

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



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

June 2018

Recent Macroeconomic Indicators

Review of the Current Situation – Implications for the Monetary Policy

The review of the current situation aims to give an overview of the recent macroeconomic data (March - May 2018) and to make a comparison with the latest macroeconomic projections (April 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.

The perspective for the global increase in the following two years remains favorable, envisaging further solid growth rates of the global economy. However, despite favorable assessments, the risks are mostly downward, and they especially relate to the possible further escalation of trade protectionism on a global scale, the effects of the monetary policies normalization pace of central banks in developed countries, the continuation of the trend of intensified oil price growth on the world stock markets, as well as the increased political and geopolitical risks in many regions of the world. In terms of the economic developments in the euro area, as our most significant economic partner, the preliminary GDP projections for the first quarter of 2018 show an annual growth of 2.5%, which is slight deceleration compared to the last quarter of 2017 (2.8%). However, the latest high-frequency data and surveys of households and enterprises indicate a probable new acceleration of the economic growth in the second quarter of 2018. But it should be noted that these surveys do not include the risk of the recent political turmoil in Italy, which could negatively affect the confidence of economic agents in the euro area. According to initial announcements, labor market conditions continued to improve at the beginning of the second quarter, with the unemployment rate declining to 8.5% in April (8.6% in the first quarter of 2018). Regarding inflation in the euro area, the performances for May show its prominent acceleration to 1.9% (from 1.2% in April), mostly as a result of the growth of the energy inflation of 6.1% (2.6% in April), with the additional contribution being given by the core inflation (from 0.7% to 1.1%) and food inflation (from 2.4% to 2.6%). According to the latest estimates, in 2018 **the EURIBOR interest rate** is expected to be on a similar level as in the April projection, while for 2019 an upward correction has been made, which is expected to be less negative compared to April.

Observed from a viewpoint of the individual quantitative external environment indicators of the Macedonian economy, the projections regarding the foreign effective demand has been slightly revised downwards for 2018 compared to the April forecast, while no changes were made for 2019. On the other hand, regarding **the foreign effective inflation**, a slight upward revision to the 2018 projection was made, maintaining the April forecast for 2019. There are further expectations for depreciation of the **exchange rate of the US dollar against the euro**, which will be less pronounced in 2018 and more pronounced in 2019 compared to April. **Forecasts for primary commodities prices on the world markets for 2018 are mainly revised upwards in relation to the April forecasts, while for 2019 most prices register a minor downward revision.** Analyzed by individual products, the latest estimates for world oil prices continue to indicate price growth in 2018, but more intensive compared to April expectations, as well as a slightly smaller fall in 2019. **Metal prices** in 2018 have an upward correction compared to April projections, with expectations for almost double rise in the price of nickel, as well as a slightly higher rise in the price of copper. On the other hand, metal prices in 2019 are revised in different directions, forecasting a slightly higher growth of the nickel price and a somewhat larger decrease in the copper price. In terms of **global prices of primary food products**, the revisions for 2018 are upward, whereby a significantly higher growth of wheat and corn prices is forecasted, which could lead to greater import pressures on domestic inflation. On the other hand, in 2019, wheat and corn prices were corrected downwards compared to forecasted increase in April. However, considering that price estimations for these commodities are extremely volatile, this creates uncertainty about the

assessment of their future dynamics and effects on the domestic economy, especially in the long-term.

The comparison of the latest macroeconomic indicators of the domestic economy with their forecast dynamics within the April forecasting round indicates certain deviations in the individual segments of the economy. According to the published estimated GDP data, the economic activity in the first quarter of 2018 registered minimal growth, a dynamics that is under the projected movement. This downward deviation is mostly explained by the lower growth than the one projected for the private consumption and the deeper fall of investments than expected, with somewhat more favorable contribution of the net export demand. For the second quarter, in conditions of limited amount of available data, it is difficult to assess precisely the economic situation in the fourth quarter. Regarding the **changes in consumer prices**, in May the annual inflation rate is 1.7%, which is a downward deviation compared to the April projection. In conditions of upward revision of external input assumptions in the inflation projection for the entire 2018 and lower realized inflation than projected, balanced risks related to the inflation projection for 2018 are forecated. The uncertainty on the projected movement of the world primary commodities prices remains the main risk on the inflation projection.

The data on the foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) at the end of May indicate an increase compared to the end of the previous quarter. Observed by the factors of change, the increase in reserves is mainly due to the NBRM interventions on the foreign exchange market towards net purchase of foreign currency. Currently available information for the second quarter (April 2018) point to realization of possibly slightly lower than expected trade deficit for this period, however, one month is a short period for making reliable conclusions in this domain. Foreign exchange market data, as of May, point to higher net inflows from private transfers than expected for the second quarter. The performances in the balance of payments in the first quarter of 2018 indicate higher current account deficit compared to the April projection, as well as higher net financial inflows expected for this period, mainly as a result of the higher amount of foreign direct investments. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

Regarding the developments on the monetary sector, after the fall in the previous month, the final data as of April show monthly rise of the **total deposits** of 0.2%. Analyzing by sector, the monthly increase is fully a result of the growth of household deposits amid fall in corporate deposits. By currency structure, denar deposits have positive contribution (including demand deposits), contrary to the previous month, when their contribution was negative. On the other hand, foreign currency deposits have negative contribution, which was more intensive compared to the previous month. On an annual basis, total deposits in April grew by 8.2%, which exceeds the forecasted growth of 7.4% for the second quarter of 2018, according to the April forecast. Analyzing the credit market, in April, **total loans** of the private sector registered a monthly growth of 0.6%, with moderately stronger pace compared to the growth in the previous month (of 0.3%). The intensified credit activity in April is mainly explained with the increase in the total household loans, given the moderate growth of corporate loans, despite their decline in the previous month. By currency structure, the monthly growth in the total loans is entirely driven by the increase in the loans in domestic currency, given fall in the foreign currency loans, for the second month in a row. On annual basis, total loans in April grew by 5.8%, which is above the forecasted growth (of 4.1%) for the second quarter of 2018.

In January - April 2018 period, the **Budget of the Republic of Macedonia** registered a deficit of Denar 2,540 million, which was financed from external sources, through the issuance of the Eurobond, whereby part of the inflows were kept as deposits on behalf of the government with the National Bank. The budget deficit constitutes 13.9% of the deficit envisaged in the Budget for 2018.

