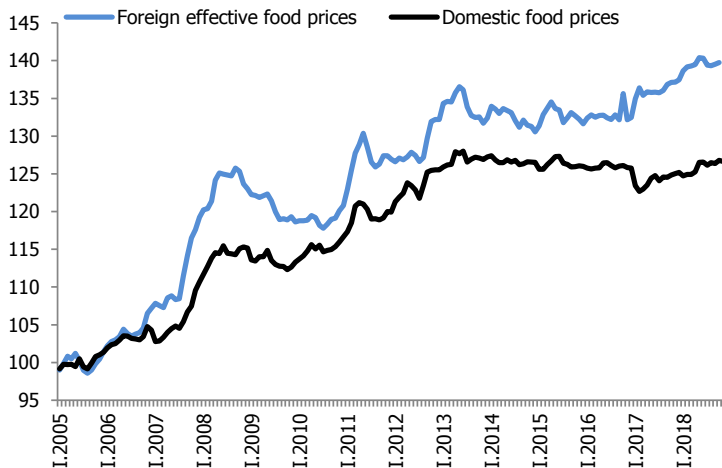
¹³ The total productivity is calculated as weighted sum of the calculated productivity at an individual sector level. Within each sector, the productivity is calculated as a ratio between the value added in that sector and the number of employees.

¹⁴ Analyzed by groups of products, the largest contribution to the monthly fall in prices in November was made by the fall in the prices of fruits, fuels and in air traffic fares.



Source: SSO and NBRM.

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



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

The growth structure of the core inflation in November is similar to that in the beginning of the year, with the largest positive contribution still accounting for the tobacco prices¹⁵ and less, to the hotel and restaurant services.

The expected price movements in external assumptions in the inflation forecast for the entire 2018 were mainly revised in different directions.

Thus, the latest oil prices estimates for 2018 indicate lower growth compared to the expectations of the October forecasts, while lower increase is expected also in the wheat prices. On the other hand, a somewhat faster growth is expected in both, foreign effective inflation and corn prices relative to the October projection.

Amid current inflation that is lower than forecasted in October, as well as announcements for increase in the domestic prices of bread, and external input assumptions revised in divergent directions, the risks relating the inflation forecast for 2018 are currently assessed as balanced. On the medium-term basis, the forecasted movement of world primary commodities prices remains uncertain.

¹⁵ The annual growth of tobacco price in November reflects the increase in the prices of cigarettes in April, May and July this year, in line with the projected annual increase in excise duties on cigarettes of Denar 0.20 per piece, as of 1 July 2023.

In October 2018, **the foreign trade deficit widened by 18.3% on an annual basis**, in conditions of intensive increase also in the export and import component.

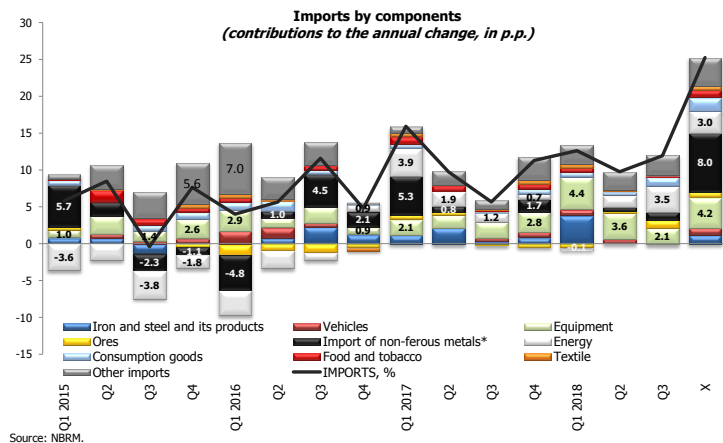
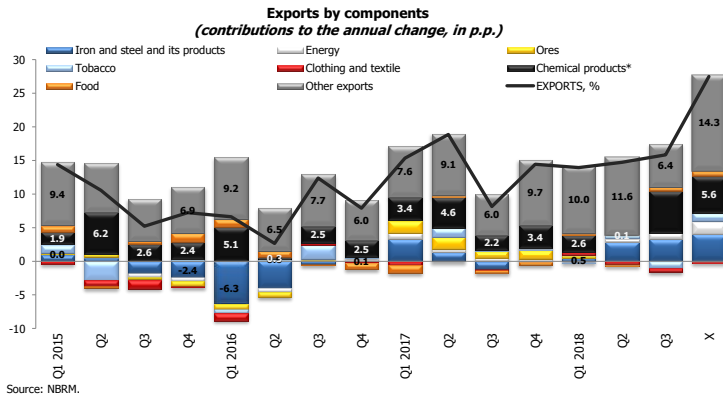
The export of goods in October increased annually by 27.5%, which is mainly due to the favorable performance of the new export oriented facilities in the economy. Regarding the other export branches, the export of iron and steel also had positive contribution to the growth.

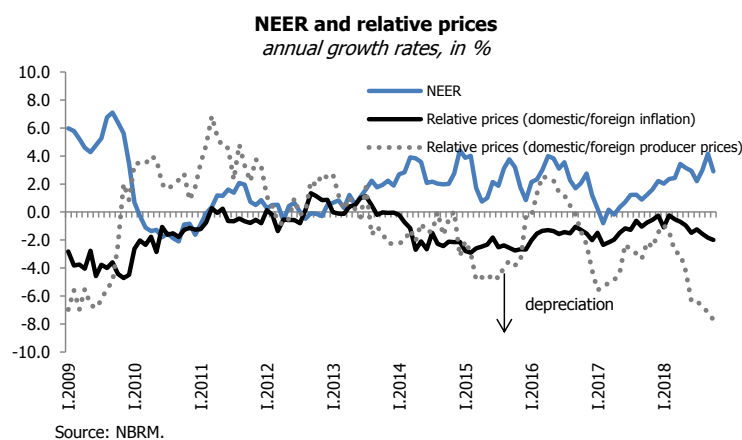
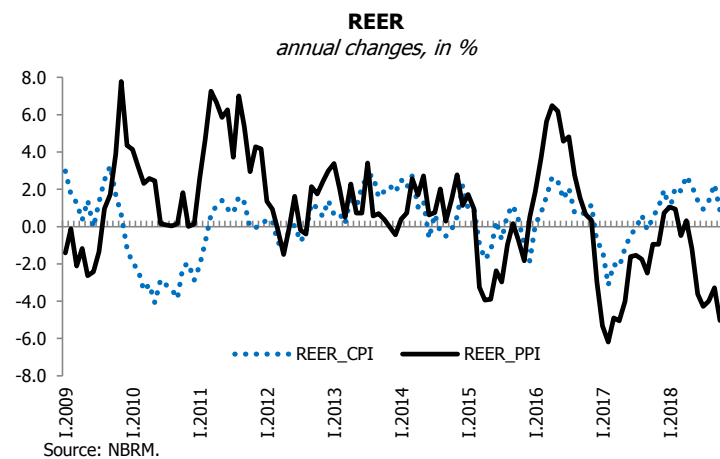
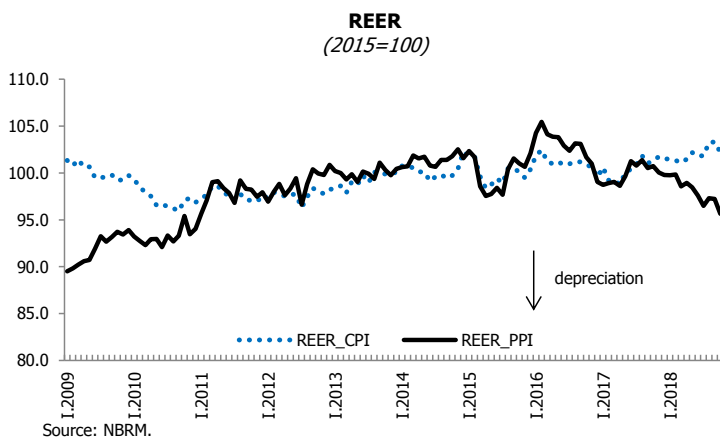
Compared with the October projection, the October performances point to the possibility for higher exports than expected for the fourth quarter, mainly conditioned by the significant upward deviation in the export of new industrial capacities in the economy.

In October, the **import of goods** grew by 25.2% annually, reflecting the growth in almost all import categories, primarily import of raw materials for the new industrial facilities, import of equipment and machinery and energy imports.

The import of goods in October indicates possible higher imports relative to the projections for the fourth quarter. By individual categories, the deviation is mostly part of the higher import of raw materials for part of the new foreign facilities, accompanied also with the larger import of equipment and machinery.

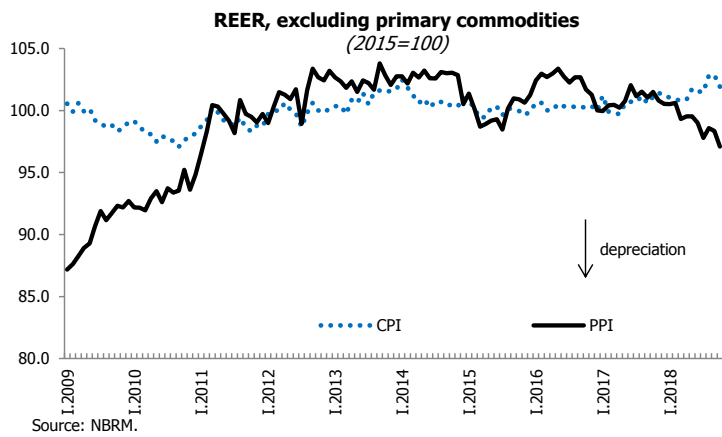
Having in mind the upward deviation in both foreign trade components, the performance in October 2018 indicates possibility for trade deficit in the fourth quarter of 2018. However, the evaluation period is too short and therefore reliable conclusions in this domain cannot be drawn.



