

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



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

February 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 (November 2018 - January 2019) and to make a comparison with the latest macroeconomic forecasts (October 2018). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous round of forecasts. The review focuses on the changes in external assumptions and performances of domestic variables and the effect of these changes on the environment for monetary policy conduct.*

According to the latest estimates, the global economic environment is less conducive compared to the October forecasts which caused downward revisions of the global economic growth. Thus, risks to the global economy are still assessed as downward, while similar to October, the main risk arises from any further escalation of the global trade protectionism, despite the agreement between the United States and China for temporary delay in the planned increase in tariffs in early 2019. Other risks relate to the possible faster tightening of global financial conditions, and the effects particularly on emerging economies, the possibility for a no-deal Brexit, as well as increased political risks in some EU countries and the potential escalation of geopolitical tensions in the Middle East and East Asia. In terms of the **economic developments in the euro area**, as our most significant trade partner, the preliminary GDP forecasts for the fourth quarter of 2018 show an annual growth of 1.2%, which is moderate deceleration compared to the third quarter (1.6%). Also, the latest high-frequency data and surveys of households and enterprises indicate a probable further deceleration in the economic growth at the beginning of 2019. However, at the euro area's labor market, favorable conditions still prevail, with the unemployment rate reducing to 8% in the fourth quarter (8.1% in the previous quarter). Regarding inflation in the euro area, the estimated data for January point to its further deceleration to 1.4% (from 1.6% in December). According to the latest estimates, **the EURIBOR interest rate** in 2019 is expected to be similar to the one in the October forecast, while a downward revision was made for 2020, whereby it is expected to remain in the negative zone throughout the entire forecast period.

**Analyzing the quantitative external environment indicators of the Macedonian economy, the foreign effective demand forecast** was revised downwards for 2018 and 2019, while remaining the same for 2020 compared to the October forecast. **Foreign effective inflation** was slightly revised downward throughout the entire forecast period. Compared to October, the US dollar is expected to appreciate rather than to remain unchanged in 2019 and to maintain a similar depreciation rate in 2020. **Forecasts for primary commodities prices on the world markets for 2019 are generally revised downwards relative to the October forecasts, whereas for 2020, most prices were revised upwards.** Observed by product, the latest assessments of **world oil prices** point to a fast price fall rather than growth in 2019 and a slower decline in 2020 compared to October. **Metal prices** were subject to smaller revisions, whereby in 2019 it is predicted that the prices of copper and nickel will register slightly larger decline compared to October, while in 2020, the copper price is expected to register a smaller decline, and the nickel price to be unchanged, despite the October expectations for its small decline. Regarding the **prices of primary food products**, revisions are in opposite directions in the forecast period. Thus, in 2019, a significantly lower growth in the price of wheat and a slightly higher increase in the price of corn is envisaged, while in 2020 corrections are smaller and suggest price growth, which would be somewhat faster in the wheat and somewhat slower in the corn. However, one should bear in mind that the assessments of the prices of primary commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long term.

**The comparison of the latest macroeconomic indicators with their forecasted dynamics within the October forecasting round does not indicate significant deviations in the individual**

**segments of the economy.** Regarding the economic activity, the currently available high-frequency data for the fourth quarter of 2018 suggest more favorable developments in the economy relative to the previous quarter (rapid growth in industrial activity and the trade turnover, as well as a high growth in completed construction works, as opposed to their fall in the third quarter). This, coupled with the published GDP estimates according to which the economic activity registers solid growth in the third quarter, corresponds to the forecasted movement for gradual improvement of the situation in the economy in the following period. Inflation performance in 2018 remained as forecasted. According to the latest estimates, downward corrections were made in terms of the expected movement in the input assumptions for 2019. However, the risks to the inflation forecast for 2019 of 2%, for now, have been assessed as balanced. However, the uncertainty related to the expected future movement of the world prices of primary products, remains.

**At the end of 2018, the foreign reserves equaled Euro 2,867 million, which is an increase of Euro 540 million on an annual basis<sup>1</sup>.** Observed by the factors of change, the upward changes in reserves are mainly due to the NBRM interventions on the foreign exchange market towards significant purchase of foreign currency and the transactions on behalf of the government (mainly the sixth Eurobond issued on the international financial markets). Foreign trade data for the entire 2018 indicate that the improved performances in foreign reserves probably reflect the more favorable performances of the trade balance. **Data on January 2019 indicate a slight increase in the foreign reserves,** and the analysis of foreign reserves adequacy indicators shows that they remain in the safe zone. Available data for the net purchase from currency exchange operations, as of January, currently point to a possibility for slightly lower net inflows from private transfers, compared to the forecasted performance for the first quarter of 2019. However, data are available for a short time period and are not sufficient to draw reliable conclusions.

As for the monetary sector developments, the final data as of December show a monthly increase in **total deposits** (of 3.0%), which is higher compared to the increase in the previous month (1.3%). Analyzing by sector, the monthly increase in total deposits in December was mostly due to household deposits, but a small contribution to the growth was also made by corporate deposits and deposits of other sectors. Analyzing the currency structure, the increase in total deposits was mostly a result of denar deposits (including demand deposits), with a small contribution of foreign currency deposits. On an annual basis, total deposits in December grew by 12.1%, which exceeds the forecasted growth of 10.2% for 2018, according to the October forecast. Analyzing the credit market, in December, **total loans** of the private sector increased by 2.3% on a monthly basis and continued to increase at faster pace compared to the previous month (monthly growth of 0.6%). The increase in lending activity in December almost entirely derives from the growth of corporate loans, with a small positive contribution of loans granted to households. Analyzing the currency structure, the monthly growth of total loans was mainly due to the increase in denar loans, amid a small increase in foreign currency loans. On an annual basis, total loans in December grew by 7.3%, which is slightly below the forecasted growth of 8.4% for 2018.

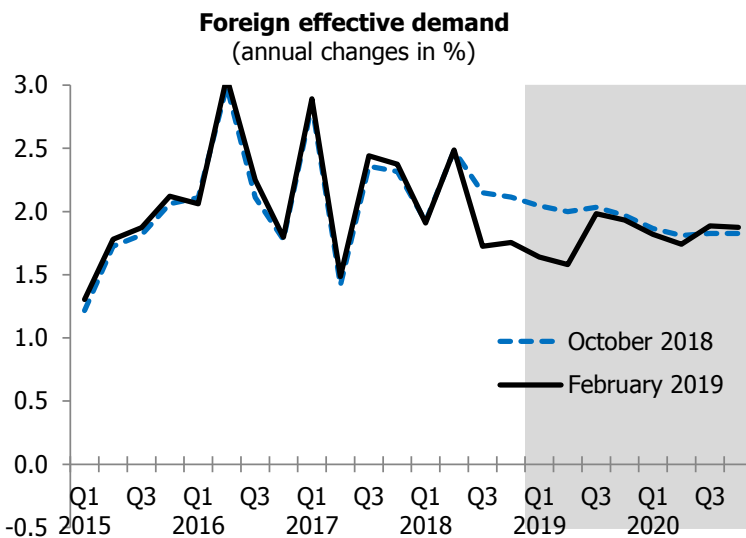
In 2018, the Budget of the Republic of Macedonia registered a deficit of Denar 11,600 million, which was mostly financed by external sources, through the issue of Eurobond on the international financial markets in January 2018, with a portion of the foreign assets remaining as deposit on the government account with the NBRM. Smaller portion of the budget deficit was funded through a new issue of government securities on the domestic financial markets. The deficit in the Budget of the Republic of Macedonia was 64.3% of the deficit planned in the 2018 Budget (after the revision made).

**The latest macroeconomic indicators and assessments do not indicate significant deviations in terms of the forecasted dynamics and the perceptions about the environment for monetary policy conduct have not changed compared to the previous forecast.** At the end of January 2019, foreign reserves (adjusted for price and exchange rate

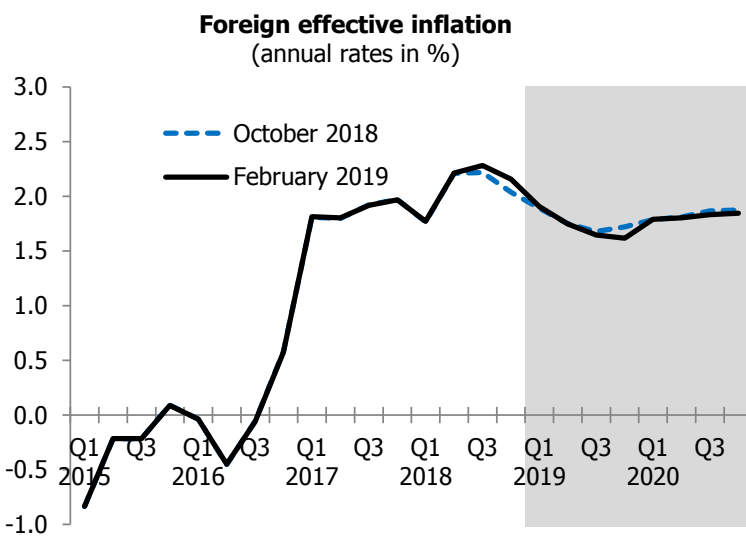
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<sup>1</sup> Change adjusted for price and exchange rate differentials and price changes of securities.



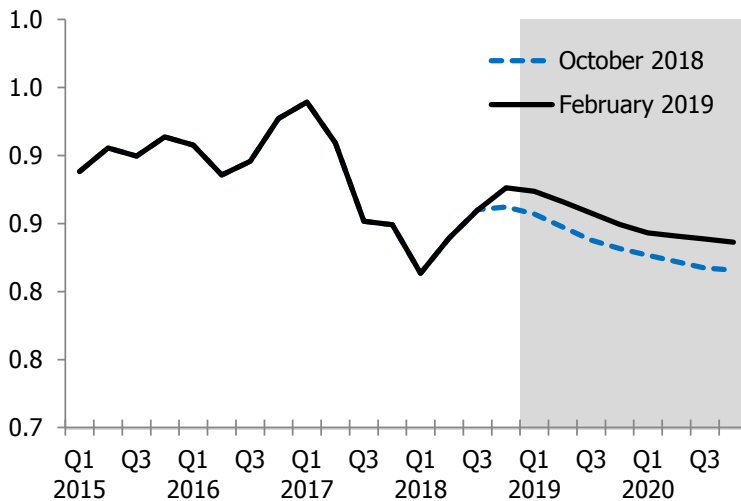


Taking into account the latest assessments of the foreign effective demand, a downward revision was made for 2018 and 2019 in terms of the October forecasts. Namely, the growth of the foreign demand for 2018 and 2019 is expected to amount to 2% and 1.8%, respectively (2.2% and 2.0%, respectively, according to the October forecasts). The downward revision is mainly due to the expectations for a lower growth of the German economy. **On the other hand, the expected growth rate of the foreign effective demand in 2020 equals 1.8%, and is unchanged compared to the October forecasting round.**



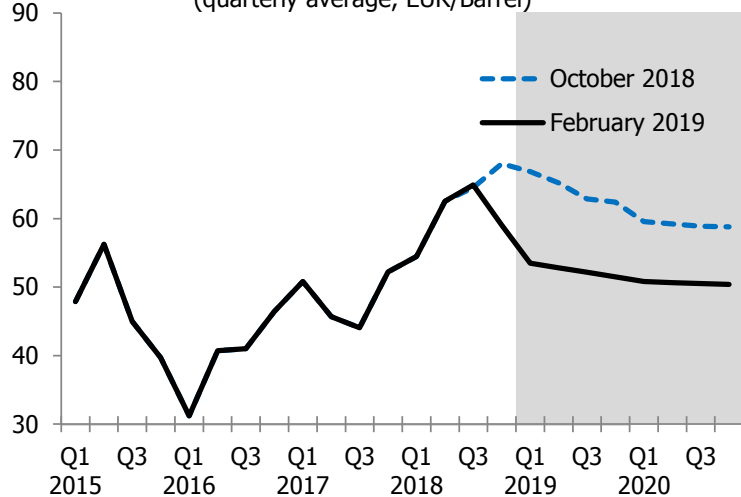
The foreign effective inflation for 2018 amounted to 2.1%, which is in line with the October forecast. In the latest estimates for 2019 and 2020, the foreign inflation forecasts were slightly revised downwards. Thus, it is expected to amount to 1.7% in 2019 (1.8% according to the October forecasts), mainly as a result of the expectations for a lower imported inflation from Italy, Germany, France and Slovenia. In 2020, the foreign inflation is expected to amount to 1.8% (1.9% according to the October forecasts), mainly due to the downward revisions of the forecasted inflation rates in Germany and Greece.

EUR/USD exchange rate



**In the latest estimates for 2019, the euro/US dollar exchange rate was revised upwards compared to the October forecasting round.** Thus, the current estimates indicate a moderate appreciation of the US dollar against the euro, rather than its unchanged value, largely driven by the expectations for solid performance of the US economy, the tighter monetary policy of the Fed<sup>2</sup>, and the political tensions and the weaker economic performance in the euro area. On the other hand, in **2020** the US dollar is expected to register a similar depreciation rate as in the October forecasts.

