

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



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

January 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 - December 2018) and to make a comparison with the latest macroeconomic projections (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.*

**Since October projections, certain developments in the external environment have been registered, which are generally less favorable compared to October estimations.** Namely, despite the downward revision to the growth of the global economic activity, it is currently assessed that also the growth risks, which are still downward, are more pronounced relative to October. The main risk is still the possible global escalation of trade protectionism, despite the US - China agreement 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. Regarding the economic performance in the euro area, as our key economic partner, in the third quarter of 2018 the annual increase decelerated to 1.6% (compared to 2.2% in the second quarter). Although the deceleration is assessed as temporary, however, the expected growth in the euro area for the period 2018 - 2019 was minimally revised downwards<sup>1</sup>. Regarding the labour market, solid performances continue, and in November the unemployment rate fell to 7.9% (8.1% in October). The latest data on December show deceleration of the annual inflation rate to 1.6% (from 1.9% in November), mostly due to the slower increase in the energy prices. Such performance, supplemented by expectations for lower core inflation (reflecting the weaker expected economic growth) and lower energy prices, have led to a slight downward revision of projected inflation in the euro area for 2019<sup>2</sup>. The EURIBOR interest rate is expected to remain low and without significant changes in the period 2019-2020, which reflects the economic agents' expectations for absence of major changes relating the ECB's monetary policy set-up. This also corresponds to the conclusions of the ECB's meeting last December, when it was announced that despite the completion of the quantitative easing program in 2018, the ECB would continue to pursue a relatively flexible monetary policy in the coming period.

**Analyzing the quantitative external environment indicators of the Macedonian economy, the foreign effective demand forecast** was slightly revised downwards for 2018 and 2019, while for 2010 it was minimally revised upwards compared to the October forecast. Slight upward corrections were made to the foreign effective inflation for 2018 and 2020. In comparison with October expectations for unchangeability, the US dollar is expected to appreciate in 2019 and to register larger depreciation rate in 2010 than expected in October. Forecasts for most primary commodities prices on the world markets for 2019 have been revised downwards compared to the October forecasts. Thus, in 2019, a significant reduction in the price of oil is expected (instead of a small increase in October), a deeper fall in the prices of copper and nickel and a weaker increase in the price of wheat. For 2020, similar dynamics of most prices as in October is expected, except the oil prices where the fall is significantly lower. 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.

---

<sup>1</sup> Pursuant to the latest ECB forecasts, the the real GDP growth rate is envisaged to amount to 1.9% for 2018, 1.7% for 2019, 2020 and 1.5% for 2021, compared to the growth rate of 2%, 1.8% and 1.7% for 2018, 2019 and 2020 in the September forecasts, respectively.

<sup>2</sup> The latest forecasts on inflation are 1.8%, 1.6%, 1.7% and 1.8% for 2018, 2019, 2020 and 2021, respectively, as opposed to the expected inflation of 1.7% in the period 2018 - 2010 in September forecast.

**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.** Having in mind the economic activity, the currently available high-frequency data for the period October - November 2018 suggest more favorable developments in the economy in the fourth quarter, amid rapid growth in activity in industry and the trade turnover, as well as a high growth in completed construction works. This, in addition to published GDP percentage data, according to which the economic activity registers a solid growth in the third quarter, corresponds with the forecasted movement for gradual improvement of the situation in the economy in the following period. **Regarding changes in consumer prices, the inflation rate in December equaled 0.9%, which is lower than forecasted.** However, for the whole of 2018, the annual inflation rate of 1.5% corresponds to the October projection (minimum below the projected rate of 1.6%). Amid inflation lower than forecasted in October and external input assumptions revised in divergent directions, risks to the inflation forecast for 2019 of 2% are considered balanced. The uncertainty related to expected future movement of the world primary commodities prices remains.

**At the end of the fourth quarter of 2018, foreign reserves data indicate an increase in foreign reserves (adjusted for the price and exchange rate differentials and price changes of securities).** Observing the factors of change, the upward changes in the reserves are mostly due to the NBRM interventions on the currency market. The better performance of foreign reserves relative to projections, according to available indicators for the external sector, is probably a reflection of the better current account balance. Thus the foreign trade data for the period October - November indicate a possibility for realization of improved trade balance than expected. The latest available data for net purchase from exchange operations, as of the last quarter, point to net inflows from private transfers that are somewhat higher than expected with the October forecast. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

As for the monetary sector developments, final data as of November show a monthly increase in **total deposits** (of 1.3%), which is higher than the increase in the previous month of (0.9%). Analyzing by sector, the monthly increase in total deposits in November, in one part is a result of single factors<sup>3</sup>, while part arise from the growth of household deposits and corporate deposits. By currency, the increase in the total deposits is almost equally a result of the increase in denar deposits (including demand deposits) and foreign currency deposits. On an annual basis, total deposits in November grew by 12.6%, which is still above the growth of 10.2% forecasted for the third quarter of 2018 in October. Analyzing the credit market, in November, **total loans** of the private sector increased by 0.6% on a monthly basis and continued to increase with similar dynamics as in the preceding month (monthly growth of 0.5%). The growth of lending activity in November almost equally arises from the increase in the loans granted to households and enterprises. According to the currency structure, the monthly growth of the total loans is entirely the result of the increase in the denar loans, while the foreign currency credits have a neutral contribution. Annually, in November, total loans increased by 7.9%, given projected growth of 8.4% at the end of 2018.

In the fiscal sector, in the January - November 2018 period, the Budget of the Republic of Macedonia registered a deficit of Denar 9,502 million, which was mostly funded by external sources, through issue of Eurobonds on international financial markets in January 2018, with part of these foreign assets being kept as a deposit on the government account with the NBRM. Smaller portion of the budget deficit was funded through the new issue of government securities on the domestic financial markets. The deficit in the Budget of the Republic of Macedonia was 52.6% of the deficit planned in the 2018 Budget (after the Budget Revision).

---

<sup>3</sup> Transfer of funds from the Budget of the Local Government accounts to the NBRM, in accordance with the Law on Financial Support to the Local Government Units and single beneficiaries established by the local government units for financing of overdue liabilities.

**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 remained unchanged compared to the previous forecast.** The movements on the foreign exchange and currency exchange markets remain conducive, given increase in the foreign reserves. Foreign reserves adequacy indicators remain in the safe zone. The growth of the economic activity in the third quarter is solid and is slightly above the expectations, which, together with the revised estimates for the performance in the first half of the year, creates prospects for achieving the projected economic growth for the entire 2018. From the aspect of inflation, the performances for 2018 are within the projections, given current divergent revisions in the movement of world prices of primary products in the next period, which are used as inputs in projections. Within the monetary sector, the annual deposit growth in November exceeded the projected for 2018, while the annual growth of loans for the time being is below the projected.

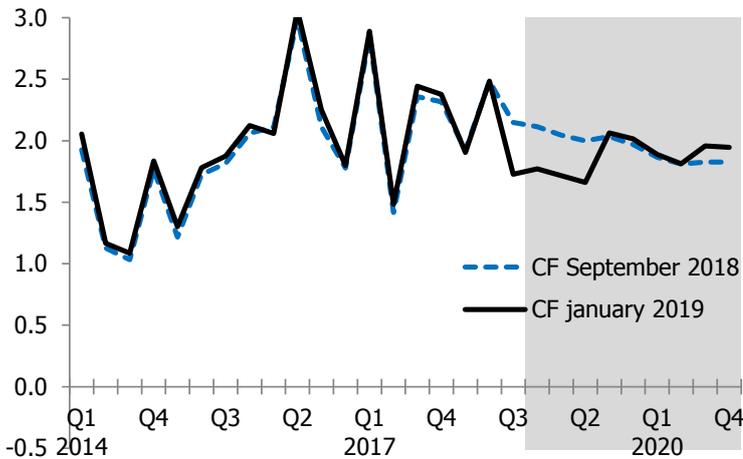
### Domestic inflation in 2018 remained stable and within the projected framework

The average annual inflation rate for the entire 2018 is 1.5% and is within the projected rate of 1.6% according to the October projection. Thus, this year's inflation was stable and close to the inflation level of 1.4% registered in 2017. However, unlike 2017, when the core inflation contributed to the total inflation (due to prices of tobacco, transport, communication and catering services), during 2018, the impact of the prices of this component was more moderate, at the expense of the more pronounced influence of food and energy prices on the overall inflation, taking into account the growth of the prices of these products on the world markets and thus the higher import prices. Amid current inflation realization slightly lower than forecasted in October, as well as amid external input assumptions revised in divergent directions, risks to the inflation forecast for 2019 of 2% for now are considered balanced. However, world prices of primary products are extremely variable and their future movement is still uncertain.

Selected economic indicators <sup>1</sup>	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	Dec	Q4	2018
<b>I. Real sector indicators</b>																								
<b>Gross domestic product (real growth rate, y-o-y) <sup>2</sup></b>	<b>3.9</b>	<b>2.8</b>	<b>1.0</b>	<b>-1.8</b>	<b>0.1</b>	<b>1.6</b>	<b>0.2</b>				<b>0.9</b>				<b>3.0</b>									
<b>Industrial production <sup>3</sup></b>																								
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	4.9			
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	5.2	5.2			
<b>Inflation <sup>4</sup></b>																								
CPI Inflation (y-o-y) <sup>5</sup>	-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	0.9	1.2	0.9
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	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	1.5	1.5	1.5
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	1.4	1.3	1.5
<b>Labor force</b>																								
Unemployment rate	26.1	23.7	22.9	22.6	22.1	21.9	22.4				21.6				21.1				20.8					
<b>II. Fiscal Indicators</b>																								
(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	15,389	15,018	46,006	17,029	15,751			
Total budget expenditures	180,632	185,407	46,279	46,377	47,396	50,559	196,561	13,930	16,755	15,817	46,202	16,493	17,090	15,101	48,684	16,357	14,752	15,167	48,476	15,984	19,290			
Overall balance (cash)	-19,425	-16,051	-3,545	-2,744	-2,754	-1,845	-16,888	-602	-2,695	-164	-3,113	991	-1,853	-143	-1,405	-2,958	633	-149	-2,474	1,045	-3,539			
Overall balance (in % of GDP) <sup>6</sup>	-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	-0.5			
<b>III. Financial indicators <sup>8</sup></b>																								
<b>Broad money (M4), y-o-y growth rate</b>	<b>6.9</b>	<b>6.2</b>	<b>4.2</b>	<b>7.5</b>	<b>6.2</b>	<b>5.1</b>	<b>5.1</b>	<b>5.2</b>	<b>7.3</b>	<b>7.5</b>	<b>7.5</b>	<b>8.0</b>	<b>10.2</b>	<b>10.1</b>	<b>10.1</b>	<b>11.5</b>	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>	<b>12.2</b>		
<b>Total credits, y-o-y growth rate</b>	<b>9.6</b>	<b>-0.1</b>	<b>-1.1</b>	<b>4.1</b>	<b>4.1</b>	<b>5.4</b>	<b>5.4</b>	<b>5.8</b>	<b>6.7</b>	<b>5.7</b>	<b>5.7</b>	<b>5.7</b>	<b>6.1</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>7.9</b>	<b>7.9</b>	<b>8.2</b>	<b>7.9</b>			
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	10.1			
Total credits - enterprises	7.3	-5.3	-2.2	-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	5.8			
<b>Total deposits (incl. demand deposits), y-o-y growth rate<sup>7</sup></b>	<b>6.4</b>	<b>6.1</b>	<b>4.2</b>	<b>7.4</b>	<b>5.9</b>	<b>5.0</b>	<b>5.0</b>	<b>5.2</b>	<b>7.4</b>	<b>7.6</b>	<b>7.6</b>	<b>8.3</b>	<b>10.5</b>	<b>10.6</b>	<b>10.6</b>	<b>12.1</b>	<b>12.2</b>	<b>12.3</b>	<b>12.3</b>	<b>12.2</b>	<b>12.2</b>			
Total deposits - households	4.1	2.5	1.8	6.5	5.8	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	8.3			
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	15.6			
<b>Interest rates <sup>8</sup></b>																								
Interest rates of CBSBis	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	2.75	2.75	2.75	2.50	2.50	2.50
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	5.9			
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			
Deposit rates																								
denar rates	2.8	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			
fx rates (aggregated, incl. fx and denar with fx clause)	1.3	1.0	0.9	0.8	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			
<b>IV. External sector indicators</b>																								
<b>Current account balance (millions of EUR)</b>	<b>-177.1</b>	<b>-275.5</b>	<b>-135.4</b>	<b>-90.8</b>	<b>189.4</b>	<b>-66.1</b>	<b>-102.9</b>	<b>-41.7</b>	<b>-1.2</b>	<b>-105.8</b>	<b>-148.7</b>	<b>-3.0</b>	<b>49.5</b>	<b>-26.1</b>	<b>20.5</b>	<b>72.0</b>	<b>61.1</b>	<b>69.1</b>	<b>202.2</b>					
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	1.9					
<b>Trade balance (millions of EUR)<sup>9</sup></b>	<b>-1,713.6</b>	<b>-1,777.4</b>	<b>-435.1</b>	<b>-450.8</b>	<b>-385.9</b>	<b>-545.9</b>	<b>-1,817.7</b>	<b>-139.3</b>	<b>-117.0</b>	<b>-218.6</b>	<b>-474.9</b>	<b>-153.1</b>	<b>-119.7</b>	<b>-158.8</b>	<b>-431.5</b>	<b>-160.1</b>	<b>-145.8</b>	<b>-76.0</b>	<b>-381.9</b>	<b>-181.3</b>	<b>-163.4</b>			
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	-3.8	-1.7	-1.6			
Imports (millions of EUR)	-580.11	-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	-66.4	-1,845.4	-763.8	-707.9			
Exports (millions of EUR)	4,087.6	4,329.3	1,148.6	1,276.9	1,263.0	1,324.7	5,007.2	425.5	460.0	426.2	1,308.7	469.9	505.5	482.9	1,439.5	480.8	452.2	530.0	1,463.1	602.5	544.4			
rate of growth of import (y-o-y)	5.4	5.3	16.7	15.5	7.1	13.2	11.8	24.6	10.6	5.5	12.6	10.2	13.3	18.9	9.4	16.6	11.2	8.0	11.9	25.8	13.2			
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	13.1	15.6	17.5	14.7	13.8	15.8	28.1	20.9		
<b>Foreign Direct Investment (millions of EUR)</b>	<b>202.8</b>	<b>316.9</b>	<b>96.5</b>	<b>-22.3</b>	<b>-63.0</b>	<b>168.8</b>	<b>180.0</b>	<b>66.3</b>	<b>94.2</b>	<b>68.6</b>	<b>229.1</b>	<b>42.3</b>	<b>44.1</b>	<b>0.9</b>	<b>87.4</b>	<b>4.5</b>	<b>21.9</b>	<b>-32.4</b>	<b>-5.9</b>					
<b>External debt</b>																								
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				8,258.6				8,425.7				8,399.8					
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				3,986.3					
public sector/GDP (in %)	32.4	35.4	37.9	37.2	36.9	34.4	34.4				38.5				38.5				37.9					
private sector	3,356.9	3,771.2	3,879.9	3,964.3	3,917.4	3,910.7	3,910.7				4,205.5				4,347.8				4,413.5					
Gross external debt/GDP (in %)	69.4	74.2	76.5	76.5	75.8	73.2	73.2				78.5				80.1				79.9					
<b>Gross official reserves (millions of EUR)<sup>10</sup></b>	<b>2,261.7</b>	<b>2,613.4</b>	<b>2,534.4</b>	<b>2,399.9</b>	<b>2,271.4</b>	<b>2,336.3</b>	<b>2,336.3</b>	<b>2,577.4</b>	<b>2,566.3</b>	<b>2,577.1</b>	<b>2,877.1</b>	<b>2,588.4</b>	<b>2,610.7</b>	<b>2,642.2</b>	<b>2,642.2</b>	<b>2,622.8</b>	<b>2,698.6</b>	<b>2,799.3</b>	<b>2,709.1</b>	<b>2,759.4</b>	<b>2,771.6</b>	<b>2,867.3</b>	<b>2,867.3</b>	<b>2,867.3</b>