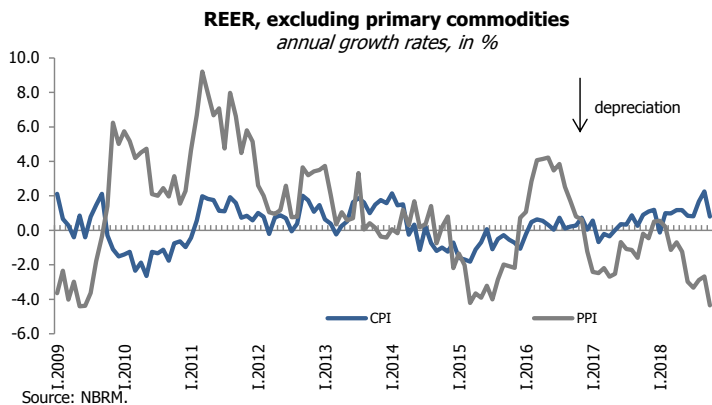


In October 2018, price competitiveness indicators of the domestic economy registered divergent movements compared to the same period last year. The REER index deflated by consumer prices appreciated by 0.9% on an annual basis, and the REER index deflated by producer prices depreciated by 5%.

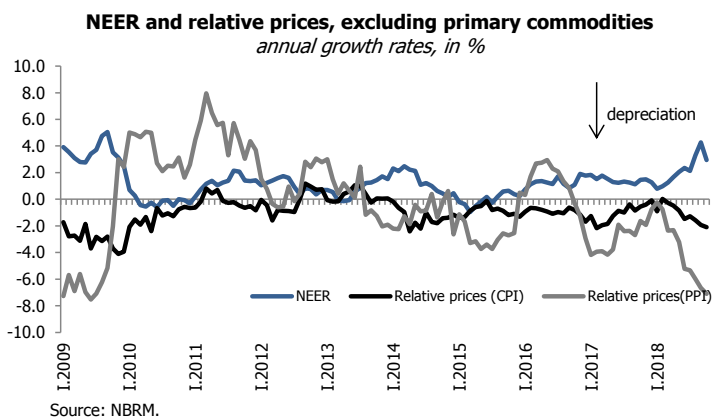
These developments are partially due to the favorable changes in relative prices, with 2% decrease in the relative consumer prices, while the relative producer prices registered more pronounced fall of 7.7%. The NEER acted in the opposite direction, appreciating by 2.9% on an annual basis, mostly as a result of the depreciation of the Turkish lira and the Russian ruble.



The analysis of REER indices, as measured using weights based on the foreign trade without primary commodities¹⁶, also shows similar movements. Thus, in October 2018, the REER index deflated by consumer prices appreciated by 0.8%, while the REER deflated by producer prices depreciated by 4.3%.

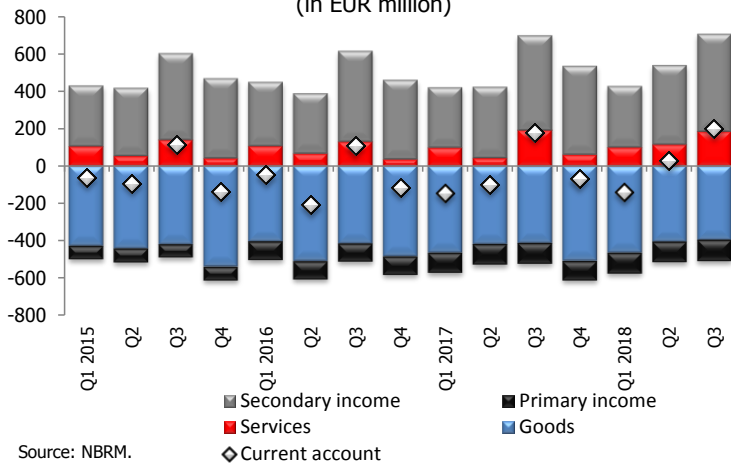


On an annual basis, the relative consumer prices and the relative producer prices decreased by 2.1% and 7.1%, respectively. At the same time, the NEER has appreciated by 3% on an annual basis.



¹⁶ Primary commodities not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

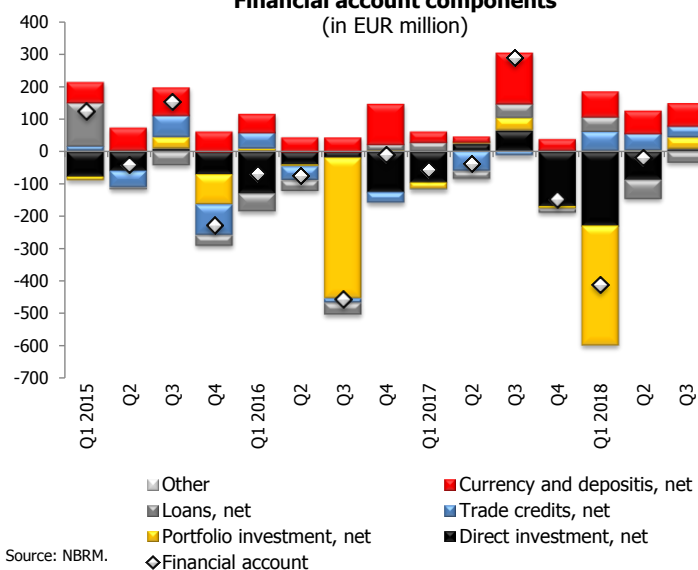
Main components of the current account
(in EUR million)



In the third quarter of 2018, the current account registered a surplus of Euro 202.2 million (or 1.9% of GDP)¹⁷, which is better performance than expected in October projection for the third quarter.

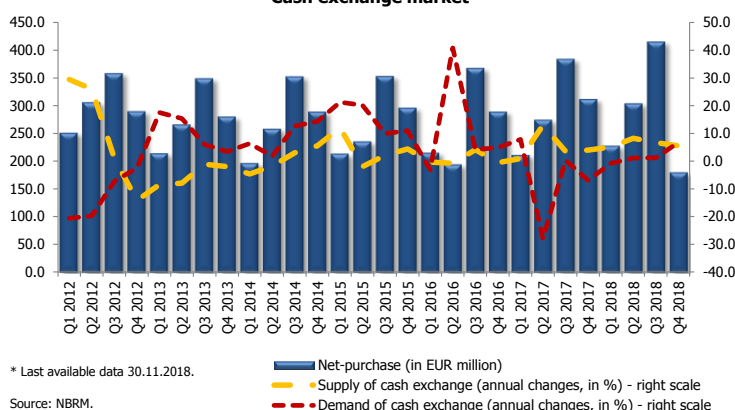
The positive divergence in the current account relative to October projections is mostly a result of the performance in the balance of goods, primarily due to the improved exports. The developments in the services surplus and the secondary income match the expectations, while the deficit of the primary income registered a downward divergence.

Financial account components
(in EUR million)



Regarding the financial account, during the third quarter of 2018 net outflows¹⁸ of Euro 115.5 million were registered (or 1.1% of the GDP), a little bit higher than expected in October forecast for the third quarter of 2018. Observed by components, downward deviations are registered with direct investments (instead of the expected net inflows, small net outflows were registered), trade credits (higher net outflows) and long-term loans (lower net inflows). At the same time, better performances are registered in portfolio investments (lower net outflows), as well as short-term loans, while the currency and deposit category is within expectations.

Cash exchange market



The net purchase on the currency exchange market within 1 October 2018 – 30 November 2018 period equaled Euro 217.5 million, which is an annual increase of 7.1%. These developments are the result of the higher supply of and demand for foreign currency (by 6.9% and 6.1%, respectively).

¹⁷ The analysis uses the NBRM October forecasts for the nominal GDP for 2018.

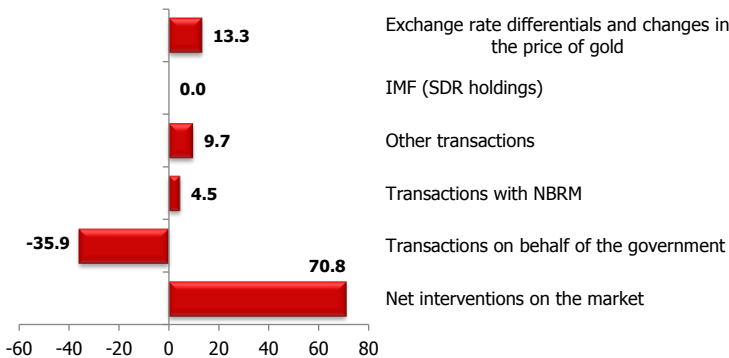
¹⁸ According to the new methodology for compilation of the balance of payments (BPM6), the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.