The latest macroeconomic indicators and assessments indicate certain deviations in terms of the forecasted dynamics and the perceptions about the environment for

monetary policy conduct are mainly unchanged compared to the previous projection. Recent foreign reserves data (adjusted for the effects of price and exchange rate differentials and price changes of securities), indicate an increase. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone. Regarding the economic activity, in the first quarter, the GDP registered minimal real growth, which is significantly smaller than the projected moderate growth for this period. Such deviations also create downward risks for the projected growth for the entire 2018 year. Regarding inflation, in environment of lower inflation than projected, as well as significant upward revisions on some of the world prices, the current risks are assessed as balanced. Within the performance in the monetary sector so far, the deposit and credit flows are expected to be better than projected for the second quarter.

Selected economic indicators ¹	2015		2016		2017				2018				
	2015	2016	Q1	Q2	Q3	Q4	2017	Jan.	Feb.	Mar	Q1	Apr.	May
I. Real sector indicators													
Gross domestic product (real growth rate, y-o-y) ²		2.9	0.0	-1.3	0.2	1.2	0.0					0.1	
Industrial production ³													
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	
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	
Inflation ⁴													
CPI Inflation (y-o-y) ⁵	-0.4	-0.2	0.6	1.2	1.5	2.1	2.4	1.1	1.9	1.6	1.5	1.4	1.7
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
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
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
Labor force													
Unemployment rate	26.1	23.7	22.9	22.6	22.1	21.9	22.4				21.6		
II. Fiscal Indicators (Central Budget and Budgets of Funds)													
Total budget revenues	161,207	169,356	42,734	43,636	44,600	48,718	179,688	13,328	14,060	15,988	43,376	17,090.0	
Total budget expenditures	180,632	185,407	46,300	48,377	47,346	54,561	196,584	13,930	16,755	15,823	46,508	16,498.0	
Overall balance (cash)	-19,425	-16,051	-3,566	-4,741	-2,746	-5,843	-16,896	-602	-2,695	165	-3,132	592.0	
Overall balance (in % of GDP) ¹	-3.5	-2.7	-0.6	-0.8	-0.4	-0.9	-2.7	-0.1	-0.4	0.0	-0.5	0.1	
III. Financial indicators ⁶													
Broad money (M4), y-o-y growth rate	6.8	6.1	4.2	7.8	6.4	5.3	5.3	5.3	7.4	7.6	7.6	7.9	
Total credits, y-o-y growth rate	9.5	0.9	0.0	4.4	4.3	5.7	5.7	6.1	6.8	5.8	5.8	5.8	
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	
Total credits - enterprises	7.1	-3.8	-5.2	0.0	-0.5	2.8	2.8	2.9	3.9	2.5	2.5	2.3	
Total deposits (incl. demand deposits), y-o-y growth rate	6.5	5.7	4.2	7.6	6.0	5.4	5.4	5.2	7.0	7.1	7.1	7.5	
Total deposits - households	4.1	2.5	1.8	6.5	5.6	6.1	6.1	5.5	6.4	7.3	7.3	8.2	
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	
Interest rates ⁷													
Interst rates of CBBills	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
Lending rates													
denar rates (aggregated, incl. denar and denar with f/x clause)	7.1	6.6	6.4	6.3	6.2	6.0	6.2	6.0	5.9	5.9	5.9	5.9	
f/x rates	5.9	5.4	5.1	5.0	4.9	4.7	4.9	4.6	4.6	4.6	4.6	4.6	
Deposit rates													
denar rates (aggregated, incl. denar and denar with f/x clause)	2.9	2.5	2.3	2.2	2.1	2.2	2.2	2.1	2.1	2.1	2.1	2.1	
f/x rates	1.3	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
IV. External sector indicators													
Current account balance (millions of EUR)	-177.1	-265.0	-145.2	-99.4	180.5	-69.6	-133.7	-42.3	-0.2	-115.4	-157.9		
<i>Current account balance (% of GDP)</i>	-2.0	-2.7	-1.4	-1.0	1.8	-0.7	-1.3	-0.4	0.0	-1.1	-1.5		
Trade balance (millions of EUR)⁸	-1713.6	-1777.4	-435.1	-450.8	-385.9	-545.9	-1817.7	-139.3	-116.9	-218.5	-474.7	-156.8	
<i>Trade balance (% of GDP)</i>	-18.9	-18.0	-4.3	-4.5	-3.8	-5.4	-18.1	-1.3	-1.1	-2.1	-4.5	-1.5	
import (millions of EUR)	-5801.1	-6106.7	-1583.8	-1721.7	-1648.8	-1870.6	-6824.9	-561.7	-576.9	-644.8	-1783.4	-619.2	
export (millions of EUR)	4087.6	4329.3	1148.6	1270.9	1263.0	1324.7	5007.2	422.5	460.0	426.2	1308.7	462.4	
rate of growth of import (y-o-y)	5.4	5.3	16.7	10.5	7.1	13.2	11.8	24.6	10.6	5.5	12.6	9.5	
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	15.4	
Foreign Direct Investment (millions of EUR)	202.8	316.9	111.4	-10.0	-50.5	178.1	229.1	64.9	101.0	67.4	233.3		
External debt													
Gross external debt (in millions of EUR)	6290.5	7216.6	7715.9	7717.7	7642.9	7403.4	7403.4						
public sector	2933.7	3445.3	3819.9	3741.0	3710.2	3461.7	3461.7						
public sector/GDP (in %)	32.4	35.4	37.9	37.2	36.9	34.4	34.4						
private sector	3356.9	3771.2	3896.0	3976.8	3932.8	3941.7	3941.7						
Gross external debt/GDP (in %)	69.4	74.2	76.7	76.7	75.9	73.6	73.6						
Gross official reserves (millions of EUR)⁹								2577.4	2566.3	2577.1		2588.6	

¹ While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2017, the projected level from the NBRM projections from October 2016 is used.

² Preliminary data for 2015. Estimated data for 2016.

³ The changes of Index of industrial production are according to base year 2010=100.

⁴ CPI calculated according to COICOP 2016=100.

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

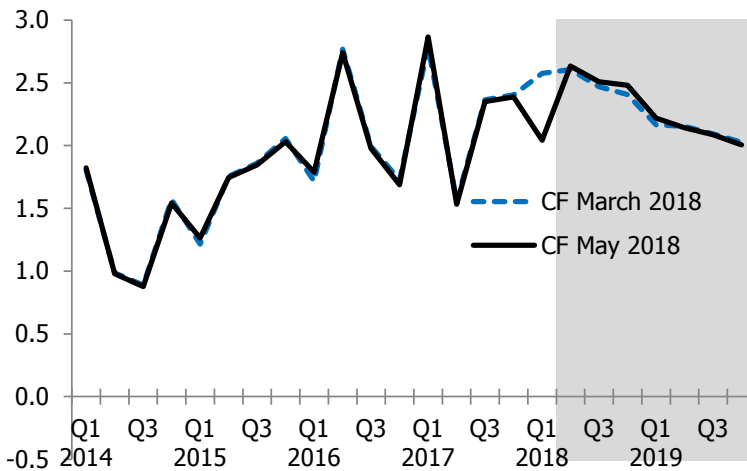
⁶ The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since 01.01.2009).