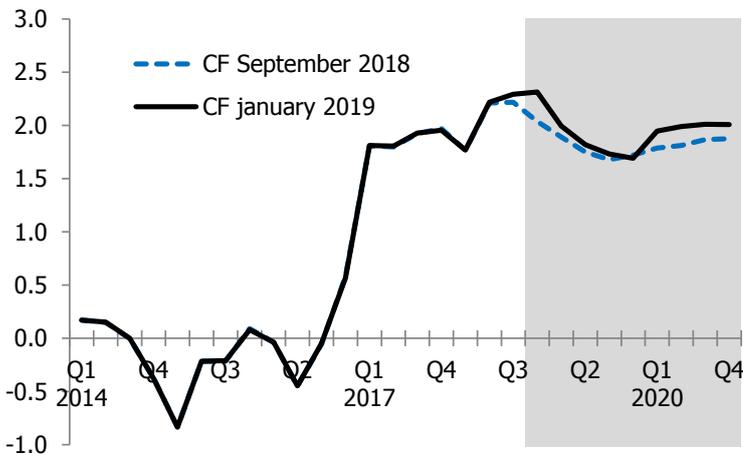
<sup>1</sup> While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2018, the projected level from the NBRF projections from October is used.  
<sup>2</sup> The quarterly data for 2016 are preliminary, while for 2017 and 2018 are estimated (press release for quarterly data on GDP as of 05.12.2018). The annual data for 2016 in final, and for 2017 is preliminary data (Announcement for annual data for GDP from 28.08.2018).  
<sup>3</sup> The changes of index of industrial production are according to base year 2015=100.  
<sup>4</sup> CPI calculated according to CECEP 2017=100.  
<sup>5</sup> Deflation on annual basis corresponds to real year inflation (December current year/December previous year)  
<sup>6</sup> 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).  
<sup>7</sup> It encompasses the deposits from non government sector (Banks and Savings Banks), transferable deposits from Other Financial Corporations in denars and transferable

**Foreign effective demand**  
(annual changes in %)



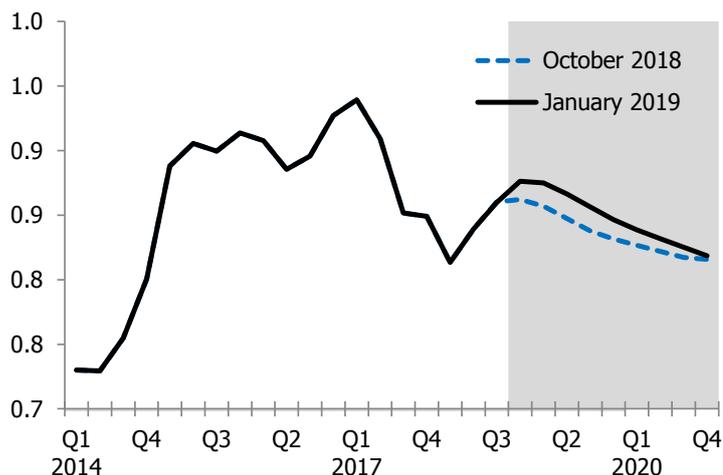
**According to the latest estimates of the foreign effective demand, it has been revised downwards for 2018 and 2019 relative to the October projection cycle.** Thus, foreign demand is now expected to grow by 2.0%, in 2018 (versus 2.2% in October) and 1.9%, in 2019 (versus 2% in October). On the other hand, for 2020, a minimal upward revision of the foreign demand was made, and now the growth is expected to equal 1.9% rather than 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 %)



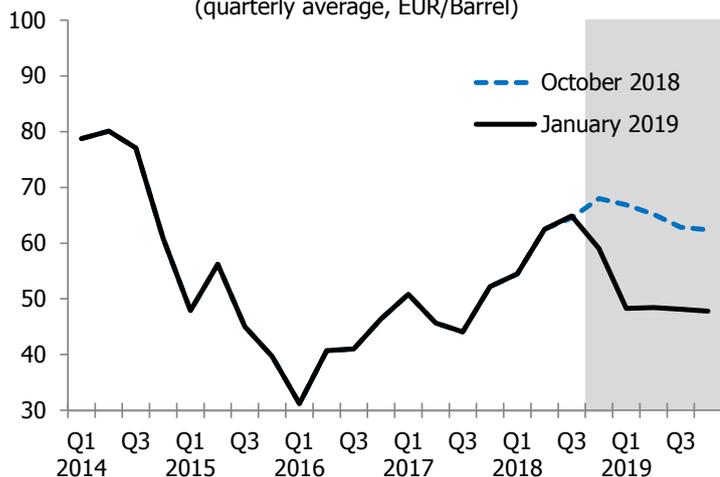
**The foreign effective inflation, according to the latest data and estimations, has been revised upwards for 2018, while for 2019, the estimations were kept equal to the October projection cycle.** Therefore the foreign effective inflation is expected to amount 2.2% in 2018 (compared to 2.1% in October) and 1.8% in 2019. A minimum upward revision has been carried out for 2020, with now it is expected to increase by 2.0%, compared to 1.9% in October. The upward revision in 2018 and 2020 is largely due to the estimates of higher imported inflation from Bulgaria.

EUR/USD exchange rate



In 2018 a smaller depreciation of the US dollar against the euro was registered (by 4.5%) compared with the October projection. **For 2019**, the euro/US dollar exchange rate has been revised upwards, now expecting strengthening of the value of the US dollar (slight appreciation relative to euro), mainly reflecting the FED's monetary policy <sup>4</sup> and worse economic results of the euro area. On the other hand, **the foreign effective inflation has undergone a downward revision in 2020**, larger depreciation of the US dollar relative to euro is expected.

Brent oil  
(quarterly average, EUR/Barrel)

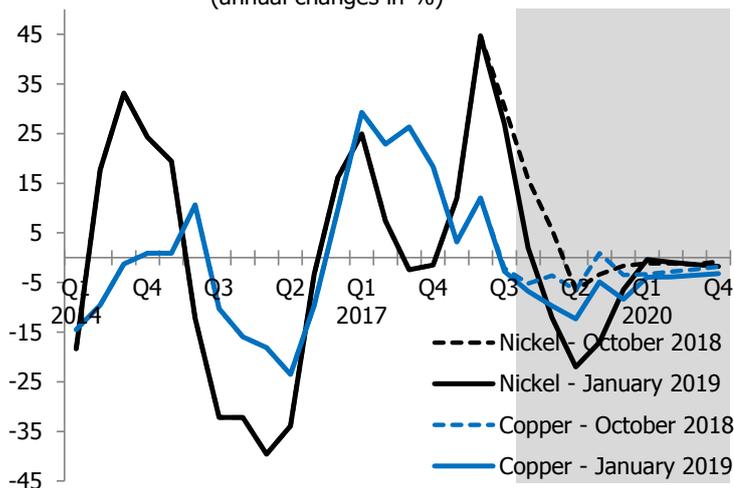


**In 2018 slightly smaller increase in oil prices compared to the October projection was registered. For 2019**, according to the latest estimations, the oil prices<sup>5</sup> has been revised downwards compared to October (significant price drop, instead of the expected increase in October), which reflects the expectations for smaller world demand for this energy source. **For 2020, the revisions are upward**, with a lower decline in oil prices being expected compared to October.

<sup>4</sup> On 19 December 2018, the FED decided to increase the reference interest rate by 0.25 p.p., and it now ranges within 2.25 - 2.5%.

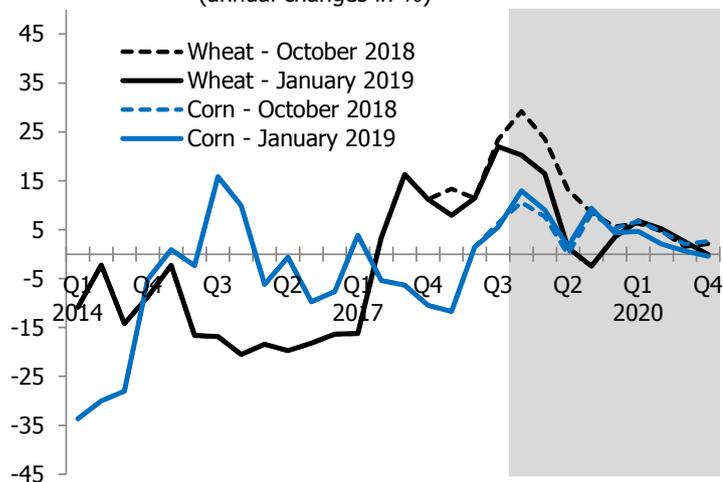
<sup>5</sup> The analysis of prices of oil, metals and primary food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

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



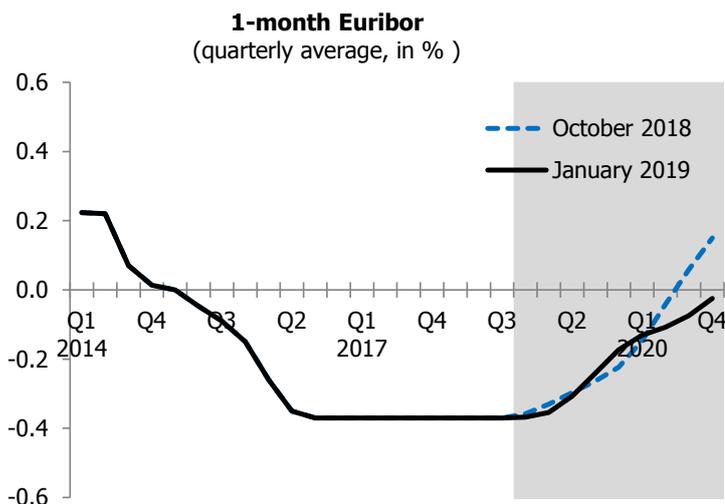
The rise in the prices of copper and nickel registered in 2018 was lower than in the October forecast. For the entire 2019 the metal prices have been revised downwards, expecting substantially larger drop of the copper and nickel price compared to October projection. The downward revision of copper prices is largely due to China's lower demand expectations, while nickel correction is associated with the expectations of a higher level of supply (increased production in Indonesia). For 2020 it is expected that the copper price will register a slightly deeper decrease, while the price of nickel was not corrected compared to October.

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



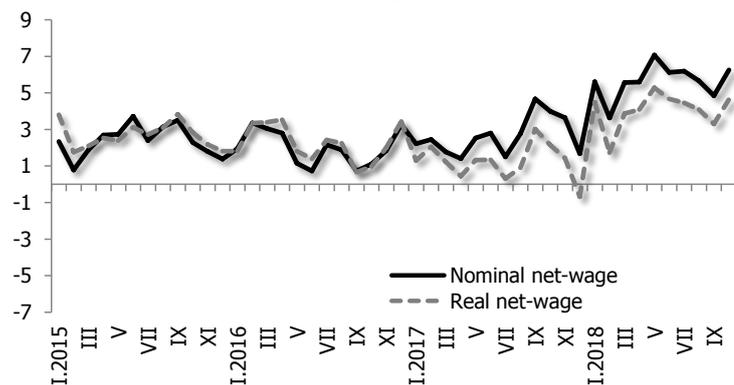
In 2018 the wheat price registered smaller rise compared to the October forecast. For 2019, in conditions of higher expected production of this crop, more significant downward revision of the expected price growth was made, while no changes were made for 2020. On the other hand, in 2018 the corn registered slightly higher price growth than it was projected in October. In 2019, corn price growth is expected to be similar to the one in October<sup>6</sup>, while for 2020 slight downward revision of the expected corn price was made.

<sup>6</sup> The corn prices in US dollars have been revised downwards, as well as the prices of most of the primary commodities. However, since the change is of low intensity, prices expressed in euros point to a slight upward revision. The correction is a result of the expected changes in the euro/US dollar exchange rate.