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

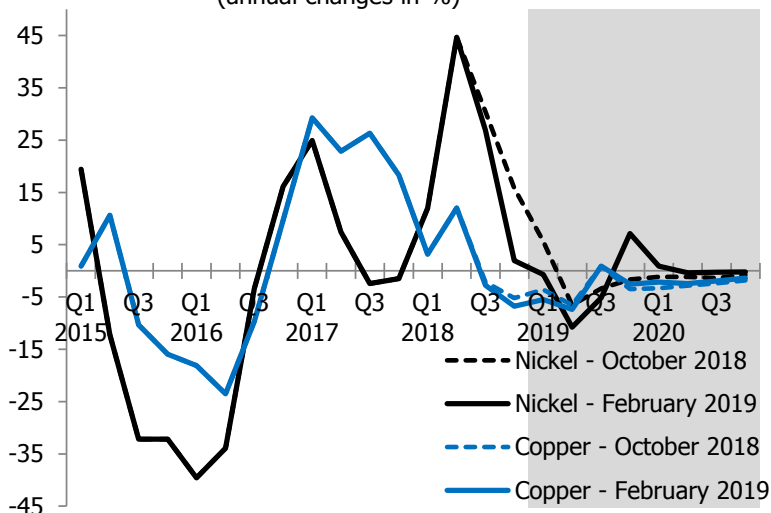


**According to the latest estimates for 2019, oil prices<sup>3</sup> were considerably revised downwards compared to October.** Unlike the small growth which was expected in October, the latest assessments point to a significant decline in the prices of this fuel this year, largely due to the expectations for lower demand for oil at global level. **For 2020, a moderate upward revision was made,** whereby oil prices are expected to register a smaller decline compared to October.

<sup>2</sup> On 19 December 2018, the Fed decided to increase its policy rate by 0.25 percentage points, and now it ranges from 2.25 to 2.5%.

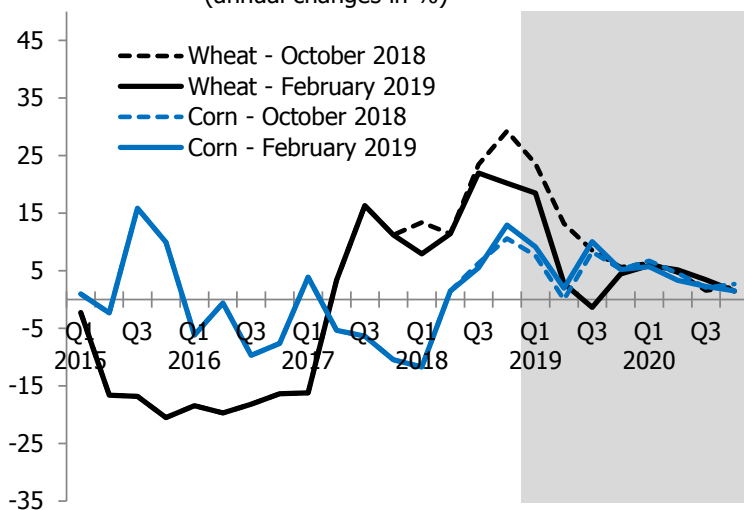
<sup>3</sup> The analysis of prices of oil, metals and primary food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

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

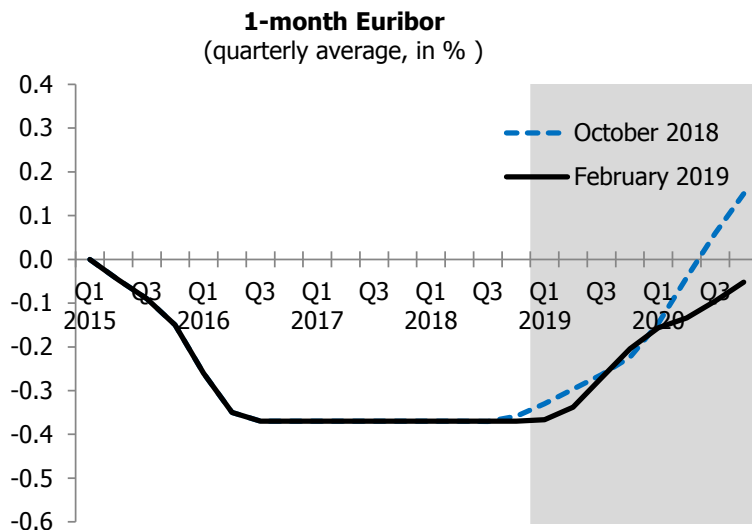


**The prices of nickel and copper in 2019 have been revised downwards compared to the October forecasting round.** The downward revision is generally fueled by the trade tensions between the United States and China, which affect negatively the global economic activity. Also, the expectations for lower demand for copper in China, but also for higher global supply of nickel due to the increased production of nickel in Indonesia, are estimated to additionally contribute to the expected sharper decline in metal prices this year. **On the other hand, the price changes in nickel and copper were slightly revised upwards for 2020.** Thus, the price of nickel is now expected to remain unchanged, despite the slight decline which was expected in October, while the copper is expected to register a slightly smaller price fall compared to the October forecasts.

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



**The latest estimates of wheat price point to a significant downward revision for 2019, indicating more moderate growth compared with the October forecasts.** The downward revision is largely due to the expectations for larger production and supply of wheat at global level this year. On the other hand, the expected growth of the wheat price was slightly revised upwards for 2020. **The corn price in euro for 2019 was slightly revised upwards,** while the price in US dollars was revised downwards, as a result of the expected changes in the euro/US dollar exchange rate. In 2020, the expected growth of the corn price was slightly revised downwards compared with the October forecast.

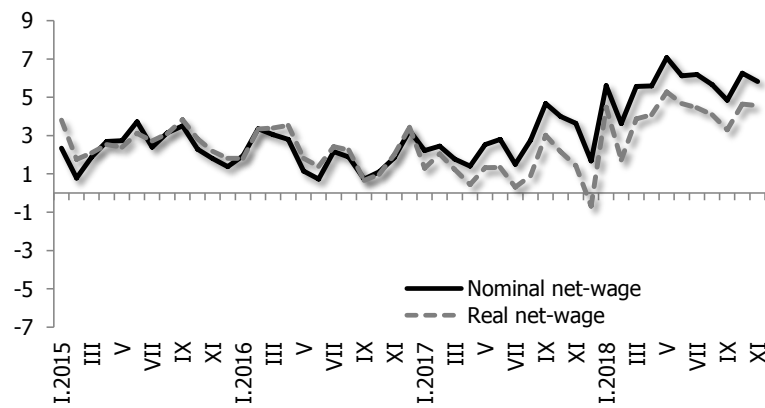


**According to recent estimates, for 2019, the expected one-month Euribor is almost unchanged compared with the October forecasts** (-0.29% versus -0.28% in October). On the other hand, a downward revision was made for 2020 (-0.11% versus 0.01% in October). The further movement of the Euribor in the negative zone corresponds to the market expectations for maintaining the policy of low interest rates by the ECB for a longer time compared to the initial announcements<sup>4</sup>.

<sup>4</sup> ECB Press Conference 24 January 2019. Interview with Benoît Cœuré, Member of the Executive Board of the ECB, 25 January 2019.



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

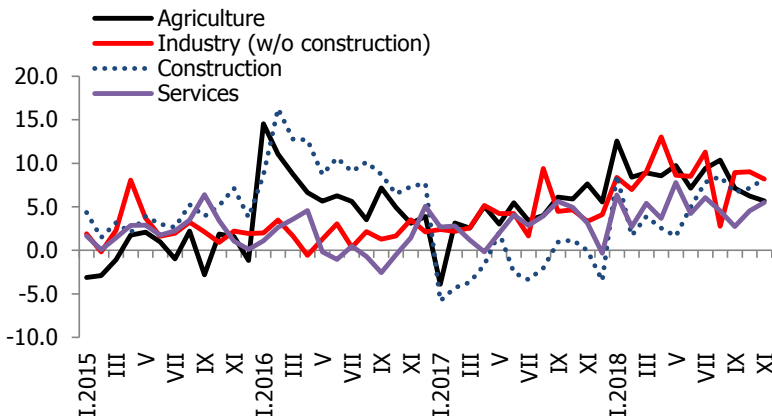


Source: SSO.

In November 2018, the average net wage registered a nominal annual growth rate of 5.8% (deceleration in the growth of 0.4 percentage points compared to the nominal annual growth in October 2018). The annual wage growth is due to the upward movement registered in most activities, particularly in the information and communication, mining and quarrying, and health and social care activities.

Amid moderate annual growth of consumer prices, the **real annual wage growth rate was 4.6% in November**.

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

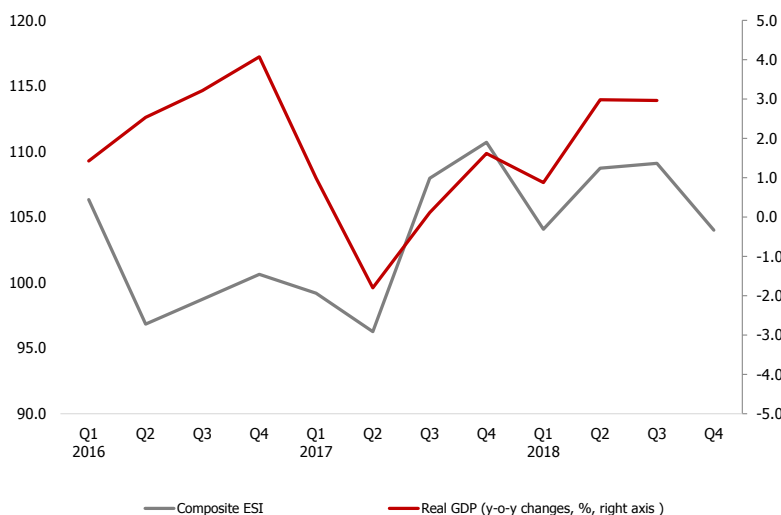


Source: SSO.

In the period October-November, wages were mainly in line with the expectations from the October forecasting round for the fourth quarter of 2018.

The high-frequency data on the supply and the demand side for the period October-December 2018 are generally favorable and point to continuation of the positive developments in the economy in the fourth quarter of 2018. On the other hand, the results of the surveys for the fourth quarter of 2018 indicate certain decline in the optimism of economic agents in terms of the general economic situation<sup>5</sup> (compared to the same quarter of the previous year, but also compared to the last quarter).

**Economic sentiment indicator and GDP**



Source: State statistical office and European Commission.

The available high-frequency data on the supply side point to favorable developments in the economy in the fourth quarter of the year.

Thus, the fourth quarter of 2018 registered an acceleration in the annual growth in the **turnover in total trade**,

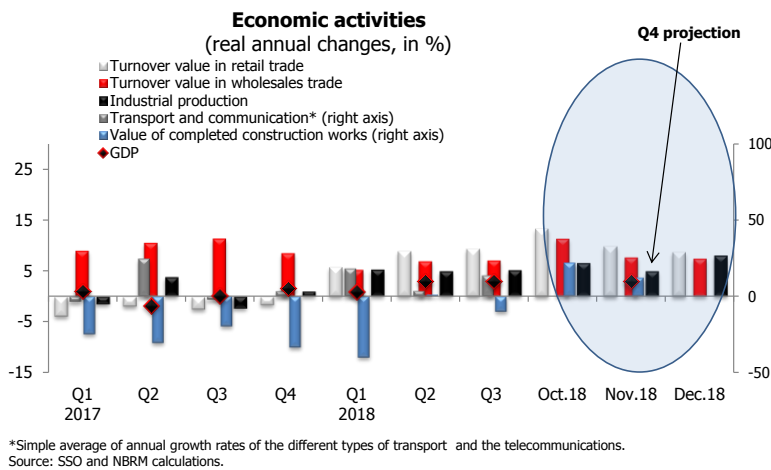
<sup>5</sup> It refers to the surveys conducted by the European Commission to measure the economic confidence of agents in an economy. The composite indicator of economic confidence is obtained as a weighted average from the confidence indicators for consumers and confidence indicators for individual economic sectors (construction, industry, retail trade and services). Starting from January 2019, the European Commission revised the structure of the consumer confidence indicator, and through this integral element also of the composite indicator of economic confidence. For more information on the new methodology visit: [https://ec.europa.eu/info/files/reviced-consumer-confidence-indicator\\_en](https://ec.europa.eu/info/files/reviced-consumer-confidence-indicator_en)

given the growth in all types (wholesale trade, retail trade and trade in motor vehicles).

Also, **industrial output** continued registering favorable movements in the fourth quarter of 2018, with a certain acceleration in the annual growth compared to the past quarter. The growth is mainly explained by the positive developments in the manufacturing industry, amid simultaneous growth in the mining and energy sector. Analyzing the individual activities within the manufacturing industry, annual production growth was registered in most of activities, and the highest contribution was registered in the activities in which the foreign export facilities are present, such as the production of machines and devices and motor vehicles. Also, a more significant contribution was registered in the production of beverages, metals, furniture, food and basic pharmaceutical products.