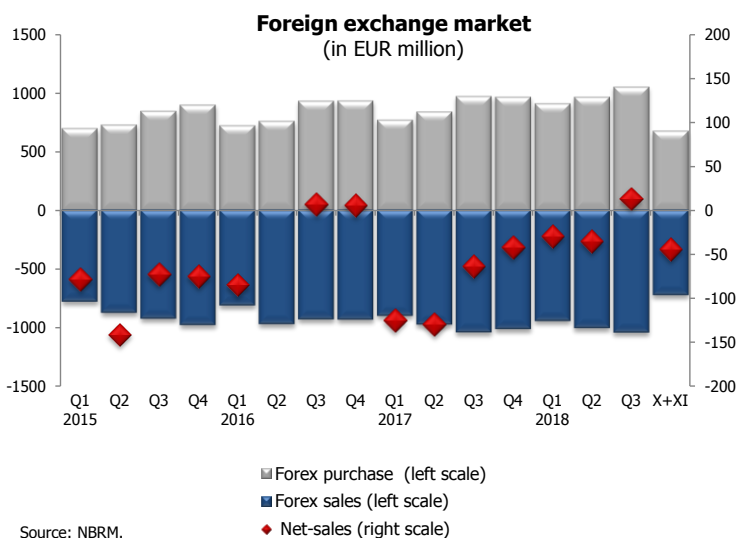
As of 30 November 2018, gross foreign reserves stood at Euro 2,771.6 million, which is an increase of Euro 62.4 million compared to the end of the third quarter of 2018. The increase in the foreign reserves in the second quarter mainly arises from the interventions of the NBRM on the foreign exchange market, which acted towards net purchase of foreign exchange, and to a lesser extent, from price and exchange rate differences. Simultaneously, the decrease in foreign reserves mainly results from the NBRM's transactions on behalf of the government, primarily the regular external debt servicing. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.

Source: NBRM.

Factors of change of the foreign reserves in October and November of 2018 (in EUR million)



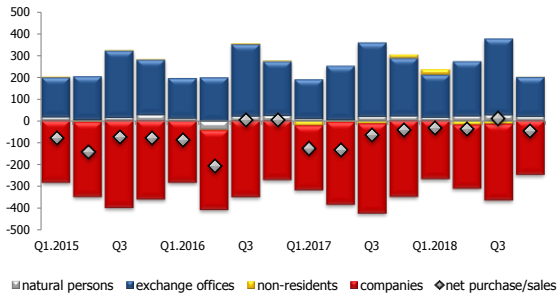
Source: NBRM.



In the October - November 2018 period, the banks' foreign exchange market reported a net sale of foreign currency of Euro 44 million, by Euro 11.8 million more compared to the same period last year. This annual change is mostly a result of the higher growth in the demand for relative to the supply of foreign currency.

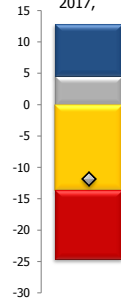
Source: NBRM.

Structure of foreign exchange market,
(net purchase/sales, in millions of euro)



Source: NBRM.

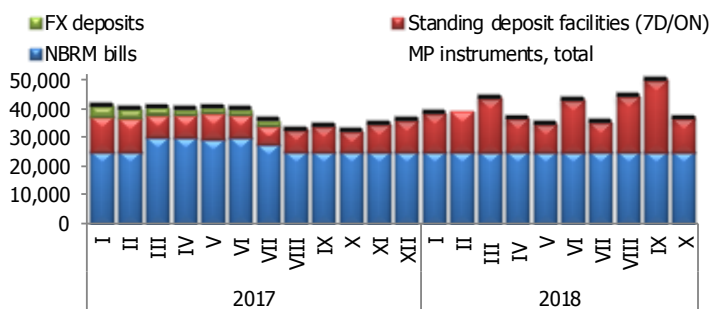
annual change
X+XI 2018 / X+XI
2017,



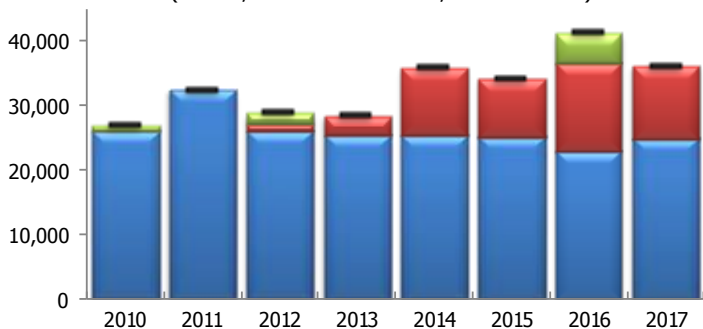
Sector-by-sector analysis shows that movements mostly arise from the lower net purchase by non-residents, as well as the higher net sales by companies. The higher net purchase by exchange offices and natural persons acted in the opposite direction, but to a lesser extent.

Monetary policy instruments

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



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



Source: NBRM

In October, the monetary instruments fall on a monthly basis. The monthly fall is a result of the lower stock of banks' assets placed in short-term deposits with the NBRM, while the stock of placements in CB bills remained stable¹⁹. The level of monetary instruments at the end of October is lower than the projected level for the last quarter of 2018²⁰.

The NBRM net foreign assets registered a monthly growth in October. The increase is a result of the increase in the foreign assets, given moderate decrease in the foreign liabilities. Compared with the forecast for the end of the fourth quarter, the stock of NBRM net foreign assets at the end of October was moderately higher than expected.

In October, the total government deposits with the NBRM registered a small monthly increase. The change arises from the increase in denar deposits, with slight decrease in foreign currency deposits. Compared with the forecast for the end of the fourth quarter, the stock of total government deposits was higher at the end of October.

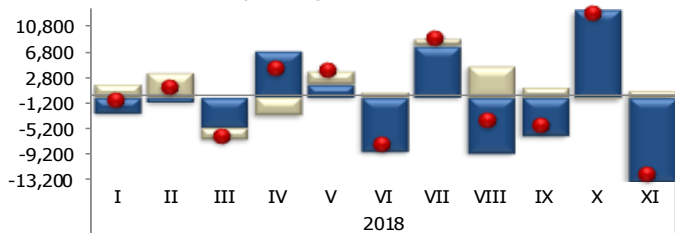
In October, reserve money registered an increase on a monthly basis, entirely due to the higher banks' reserves on the accounts with the NBRM, whereas currency in circulation registered minor decline. Compared with the October forecast for the end of the fourth quarter, the stock of reserve money was higher at the end of October.

¹⁹ At the CB bills auction held on 10 October 2018, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.75% and maturity of 28 days.

²⁰ The performance comparisons are against the forecasts in October 2018.

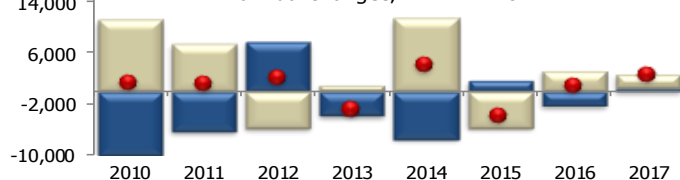
Banks liquidity*

monthly changes, in million of denars



■ Autonomous factors, net ■ Monetary instruments, net
● Banks' accounts with the NBRM

annual changes, in MKD million



Source: NBRM.

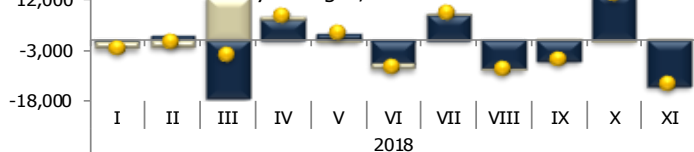
* positive change: liquidity creation, negative change: liquidity withdrawal

In November, the banking system liquidity decreased.

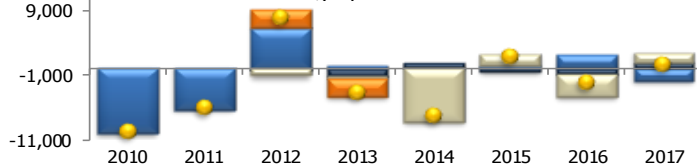
According to the operational data on liquidity flows, the decrease fully reflects the shift in monetary instruments, i.e. the higher amount of banks' funds placed in short-term deposits with the NBRM (which is fully due to the overnight deposits), amid unchanged stock of CB bills²¹. The autonomous factors, net, created liquid assets in the system, primarily as a result of foreign exchange interventions of the NBRM (purchase of foreign currency), while the government deposits with the NBRM and the currency in circulation, acted in opposite direction.

Monetary policy instruments*

monthly changes, in million of denars



annual changes, in million of denars



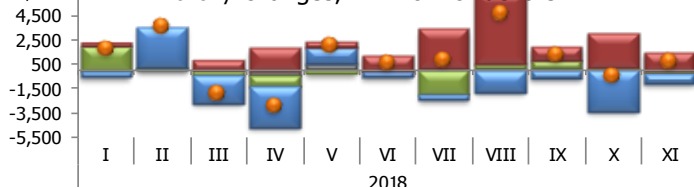
■ CB Bills ■ ON deposit facility ■ 7 day deposit facility
■ Repo transactions ● Monetary instruments, net

Source: NBRM .