⁷ As of January 2015 data for active and passive interest rates are compiled according to the new methodology of NBRM.

⁸ Trade balance according to foreign trade statistics (on c.i.f. base).

⁹ The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

Foreign effective demand
(annual changes in %)



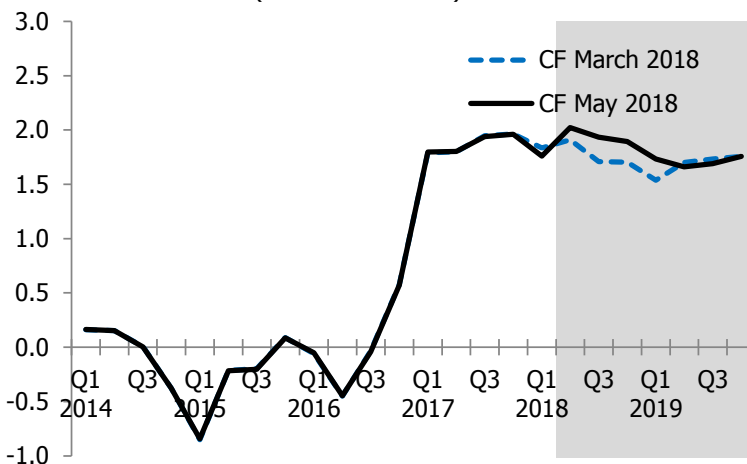
According to the latest estimations for the foreign effective demand, minimal downward revision for 2018 was made, compared to the April projection cycle...

... thus expecting the growth rate to equal 2.4% instead of 2.5% ...

...mainly due to the expectations for smaller economic growth, as a result of the lower performance in the first quarter of the year.

For 2019, there are no changes relative to the April projections, a growth rate of the foreign effective demand is expected to equal 2.1%.

Foreign effective inflation
(annual rates in %)



The latest foreign inflation forecasts for 2018 were slightly revised upwards compared to the April projection cycle...

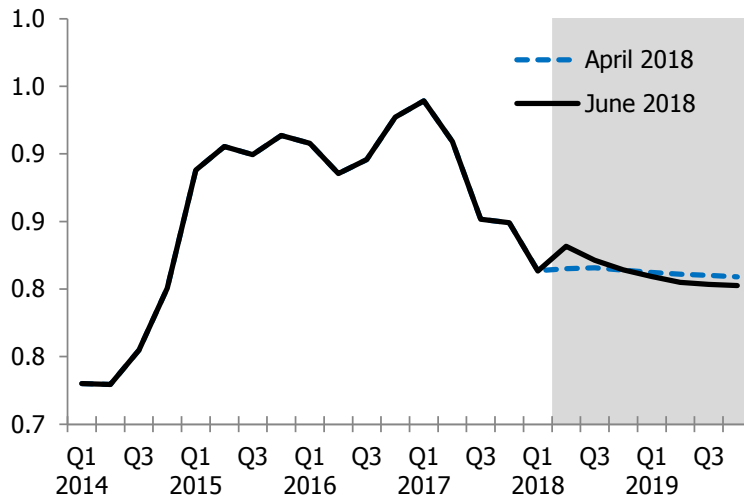
...as a result of which, it is expected to equal 1.9, instead of 1.8% according to April forecast...

...mainly due to the assessments for higher inflation rates in Serbia, Croatia ¹ and Bulgaria.

On the other hand, for 2019, no changes regarding the expected rate of foreign inflation compared to the April projections were made, expecting once again that it will equal 1.7%.

¹Inflation in Serbia and Croatia has been adjusted for the changes in the foreign exchange rate.

EUR/USD exchange rate



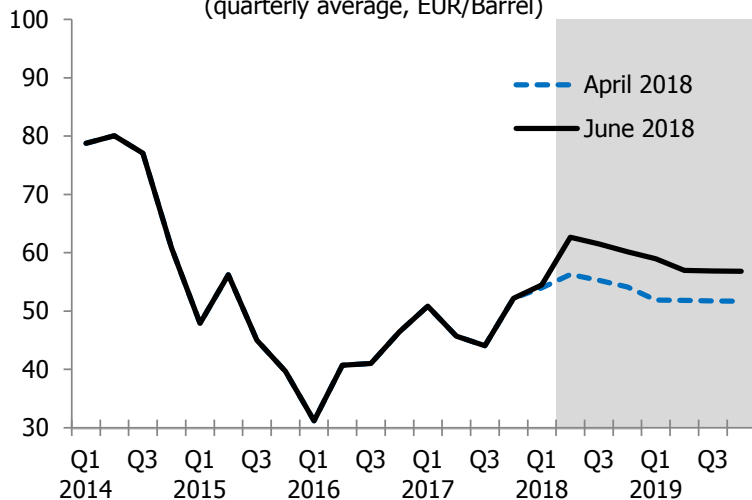
According to the latest estimates for the euro / US dollar exchange rate for 2018, an upward revision was made, while for 2019 it was revised downwards in comparison with the April forecast.

The upward revision for 2018 suggests smaller depreciation of the US dollar against the euro compared to the previously expected, as a result of the expectations for a higher growth of the US economy and the increased political uncertainty in the euro area.

On the other hand, the downward revision for 2019 indicate higher expected depreciation of the US dollar against the euro compared to the April projection.

Brent oil

(quarterly average, EUR/Barrel)



According to the latest estimations regarding the oil price², for 2018 it was revised upwards compared to the April projections.

The so far movements in oil prices are in line with expectations. The latest estimations further indicate oil price growth, but more intensive compared to the previously expected...

...which is mainly supported by the agreement between the OPEC member states and Russia concerning the reduction of oil production³, solid demand, as well as renewed geopolitical tensions between USA and Iran⁴, as well as the geopolitical and economic instability in Venezuela.

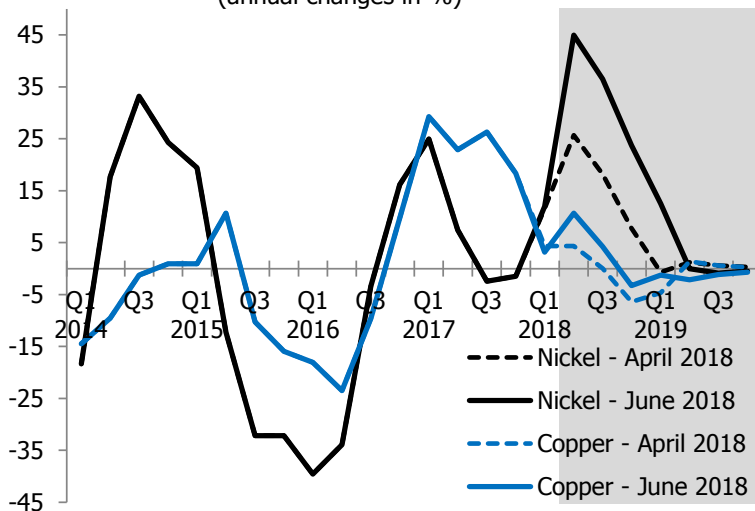
For 2019, the oil price is still expected to fall.