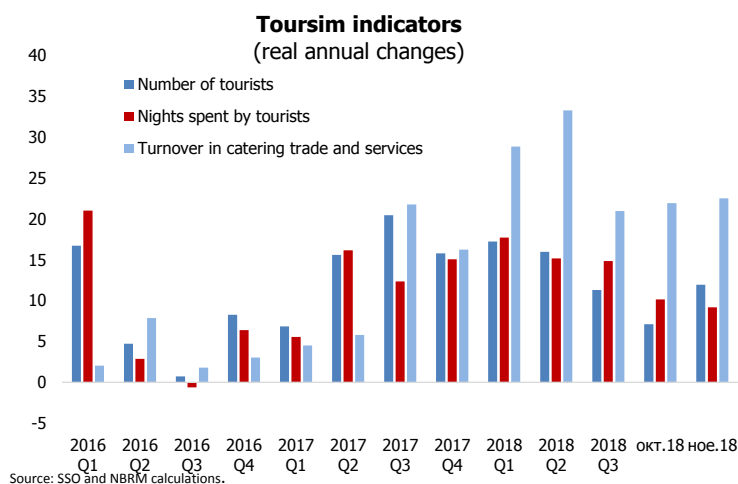
In the period October-November 2018, **construction** registered a high annual growth rate, indicating improved situation in this sector in the fourth quarter, after the unfavorable movements in the past quarters. The growth in construction in this period is largely due to building construction, and smaller part of the growth stems from civil engineering.

In October-November 2018, **catering services** were characterized by growing number of tourists, overnight stays and total turnover compared to the same period last year (although at a slower annual pace than the third quarter), indicating favorable performances in this sector in the fourth quarter of 2018.



	2017				2018				Oct.	Nov.	Dec.
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
	<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	6.4	6.4	4.9	7.9
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	-	21.8	12.0	-
Retail and wholesale trade	3.0	4.4	4.7	3.9	5.7	8.2	7.3	9.2	11.7	7.9	8.2
Retail trade	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	10.5	13.3	9.9	8.7
Wholesale trade	8.9	10.4	11.2	8.4	5.2	6.8	7.0	8.7	11.2	7.6	7.3

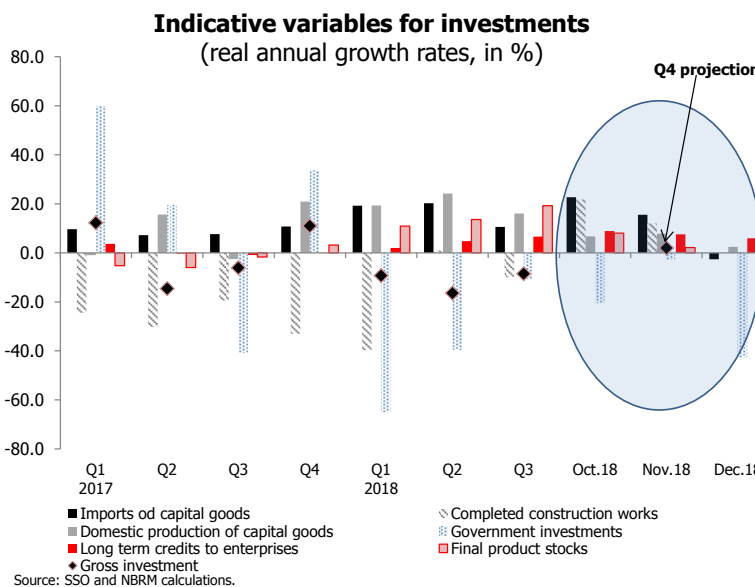
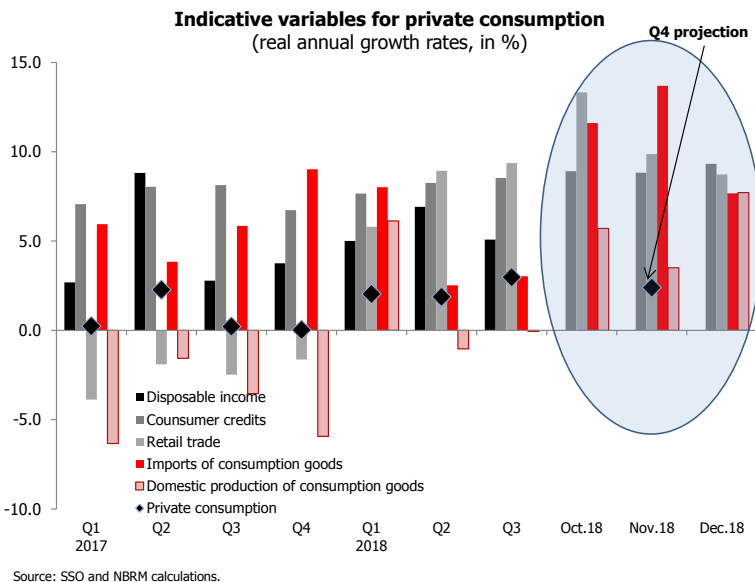
\* real growth rates are calculated by the NBRM, by dividing nominal growth rates with annual inflation, measured by CPI.  
Source: SSO and NBRM's own calculations.



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

Indicators of the movements in **private consumption**<sup>6</sup> in the fourth quarter mainly point to further growth of this expenditure GDP component. Analyzing the sources of funding of private consumption, this period registered a moderate acceleration in the annual growth in lending to households, as well as favorable developments in the main components of disposable income (rapid growth in real wages and the pension bill, as well as growth of private transfers). Short-term indicators of the dynamics of private consumption are also favorable. Thus, this period registered an acceleration in the annual growth of the turnover in retail trade and the import of consumer goods, and growth was registered also with the domestic production of consumer goods (after the moderate reduction in the previous two quarters), as well as in VAT revenues, after the decline registered in the previous quarter.

High frequency data on **gross investments**<sup>7</sup> mainly point to favorable developments in the last quarter of the year. Thus, annual growth was observed in the long-term corporate loans and the domestic production of capital goods, and the growth in the import of investment products also accelerated. In the period October-November, growth was registered also with the activity in the construction sector (after the unfavorable movements in the past period), and growth was observed also in foreign direct investments, although it slowed down significantly. On the other hand, in the fourth quarter, decline was registered only in government capital investments, which is more pronounced compared with the decline of the previous quarter.



<sup>6</sup> Data on wages and private transfers refer to the period October-November 2018, while data on household loans, import of consumer goods, pensions, retail trade, domestic production of consumer goods and VAT revenues refer to the period October-December 2018.

<sup>7</sup> Data on completed construction works and foreign direct investments relate to the October - November 2018 period, while data on long-term corporate loans, imports of investment products, government capital investments, industrial output and domestic production of capital goods refer to the October - December 2018 period.

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

Budget performance according to the fiscal data for December show a small increase in **public consumption** in the fourth quarter of 2018, mainly as a result of the higher transfer to local governments, and growth is registered also in the costs for wages and for the employment service agency.

In the fourth quarter of 2018, the **foreign trade deficit decreased by 4.2% on an annual basis**, amid faster growth of the export relative to the growth of the import component.

In the last quarter, the **exports of goods** registered a high annual growth of 23.1%, which largely reflects the intensified export activity of new facilities with foreign capital. Iron and steel exports also made a moderate positive contribution to the growth.

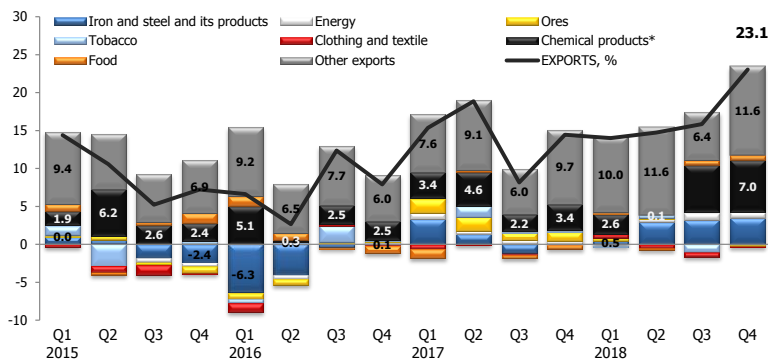
*Compared with the October forecast, the exports in the fourth quarter were higher than expected.* Significant upward deviations were registered in the export of the new production facilities, while the export of iron and steel and the export of ores were somewhat lower than expected.

In the fourth quarter, the **import of goods** increased by 15.1% annually, reflecting the growth of all import categories, primarily the import for the needs of the new industrial facilities. Import of equipment and machinery, import of consumer goods and energy imports also made a moderate contribution to the growth.

*The import of goods in the last quarter of 2018 was higher than forecasted in October.* Analyzed by category, the deviation is largely due to the higher import for the needs of some of the new foreign facilities, coupled with the larger import of consumer goods, while energy imports were lower than expected.

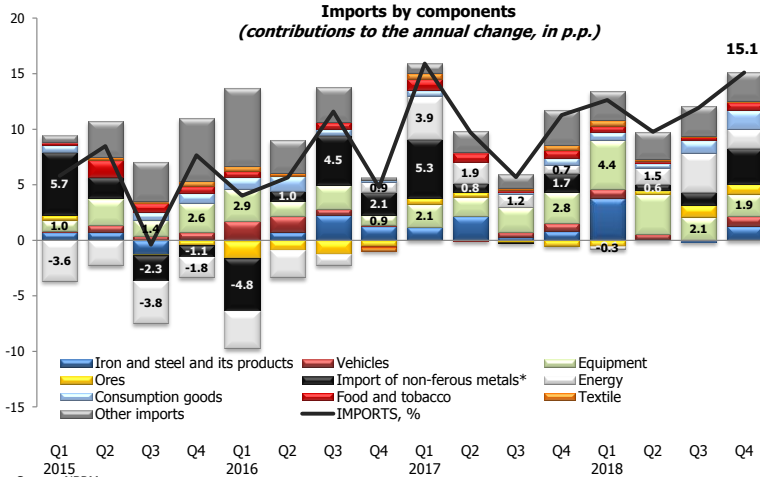
**According to the outcome of the foreign trade components, the trade deficit is lower than expected for the fourth quarter of 2018 in the October forecast.**

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



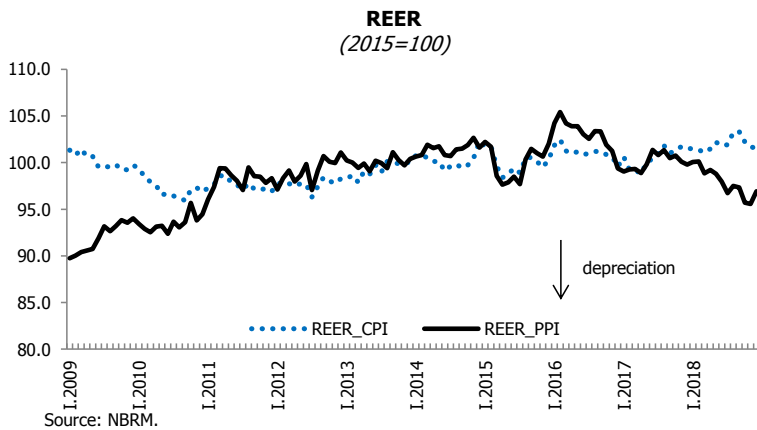
Source: NBRM.

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

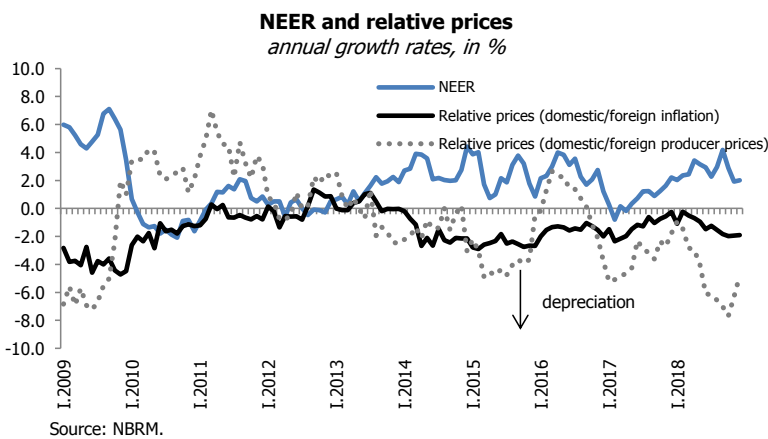
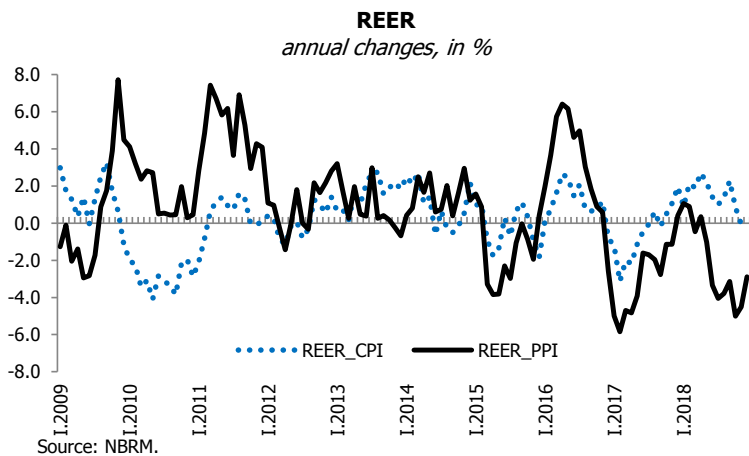


Source: NBRM.