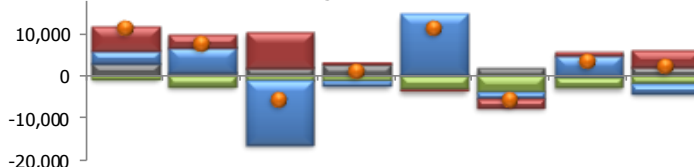
* positive change: liquidity creation, negative change: liquidity withdrawal

Autonomous factors*

monthly changes, in million of denars



annual changes, in million of denars



■ FX interventions ■ Government transactions ■ OAF ● Currency in circulation
● Autonomous factors, net

Source: NBRM.

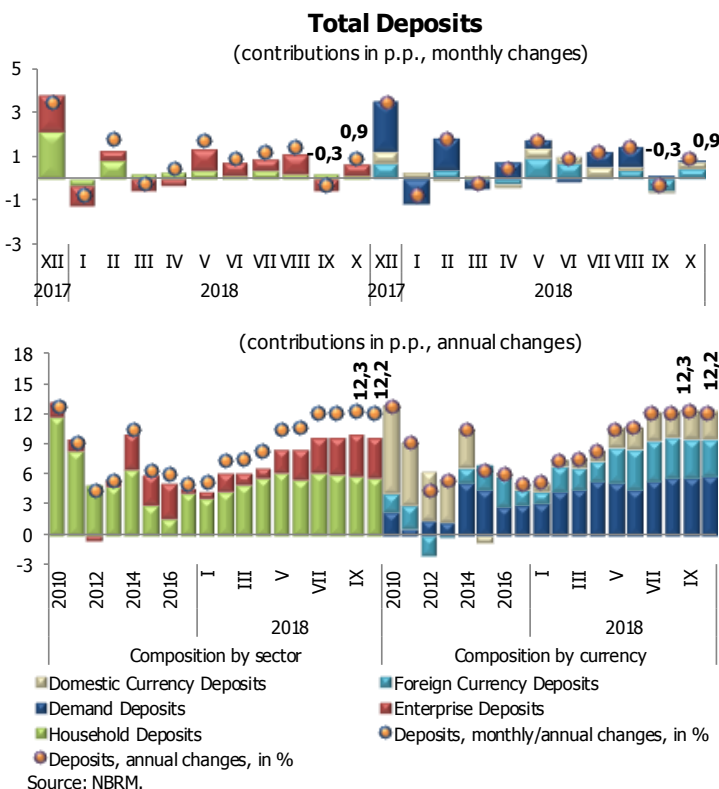
* positive change: liquidity creation, negative change: liquidity withdrawal

²¹ At the CB bills auction held on 14 November 2018, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.75% and maturity of 28 days.

The total deposits²² in October registered monthly growth, contrary to the drop in the previous month. Observed by sector, the monthly increase of 0.9% was mainly generated by corporate deposits, with positive, but relatively smaller contribution of household deposits. Analyzed by currency, the monthly deposit growth mostly stems from foreign currency deposits, given solid contribution also of the denar deposits (including demand deposits).

In October 2018, the total deposits increased, and at the end of October, the total deposits stock for now is lower than expected for the end of the fourth third quarter of 2018, according to the October forecast.

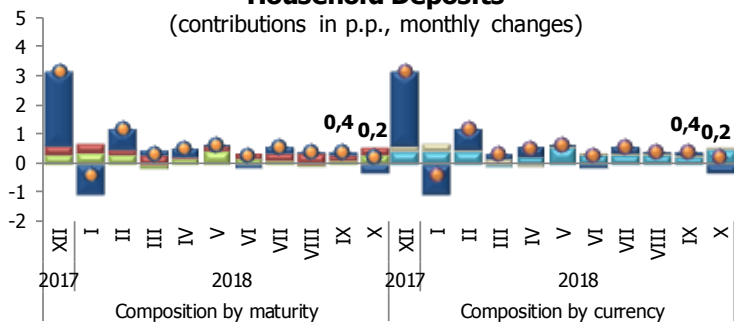
In October, the annual growth rate of total deposits was 12.2%, given the projected growth for the fourth quarter of 2018 of 10.2%, as projected in October. Observed by sector, the growth was mostly driven by household deposits, with a solid contribution of corporate deposits, as well. Analyzing the currency, most of the growth is due to domestic currency deposits (including demand deposits), with a positive contribution also of foreign currency deposits.



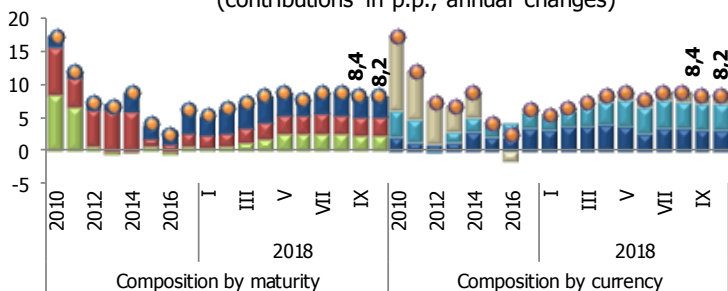
²² Data refer to non-government deposits in banks and savings houses, transferable denar deposits of other financial institutions and transferable denar deposits of local self-government. They are consistent with the methodological changes of the NBRM from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



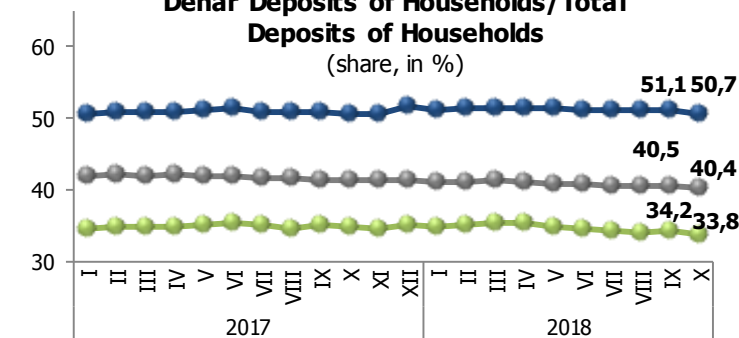
- Demand Deposits
- Foreign Currency Household Deposits
- Short-term Household Deposits
- Domestic Currency Household Deposits
- Long-term Household Deposits
- Household Deposits, monthly/annual changes, in %

Source: NBRM.

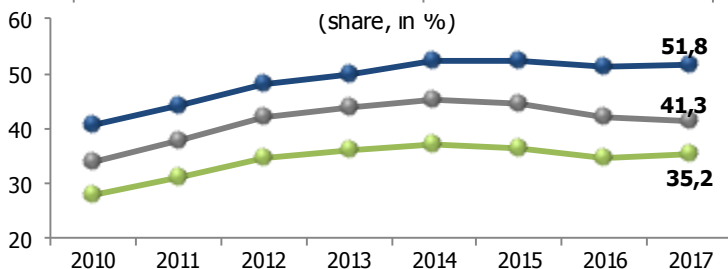
In October, household deposits continued to grow on a monthly basis, at a moderately slower pace compared to the previous month. The monthly increase in the household deposits of 0.2%, by maturity, is almost equal a result of the rise in both short-term and long-term deposits. From the aspect of the currency structure, the deposits in foreign currency have a dominant contribution to the growth, with the decline in the total denar deposits as a result of the decrease in the demand deposits. In October, the share of denar deposits (including demand deposits) in the total household deposits equals 50.7% and is somewhat lower compared to the previous month (51.1%). **The annual increase in household deposits in October was 8.2%.**

Denar Deposits of Households/Total Deposits of Households

(share, in %)



(share, in %)

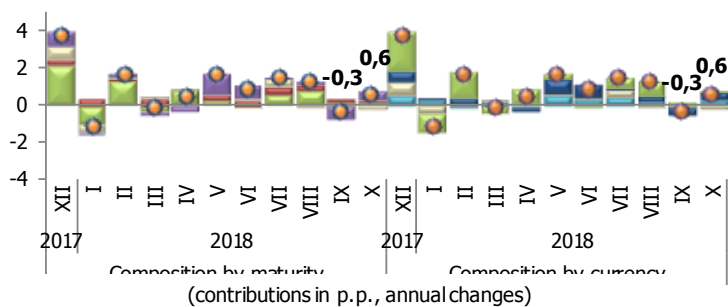


- Share of total household deposits (with demand deposits)
- Share of total household deposits (without demand deposits)
- Share of total deposits (with demand deposits)

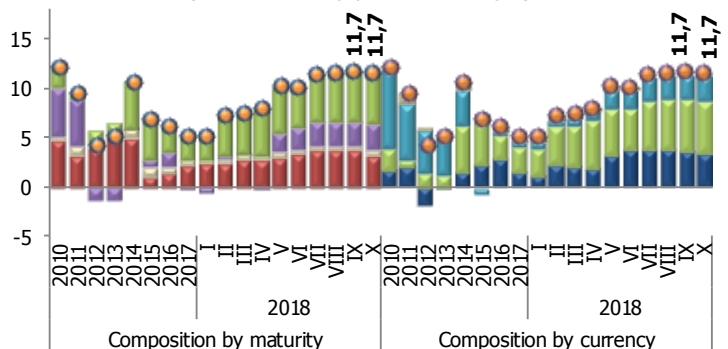
Source: NBRM.