² For the analysis of prices of oil, metals and primary food products, various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals are used.

³ On 30 November 2017, the OPEC Member States and Russia made a decision to extend the measure for reduction of oil production for nine additional months i.e. until the end of 2018, which aims to reduce the inventories of this fuel globally. Also, other oil producing countries that are not OPEC Member States, including Russia supported the extension of the agreement, decreasing oil production by 1.8 million barrels per day until December 2018. Additionally, Nigeria and Libya also joined in the measure, countries that previously were not part of the agreement.

⁴ On 8 May 2018 the US president issued a decision to withdraw the United States from the Joint Comprehensive Plan of Action concluded with Iran on 14.07.2015, which predicted the suspension of the Iranian nuclear program, in return for the abolition of US economic sanctions. With this decision, the economic sanctions were automatically re-enforced.

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



The latest estimates indicate an upward revision of the prices of nickel in 2018 and 2019 compared to the April projections ...

... thus expecting almost double increase in nickel prices in 2018, largely caused by lower levels of world inventories and by expectations for increased global demand, predominantly driven by the higher expected demand for electric vehicles.

The price of nickel in 2019 is expected to achieve higher growth compared to April. The nickel price in 2019 as well, is expected to register higher rise compared to April.

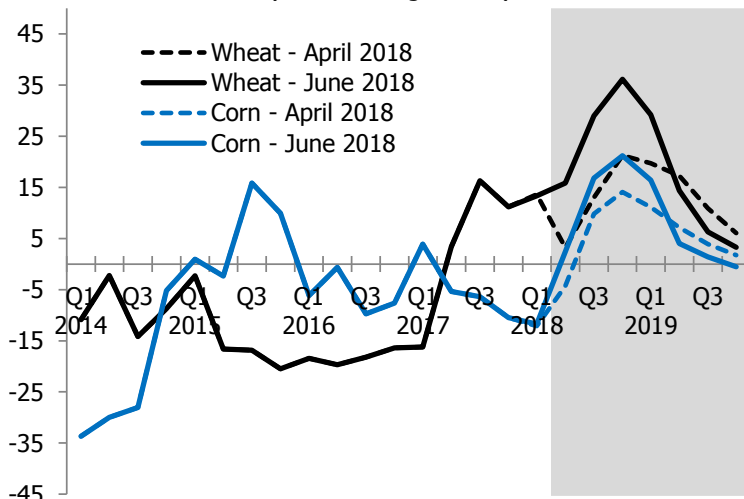
According to the latest estimations, the copper price in 2018 has been revised upwards...

... thus expecting a rise in copper prices in comparison with April projections, with the relatively favorable economic conditions on a global scale, expectations for to continuation of the intensive infrastructure development of the Chinese and Indian economies, sustained technological progress, and positive expectations in the electric vehicle industry being among the main reasons.

For 2019, the copper prices in US dollars were revised upwards, whereas the euro prices which were revised downwards compared to the April projections ...

... thus expecting an increase, instead of decrease in the US dollar prices, and larger fall in euro prices, as a result of the changes in the currency pair US dollar / euro.

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



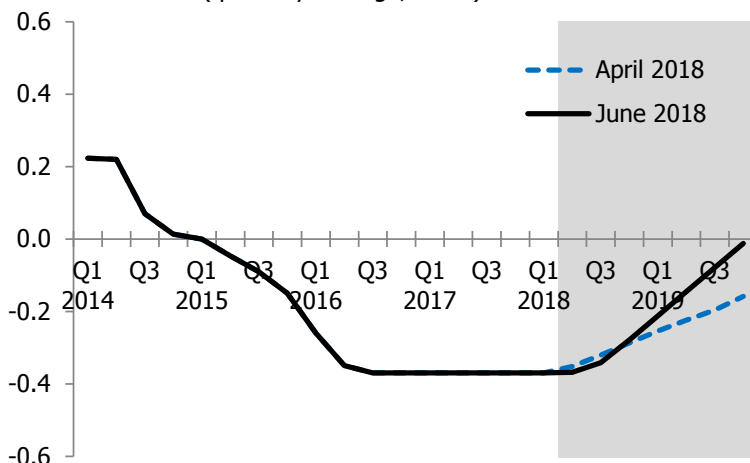
In 2018, an upward revision was made in the prices of primary food products compared to April projection cycle...

... thus expecting almost double higher price growth of wheat, mainly as a result of the expected unfavorable weather conditions in USA, as well as constantly higher global demand for wheat...

... expecting also higher rise in the corn price due to higher expected demand.

A slight upward revision for wheat and corn prices denominated in US dollars was made for 2019, while the euro prices were revised downwards.

1-month Euribor
(quarterly average, in %)

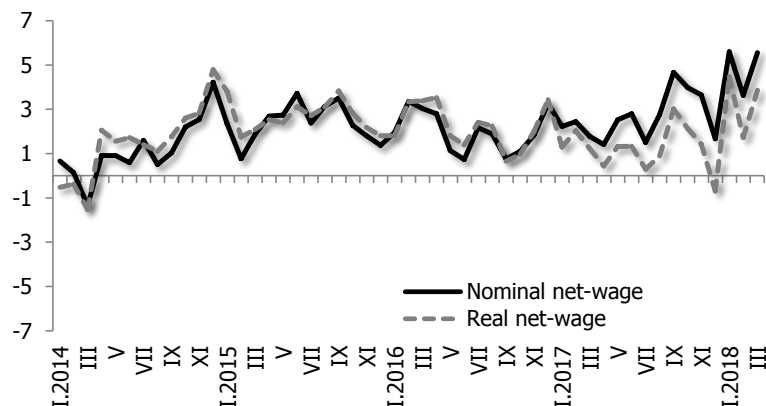


According to the latest estimates, the one-month Euribor remained almost unchanged for 2018, and for 2019 it has been revised upwards ...

... so, it is expected that it will amount to -0.34% and -0.11% in 2018 and 2019, respectively (-0.33% and -0.21% respectively, according to the April projections)...

... in the expectation that the ECB at some of the subsequent meetings will announce gradual abandonment of the quantitative easing program by the end of the year and normalization of the interest rate policy afterwards.