In December 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 registered a minimal appreciation of 0.1%, while the REER index deflated by producer prices depreciated by 2.9%.

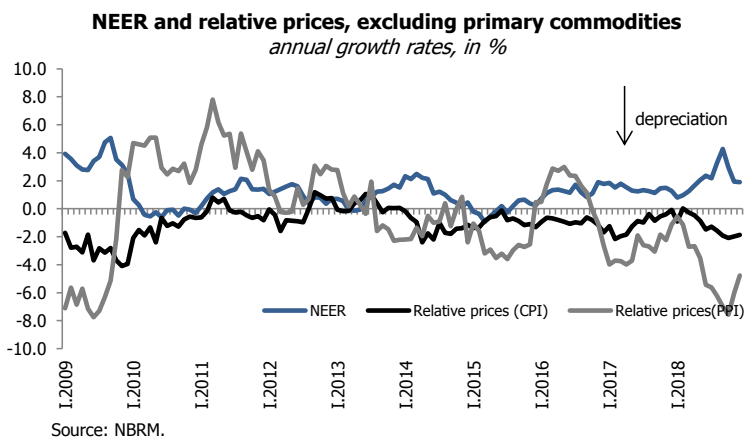
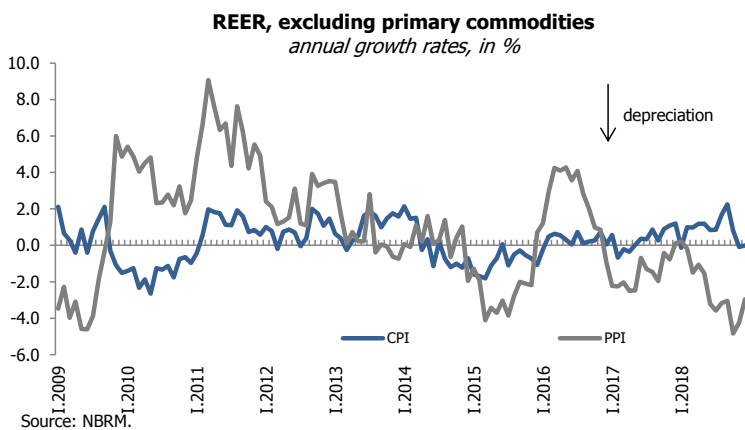
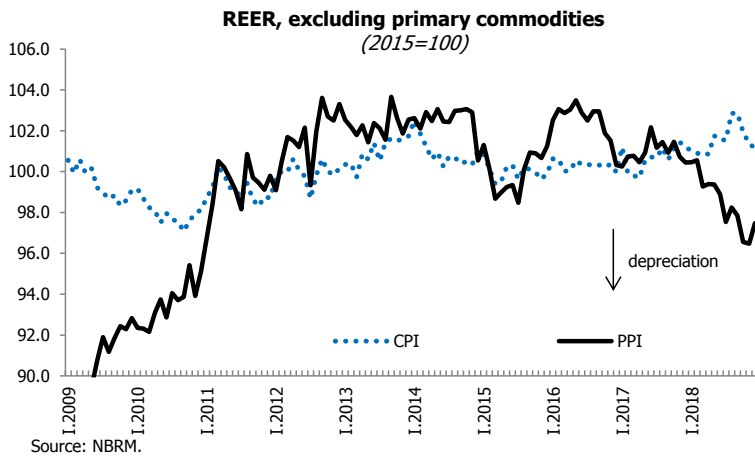


These developments are partially due to the favorable changes in relative prices, with 1.9% decrease in the relative consumer prices, and faster decrease of 4.8% in the relative producer prices. The movement of NEER that appreciated by 2% acted in the opposite direction mostly as a result of the depreciation of the Turkish lira and the Russian ruble.



The analysis of REER indices, as measured using weights based on the foreign trade without primary commodities<sup>8</sup> indicates generally similar movements. The REER index deflated by consumer prices remained at the level of the previous year, while the REER deflated by producer prices depreciated by 3%.

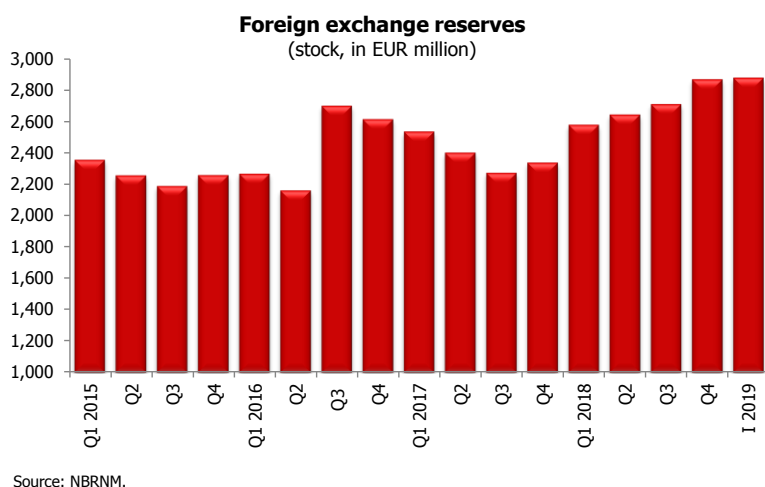
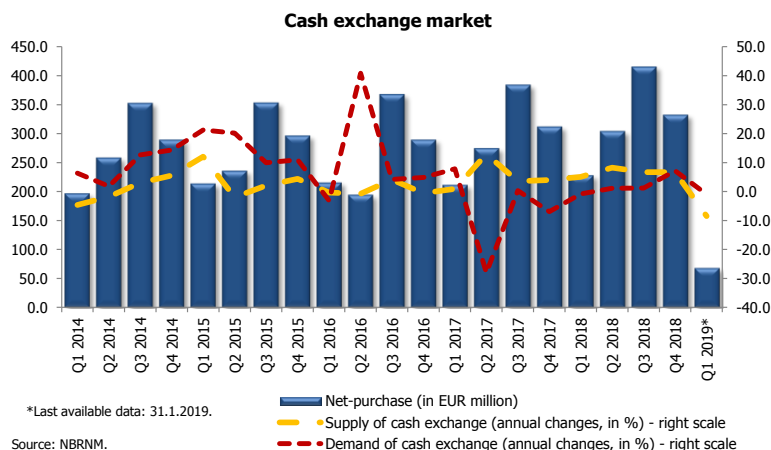
On an annual basis, the relative consumer prices and the relative producer prices decreased by 1.9% and 4.8%, respectively. At the same time, the NEER has appreciated by 1.9% on an annual basis.



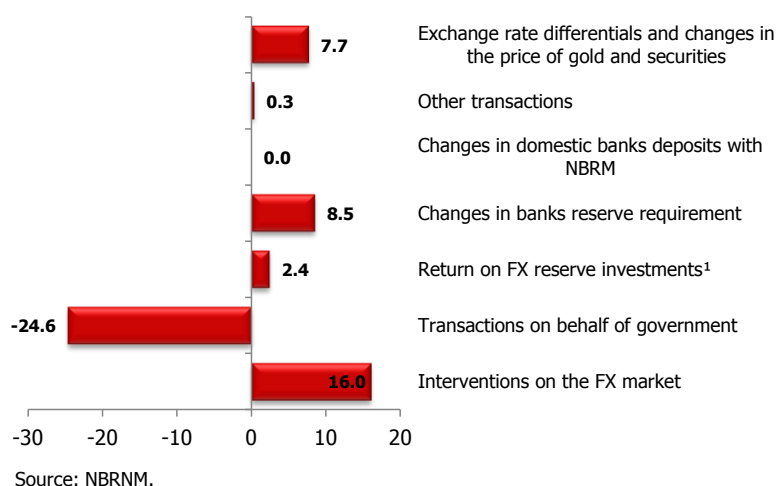
<sup>8</sup> Primary commodities not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

**Euro 68.6 million was purchased on the currency exchange market in January 2019, which is an annual decrease of 11.5%.** These developments are the result of the lower supply of and demand for foreign currency (by 8.5% and 1%, respectively).

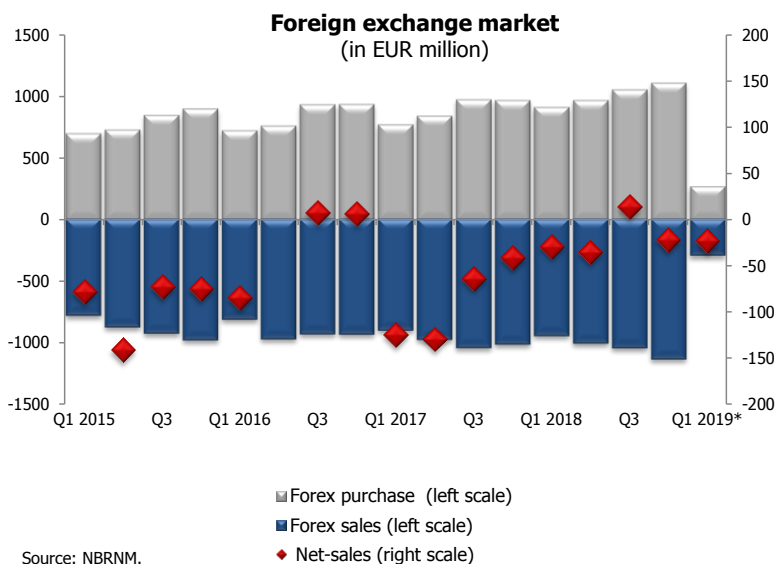
**As of 31 January 2019, the gross foreign reserves stood at Euro 2,877.4 million, up by Euro 10.3 million compared to the end of 2018.** The NBRM interventions on the foreign exchange market were aimed at purchase of foreign currency, and favorable price and exchange rate differentials were also realized. Government transactions acted in the opposite direction, primarily as a result of the regular repayment of external debt.



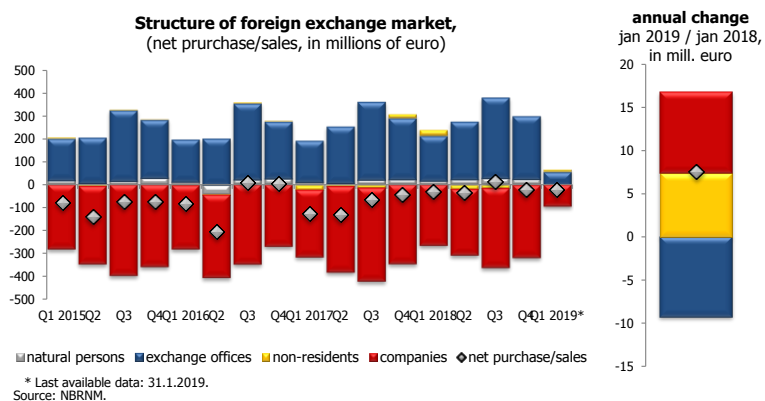
### Factors of change of the foreign reserves in January 2019 (in EUR million)







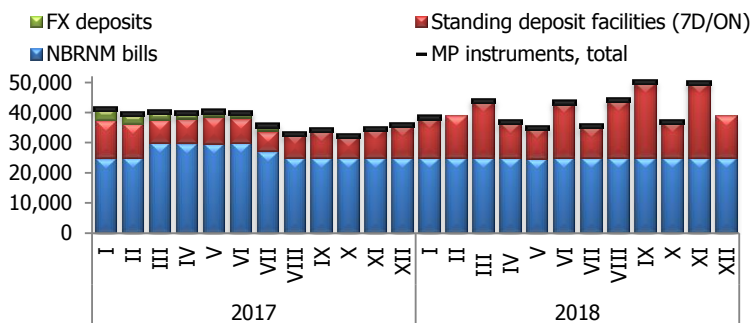
In January 2019, the banks' foreign exchange market reported a net sale of foreign currency of Euro 23 million, by Euro 7.6 million less than the same period last year. This annual change is due to the lower demand for foreign currency, amid almost unchanged supply.



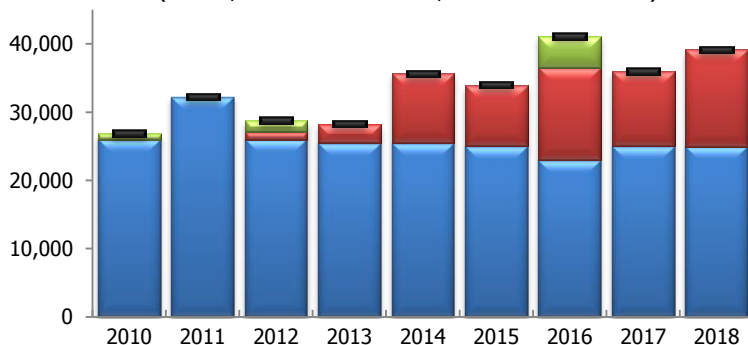
Sector-by-sector analysis shows that such shifts result from the lower net sales of companies and the higher net purchase by non-residents, amid lower net purchase by exchange offices.