Broad Money M4

(contributions in p.p., monthly changes)



In October, broad money, measured through M4, registered a monthly increase which was lower compared to the decrease in the previous month. The monthly growth of 0.6% is mostly a result of the increase in the short-term deposits, with a positive, but lower contribution of the long-term deposits. Analyzed by currency, the increase was mostly due to foreign currency deposits, given a solid contribution also of denar deposits (including demand deposits). In October, the denar share in total broad money equaled 63% (63.2% in the previous month). **On annual basis, the broad money increased by 11.7% in October, which is above the growth of 9.9% forecasted for the fourth third quarter of 2018.**

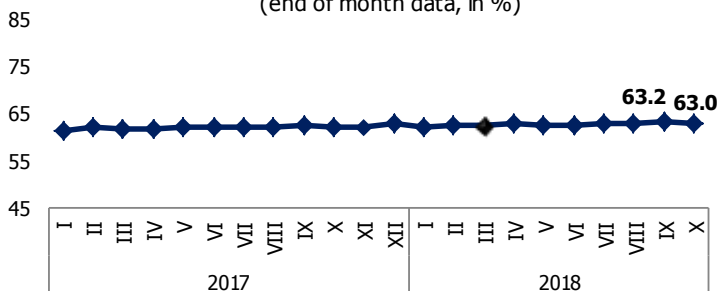


- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits
- Total Foreign Currency Deposits
- Total Long-term Deposits
- Broad Money M4, monthly/annual Changes, in %

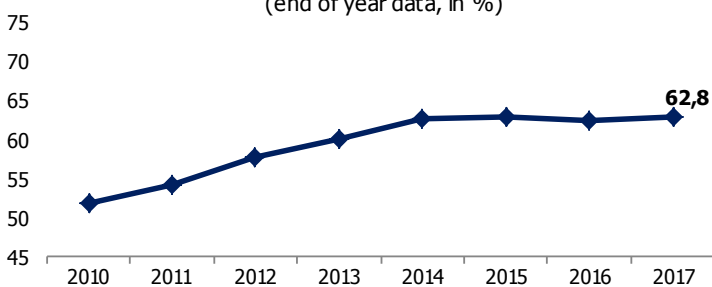
Source: NBRM.

Share of Denar M4 in total M4

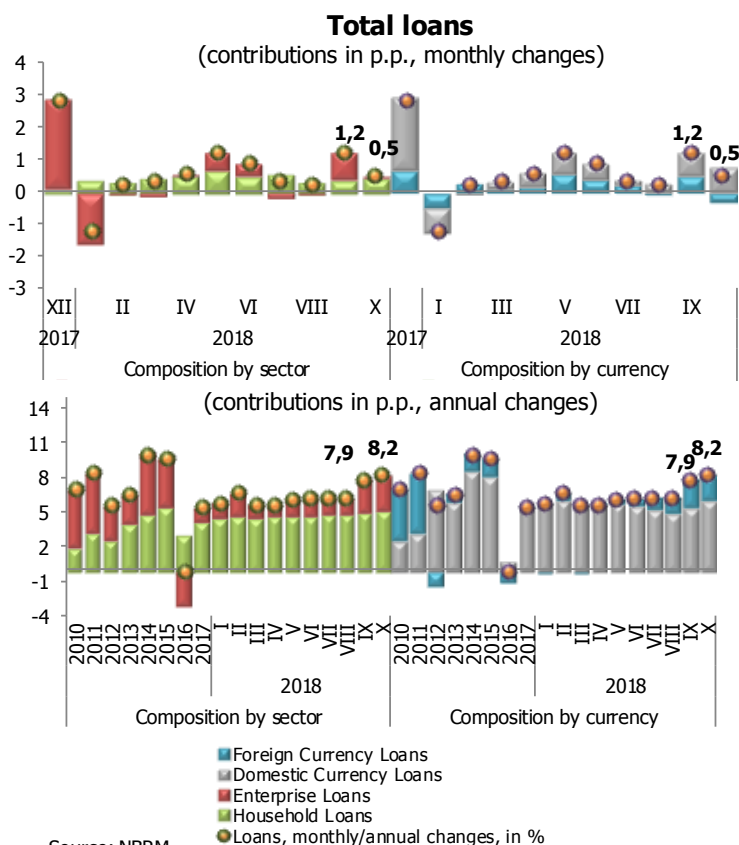
(end of month data, in %)



(end of year data, in %)



Source: NBRM.



Source: NBRM.

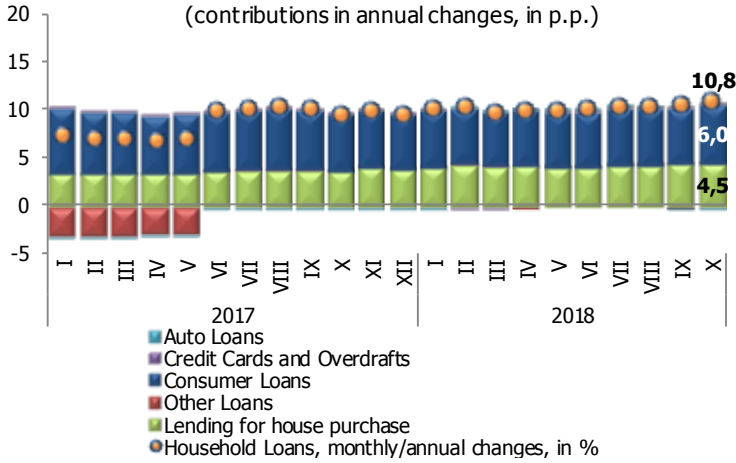
The increase in the total bank loans to corporate sector continued in October, although less intensive (monthly increase of 0.5%). Observed by sector, the monthly increase stemmed almost entirely from loans granted to households, with little positive contribution of corporate loans. Analyzing the currency structure, the monthly growth of total loans entirely results from loans in domestic currency, given the drop in the foreign currency loans.

In October 2018, the total loans increased, and as a result, the stock of the total loans, for now, are lower than expected for the end of the fourth quarter of 2018 according to October projection.

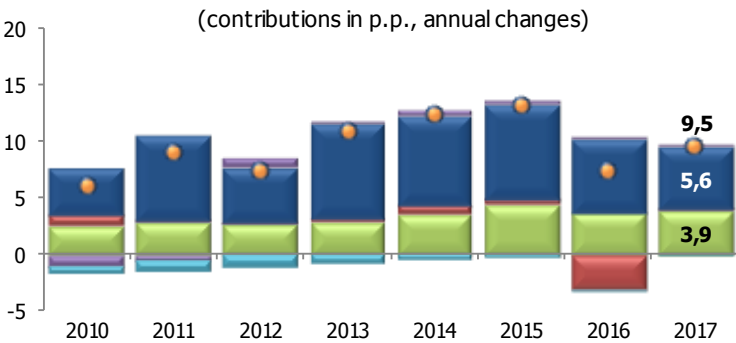
On an annual basis, the total loans in October grew by 8.2%, given the forecasted growth of 8.4% for the fourth quarter of 2018. Observing by currency, in October, the annual growth of total loans was still mostly driven by the growth of loans in domestic currency, with a positive, but smaller contribution made by loans in foreign currency. Observed by sector, the annual growth of total loans was still predominantly driven by household loans, given positive, but smaller contribution of corporate loans, as well.

Household Loans

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



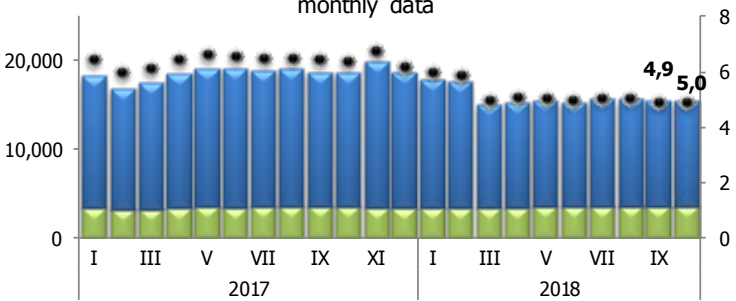
The annual growth of household loans²³ was 10.8% in October, which is an increase compared to the previous month. The growth of household loans was still almost entirely driven by consumer and housing loans that contributed with 6 and 4.5 percentage points, respectively.



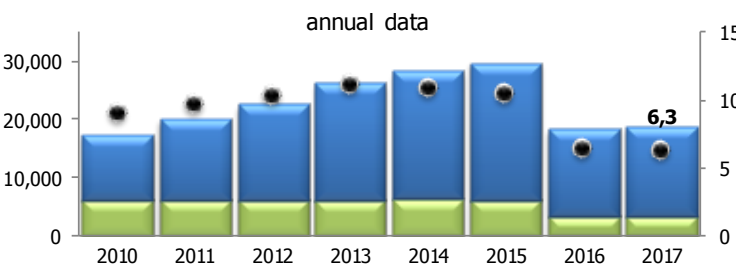
Source: NBRM.