Average net-wage
(annual changes, in %)



Source: SSO.

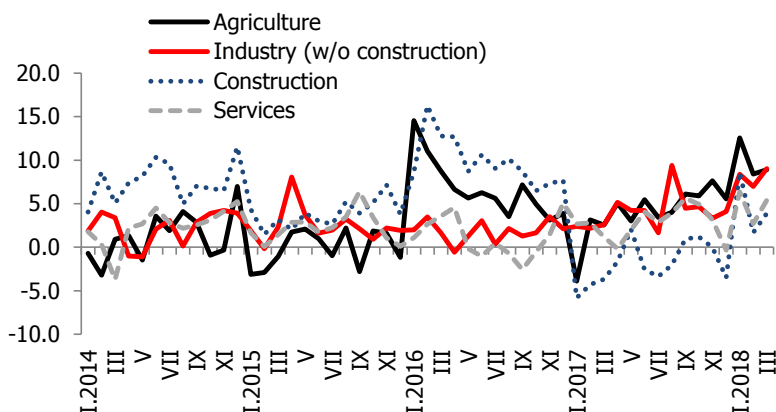
The average net salary in March 2018 increased by 5.6% on annual basis (compared to 3.6% in February), with the growth in one part being related to the effect of the increase in the minimum wage in September last year⁵.

Almost all of the activities register increase in the wages⁶, with the most prominent one being registered in the activity "mining and quarrying", "information and communication" and "manufacturing industry".

Amid annual increase in the consumer prices, in March, the **real wages increased by 3.9%**.

Wages in the first quarter of the year were lower than expected for the first quarter of 2018 within the April forecast.

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



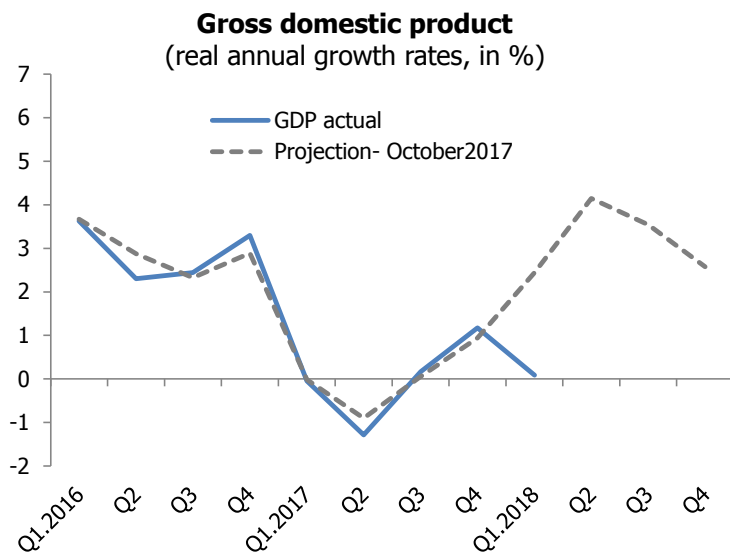
Source: SSO.

In the first quarter of 2018, the real GDP growth rate equals minimal 0.1%, which is a slowdown in relation to the growth in the previous quarter. These performances represent a downward deviation relative to the April projection for the first quarter.

In terms of the demand, in the first quarter the net export demand had a positive contribution to the growth, compared to the domestic demand whose

⁵In 19 September 2017, the Assembly of the Republic of Macedonia adopted the amendment to the Minimum wage law of the Republic of Macedonia. Pursuant to the amendments, starting with the wage payment for September 2017, the amount of the minimum wage in the Republic of Macedonia in all sectors in the economy is set at Denar 17.300 in gross amount i.e. Denar 12.000 in net amount.

⁶ Decrease in the wages in March 2018 was registered only in "transport and storage".



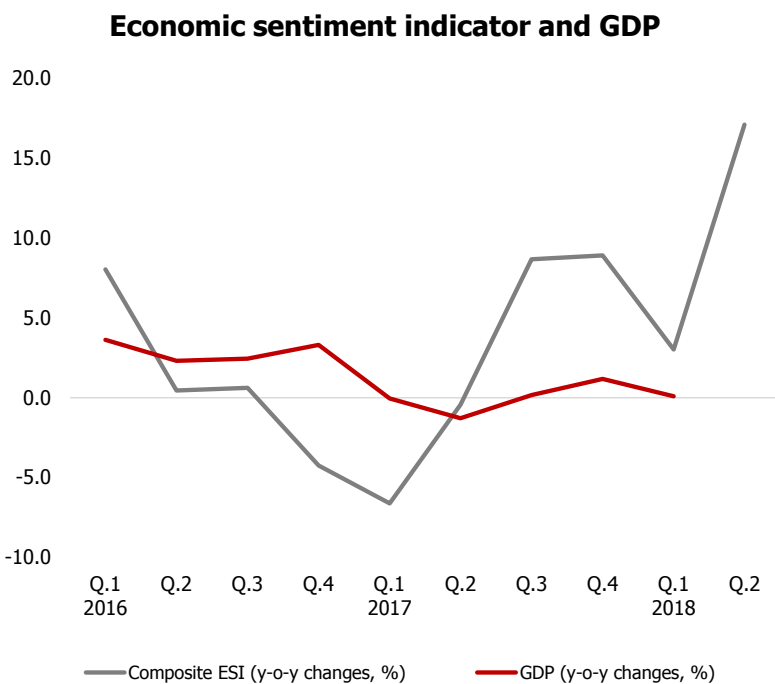
Source: SSO and NBRM projections.

contribution was negative. Observed by component, export has the largest individual positive contribution, with the private consumption also having solid positive contribution. However, these favorable movements were largely neutralized by the negative effect of the gross investments (probably related to the cessation and slow implementation of some of the infrastructure projects) and import pressures, and to a lesser extent by public spending, whereby the overall economic activity almost stagnated on an annual basis.

The slowdown in the economic activity, in relation to the growth in the previous quarter, reflects the deeper fall in investments, as well as the slightly slower growth of private consumption, and as a result the domestic demand it registers a decrease compared to the rise in the previous quarter. On the other hand, the net exports has higher positive contribution in this quarter. Regarding the projection, the lower growth of personal consumption than expected, as well as the deeper decrease in investments are the main drivers of the downward deviation.

Observing the production side, in the first quarter of 2018, higher added value was registered in many activities, which was mostly neutralized with the decrease of the activities in construction.⁷

Regarding the economy in the second quarter of the year, it is difficult to give more precise assessment in conditions of limited amount of available data. With regard to the perceptions of the economic agents for the economic environment⁸, the surveys referring to the April - May period mainly indicate favorable developments in the economy compared to the same period of the previous year.