**Monetary policy instruments**

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



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



Source: NBRM

**In December, the monetary instruments decreased 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 stable<sup>9</sup>. The level of monetary instruments at the end of December is lower than the level forecasted for the last quarter of 2018<sup>10</sup>.

**The NBRM net foreign assets registered a small monthly growth in December.** The increase was due to the reduction in the NBRM foreign exchange liabilities, amid simultaneous, but more moderate fall in the NBRM foreign exchange assets. Compared with the forecast for the end of the fourth quarter, the stock of NBRM net foreign assets at the end of December was higher than expected.

**In December, the total government deposits with the NBRM registered a monthly increase.** The growth of the government deposits with the NBRM entirely derives from the increase in foreign currency deposits, while denar deposits registered a slight decrease. At the end of December, the stock of total government deposits with the NBRM was higher compared with the forecast for the end of the fourth quarter.

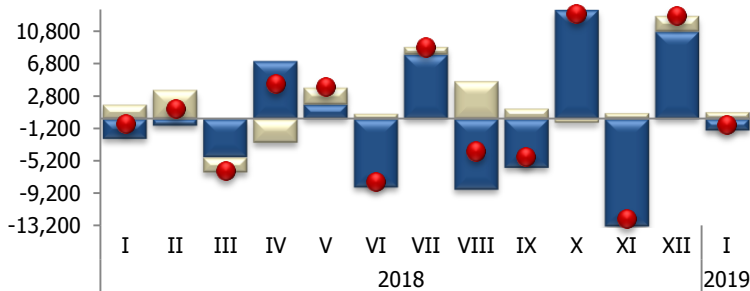
**In December, reserve money increased on a monthly basis.** The change is a result of the increase in the banks' total reserves on the accounts with the NBRM and the currency in circulation. Compared with the October forecast for the end of the fourth quarter, the stock of reserve money was higher at the end of December.

<sup>9</sup> At the CB bills auction held on 12 December 2018, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.5% and maturity of 35 days.

<sup>10</sup> The performance comparisons are against the October forecasts of the NBRM.

**Banks liquidity\***

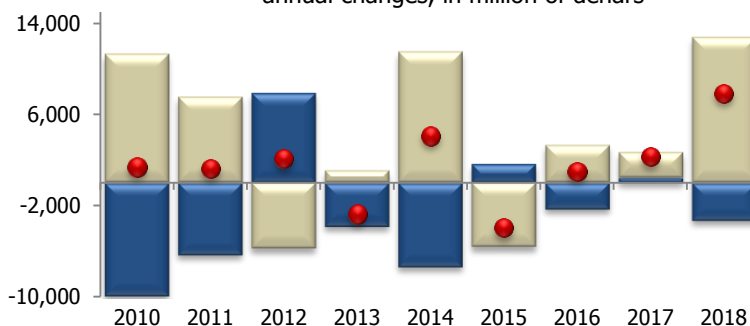
monthly changes, in million of denars



■ Autonomous factors, net      ■ Monetary instruments, net

● Banks' accounts with the NBRNM

annual changes, in million of denars



Source: NBRNM.

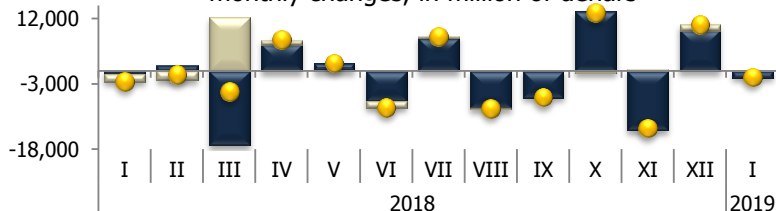
\* positive change: liquidity creation, negative change: liquidity withdrawal

**In January 2019, the banking system liquidity decreased.**

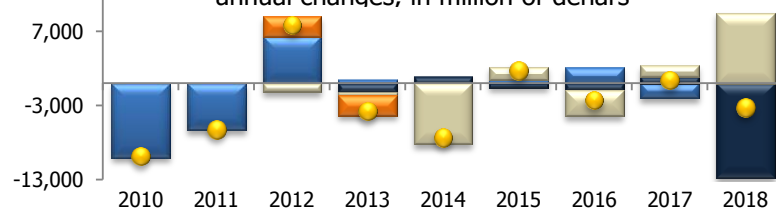
According to the operational data on liquidity flows, the decrease is primarily a result of the shift in monetary instruments, i.e. the higher amount of banks' funds placed in short-term deposits with the NBRM (mostly due to overnight deposits), amid unchanged stock of CB bills<sup>11</sup>. The autonomous factors, net, created liquid assets in the system, primarily as a result of the foreign exchange interventions of the NBRM (purchase of foreign currency) and the fall in currency in circulation. Government transactions acted towards withdrawing liquid assets from the system.

**Monetary policy instruments\***

monthly changes, in million of denars



annual changes, in million of denars



■ CB Bills      ■ ON deposit facility      ■ 7 day deposit facility

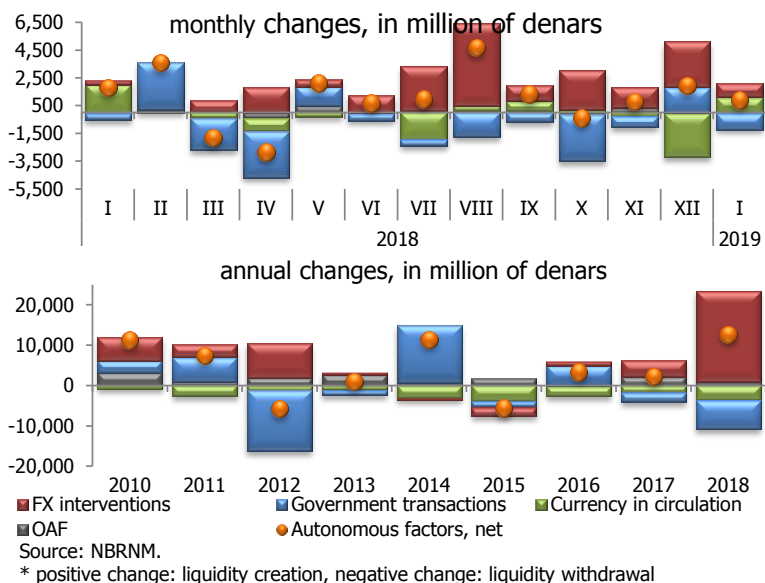
■ Repo transactions      ● Monetary instruments, net

Source: NBRNM .

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

<sup>11</sup> At the CB bills auction held on 16 January 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.5% and maturity of 28 days.

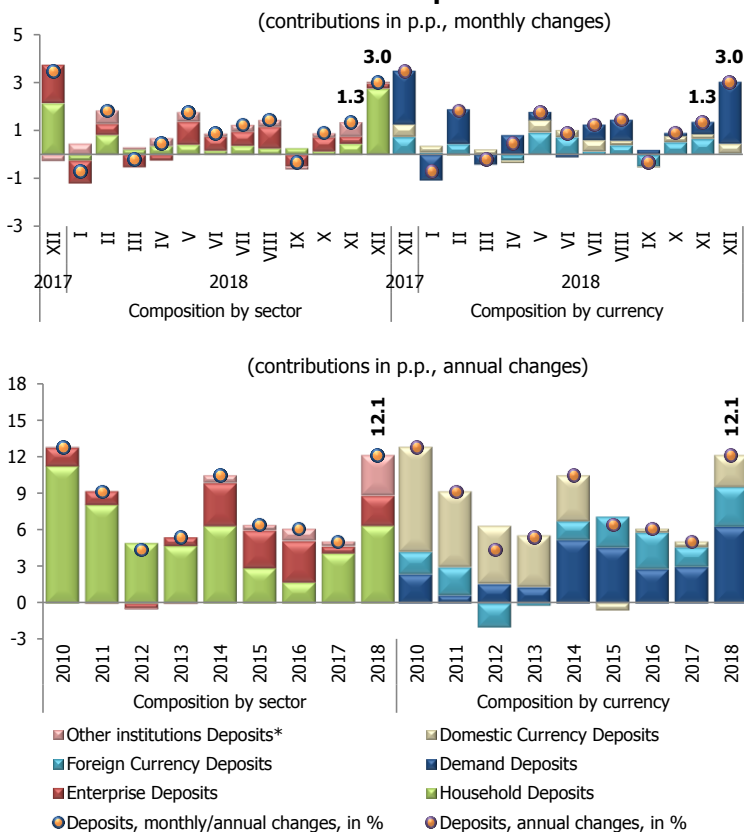
**Autonomous factors\***



**In December 2018, total deposits<sup>12</sup> continued to grow at a faster monthly pace, partly as a result of the influence of seasonal factors.** The monthly growth of 3.0% was mostly due to household deposits, whereby a positive, but small contribution to the growth was also made by corporate and other sectors deposits. From currency point of view, the deposits growth in December is mostly due to the deposits in domestic currency (including demand deposits).

In the period October - December 2018, total deposits increased, whereby the deposits at the end of December were higher than expected for the end of the fourth quarter of 2018.

**Total Deposits**



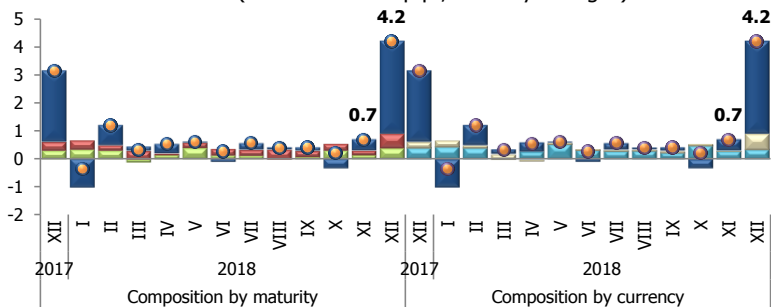
**In December, the annual growth rate of total deposits was 12.1%, which is above the annual growth forecasted for 2018 (of 10.2%) in October.** Observed by sector, the growth was mostly driven by household deposits, amid positive, but smaller contribution of corporate and other sectors deposits. From currency point of view, most of the growth is due to domestic currency deposits (including demand deposits), with a positive, but smaller contribution of foreign currency deposits.

<sup>12</sup>Deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households are included at the Other Institutions Deposits. Source: NBRNM.

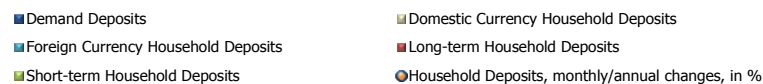
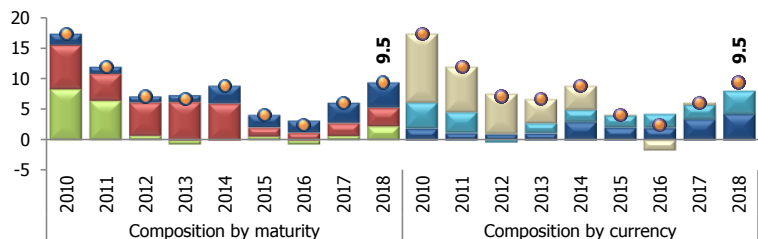
<sup>12</sup> Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the NBRM and funds of units of local self-government on the accounts with the NBRM. Data are in line with the methodological changes of the NBRM from June 2018. 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.nspix](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix).

**Household Deposits**

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)

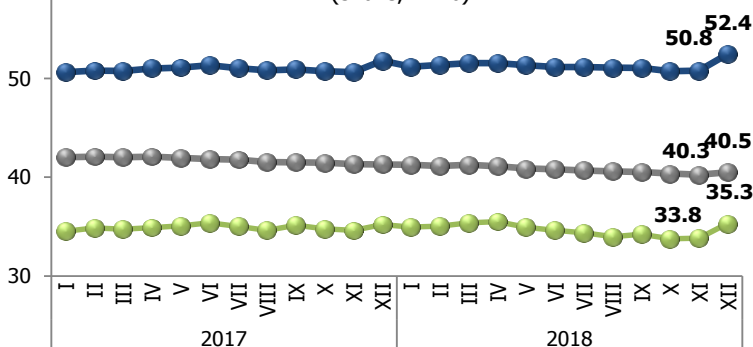


Source: NBRNM.