Doubtful and contested claims

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

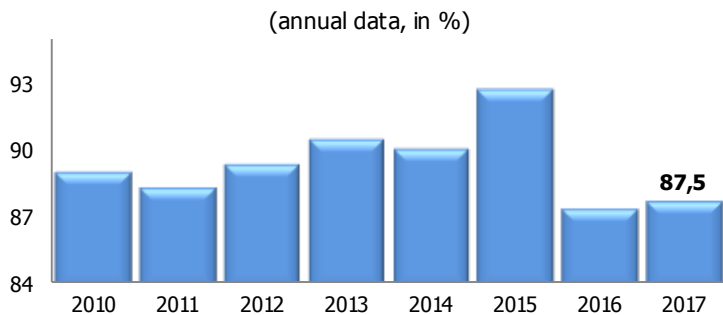
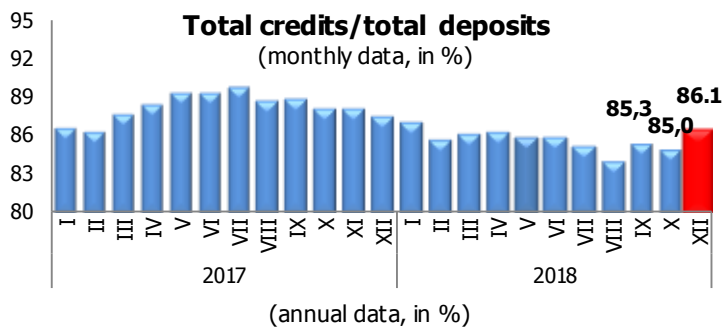


In October, the share of doubtful and contested claims in total loans was 5% which is a minimal increase compared to the previous month, whereby the structure is still predominated by non-performing loans of the corporate sector, with significantly lower share of the non-performing loans of households.



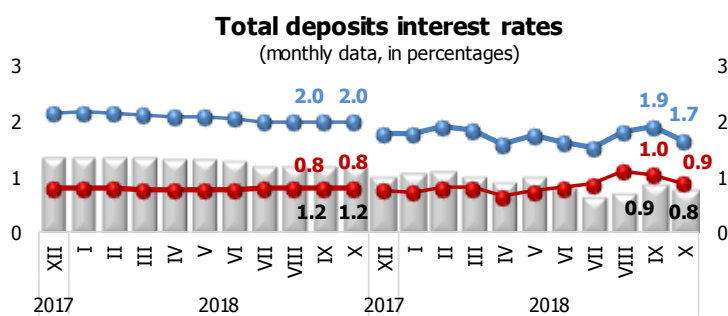
Source: NBRM.

²³ Excluding loans of self-employed individuals.

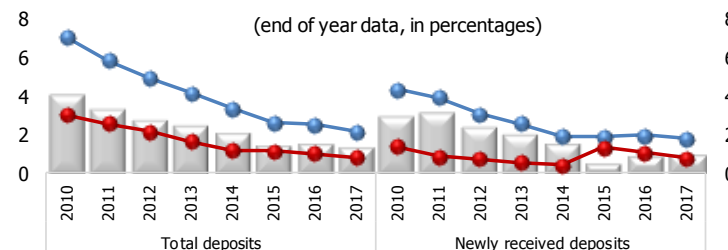


Source: NBRM.

The utilization of banks' deposit potential for lending to the private sector equaled **85% in October**. With the October performance, loan to deposit ratio decreased against the expectations for the fourth quarter of 2018, as forecasted in October.



The interest rate spread of the interest rates on total deposits (denar and foreign currency)²⁴ remained 1.2 percentage points, given unchanged interest rates relative to the previous month. Regarding **newly accepted total deposits**, the interest spread between denar and foreign currency deposits fell from 0.9 to 0.8 percentage points, amid decline of 0.2 and 0.1 percentage points in interest rates on newly accepted denar and foreign currency deposits, respectively.²⁵



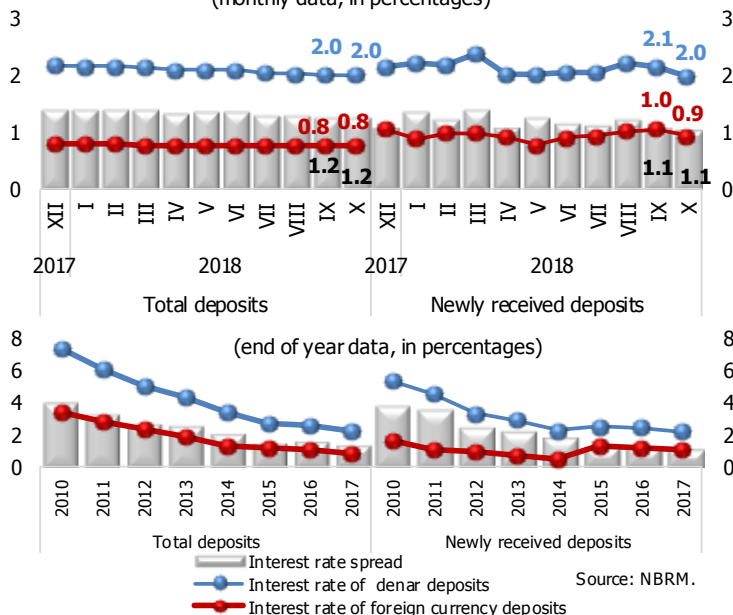
Legend: Interest rate spread (grey bar), Interest rate of denar deposits (blue line), Interest rate of foreign currency deposits (red line). Source: NBRM.

²⁴ Data on interest rates are in accordance with the methodological changes of the NBRM from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

²⁵ 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 driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.

Households` deposits interest rates

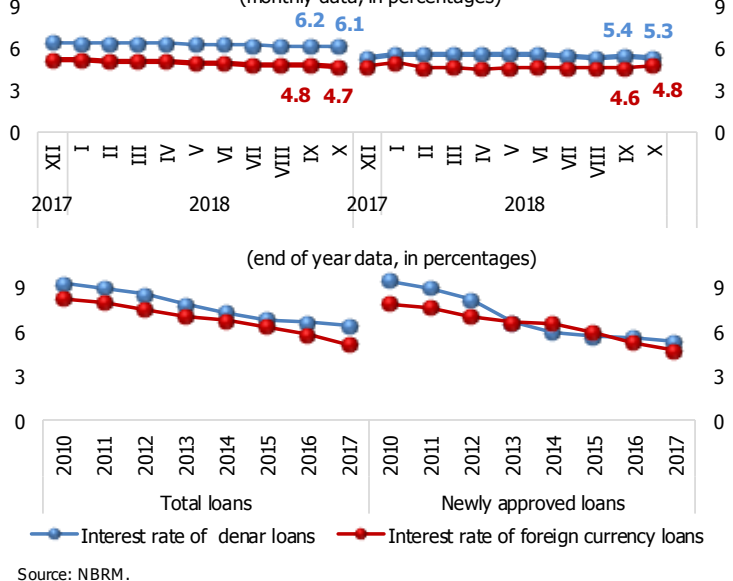
(monthly data, in percentages)



In October, the **interest rates on household deposits** remained at the same level as in the previous month, whereby the interest rate spread between denar and foreign currency interest rates remained at 1.2 percentage points. Regarding **newly accepted household deposits**, the interest rates of newly accepted denar and foreign currency deposits declined by 0.1 percentage points, respectively, whereby no changes in the the interest rate spread were registered, and they equaled 1.1 percentage points.

Total loans interest rates

(monthly data, in percentages)

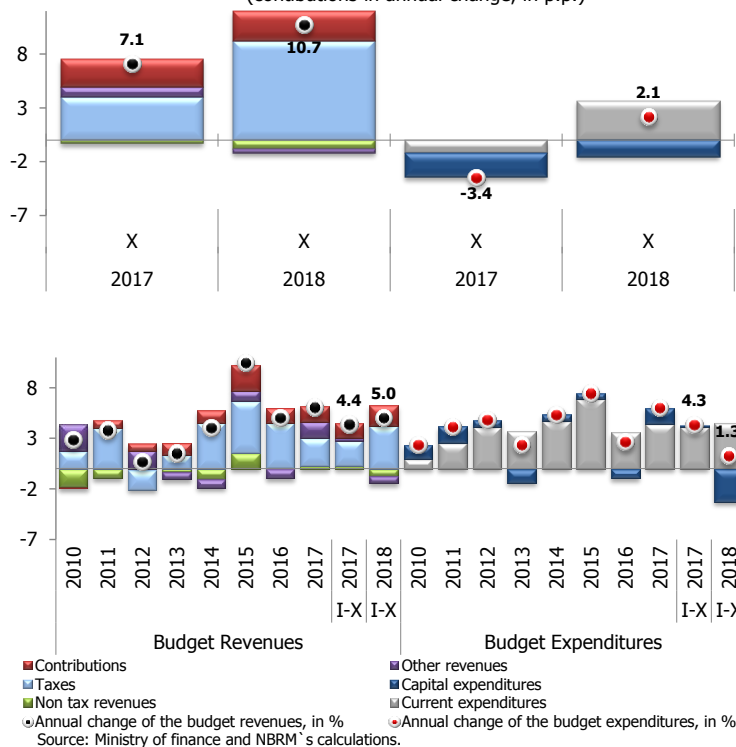


In October, interest rates on **total household and corporate loans** fell by 0.1 percentage point and equaled 6.1% and 4.7%, respectively. In the **newly approved total loans**, the interest rate for households decreased by 0.1 percentage point and it equaled 5.3%, while the interest rate for enterprises increased by 0.2 percentage points, and it equaled 4.8%²⁶.