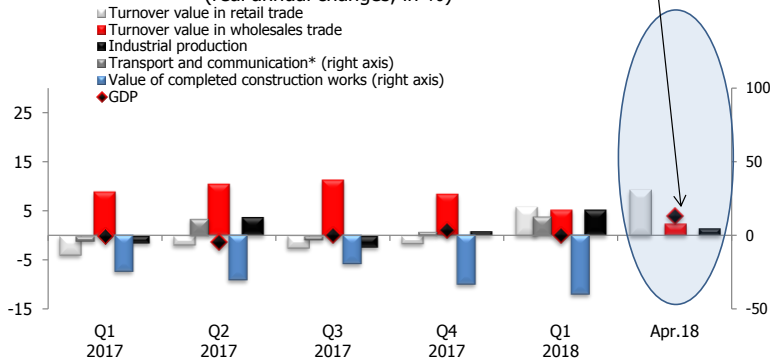
*Second quarter is onlu for April-May 2018.
Source: State statistical office and European Commission.

⁷ The drop in the value added in the first quarter has been registered in "construction", "information and communications", cumulatively in the activities "public administration and defense, compulsory social insurance, education and health and social care", and "financial activities and activities of insurance ", as well as" real estate activities ".

⁸ It refers to the surveys conducted by the European Commission to measure the economic confidence of entities 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 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.

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

Thus, the growth in **total trade** given higher turnover registered in all types (wholesale trade, retail trade and trade in motor vehicles) continues in April.

In April, **industrial output registered an annual** growth of 1.5%, which is a slowdown of the growth compared to the first quarter of the year. The changes in industry in April are fully explained by the manufacturing industry, while the production in mining and energy sector reduced. Within the manufacturing industry, as before, the growth is mainly explained by the production in the activities in which the major foreign export capacities (machinery and devices, electrical equipment, motor vehicles) are produced, while in some of the traditional activities the movements remain unfavorable.

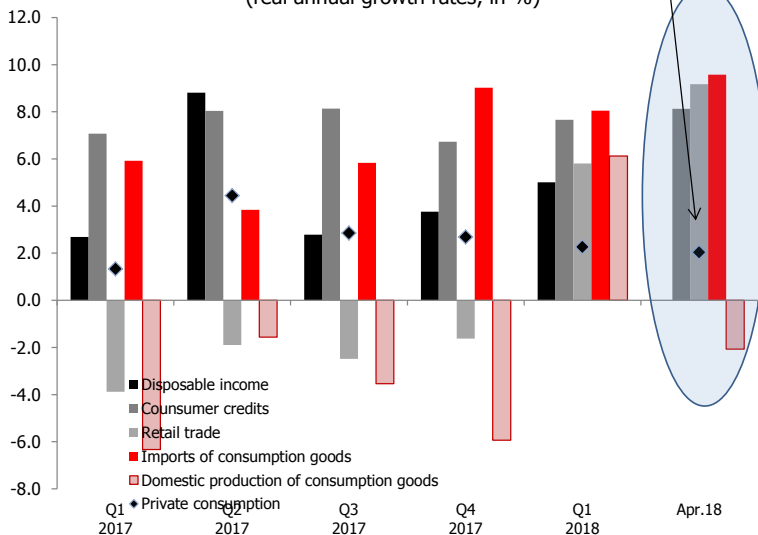
INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2017				2018					
	Q1	Q2	Q3	Q4	Q1	Jan.18	Feb.18	Mar.18	Apr.18	
	<i>annual changes in %</i>									
Gross domestic product	0.0	-1.3	0.2	1.2	0.1	-	-	-	-	
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	8.4	3.1	4.6	1.5	
Construction	-21.3	-27.2	-15.3	-29.3	-39.9	-37.7	-46.3	-35.8	-	
Retail and wholesale trade	3.6	5.7	6.3	6.1	7.3	13.0	7.8	2.3	7.1	
Retail trade	-3.3	-0.7	-1.0	0.5	7.4	10.7	5.8	6.0	10.8	
Wholesale trade	9.5	11.7	13.0	10.7	6.8	14.1	8.5	-0.5	3.9	

* Base index 2015=100.
Source: SSO and NBRM's own calculations.

Indicative variables for private consumption

(real annual growth rates, in %)

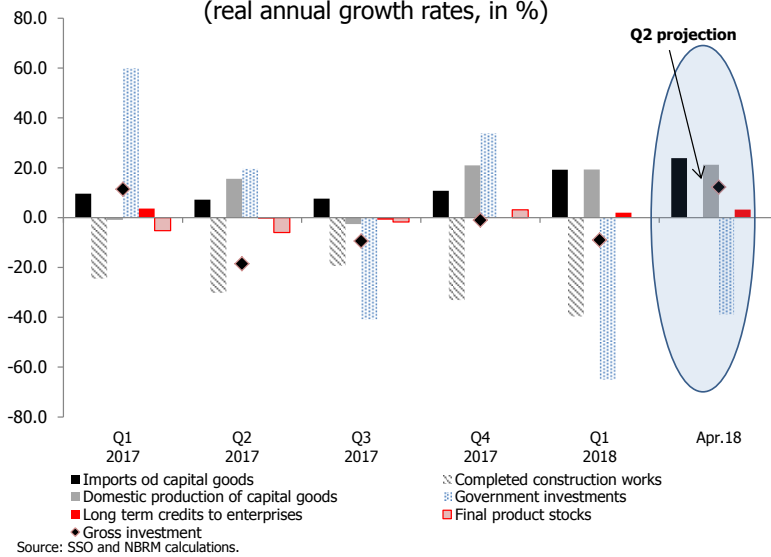


Source: SSO and NBRM calculations.

On the side of aggregate demand, the private consumption indicators mainly point to its further growth in the second quarter, amid growth in pensions, retail loans, retail trade, as well as the growth in import of consumer goods in April. Analyzing the indicators, a decline was noticed only in domestic production of consumer goods.

The available high frequency data on **gross investments** indicate, for the time being, more favorable developments relative to the first quarter. Thus, in April, the growth of long-term lending to enterprises, the import of investment products, as well as the growth of industrial production and domestic production of capital products continued. In state-owned capital investments, the decline continues, but still with a moderate pace.