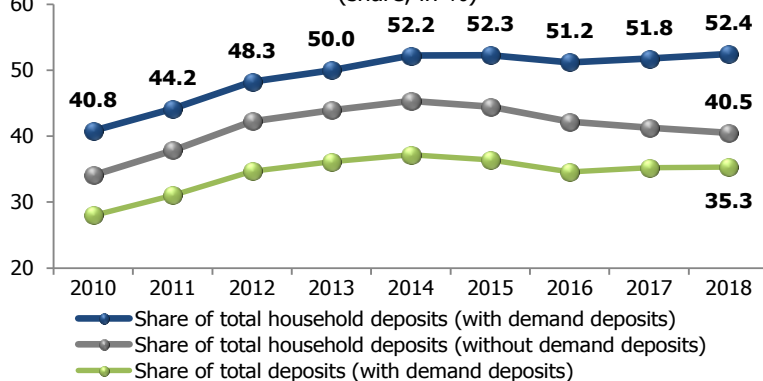
**In the last month of the year, the household deposits registered significant monthly rise, mostly influenced by seasonal factors.** The acceleration in the monthly growth (from 0.7% to 4.2%) is primarily a result of the increase in demand deposits, which is typical for the last month of the year, amid payment of part of the January pensions and wages in the private sector at the end of December, including payment of bonuses. Consequently, denar deposits (including demand deposits) made the largest contribution to the growth of total deposits, and a positive, but smaller contribution was also made by foreign currency deposits. In December, the share of denar deposits (including demand deposits) in total household deposits equaled 52.4%, which is higher compared to the previous month (50.8%). **The annual increase in household deposits in December was 9.5%.**

**Denar Deposits of Households/Total Deposits of Households**

(share, in %)



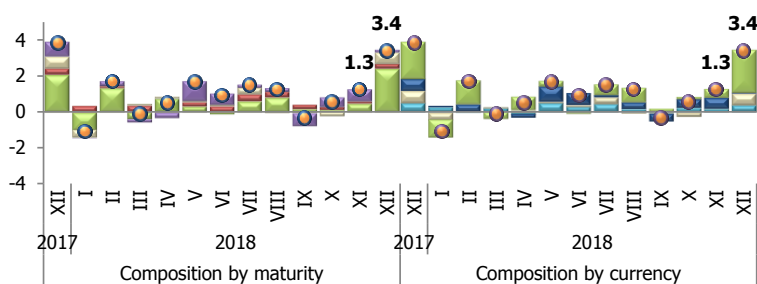
(share, in %)



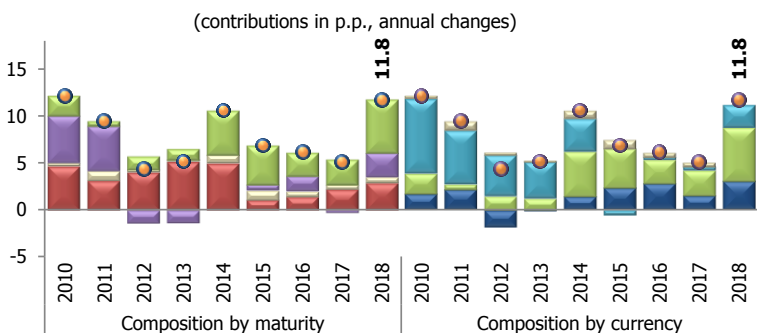
\* Includes deposits at Banks and Saving Houses.

Source: NBRNM.

**Broad Money M4**  
(contributions in p.p., monthly changes)



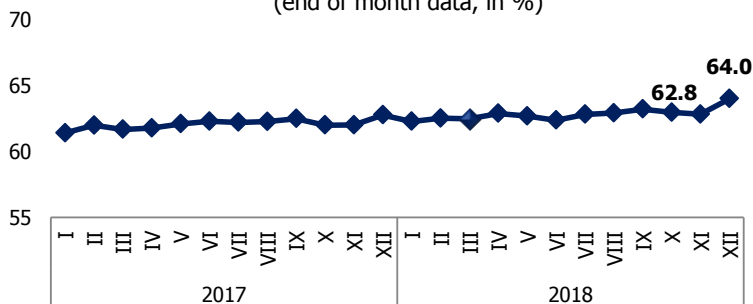
**In December, broad money, measured through M4, registered a higher monthly increase compared to the previous month.** The monthly growth of 3.4% is mostly a result of the increase in demand deposits, with a positive, but smaller contribution of currency in circulation, short-term and long-term deposits. Observed by currency, the growth of total broad money is mostly a result of the increase in denar deposits (including demand deposits). In December, the denar share in total broad money equaled 64.0% (62.8% in the previous month). **In December, broad money increased by 11.8% annually, exceeding the growth of 9.9% forecasted for 2018.**



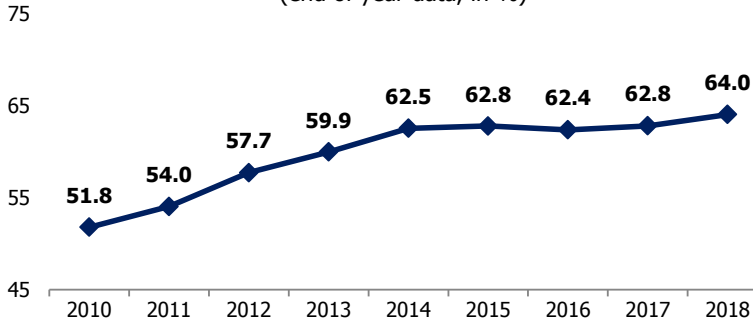
- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits
- Total Foreign Currency Deposits
- Total Long-term Deposits
- Broad Money M4, monthly/annual Changes, in %

Source: NBRNM.

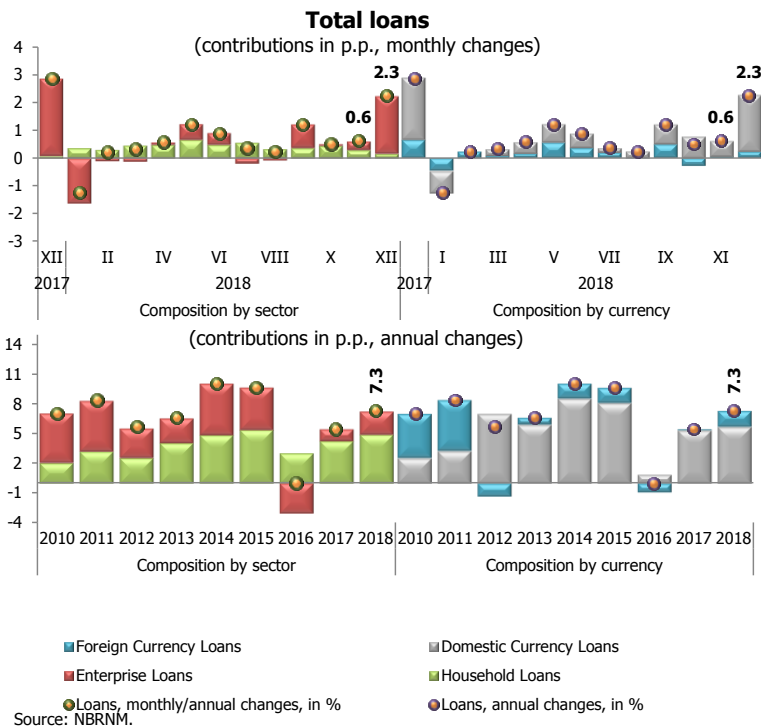
**Share of Denar M4 in total M4**  
(end of month data, in %)



(end of year data, in %)



Source: NBRNM.



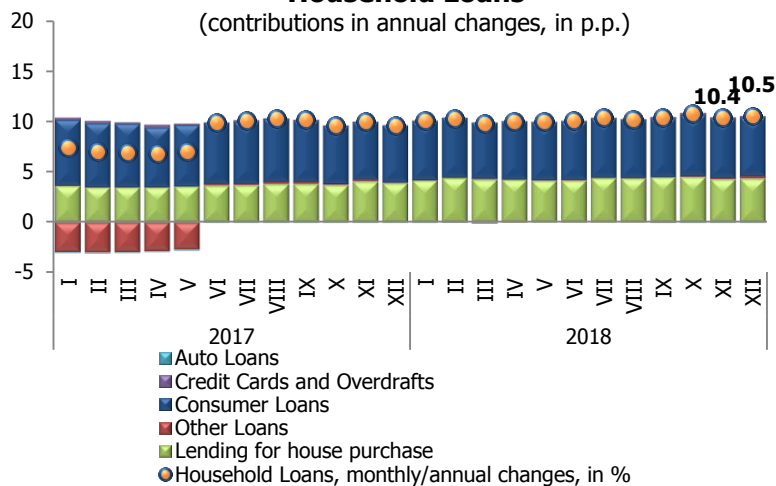
**Total loans extended by banks to private sector continued to grow in December, at an accelerated monthly pace, partly as a result of the influence of seasonal factors.** The acceleration in the growth of total loans in the last month of the year from 0.6% to 2.3% is usual (observed in recent years) and almost entirely derives from the corporate lending. Analyzed by currency structure, the monthly growth of the total loans stemmed from loans in domestic currency.

In the period October - December 2018, total loans increased, whereby their stock at the end of December was lower than expected for the end of the fourth quarter of 2018.

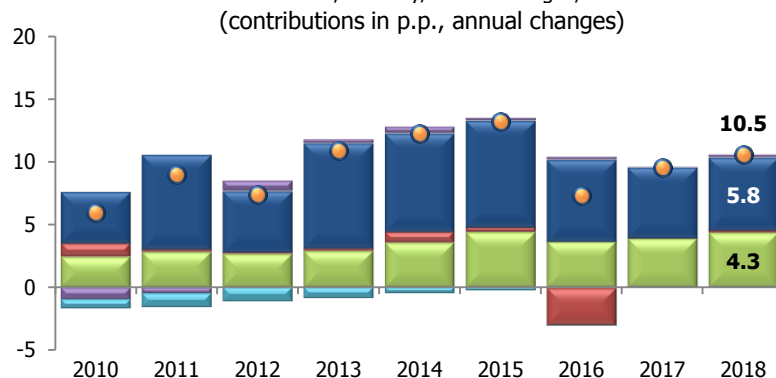
**In December, the annual growth rate of total loans was 7.3%, which is below the annual growth forecasted for 2018 (of 8.4%) in October.** Observed by sector, the annual growth of total loans is still mostly a result of household loans, whereby corporate loans also make a greater positive contribution in the last period. Analyzing the currency, the annual growth of total loans also in December was driven by the growth of loans in domestic currency, with a positive, but small contribution made by loans in foreign currency.

**Household Loans\***

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



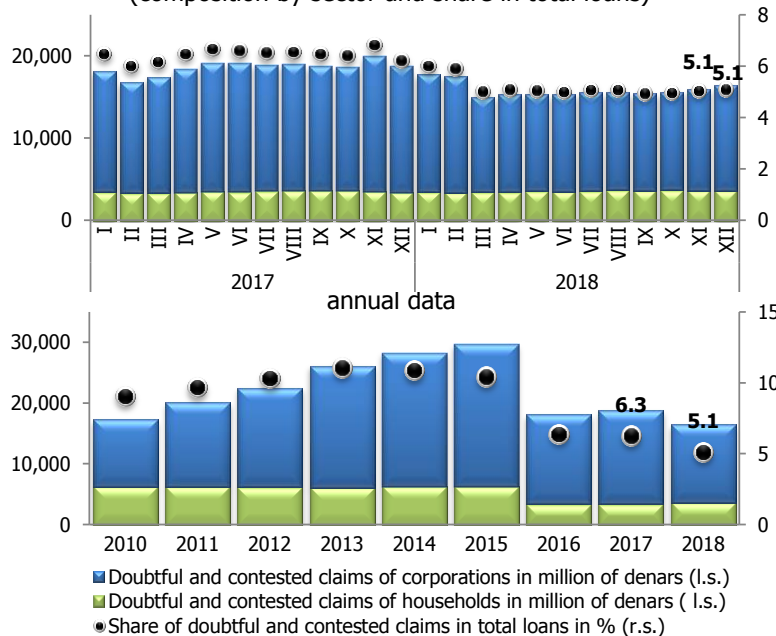
The annual growth of household loans<sup>13</sup> in December 2018 was 10.5%. The growth is still almost entirely due to consumer and housing loans that contributed with 5.8 and 4.3 percentage points, respectively.



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

**Doubtful and contested claims**

(composition by sector and share in total loans)

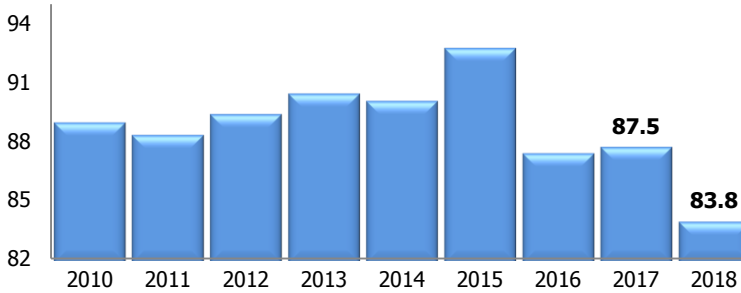
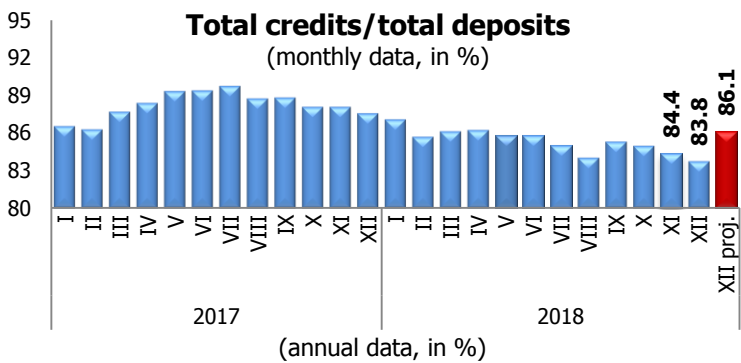


In December, the share of doubtful and contested claims in total loans was 5.1% which is at the level of the previous month, whereby the structure is still predominated by non-performing loans of the corporate sector, with significantly lower share of the non-performing loans of households.