²⁶ 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 driven by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures

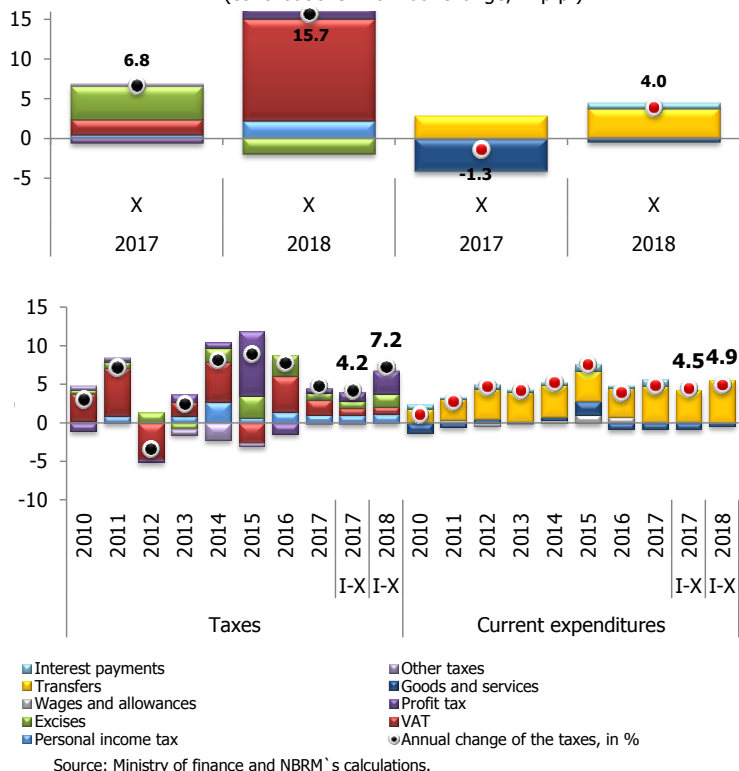
(contributions in annual change, in p.p.)



In the Budget of the Republic of Macedonia (central budget and budgets of the funds), in October 2018, the total budget revenues registered faster annual growth than the growth of the total budget expenditures. Budget revenues in October registered an increase of 10.7% on annual basis, mostly as a result of higher revenues from taxes and contributions, contributing by 9.2 p.p. and 2.8 p.p., respectively, while non-tax revenues and other revenues²⁷ register slight negative contribution of 0.8 p.p. and 0.4 p.p., respectively. In October, tax revenues increased by 15.7%, annually, which mostly stems from the higher inflows based on VAT (with a contribution of 12.9 p.p.), given positive contribution also of the personal income tax, profit tax and import duties (2.2 p.p., 1.7 p.p. and 0.6 p.p., respectively), while the contribution of the excises in October is negative (1.9 p.p.). **Regarding the budget expenditures,** the annual growth of 2.1% in October is entirely a result of the higher current expenses (contribution of 3.7 percentage points), while the contribution of capital expenses was negative (1.5 percentage points).

Taxes and current expenditures

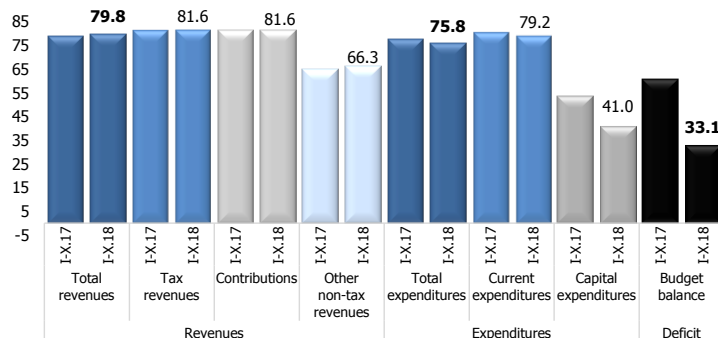
(contributions in annual change, in p.p.)



In the period January - October 2018, total budget revenues and expenditures increased cumulatively compared to the same period last year. Budget revenues increased by 5.0%, mostly reflecting higher tax and contributions revenues (contribution of 4.2 and 2.0 percentage points, respectively), while the non-tax revenues and other income have negative contribution (of 0.7 p.p., respectively). **The budget expenditures** are higher by 1.3%, fully reflecting the higher current expenditures (contribution of 4.5 percentage points), while the contribution of capital expenses is still negative (3.3 percentage points).

²⁷ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

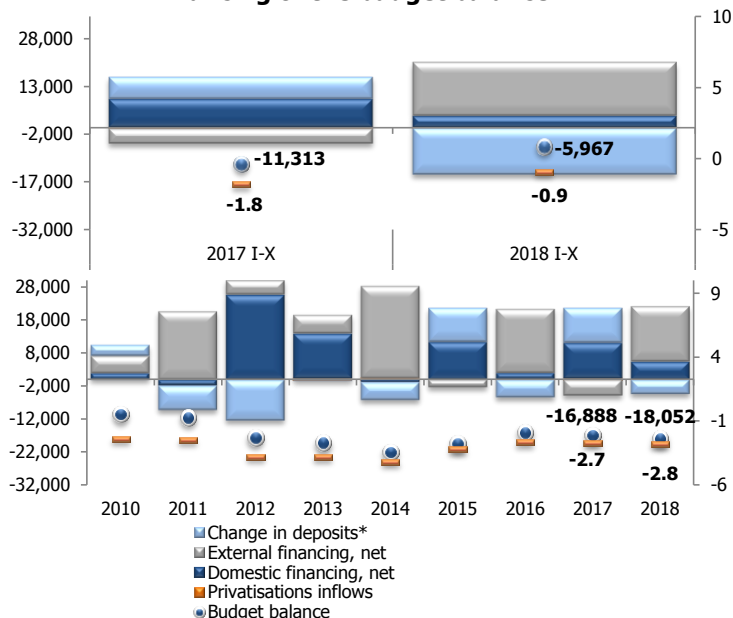
Budget implementation , per categories
(central budget and funds), in percentage of the annual plan*



*for 2017 and 2018, figures are calculated compared to the Budgete rebalance in August 2017 and the Budget rebalance in November 2018, respectively.
Source: Ministry of Finance and NBRM's calculations.

In comparison with the Budget Revision for 2018, the budget revenues in the period January - October amounted to 79.8%, which is at the level of last year's performance in terms of the plan (79.2%), given the highest taxation and contributions (81.6% of the revision for 2018), and the lowest with the category "other non-tax revenues" (66.3% of the revision). **Budget expenditures in the same period represent 75.8% of the total planned expenditures for 2018**, which is slightly lower than last year's performance in terms of the plan. The realization of the current expenses amounts to 79.2% of the revision of the plan for 2018, while the realization of the capital expenditures amounts to 41.0% of the revision of the annual plan and is lower than last year's performance.

Financing of the budget balance



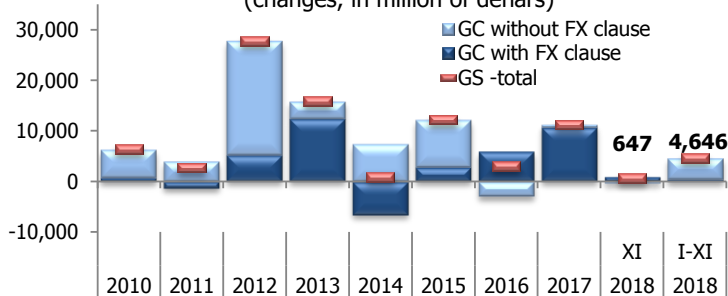
* Positive change: deposits withdrawal; negative change:deposits accumulation.
Source: MoF.

In the period January - October 2018, the Budget of the Republic of Macedonia registered a deficit, mostly funded by government borrowing on international financial markets. The realized budget deficit in this period was Denar 5,967 million, or 33.1% of the planned deficit, according to the Budget Revision and 0.9% of the nominal GDP²⁸. The budget deficit in the period January - October was mostly financed by external sources, through the issue of Eurobond on the international financial markets in January 2018, with a portion of the foreign assets remaining as deposit on the government account with the NBRM. The budget deficit was financed by using domestic sources, through net emission of government securities, although in significantly smaller part.

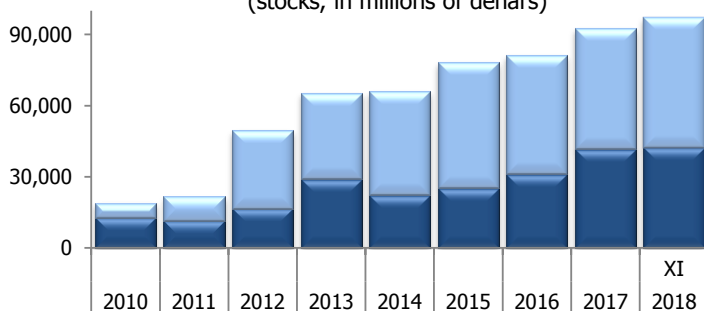
²⁸ The analysis uses the NBRM October forecast for the nominal GDP for 2018.