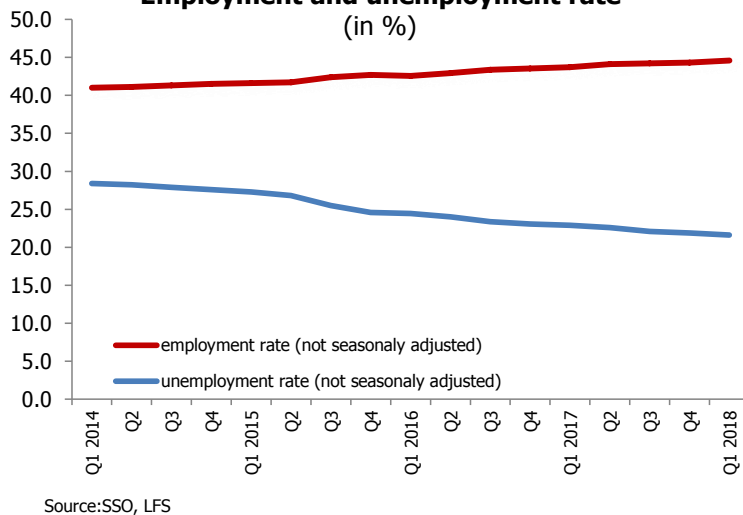
Indicative variables for investments (real annual growth rates, in %)



The data on **foreign trade** point to a slight narrowing of the deficit, with higher export growth than the import in April.

The available data for April indicate a rise in public consumption, mainly as a result of higher costs of goods and services.

Employment and unemployment rate (in %)

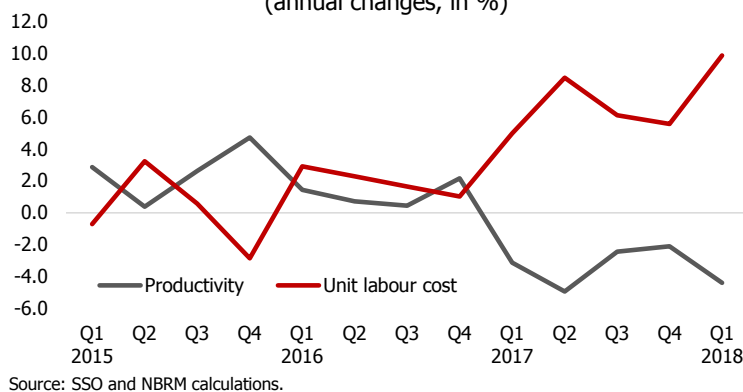


The favorable shifts in the **labor market** continued also in the fourth quarter of 2018...

... given further decline in the unemployment rate, which in the first quarter it was reduced to 21.6% (21.9% in the previous quarter of 2016)...

...and annual increase in the number of employed persons of 2.2%⁹.

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



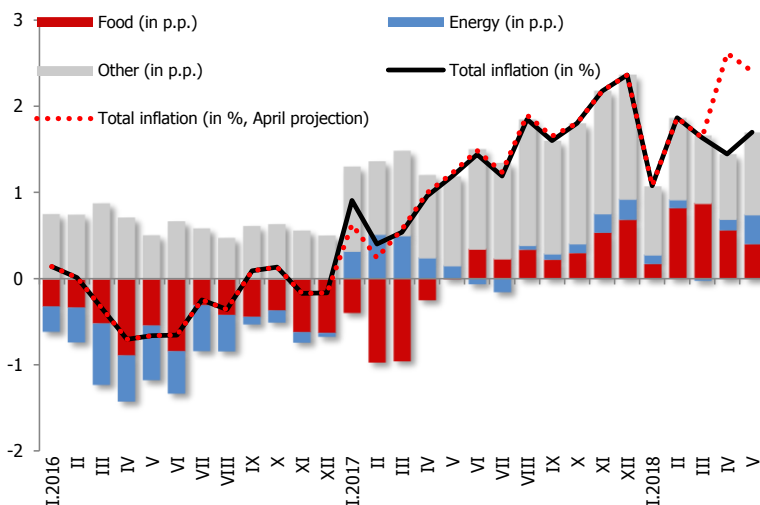
In the first quarter of 2018, **labor productivity**¹⁰ continued to decrease (annual decline of 4.4%), with higher intensity compared to the last quarter of 2017 (annual decline of 2.1%). At the same time, there also was an acceleration of the growth of the **unit labor costs** to 9.9% compared to increase of 5.6% in the previous quarter.

⁹ Processing industry and hotels and restaurants made the largest contribution to the employment growth.

¹⁰ The total productivity is calculated as weighted sum of the calculated productivity at an individual sector level. Within each sector, the productivity is calculated as a ratio between the value added in that sector and the number of employees.

Inflation rate

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



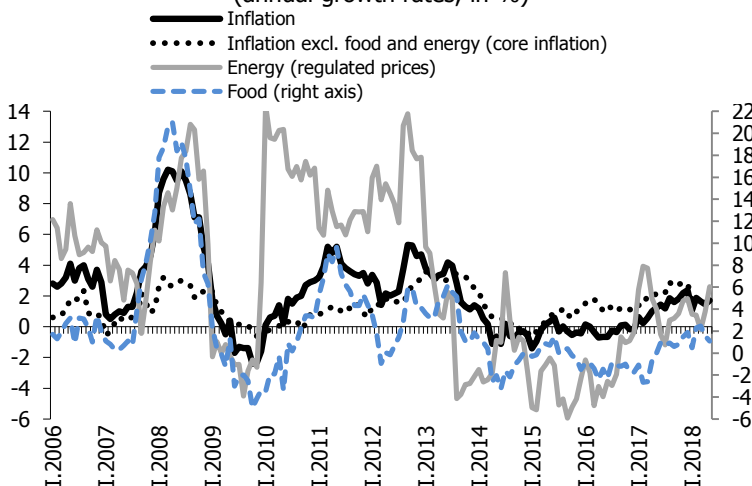
Source: SSO and NBRM.

In May 2018, the growth of domestic consumer prices accelerated and on a monthly basis amounted to 1.0%, compared to the monthly growth in April of 0.1%.¹¹ (compared to the monthly rise of 0.3 in April)... -

...driven by the intensified price growth of food and the core inflation (driven by the seasonal rise in the price of vegetables and tobacco price growth), while the energy prices had lower contribution.