Source: NBRNM.

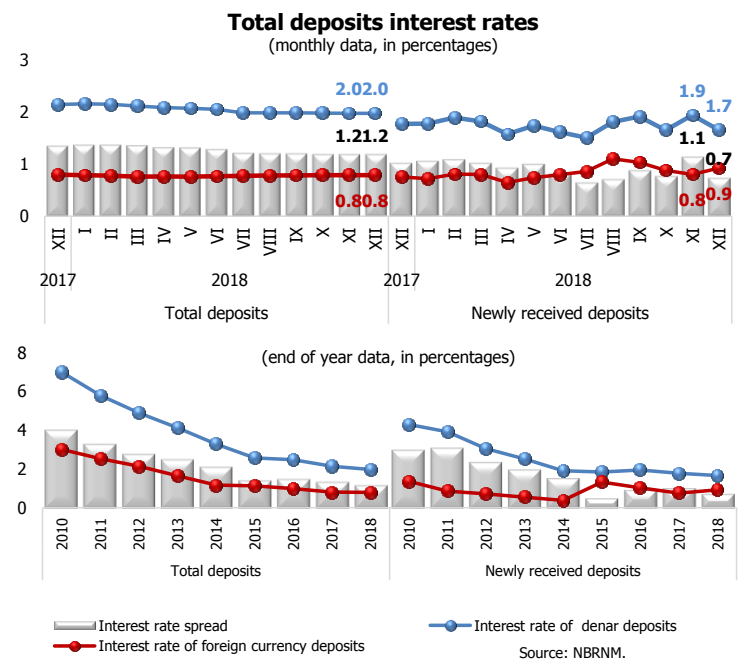
<sup>13</sup> Excluding loans of self-employed individuals.





Source: NBRNM.

The utilization of banks' deposit potential for lending to the private sector amounted to **83.8% in December**. In circumstances of faster growth in deposits than expected, this indicator is lower compared to that forecasted for the end of 2018, according to the October forecast.

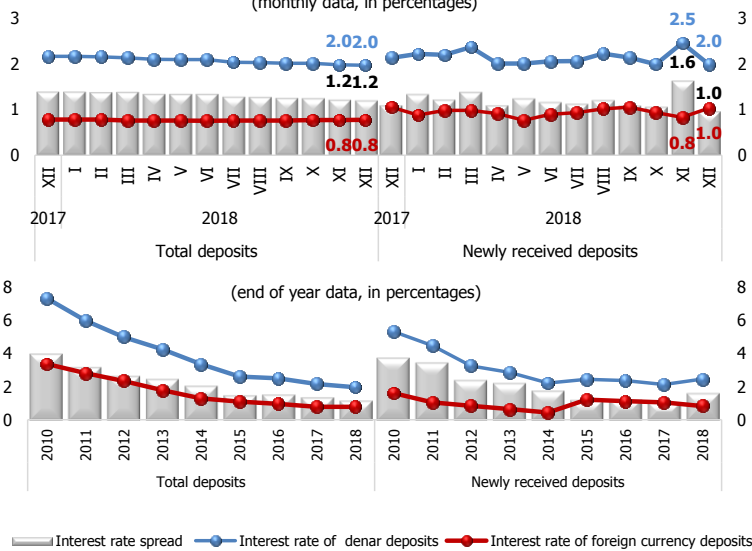


The interest rate spread of the interest rates on total deposits (denar and foreign currency)<sup>14</sup> remained at 1.2 percentage points, amid unchanged interest rates relative to the previous month. In **total newly accepted deposits**, the interest rate spread between denar and foreign currency deposits narrowed from 1.1 percentage point to 0.7 percentage points, given the decrease in the interest rate on denar deposits of 0.2 percentage points and increase in the interest rate on foreign currency deposits of 0.1 percentage point<sup>15</sup>.

<sup>14</sup> 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.nsp.x](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.x).

<sup>15</sup> 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 can vary from month to month) and their interest rate.

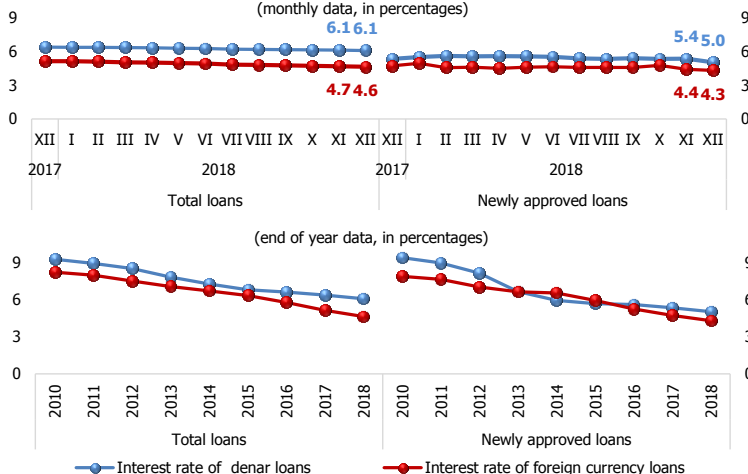
**Households` deposits interest rates**  
(monthly data, in percentages)



In December, the **interest rates on total household deposits** remained at the same level as in 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 new denar deposits decreased by 0.5 percentage points, while the interest rate on foreign currency deposits increased by 0.2 percentage points, so that the interest rate spread decreased from 1.6 to 1.0 percentage points.

Source: NBRNM.

**Total loans interest rates**  
(monthly data, in percentages)



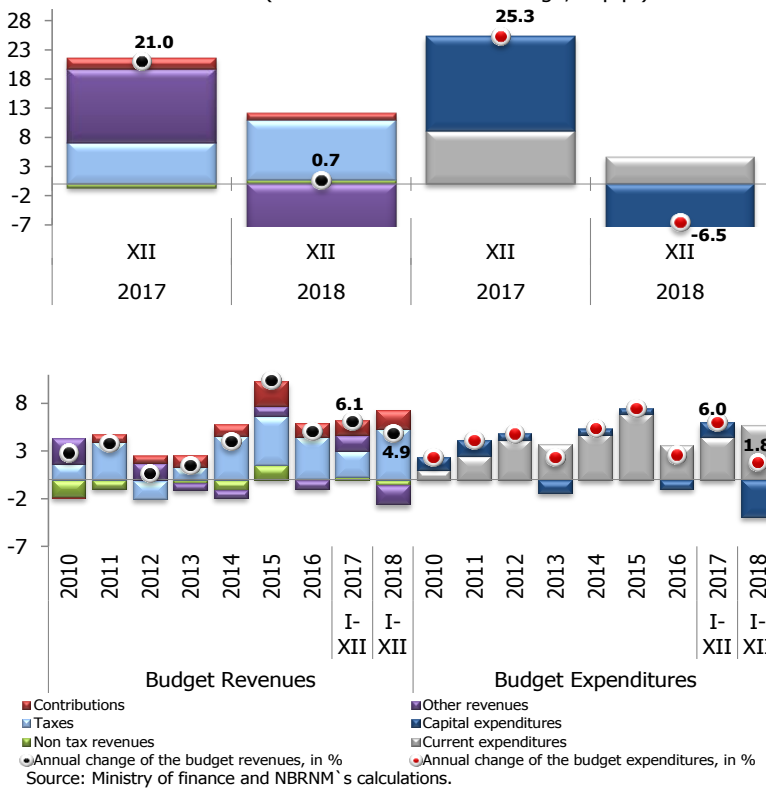
In December, the **interest rate on total loans** to households remained at the same level as in the previous month (6.1%), while the interest rate on total corporate loans registered a decline of 0.1 percentage point and equaled 4.6%. In the **newly approved loans**, the interest rates on household and corporate loans decreased by 0.4 percentage points and 0.1 percentage point, respectively and equaled 5.0% and 4.3%<sup>16</sup>, respectively.

Source: NBRNM.

<sup>16</sup> 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.

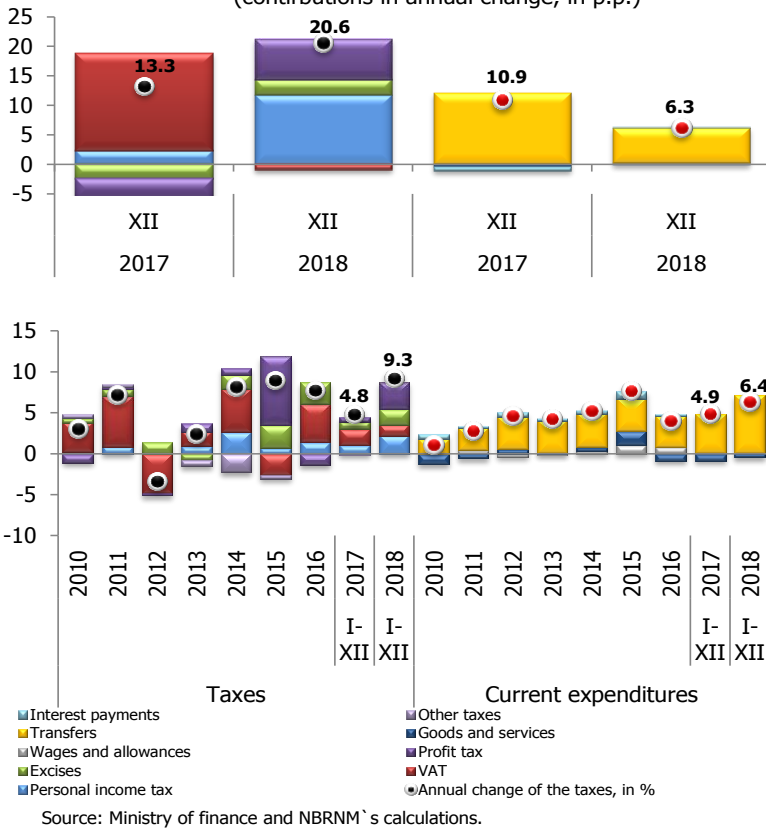
**Budget revenues and expenditures**

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



**Taxes and current expenditures**

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



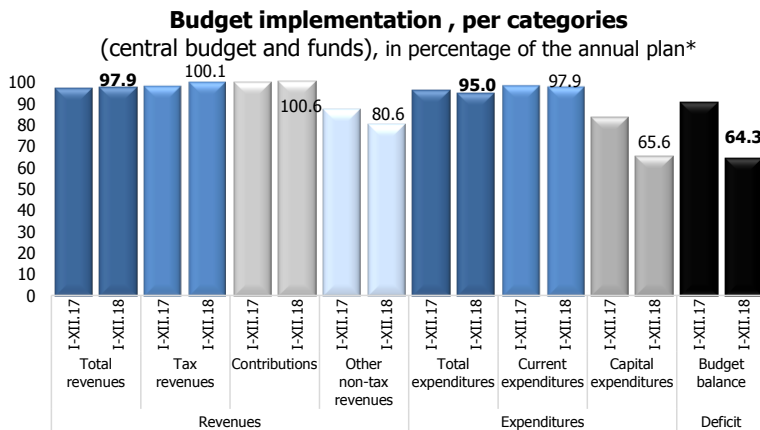
**The Budget of the Republic of Macedonia (central budget and budgets of funds), in December 2018, registered an annual growth of total budget revenues, while total budget expenditures declined.** In December, the **budget revenues** increased by 0.7% on an annual basis, mostly as a result of higher revenues from taxes that contributed with 10.3 percentage points. A positive, but smaller contribution to the growth was also made by contributions and non-tax revenues (1.2 and 0.7 percentage points, respectively), while other revenues<sup>17</sup> made a negative contribution of 11.4 percentage points. Tax revenues in December registered an annual growth of 20.6%, which was mostly due to the higher inflows from personal income tax, profit tax, excise duties and import duties (contribution of 11.7, 6.9, 2.6 and 0.4 percentage points, respectively), amid negative contribution of VAT of 0.9 percentage points, given the higher amount of paid refunds on an annual basis<sup>18</sup>. **Regarding the budget expenditures**, the annual reduction of 6.5% in December is entirely a result of the lower capital expenses (with a negative contribution of 11.2 percentage points), while the contribution of current expenses was positive (4.6 percentage points), amid annual growth of 6.3%, mainly due to higher transfers.

**In the period January - December 2018, total budget revenues and expenditures increased cumulatively compared to the same period last year.** **Budget revenues** increased by 4.9%, mostly reflecting higher tax and contributions revenues (contribution of 5.3 and 2.0 percentage points, respectively), while non-tax revenues and other revenues made a negative contribution (of 0.6 and 2.0 percentage points, respectively). **The budget expenditures are higher by 1.8%**, fully reflecting the higher current expenditures (contribution of 5.7 percentage points), while the contribution of capital expenses is negative (3.9 percentage points).