Government securities

(changes, in million of denars)



(stocks, in millions of denars)

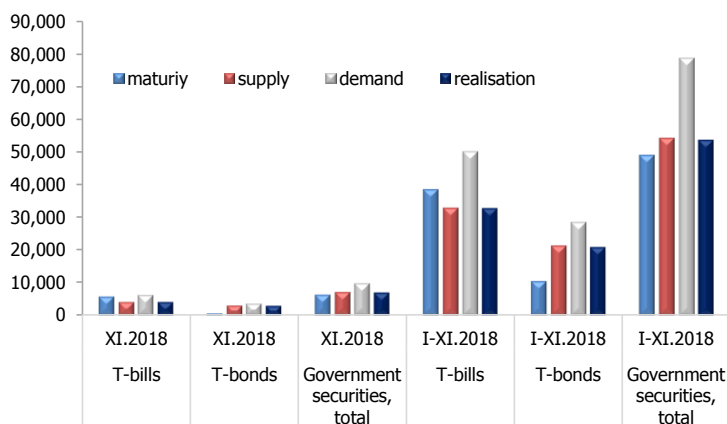


Source: MoF.

On the primary market of government securities in November, the stock of issued securities increased on a monthly basis, and at the end of the month it amounted to Denar 97,231 million. Analyzed by currency, the monthly increase (of Denar 647 million) was a full reflection of the increase in government securities without currency clause, while the amount of government securities without currency component moderately decreased. In comparison with the end of 2017, the stock of the government securities is higher by Denar 4,646 million at the end of November²⁹, which is almost fully a result of the increase in the stock of the government securities without currency clause.

Government securities auctions

in million of denars



Source: Ministry of finance.

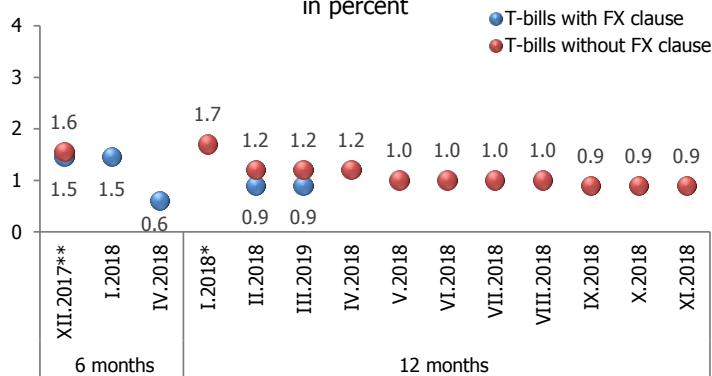
The Ministry of Finance continued to issue securities with longer maturities. The new issues of government securities in November were with 12-month, 2-year and 15-year maturity³⁰, whereby the market participants' interest in November was higher than the offered amount. Given the lower supply of short-term securities (treasury bills), their stock declined, while the stock of government bonds registered an increase. Accordingly, the growth trend of the stock of longer-term securities continued. Compared to the end of 2017, the growth of the stock of government securities is entirely due to the increase in the stock of government bonds, while the stock of the treasury bills fell.

²⁹ For 2018, the annual Budget Revision plans a domestic government borrowing of Denar 5,459 million for 2018, i.e. increase in the stock of government securities to Denar 98,043 million.

³⁰ In November 2018, the 12-month treasury bills, two-year and 5-year government bonds matured.

Interest rates of T-bills

in percent



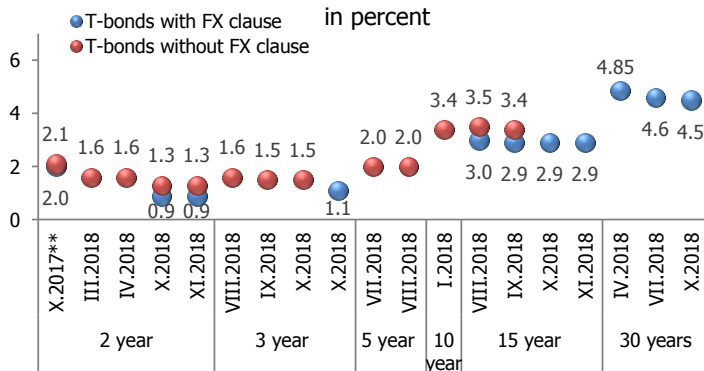
*The interest rate on 12m T-bills in January 2018 (1,7%) is a weighted average of the realized amount and the interest rates (1,85% и 1,20%) from the two auctions held in January.

** It refers to the last auction held and it refers to the appropriate maturity. Source: Ministry of Finance.

In November, the interest rates on government securities remained stable. Consequently, the interest rates on the issued 12-month treasury bills without currency clause, 2-year government bonds with and without currency clause and 15-year government bonds with currency clause were 0.9%, 0.9%, 1.3%, respectively³¹.

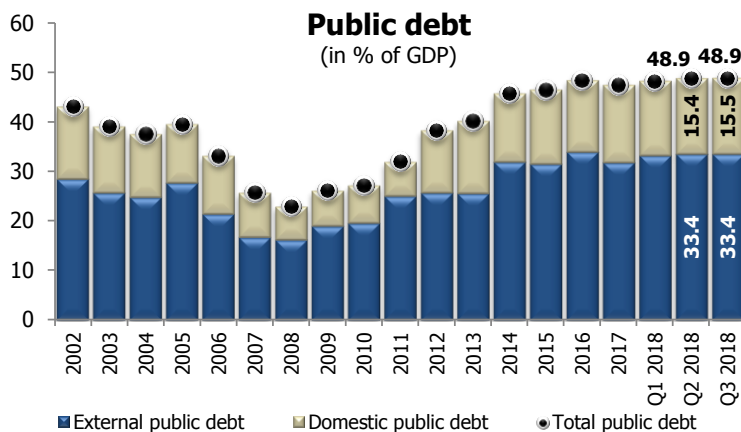
Interest rates of T-bonds

in percent



** It refers to the last auction held and it refers to the appropriate maturity. Source: Ministry of Finance

At the end of the third d quarter of 2018, total public debt³² equaled 48.9% of GDP³³, the same as in the previous quarter. The public debt structure is insignificantly changed compared to the previous quarter, i.e. the external debt remains at 33.4% of GDP, while the domestic debt registered minor increase (from 15.4% to 15.5% of GDP). In the third quarter, the total government debt and the debt of public enterprises (for which the Government has issued a state guarantee) remained unchanged compared to the previous quarter, i.e. they still equal 40.9% and 8,0% of the GDP, respectively.



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

³¹ In November, the Ministry of Finance retained the interest rate on 12-month treasury bills without a currency clause (0.9%), 2-year government bonds with and without currency clause (0.9% and 1.3%, respectively) and 15-year government bonds with a currency clause (2.9%).

³² The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14) according to which it is the sum of the government debt and the debt of public enterprises established by the state or municipalities, municipalities within the city of Skopje and the city of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the city of Skopje and the city of Skopje, for which the Government has issued a state guarantee.

³³ The total public debt equals Euro 5,144 million at the end of the third quarter. The analysis uses the NBRM October forecast for the nominal GDP for 2018.

Box 1: Indicative Private consumption and Gross investment categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION										
	2017				2018					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	August	September	October
	<i>real annual growth rates in %</i>									
Retail trade*	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	8.6	9.7	13.4
VAT revenues*	3.4	-6.1	4.8	9.7	-6.7	10.1	-9.8	-7.5	-15.1	24.6
Imports of consumption goods*	5.9	3.8	5.8	9.0	8.0	2.5	3.0	3.7	-1.3	11.4
Domestic production of consumption goods	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	-0.1	2.6	-2.9	5.7
Consumer credits*	7.1	8.0	8.1	6.7	7.7	8.3	8.5	8.3	8.5	8.9
Average net wage*	1.5	1.0	1.4	1.0	3.4	4.7	3.9	4.1	3.3	-
Private net transfers*	-3.4	22.9	0.2	5.0	5.5	9.0	4.3	3.8	-6.4	-
Pensions*	6.1	7.0	6.0	4.7	2.1	3.4	2.6	2.2	3.0	5.5

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

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

INDICATIVE VARIABLES FOR INVESTMENTS										
	2017				2018					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	August	September	October
	<i>real annual growth rates in %, except for FDI in million denars</i>									
Imports of capital goods*	9.7	7.2	7.7	10.7	19.2	20.2	10.6	10.9	3.1	22.6
Completed construction works**	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	-0.6	17.0	-
Domestic production of capital goods	-0.9	15.6	-2.6	20.9	19.3	24.2	16.0	8.3	14.9	6.7
Government investments*	59.9	19.6	-40.8	33.7	-65.1	-39.5	-10.7	-50.3	-12.4	-20.5
Direct Investments***	-2088.4	-3939.8	-5128.4	2445.8	8009.2	6650.7	3508.7	2089.5	1178.8	-
Long term credits to enterprises*	3.6	-0.4	-0.8	0.0	2.0	4.8	6.6	3.8	6.6	8.9

* real growth rates are calculated by the NBRM, 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 NBRM, by dividing the nominal amounts with the level of the CPI index (base year: 2017=100).

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