**In 2018, the one-month Euribor rate is the same with the October forecasts, and the interest rate equaled -0.37%, on average. Expectations for the one-month Euribor for 2019 and 2020 remain similar to the October projections (for 2019, a rate of -0.27% is expected, compared to -0.28% in October, while for 2020 the one-month Euribor, according to the current estimates, would be -0.1%, as opposed to 0.01% in October). The further maintenance of the one-month Euribor at a low and almost unchanged level corresponds with the ECB announcements for the continuation of the relatively accommodating monetary policy in the next period.**

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



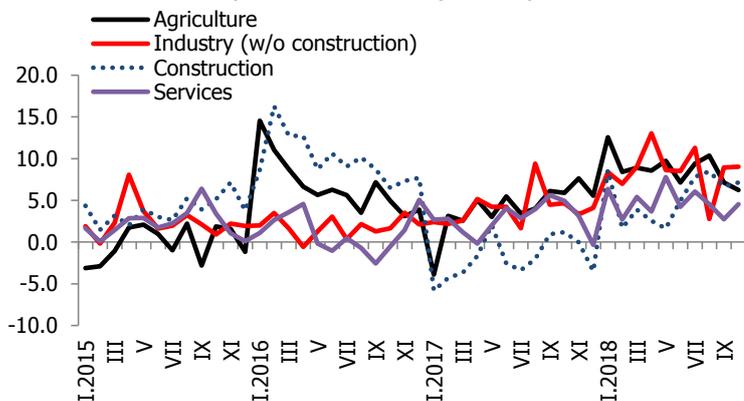
Source: SSO.

**In October 2018, the average net wage registered a nominal annual growth rate of 6.3%** (acceleration against nominal annual growth of 4.8% in September). The annual growth of wages was due to the growth registered in most of the activities, and it was especially evident in the activities "mining and quarrying", "information and communications" and in the manufacturing industry. On the other hand, the activity "art, entertainment and recreation" shows a significant drop in the wages in October<sup>7</sup>.

In conditions of moderate annual growth in consumer prices, **the real annual growth rate of wages in October equaled 4.6%**.

In October, wage performance is in line with the expectations in the October projection cycle for the fourth quarter.

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



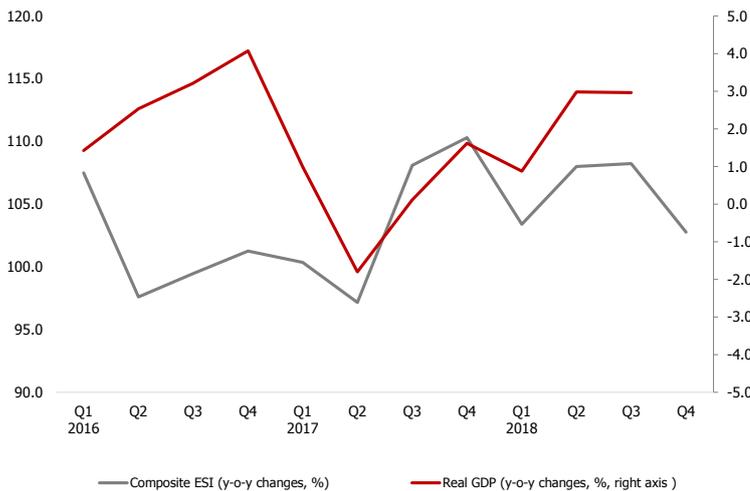
Source: SSO.

**High-frequency data on the supply and demand side for the period October-November 2018 are generally favorable and indicate a 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 indicate lower optimism of the economic entities with respect to the general economic situation<sup>8</sup> (compared to the same quarter of the previous year, but also relative to the last quarter).

<sup>7</sup> In October 2018, wages decreased also in "transport and storage" and "professional, scientific and technical activities".

<sup>8</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).

## Economic sentiment indicator and GDP



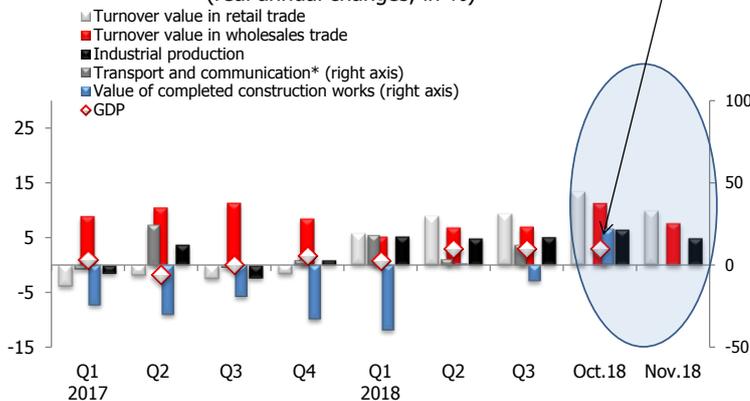
**According to the latest high frequency data on the supply side, the economic performance is generally favorable.**

Thus, in the period October - November 2018, the turnover in the total trade registered acceleration of the annual growth with higher growth in the turnover realized in both the retail trade and the wholesale trade<sup>9</sup>.

Furthermore, in the period October - November, solid performances and further acceleration of the annual growth were registered in the industrial production, mostly caused by the growth in the manufacturing industry. Growth was recorded in the mining and the energy sector, as well. Observed on aggregate level, most of the activities registered an increase, and the highest contribution was registered in the activities in which the foreign export capacities are the producers, such as the production of machines and devices and motor vehicles. Also, a significant contribution to the total industrial production is registered in the production of metals, furniture, beverages and pharmaceutical products. On the other hand, the share of the production of fabricated metals registers more evident decrease.

Source: State statistical office and European Commission.

## 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.

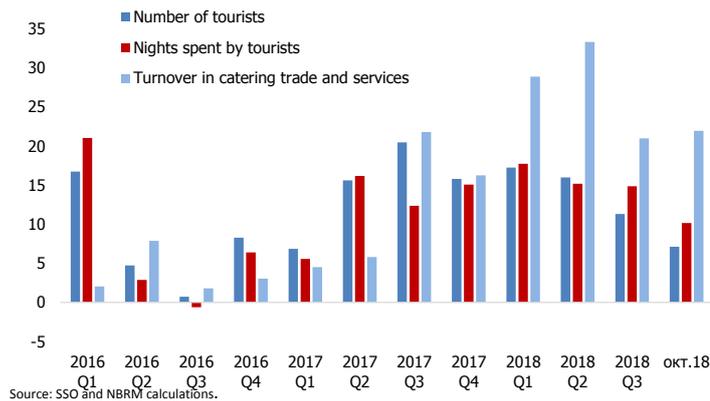
	2017				2018						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	septembe	October	novembe	
	<i>real annual changes in %</i>										
Gross domestic product	1.0	-1.8	0.1	1.6	0.9	3.0	3.0	-	-	-	
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	4.9	5.1	4.5	6.4	4.9	
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	17.0	21.8	-	
Retail and wholesale trade	3.0	4.4	4.7	3.9	5.7	8.2	7.3	6.7	11.7	7.9	
Retail trade	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	9.7	13.3	9.9	
Wholesale trade	8.9	10.4	11.2	8.4	5.2	6.8	7.0	6.0	11.2	7.6	

\* 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.

After the fall in **construction**, high annual growth rate is registered in October, which indicates possible improvement of the situation of this sector in the fourth quarter after the unfavorable performance in the past period. The increase in this sector is generally caused by the increase in the high rise construction.

<sup>9</sup> In the trade with motor vehicles, solid growth was registered in October, while in November there is a slight decline.

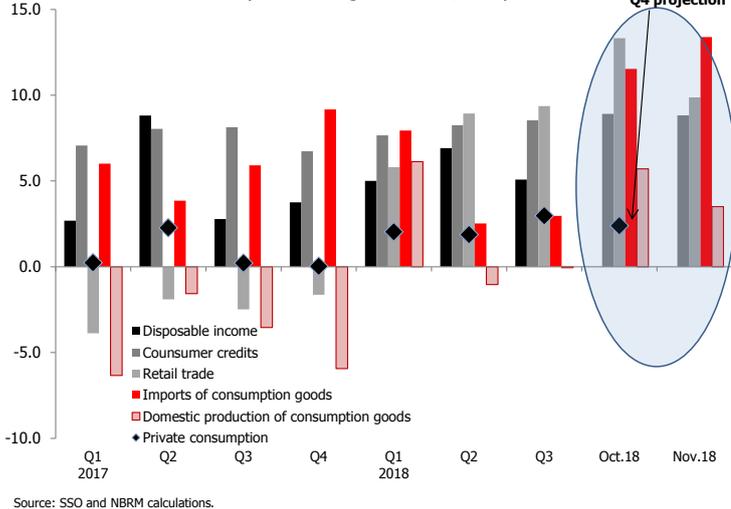
**Tourism indicators**  
(real annual changes)



In October 2018, **catering** characterizes with increased number of tourists, overnight stays and total turnover compared to the same month of the previous year (although with slower annual dynamics from the third quarter), which points to favorable performances in this sector in the fourth quarter of 2018.

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

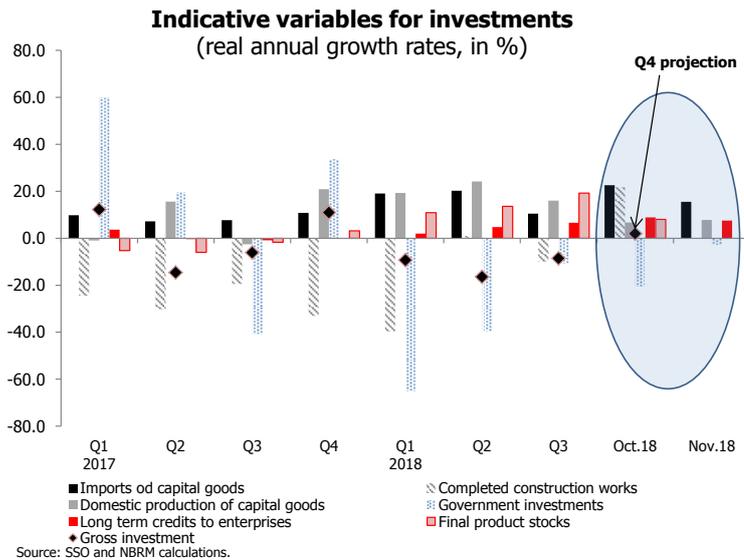
**Indicative variables for private consumption**  
(real annual growth rates, in %)



**Private consumption**<sup>10</sup> indicators mainly point to its further growth also in the fourth quarter. Growth was seen in almost all funding sources of private consumption, amid favorable movements in some of the disposable income components<sup>11</sup> (growth in real wages, and increase in the balance of pensions), as well as through the further growth of household lending. Also, short-term indicators of the dynamics of personal consumption are also favorable. Thus, in this period, the annual growth of the turnover in the retail trade accelerated, and the accelerated growth was registered in the import of consumer goods and domestic production of consumer goods.

<sup>10</sup> From the indicators for personal consumption, data on turnover in retail trade, pensions, domestic production of consumer goods, imports of consumer goods and household loans refer to the period October - November 2018, while net wages and private transfers are as of October 2018.

<sup>11</sup> Regarding the high frequency indicators for private consumption, only the private transfers registered a decrease in October 2018.



The high frequency data on the **gross investments**<sup>12</sup> in the period October - November 2018 are mainly favorable. Thus, annual growth with long-term corporate loans, import of investment products, domestic production of capital products, as well as in foreign direct investments was registered. In October, intensified activity in construction sector has also been registered. On the other hand, decline in high frequency indicators has been registered only in government capital investments (although in November there is a slowdown in the fall dynamics).

**Foreign trade** data for the period October - November 2018 point to a potential deficit expansion in the fourth quarter compared to the same period last year.

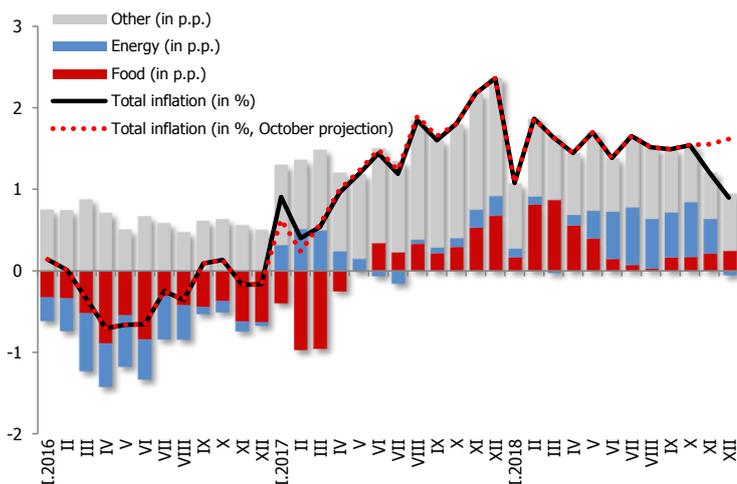
Budget performances in October - November 2018 show slight decrease in the **public consumption**, mainly as a result of the lower expenses for goods, services and health transfers<sup>13</sup>.

<sup>12</sup> Out of the gross investments indicators, data on the government capital investments, domestic production of capital goods, import of means for operation and long-term corporate loans are as of October - November 2018, while data on completed construction works, direct investments, and stocks of manufactured articles are as of October 2018.

<sup>13</sup> Most of these assets relate to expenditures on goods and services.

**Inflation rate**

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



Source: SSO and NBRM.

**In December 2018, domestic consumer prices registered a monthly decrease of 0.2%<sup>14</sup> (the same as in November)...**

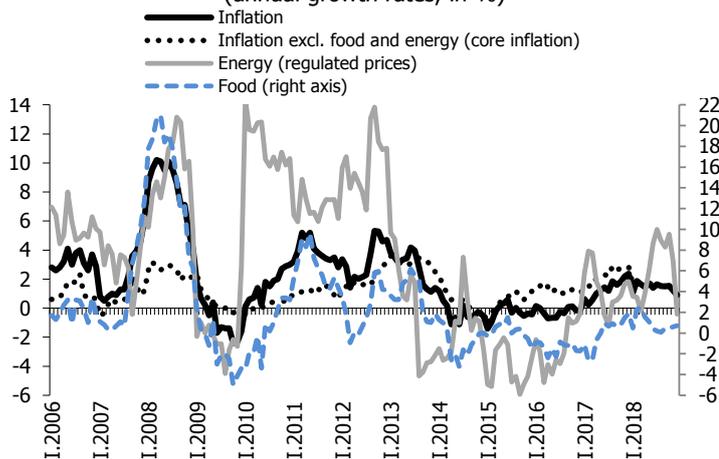
...reflecting the downward movement in energy prices, while the core inflation and food prices registered minimal growth on a monthly basis.