<sup>17</sup> Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

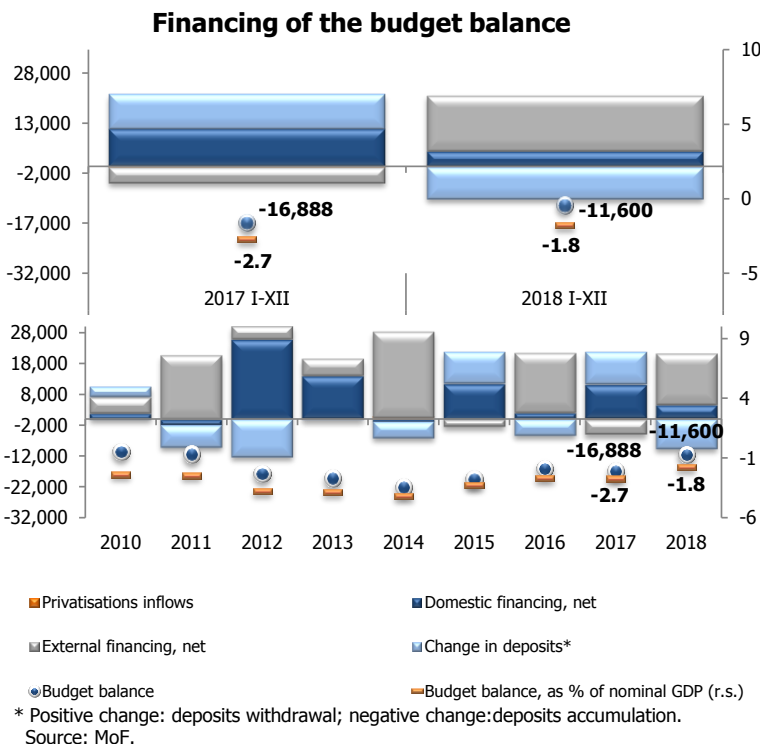
<sup>18</sup> Lower net VAT revenues in 2018 are mostly explained by the higher payment of VAT refunds, by 19.1% on an annual basis, amid annual increase in gross VAT revenues of 7.8%.

**In comparison with the Budget Revision for 2018**, 97.9% of the budget revenues was realized in the period January - December, which is slightly higher than the last year's performance relative to the plan (97.3%), given the highest realization with taxation and contributions (100.1% and 100.6%), and the lowest with the category "other non-tax revenues" (80.6%). **Budget expenditures in the same period represent 95.0% of the total planned expenditures for 2018**, which is slightly lower compared to the last year's performance relative to the plan. The realization of current expenditures was 97.9% of the plan for 2018, while the realization of capital expenditures was 65.6%, which is significantly lower than last year's performance (83.6% 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 NBRNM's calculations.

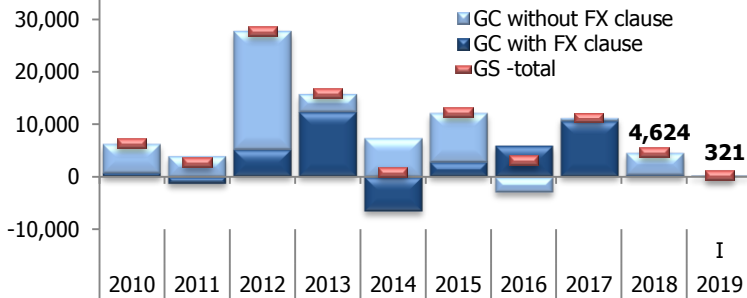
**In the period January-December 2018, the Budget of the Republic of Macedonia registered a deficit, mostly funded by government borrowing on international financial markets.** The realized budget deficit in this period was Denar 11,600 million, or 64.3% of the planned deficit, according to the Budget Revision for 2018 and 1.8% of the nominal GDP<sup>19</sup>. The budget deficit in the period January - December 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. Smaller portion of the budget deficit was financed by domestic sources through net emission of government securities.



<sup>19</sup> The analysis uses the NBRM October forecast for the nominal GDP for 2018.

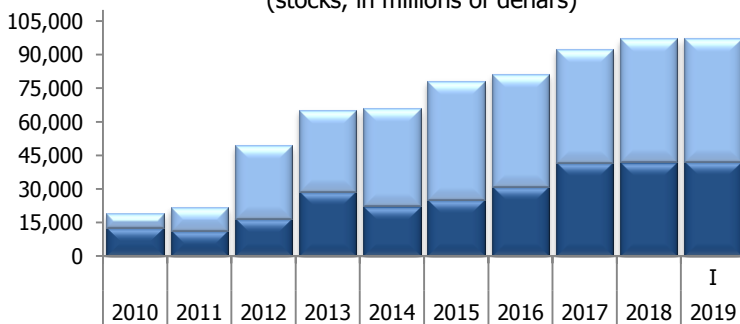
**Government securities**

(changes, in million of denars)



**In the primary government securities market in January 2019, the stock of issued securities increased on a monthly basis and at the end of the month amounted to Denar 97,530 million.** Analyzed by currency, the monthly increase (of Denar 321 million<sup>20</sup>) almost equally derives from the growth of government securities with and without currency clause.

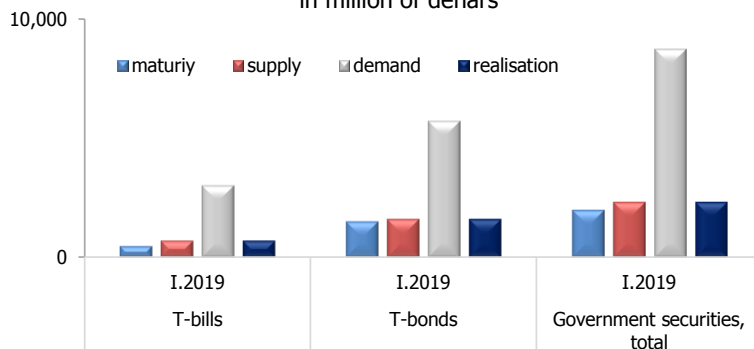
(stocks, in millions of denars)



Source: MoF.

**Government securities auctions**

in million of denars



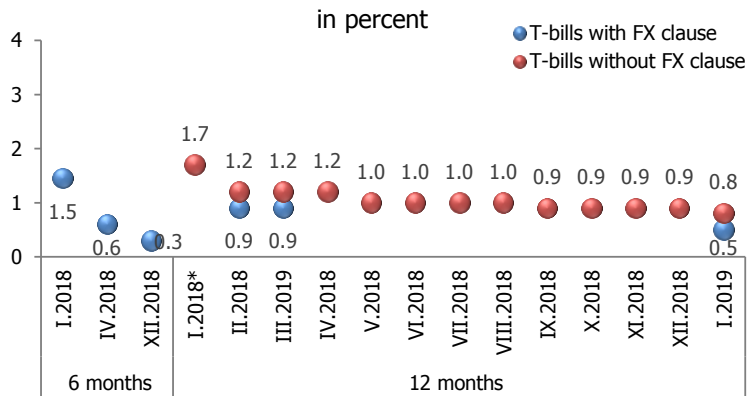
Source: Ministry of finance.

**In January 2019, treasury bills and government bonds were issued.** The new issues of government securities in January 2019 were with twelve-month, two-year and thirty-year maturity<sup>21</sup>, whereby the market participants' interest this month was higher than the offered amount. Amid sales of government securities (treasury bills and government bonds) in a higher amount than the amount due, their stock increased.

<sup>20</sup> The Budget plans a domestic government borrowing of Denar 8,684 million for 2019, i.e. increase in the stock of government securities to Denar 105,892 million.

<sup>21</sup> In January 2019, twelve-month treasury bills, two-year government bonds and five-year government bonds fell due.

**Interest rates of T-bills**

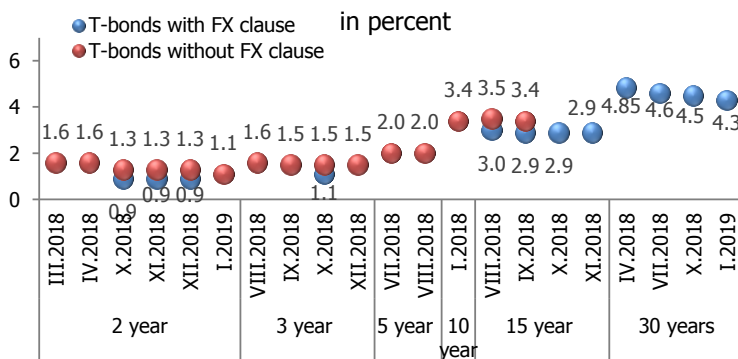


\*The interest rate on 12m T-bills in January 2018 (1,7%) is a weighted average of the realized amount and the interest rates (1,85% и 1,20%) from the two auctions held in January.

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

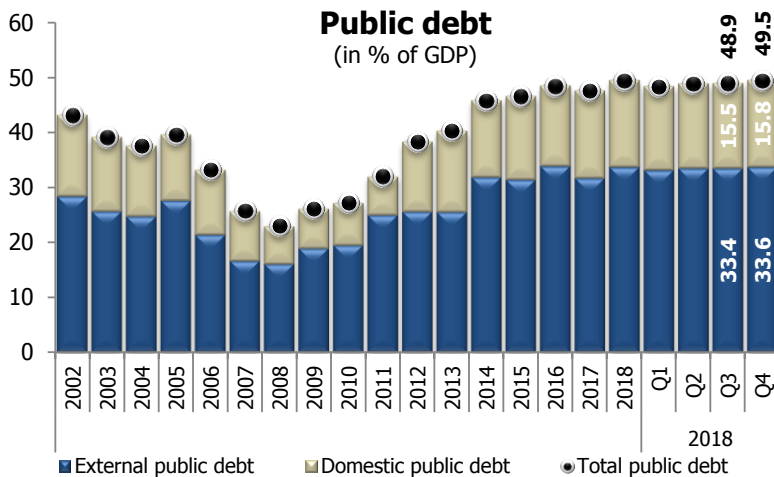
**In January, the Ministry of Finance reduced the interest rates on the issued government securities.** The interest rates on the issued twelve-month treasury bills without currency clause were reduced from 0.9% to 0.8% (from 0.9% to 0.5%, with currency clause). The interest rates on other offered maturities of government securities, i.e. the two-year government bonds without currency clause were reduced from 1.3% to 1.1%, while the interest rates on the thirty-year government bonds with currency clause were reduced from 4.5% to 4.3%.

**Interest rates of T-bonds**



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

**At the end of the fourth quarter of 2018, total public debt<sup>22</sup> equaled 49.5% of GDP<sup>23</sup>,** which is by 0.5 percentage points more compared to the previous quarter. External public debt increased by 0.2 percentage points at the level of 33.6% of GDP, while domestic public debt amounted to 15.8% of GDP (15.5% of GDP at the end of the third quarter). In the last quarter of the year, the total government debt and the debt of public enterprises (for which the Government has issued a state guarantee) increased compared to the previous quarter by 0.4 percentage points and 0.1 percentage point, respectively, whereby they amount to 41.3% and 8.2% of GDP, respectively.



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

<sup>22</sup> The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14) according to which it is the sum of the government debt and the debt of public enterprises established by the state or municipalities, municipalities within the city of Skopje and the city of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the city of Skopje and the city of Skopje, for which the Government has issued a state guarantee.

<sup>23</sup> 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	Q4	September	October	November	December
	<i>real annual growth rates in %</i>											
Retail trade*	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	10.5	9.7	13.3	9.9	8.7
VAT revenues*	3.4	-6.1	4.8	9.7	-6.7	10.1	-9.8	12.6	-15.1	24.6	17.2	-2.8
Imports of consumption goods*	5.9	3.8	5.8	9.0	8.0	2.5	3.0	11.0	-1.3	11.6	13.7	7.7
Domestic production of consumption goods	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	-0.1	5.6	-2.9	5.7	3.5	7.7
Consumer credits*	7.1	8.0	8.1	6.7	7.7	8.3	8.5	9.3	8.5	8.9	8.8	9.3
Average net wage*	1.5	1.0	1.4	1.0	3.4	4.7	3.9	-	3.3	4.6	4.6	-
Private net transfers*	-3.4	22.9	0.2	5.0	5.4	9.0	4.3	-	-6.4	-1.5	6.4	-
Pensions*	6.1	7.0	6.0	4.7	2.1	3.4	2.6	4.5	3.0	5.5	3.4	4.4

\* 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	Q4	September	October	November	December
	<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	10.5	11.4	3.1	22.6	15.5	-2.6
Completed construction works**	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	-	17.0	21.8	12.0	-
Domestic production of capital goods	-0.9	15.6	-2.6	20.9	19.3	24.2	16.0	5.7	14.9	6.7	7.8	2.4
Government investments*	59.9	19.6	-40.8	33.7	-65.1	-39.5	-10.7	-34.1	-12.4	-20.5	-2.8	-42.7
Direct Investments***	-2088.4	-3939.8	-5128.4	2445.8	8097.0	6737.5	3495.0	-	1161.2	880.9	-371.9	-
Long term credits to enterprises*	3.6	-0.4	-0.8	0.0	2.0	4.8	6.6	5.9	6.6	8.9	7.5	5.9

\* 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.