**The annual inflation rate equaled 0.9% in December** (compared to 1.2% in November), which is a downward deviation compared to the October projection.

By structure, downward revision to the projection is registered in energy and food prices, while the core inflation is in line with the October projection.

**Inflation and volatility of food and energy**

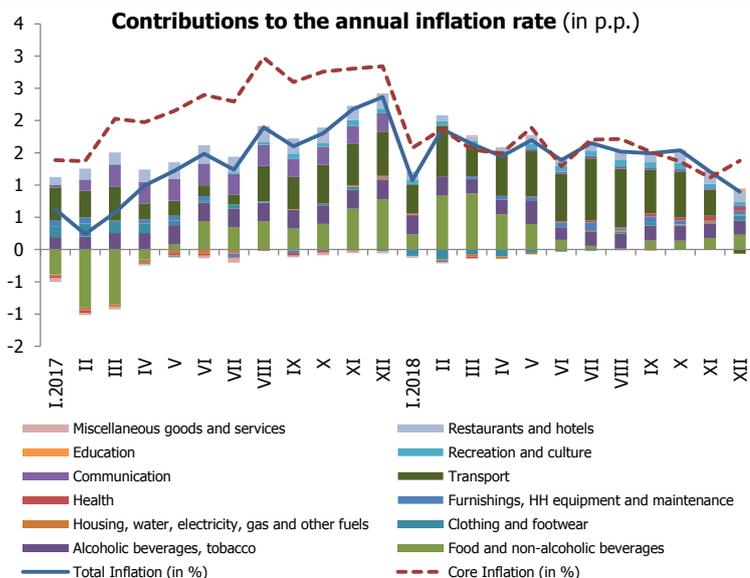
(annual growth rates, in %)



Source: State statistical office and NBRM calculations.

**Analyzed cumulatively, for the entire 2018, the inflation rate of 1.3% is generally in line with the forecasted in the October round of forecasts.**

<sup>14</sup> Analyzed by groups of products, the largest contribution to the monthly fall in prices in December was made by the fall in fuels.

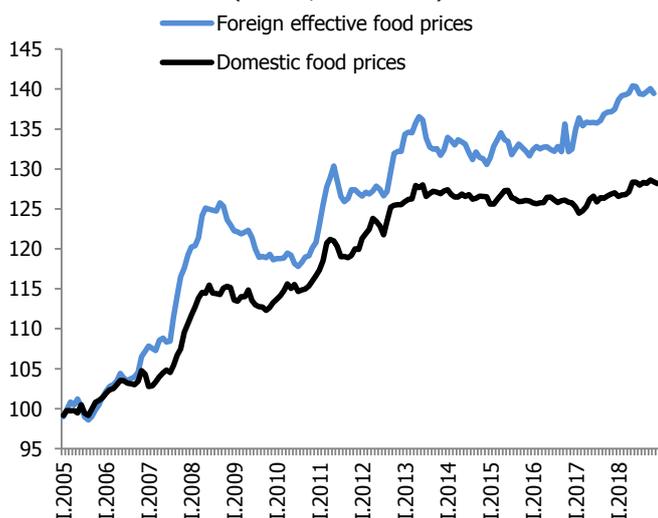


The average inflation rate in December registered a slight monthly increase of **0.3%**, which also reflects on the annual increase, accelerating and positioning to 1.4% (compared to 1.1% in November), mainly driven by the acceleration of the annual increase in the prices of footwear and the prices of non-performing household products, as well as the slowdown in the annual decline in air transport prices.

The growth structure of core inflation in December is similar to the previous month. The annual growth is related to the price growth in most categories within the core inflation, from which tobacco prices<sup>15</sup>, hotel and restaurant prices, as well as the prices of travel arrangements and footwear prices have the highest positive contribution.

## Foreign effective food prices\* and domestic food prices

(indices, 2005 = 100)



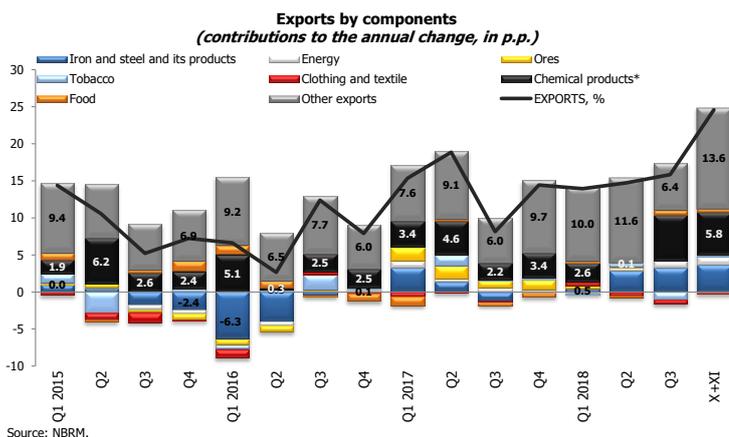
\* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with Macedonia.  
Source: State statistical office, Eurostat and NBRM calculations.

**Regarding the expected price movements of external input assumptions, the inflation forecast for 2019 has been revised in different directions.**

Thus, the latest oil prices estimates for 2019 indicate more significant fall as opposed to the expected rise in the October round of forecasts. Regarding the cereal prices, the wheat prices are expected to register lower rise, whereas the corn prices, which are expected to have accelerated growth. On the other hand, the expectations about the movement of the foreign effective demand are the same as in October projection cycle.

**Amid inflation slightly lower than forecasted in October, as well as external assumptions revised in divergent directions, risks to the inflation forecast for 2019 are considered balanced.** In medium run, the uncertainty around the forecasted movement of world primary commodities prices, primarily oil prices, remains.

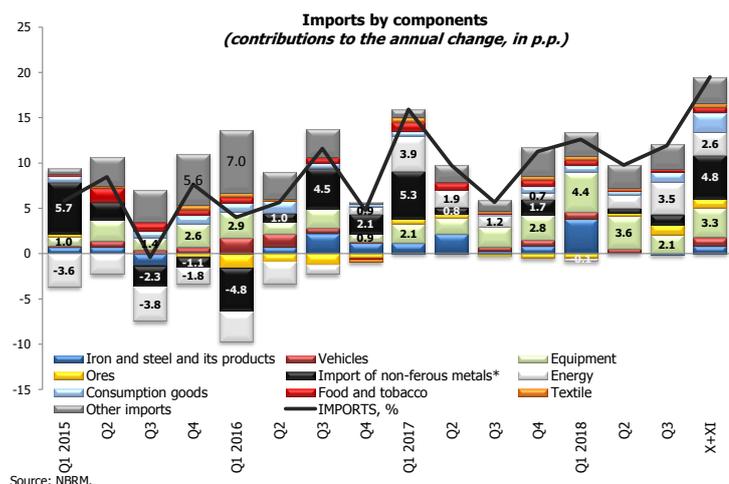
<sup>15</sup> The annual growth of tobacco price in December reflects the increase in the prices of cigarettes in April, May and July, in line with the forecasted annual increase in excise duties on cigarettes of 0.20 denars per piece, as of July 2023.



In the period October - November 2018, the foreign trade deficit widened by 5.2% on an annual basis, given solid growth also import and export component.

**Export of goods** in the period of October - November registered high annual increase of 24.6%, which is mainly due to the favorable performance of the new export facilities in the economy. Regarding other export branches, the export of iron and steel, and energy had positive contribution to the growth, as well.

Compared with the October projection, the October and November 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.

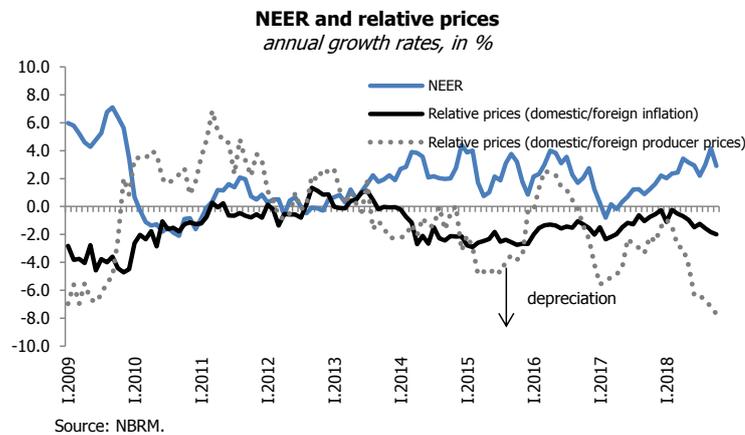
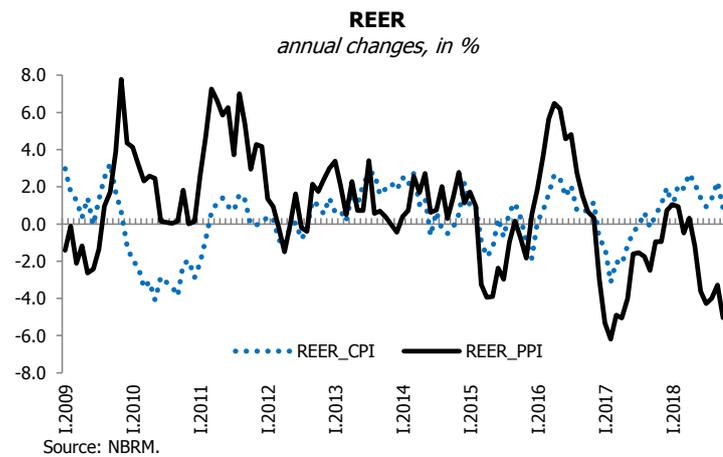
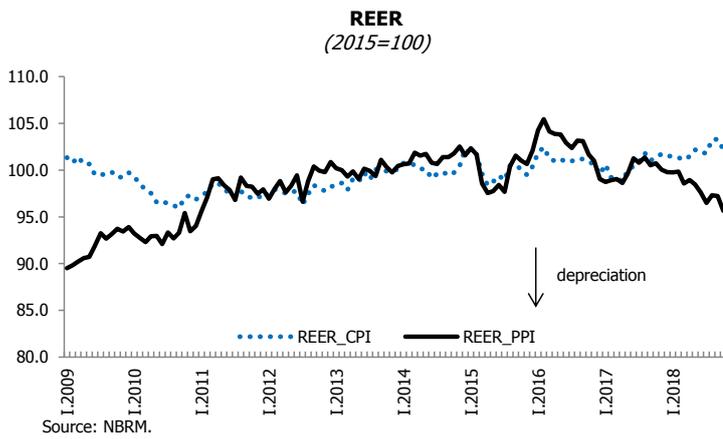


In October - November period, the **import of goods** grew by 19.5% annually, reflecting the growth in most of the import categories, primarily import of raw materials for the needs of some of the industrial facilities, import of equipment and machinery, as well as energy imports.

The import of goods in October and November indicates possibility of registering higher import than it was projected for the fourth quarter. By category, the deviation is mainly due to the higher raw material imports for some of the new foreign capacities, complemented by the larger import of equipment and machinery, consumer goods and vehicles.

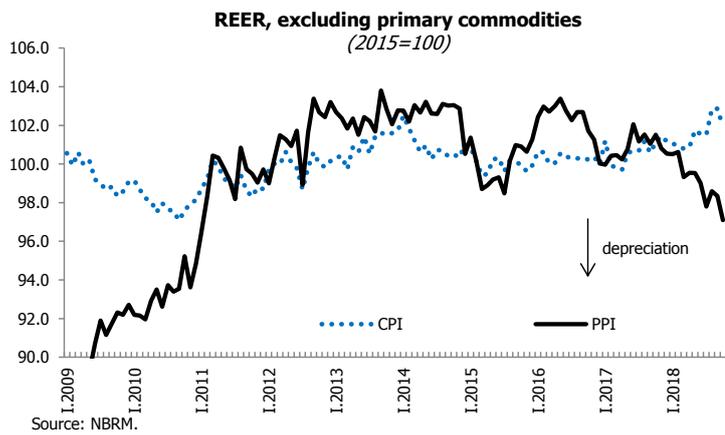
Considering the higher upward deviation of the export relative to the import component, performances in October and November 2018 point to the possibility of lower trade deficit than expected for the fourth quarter of 2018, according to the October projection.

In November 2018, the REER, as an indicator of change in the price



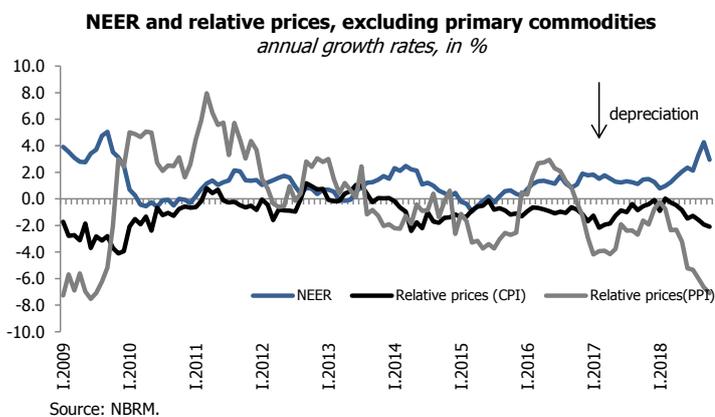
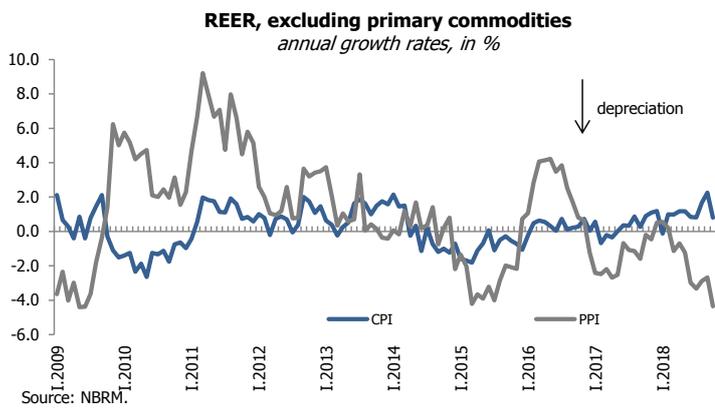
**competitiveness of the local economy, depreciated on annual basis.** The REER index deflated by consumer prices appreciated by 0.1% on an annual basis, and the REER index deflated by producer prices depreciated by 4.4%.

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 6.2% in the relative producer prices. The NEER acted in the opposite direction, appreciating by 1.9% on an annual basis, mostly as a result of the depreciation of the Turkish lira and the Russian ruble.



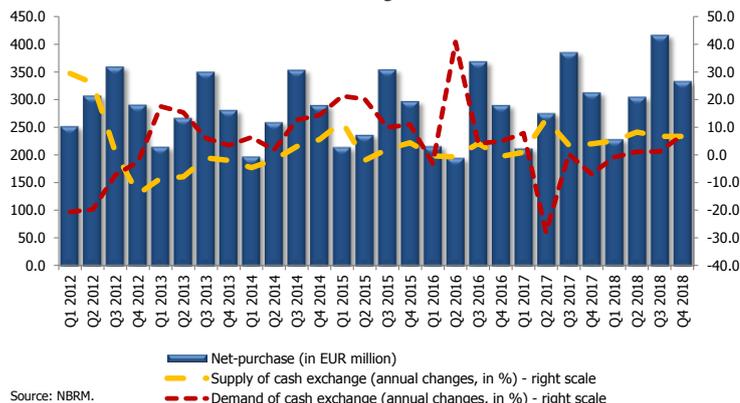
The analysis of REER indices, as measured using weights based on the foreign trade without primary commodities<sup>16</sup>, also shows similar movements. Thus, in November 2018, the REER index deflated by consumer prices depreciated slightly by 0.1%, while the REER deflated by producer prices depreciated by 3.7%.

On an annual basis, the relative consumer prices and the relative producer prices decreased by 2% and 5.5%, respectively. At the same time, the NEER has appreciated by 1.9% on an annual basis.



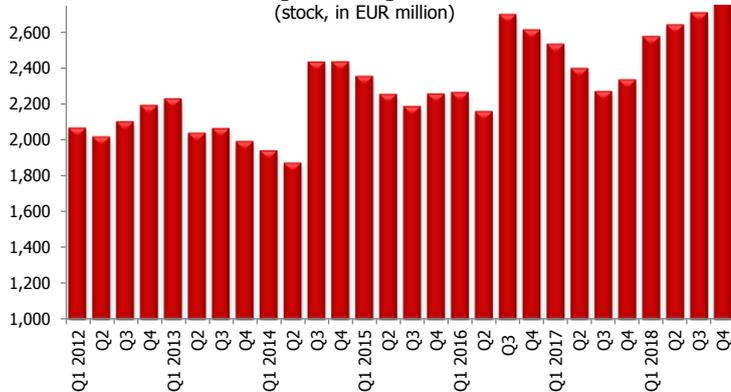
<sup>16</sup> Primary commodities not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

Cash exchange market



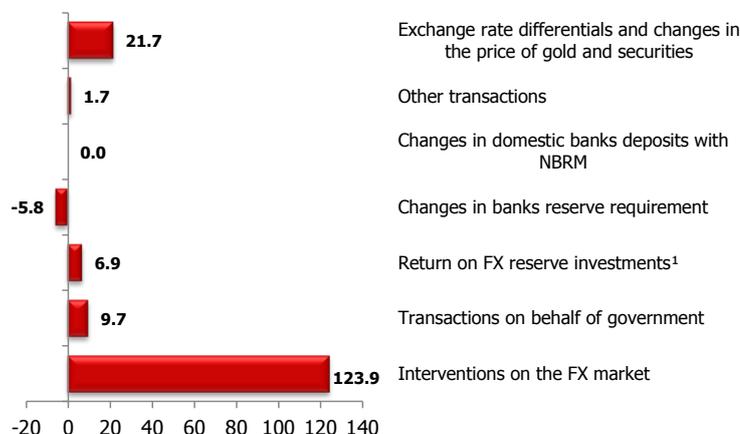
The net purchase on the currency exchange market in the fourth quarter of 2018 totaled Euro 332.9 million, which is an increase of 6.5% on annual basis. Both, the supply of and demand for foreign currency registered an increase (of 6.7% and 7.1%, respectively).

Foreign exchange reserves (stock, in EUR million)



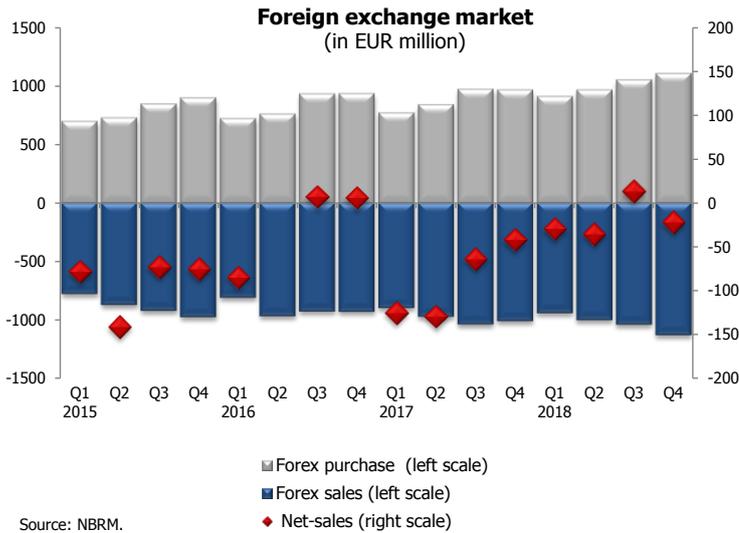
As of 31 December 2018, the gross foreign reserves stood at Euro 2,867.1 million, which is an increase of Euro 158.1 million compared to the end of the third quarter of 2017. The increase in the foreign reserves mostly arises from the NBRM interventions on the foreign exchange market in the direction of net purchase of foreign exchange, and to a lesser extent, from price and exchange rate differences. The remaining flows had a moderate impact on the shifts in foreign reserves in the last quarter.

Factors of change of the foreign reserves in the fourth quarter of 2018 (in EUR million)

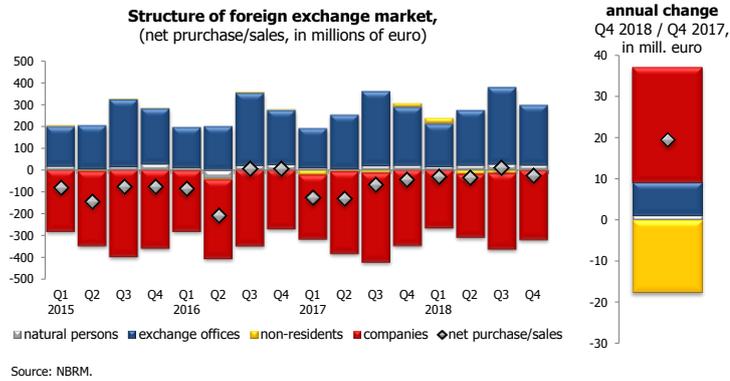


In the last quarter of 2018, the foreign exchange market of banks reported a net sale of foreign currency of Euro 22 million, by Euro 19.5 million less compared to the same period last year. This annual change is a result of the higher increase in the supply of relative to the demand for foreign currency.

Source: NBRM.



Sector-by-sector analysis shows that these changes mostly arise from the lower net sales by companies, and to a lesser extent, the higher net purchase by the exchange offices. The changes in the non-residents segment act in the opposite direction due to the comparative basis of the previous year (in the fourth quarter of 2017, non-residents realized net purchase, despite the small net sales this year).

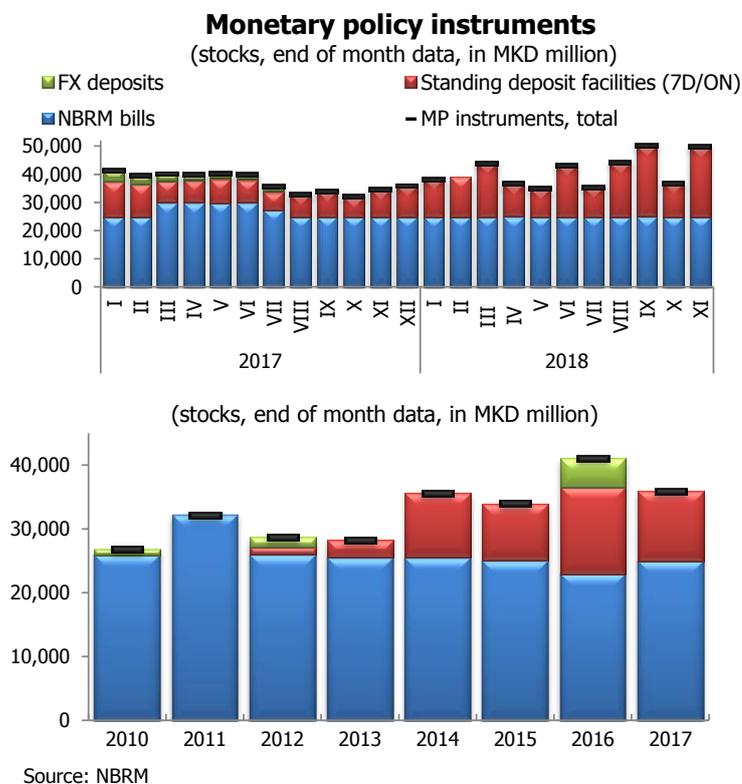


**In November, the monetary instruments increased on a monthly basis.** The monthly growth is a result of the higher stock of banks' assets placed in short-term deposits with the NBRM, while the stock of the placements in CB bills remained stable<sup>17</sup>. The level of monetary instruments at the end of November is a little bit lower than the projected level for the last quarter of 2018<sup>18</sup>.

**The NBRM net foreign assets registered slight a monthly growth in November.** The increase is a result primarily of the increase in foreign assets, given simultaneous increase also in foreign exchange liabilities. Compared with the forecast for the end of the fourth quarter, the NBRM's net foreign assets at the end of November are higher than expected.

**The total government deposits with the NBRM registered a monthly decrease in November.** The change arises from the decrease in denar deposits, given simultaneous fall also in foreign currency deposits. The balance of the country's total deposits at the end of November is higher than the projection for the end of the fourth quarter.

**Reserve money in November registered a decline on a monthly basis.** The change was entirely a result of the decrease in the banks' total reserves on the accounts with the NBRM, while ready currency in circulation increased insignificantly. Compared with the October forecast for the end of the fourth quarter, the stock of reserve money was moderately lower at the end of November.

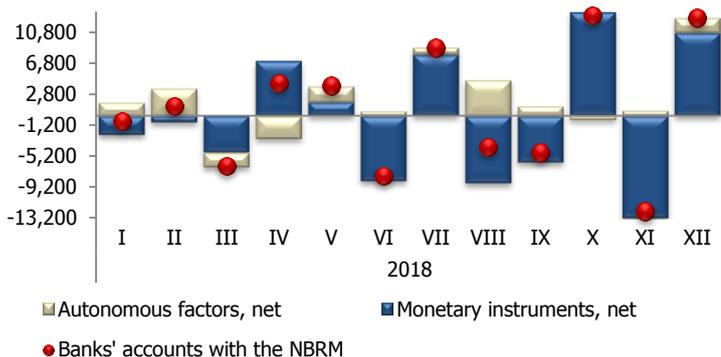


<sup>17</sup> At the CB bills auction held on 14 November 2018, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.75% and maturity of 28 days.

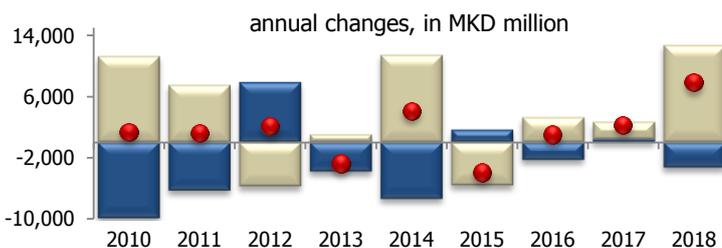
<sup>18</sup> The performance comparisons are against the forecasts in October 2018.

**Banks liquidity\***

monthly changes, in million of denars



**In December, the liquidity of the banking system increased.** According to the operational data on liquidity flows, the increase is primarily a result of the shift in monetary instruments, i.e. the lower amount of banks' funds placed in short-term deposits with the NBRM (which is mostly due to the deposit facilities).<sup>19</sup> The autonomous factors, net, created liquid assets in the system, predominantly reflecting the foreign exchange interventions of the NBRM (purchase of foreign currency) and decrease in the government deposits with the NBRM. The currency in circulation registered an increase, which is common for the last month of the year, thus acting towards liquid assets withdrawal from the system.

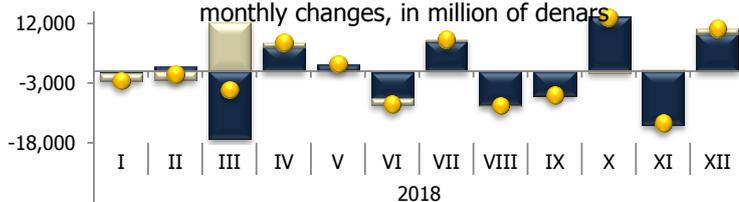


Source: NBRM.

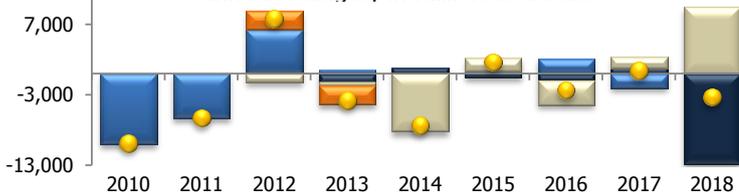
\* positive change: liquidity creation, negative change: liquidity withdrawal

**Monetary policy instruments\***

monthly changes, in million of denars



annual changes, in million of denars

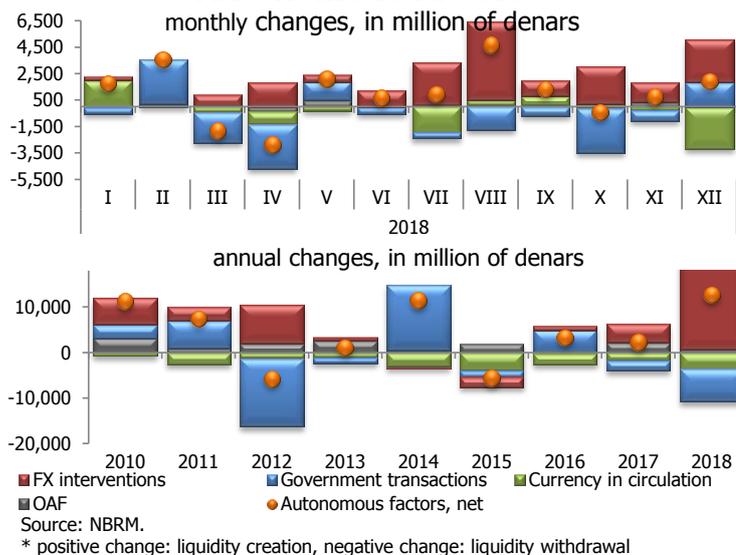


Source: NBRM .

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

<sup>19</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.

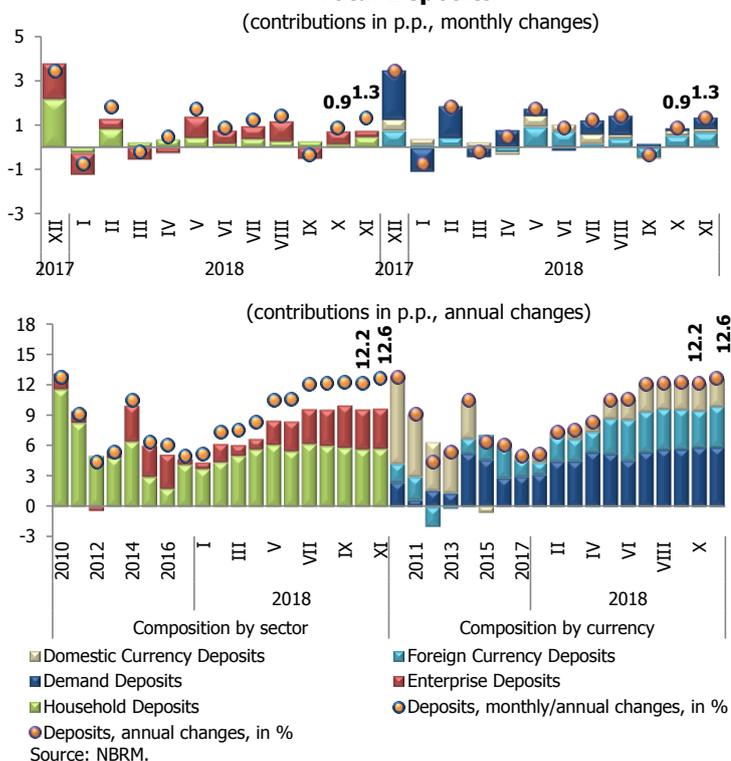
**Autonomous factors\***



The total deposits<sup>20</sup> continued to increase on a monthly basis also in November, more intensively relative to the previous month. By sector, the monthly increase of 1.3%, in one part is a result of the increase in the transferable deposits of the local government with the NBRM<sup>21</sup>, with a growth being registered in household and corporate deposits, as well. Analyzed by currency, the monthly deposit growth is mostly driven by denar deposits (including demand deposits), and foreign currency deposits.

In the period October - November 2018, total deposits increased, and as a result, at the end of November, they were lower than expected for the end of the fourth quarter of 2018.

**Total Deposits**



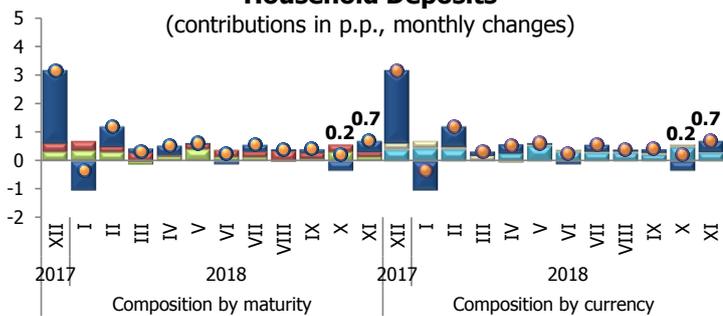
In November, the annual growth rate of total deposits was 12.6%, which is above the annual growth forecasted for 2018 (of 10.2%) in October. Observed by sector, the growth was mostly driven by household deposits, with positive, but smaller contribution of corporate deposits. Analyzing the currency, most of the growth is due to domestic currency deposits (including demand deposits), with a positive, but relatively smaller contribution of foreign currency deposits.

<sup>20</sup> 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.nspix](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix).

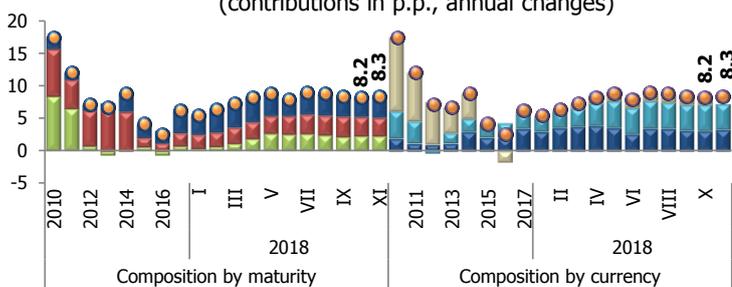
<sup>21</sup> On 30 November 2018, a total of Denar 3,033 million were transferred from the Budget of the RM to the deposit accounts of the local government unit. This transfer was realized in accordance with the Law on Financial Support to the Local Government Units and the single beneficiaries established by the local government units for financing of overdue liabilities. With the changes in the methodology for monetary statistics from June 2018, the total deposits also include the deposits of the local self-government

**Household Deposits**

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



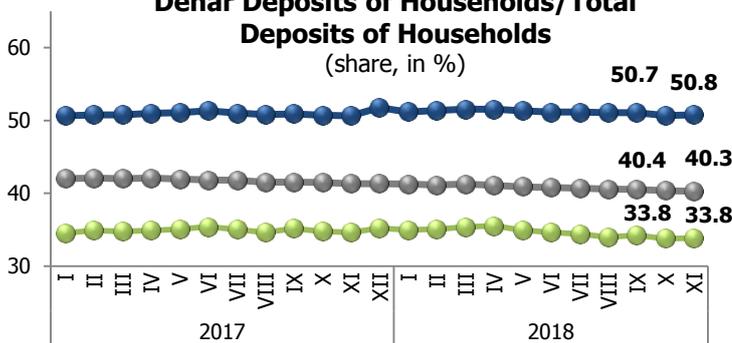
Source: NBRM.

**In August, household deposits continued to grow on a monthly basis, at a solid pace compared to the previous month.**

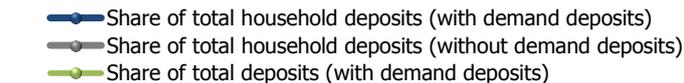
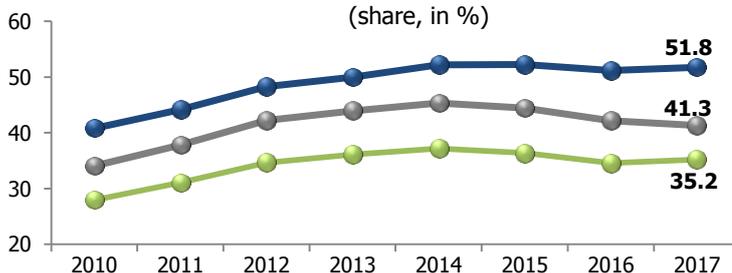
The monthly increase in the household deposits of 0.7%, by maturity, is almost equally a result of the rise in both short-term and long-term deposits. From the aspect of the currency structure, the Denar deposits (with demand deposits) dominate the total deposits growth, with positive, but smaller contribution of the foreign currency deposits being registered as well. In November, the share of denar deposits (including demand deposits) in the total household deposits equals 50.8% and is slightly higher compared to the previous month (50.7%). **The annual increase in household deposits in November was 8.3%.**

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

(share, in %)



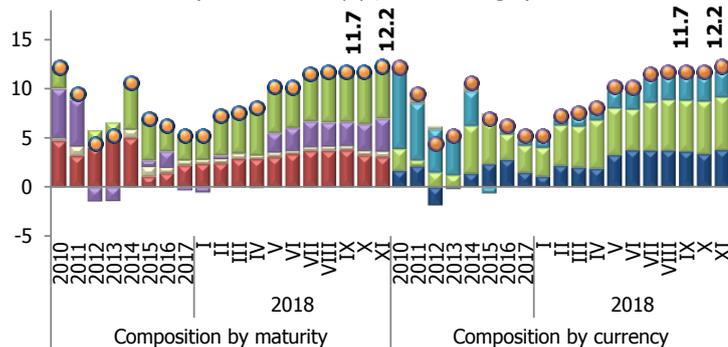
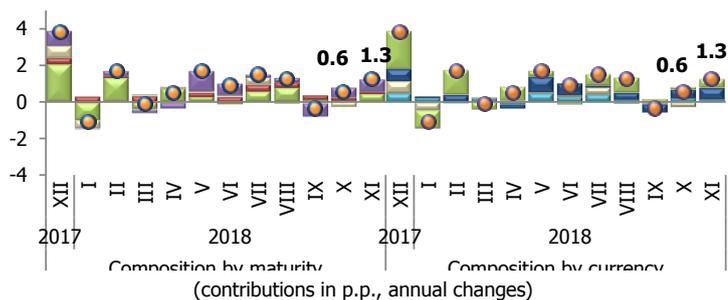
(share, in %)



Source: NBRM.

**Broad Money M4**

(contributions in p.p., monthly changes)



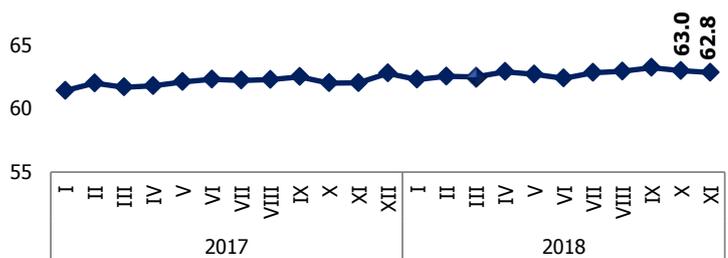
- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits
- Total Foreign Currency Deposits
- Total Long-term Deposits
- Broad Money M4, monthly/annual Changes, in %

Source: NBRM.

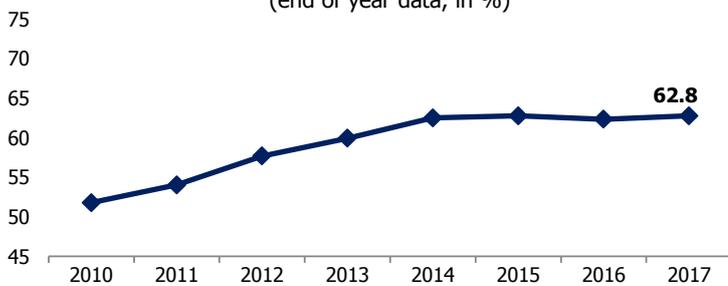
**In November, broad money, measured through M4, registered a monthly increase which was higher compared to the previous month. The monthly growth of 1.3% is mostly a result of the increase in the short-term deposits, with a positive, but lower contribution of the long-term deposits. Observed from the currency point of view, the growth in the total broad money almost equally resulted from the increase in denar deposits (with demand deposits) and on foreign currency deposits. In November, the denar share in total broad money equaled 62.8% (63% in the previous month). In November, broad money increased by 12.2% annually, exceeding the growth of 9.9% forecasted for the third quarter of 2018.**

**Share of Denar M4 in total M4**

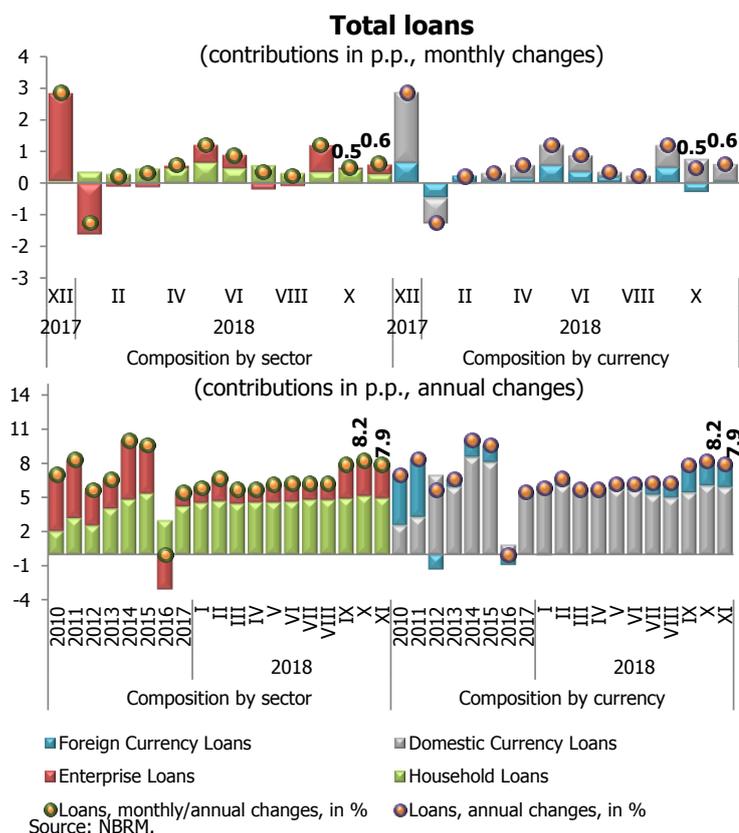
(end of month data, in %)



(end of year data, in %)



Source: NBRM.



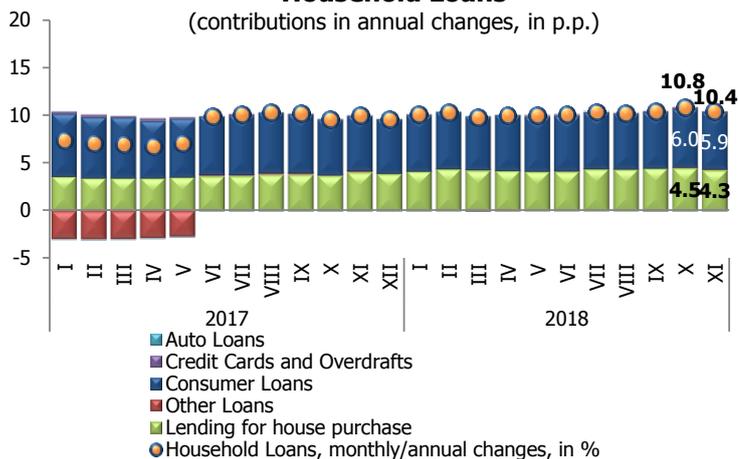
**Growth in total loans extended by the private sector banks continued in November, with a similar intensity as in the previous month.** From a sectoral point of view, the monthly growth of 0.6% almost equally arises from loans granted to households and enterprises. Analyzing the currency structure, the monthly growth of total loans mostly results from loans in domestic currency, given slight positive contribution of loans in foreign currency, as well.

In October - November 2018 period, the total loans increased, and as a result, the stock of the total loans, at the end of November is lower than expected for the end of the fourth quarter of 2018.

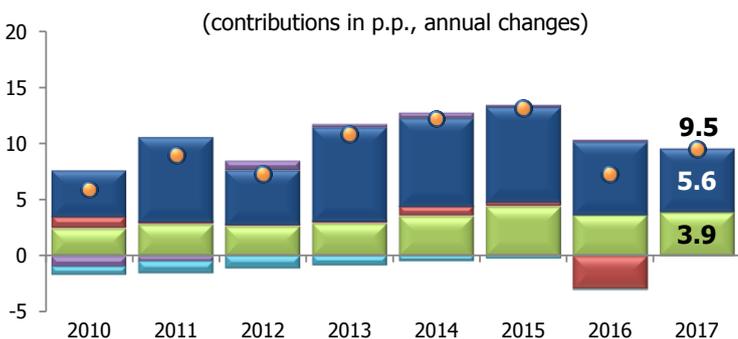
**On an annual basis, total loans in November grew by 7.9%, given projected annual growth of 8.4% for 2018.** Observing by currency, the annual growth of total loans in November was still mostly driven by the growth of loans in domestic currency, with a positive, but smaller contribution made by loans in foreign currency. From a sector point of view, the annual growth in total loans remains largely the result of household loans, where in the last period there was also an increase in the contribution of corporate loans.

**Household Loans**

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



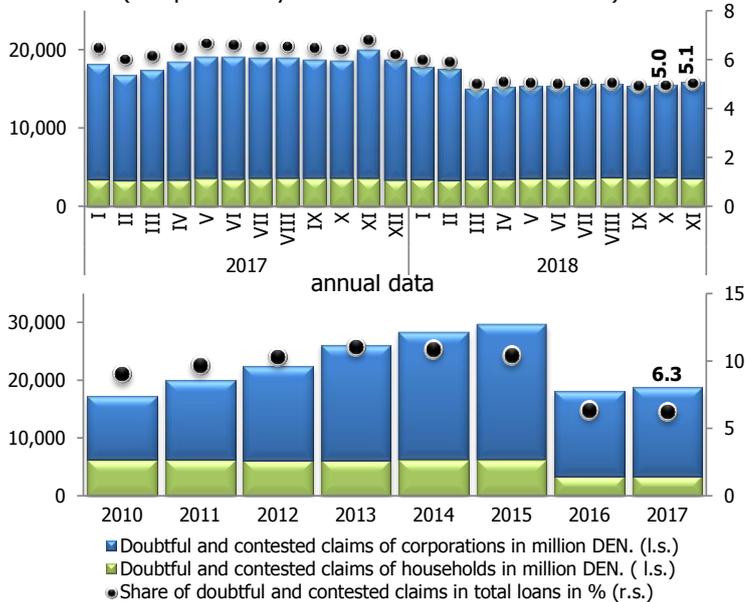
The annual growth of household loans<sup>22</sup> was 10.4% in November, which is a decrease compared to the previous month. The growth of household loans was still almost entirely driven by consumer and housing loans that contributed with 5.9 and 4.3 percentage points, respectively.



Source: NBRM.

**Doubtful and contested claims**

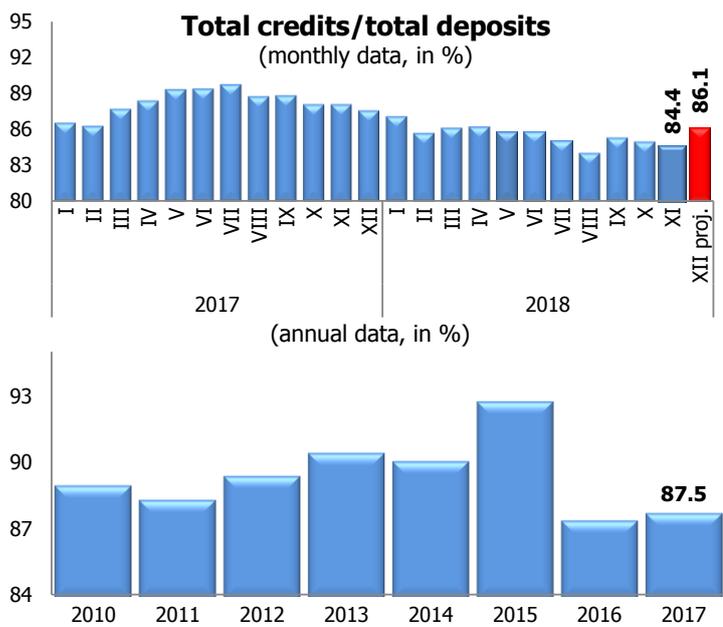
(composition by sector and share in total loans)



Source: NBRM.

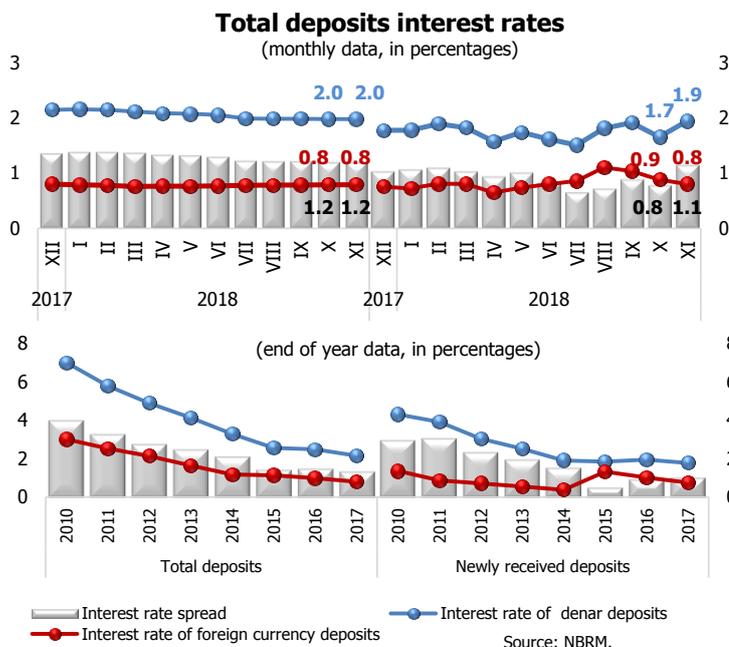
In November, the share of doubtful and contested claims in total loans was 5.1% which is minimally higher compared to the previous month, whereby the structure is still predominated by non-performing loans of the corporate sector, with significantly lower share of the non-performing loans of households.

<sup>22</sup> Excluding loans of self-employed individuals.



Source: NBRM.

The utilization of banks' deposit potential for lending to the private sector equaled **84.4% in November**. With the November performance, loan to deposit ratio decreased against the expectations for the end of 2018, as forecasted in October.



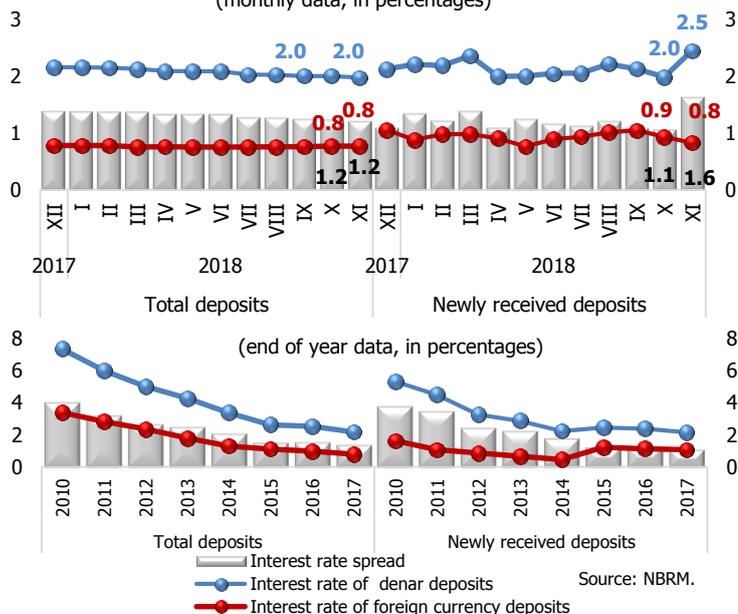
The interest rate spread of the interest rate on total deposits (denar and foreign currency)<sup>23</sup> remained 1.2 percentage points, given unchanged interest rates relative to preceding month. In **total newly accepted deposits**, the interest rate spread between denar and foreign currency deposits widened from 0.8 percentage points to 1.1 percentage points, given the increase in interest rate on newly accepted denar deposits of 0.2 percentage point and decrease in foreign currency deposits of 0.1 percentage point<sup>24</sup>.

<sup>23</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.nspj](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspj).

<sup>24</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 driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.

**Households' deposits interest rates**

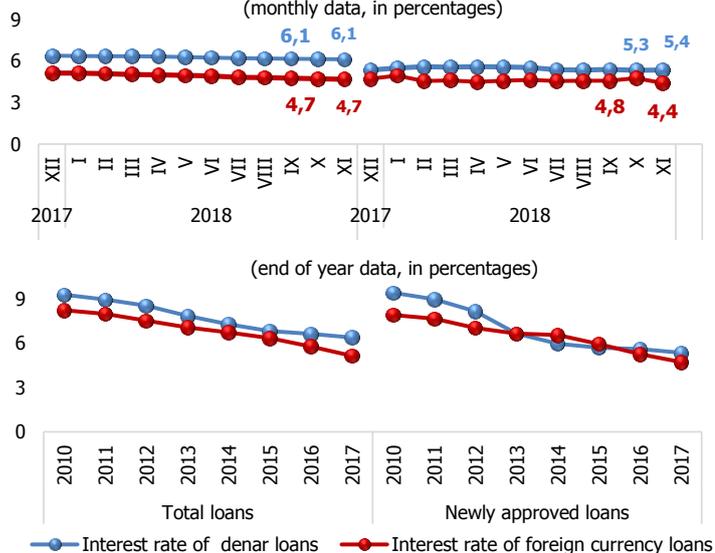
(monthly data, in percentages)



In November, 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 stable and amounted to 1.2 percentage points. In the **newly accepted household deposits**, the interest rates on newly accepted denar deposits registered a minimal drop of 0.1 p.p., while the interest rates on newly accepted foreign currency deposits increased by 0.1 p.p., with the interest spread decreasing from 1.1 p.p. to 1.6 p.p.

**Total loans interest rates**

(monthly data, in percentages)



In November, interest rates on **total household and corporate loans** remained at the level of the previous month (6.1% and 4.7%, respectively). In the **newly approved total loans**, the interest rates for households increased by 0.1 percentage point, to 5.4%, while the interest rates for enterprises decreased by 0.4 p.p. and equaled 4.4%<sup>25</sup>.

Source: NBRM.

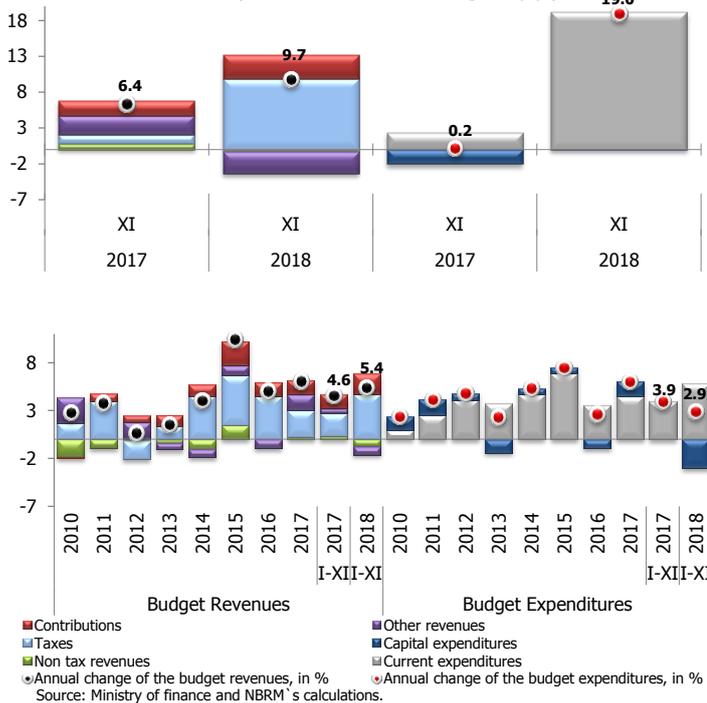
<sup>25</sup> Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are driven by the volume of newly approved loans (which can vary from month to month) and their interest rate.

**In the Budget of the Republic of Macedonia (central budget and budgets of funds), in November 2018, total budget revenues and expenditures registered an annual growth.** Budget revenues in November registered an increase of 9.7% on annual basis, mostly as a result of higher revenues from taxes and contributions, contributing by 9.8 p.p. and 3.3 p.p., respectively, while non-tax revenues and other revenues<sup>26</sup> register negative contribution of 0.3 p.p. and 3.1 p.p., respectively. In November, tax revenues increased by 17.6%, annually, which mostly stems from the higher inflows based on VAT (with a contribution of 8.1 p.p.), given positive contribution also of the excises, profit tax, personal income tax, and import duties (3.6 p.p., 2.9 p.p., 2.7 p.p. and 0.3 p.p., respectively). **Regarding the budget expenditures,** the annual growth of 19.0% in November is entirely a result of the higher current expenses (contribution of 19.1 percentage points), while the contribution of capital expenses was negative (0.1 percentage points).

**In the period January-November 2018, total budget revenues and expenditures increased cumulatively compared to the same period last year.** Budget revenues registered an increase of 5.4% on annual basis, mostly as a result of higher revenues from taxes and contributions (contributing by 4.7 p.p. and 2.1 p.p., respectively), while non-tax revenues and other revenues register negative contribution (of 0.7 p.p. and 0.8 p.p., respectively). The **budget expenditures** increased by 2.9%, reflecting fully the higher current expenditures (contribution of 5.9 percentage points), while the contribution of capital expenses is still negative and equals 3.0 percentage points.

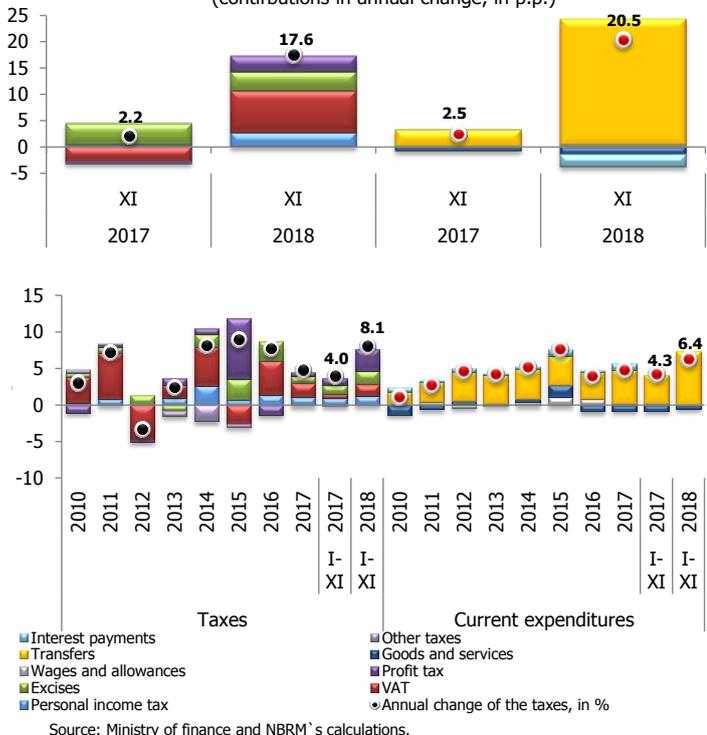
**Budget revenues and expenditures**

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



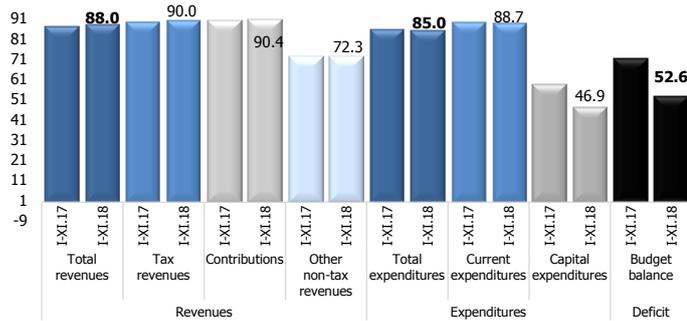
**Taxes and current expenditures**

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



<sup>26</sup> Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

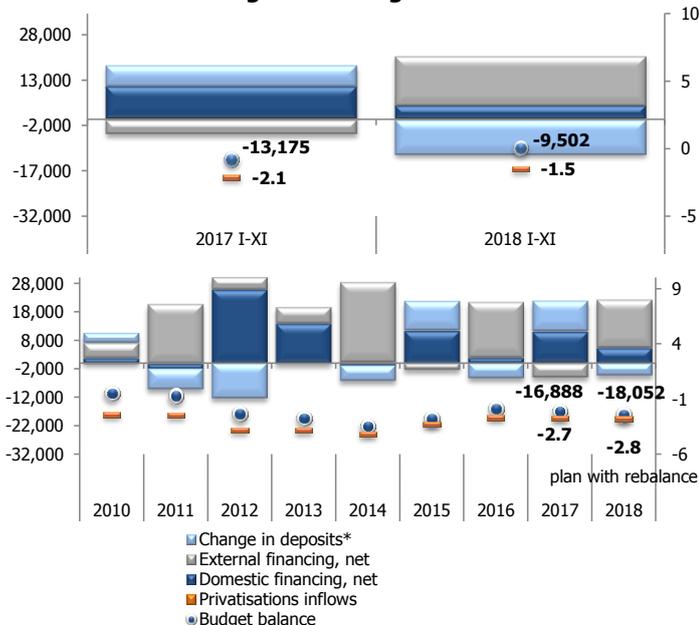
**Budget implementation, per categories**  
(central budget and funds), in percentage of the annual plan\*



\*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-November amounted to 88.0%, which slightly exceeds the last year's performance in terms of the plan (87.0%), given the highest realization in taxes and contributions (90.0% and 90.4%), and the lowest with the category "other non-tax revenues" (72.3%). **Budget expenditures in the same period represent 85.0% of the total planned expenditures for 2018**, which is almost equal as the last year's performance in terms of the plan. The realization of current expenditures was 88.7% of the plan for 2018, while the realization of capital expenditures equals 46.9% of the annual plan, which is lower than last year's performance (58.4% of the annual plan).

**Financing of the budget balance**



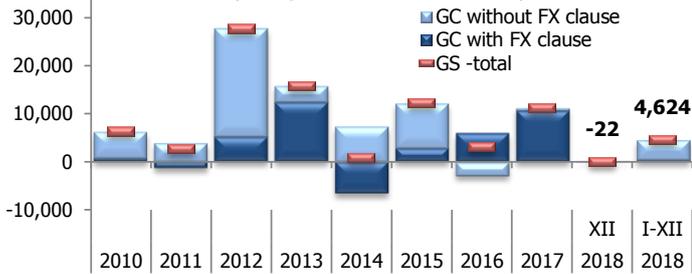
\* Positive change: deposits withdrawal; negative change: deposits accumulation.  
Source: MoF.

**In the period January-November 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 9,502 million, or 52.6% of the planned deficit, in line with the Budget Revision for 2018 and 1.5% of the nominal GDP<sup>27</sup>. The budget deficit in the period January - November 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>27</sup> The analysis uses the NBRM October forecast for the nominal GDP for 2018.

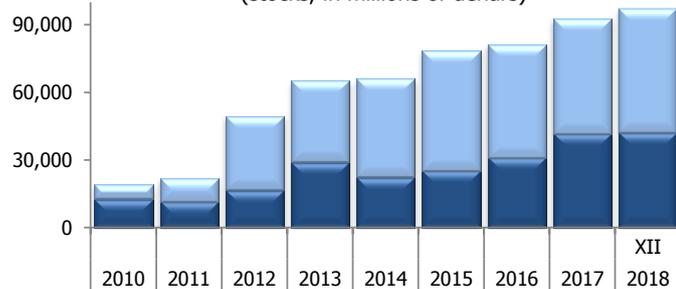
**Government securities**

(changes, in million of denars)



Source: MoF.

(stocks, in millions of denars)

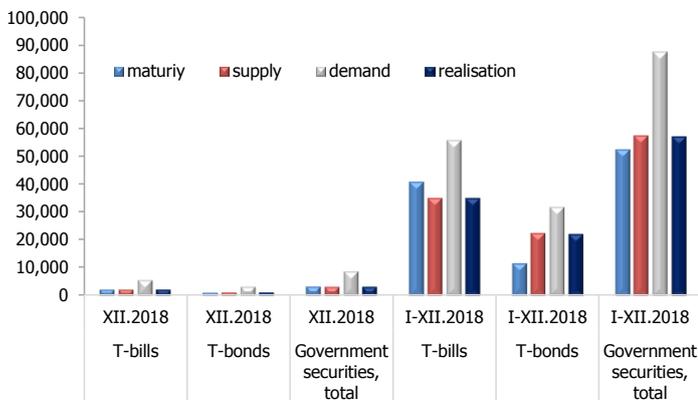


Source: MoF.

**On the primary government securities market in December, the stock of issued securities decreased on a monthly basis and at the end of the month amounted to Denar 97,208 million.** Analyzed by currency, the monthly drop (of Denar 22 million) was a full reflection of the increase in government securities without currency clause, while the amount of government securities with currency component decreased. In comparison with the end of 2017, the stock of the government securities at the end of December 2018 is higher by Denar 4,624 million<sup>28</sup>, and it is 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.

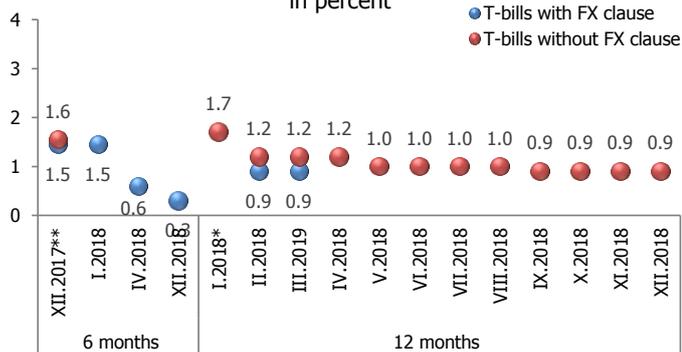
**In December, beside the government bonds, treasury bills were also issued.** The new issues of government securities in December were with 12-month, 2-year and 3-year maturity<sup>29</sup>, whereby the market participants' interest in this month was higher than the offered amount. In conditions of lower supply of short-term securities (treasury bills) compared to the due amount, their stock decreased, while the amount of the government bonds increased. Thus the growth trend of the stock of the 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 there is a decline in the stock of the treasury bills.

<sup>28</sup> The 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.

<sup>29</sup> In December 2018, the 12-month treasury bills and the 2-year and the 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.

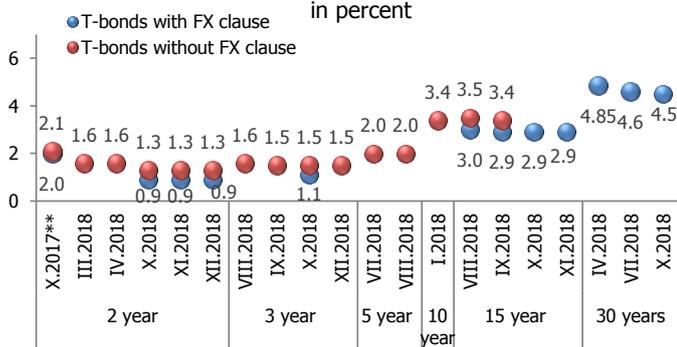
\*\* It refers to the last auction held and it refers to the appropriate maturity.

Source: Ministry of Finance.

**In December, the Ministry of Finance lowered the interest rate on the 6-month treasury bills with currency clause from 0.6% to 0.3%. The interest rates on the other offered maturities of government securities, i.e. the interest rates on 12-month treasury bills without currency clause, 2-year government bonds with and without currency clause and 3-year government bonds without currency clause, equaled 0.9% 0.9%, 1.3% and 1.5%, respectively.**

**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

## Box 1: Indicative private consumption and gross investment categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION										
	2017				2018					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	September	October	November
	<i>real annual growth rates in %</i>									
Retail trade*	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	9.7	13.3	9.9
VAT revenues*	3.4	-6.1	4.8	9.7	-6.7	10.1	-9.8	-15.1	24.6	17.2
Imports of consumption goods*	5.9	3.8	5.8	9.0	8.0	2.5	3.0	-1.3	11.4	13.4
Domestic production of consumption goods	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	-0.1	-2.9	5.7	3.5
Consumer credits*	7.1	8.0	8.1	6.7	7.7	8.3	8.5	8.5	8.9	8.8
Average net wage*	1.5	1.0	1.4	1.0	3.4	4.7	3.9	3.3	4.6	-
Private net transfers*	-3.4	22.9	0.2	5.0	5.5	9.0	4.3	-6.4	-1.5	-
Pensions*	6.1	7.0	6.0	4.7	2.1	3.4	2.6	3.0	5.5	-100.0

\* 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	September	October	November
	<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	3.1	22.6	15.3
Completed construction works**	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	17.0	21.8	-
Domestic production of capital goods	-0.9	15.6	-2.6	20.9	19.3	24.2	16.0	14.9	6.7	7.8
Government investments*	59.9	19.6	-40.8	33.7	-65.1	-39.5	-10.7	-12.4	-20.5	-2.8
Direct Investments***	-2088.4	-3939.8	-5128.4	2445.8	8009.2	6650.7	3508.7	1178.8	822.1	-
Long term credits to enterprises*	3.6	-0.4	-0.8	0.0	2.0	4.8	6.6	6.6	8.9	7.5

\* 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.