Inflation and volatility of food and energy

(annual growth rates, in %)

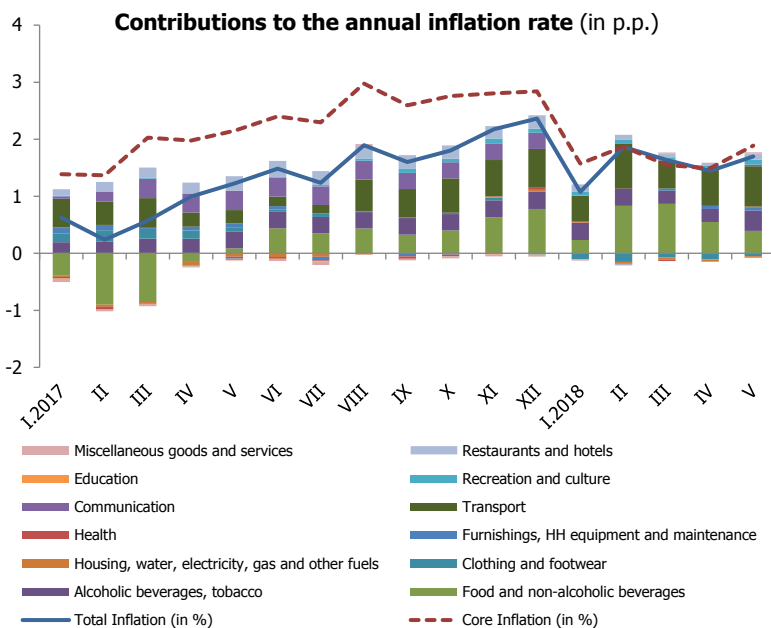


Source: State statistical office and NBRM calculations.

The annual inflation rate equaled 1.7% in May (compared to 1.4% in April), which is a downward deviation compared to the April projection.

Observed by price category, the downward deviation is present in food prices and energy, while in the core inflation, there was a minimal upward deviation.

¹¹ Observed by group products, food i.e vegetables have the highest positive contribution to the monthly growth in May.

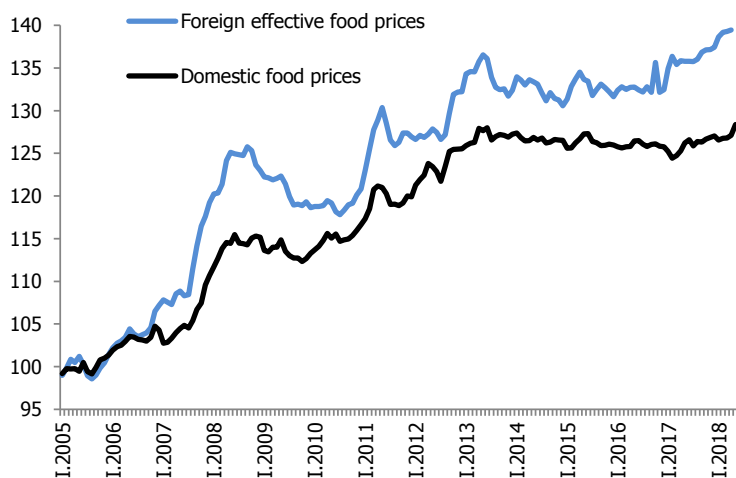


Core inflation rate in May amounted to 0.6% on a monthly basis, whereas on annual basis the increase amounted to 1.9% (compared to 1.5 in April).

The growth structure of core inflation in May is similar to the one at beginning of the year. Namely, the annual growth is connected to the price growth in most categories within the core inflation, from which prices of air transport and tobacco¹² have the dominant positive contribution.

Source: SSO and NBRM.

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



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

The expected price movements of external input assumptions in the inflation forecast for the entire 2018 have been revised in different directions.

Thus, the latest oil prices estimates for 2018 indicate a higher growth compared to the expectations of the April round of forecasts. At the same time, the expectations for the prices of cereals indicate an upward pressure, i.e. it is expected that the prices of wheat and corn will grow significantly faster compared to the expectations of April.

Amid current inflation lower than the one forecasted in April and conducted upward correction to the external input assumptions, the risks regarding the inflation forecast for 2018 are currently assessed as balanced. However, the uncertainty around the forecasted movement of world primary commodities prices remains.

¹² The annual growth of tobacco prices in May is a combination of the increase in the price of a certain type of cigarettes in April and May 2018, an increase which was registered in the same period of the previous year. In July 2017, the cigarette excise increased (from 1 July 2017 to 1 July 2023 the excise duty will increase by 0.20 denars/piece each year), and the following increase will take place in July 2018.

In April 2018, the foreign trade deficit narrowed by 4.7% on an annual basis, given the stronger growth in export relative to import component...

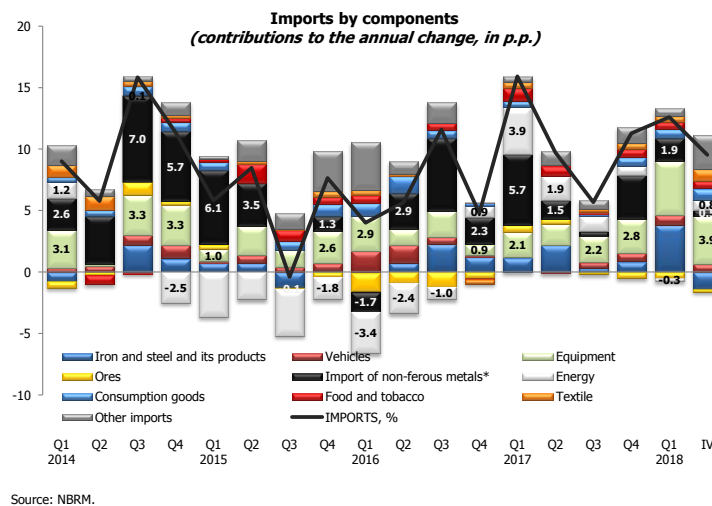
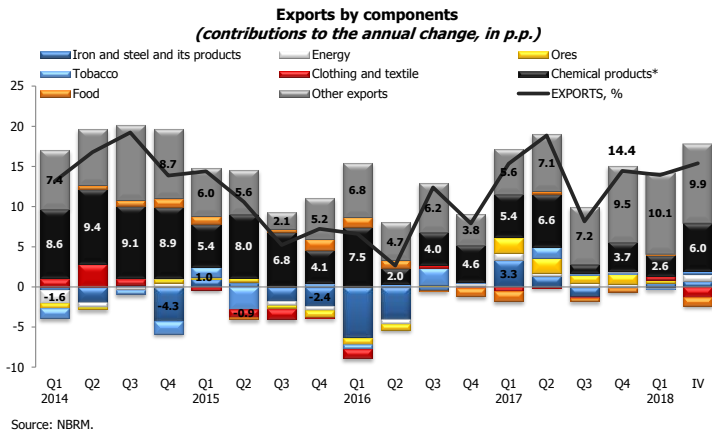
In April, the **export** of goods registered an annual growth of 15.4%, which was mostly due to the intensified export activity of new export-oriented industrial capacities. No significant annual changes were registered in other categories.

Compared to the April forecast, *the performance in January points to the possibility of a higher export than expected for the second quarter.* Significant positive deviations are visible in the export of new industrial capacities, while the remaining components are mainly within the April projection.

Import of goods in April 2018 increased by 9.5% annually, reflecting the growth of most import categories, primarily the import of equipment and machinery and the import of raw materials for new industrial facilities.

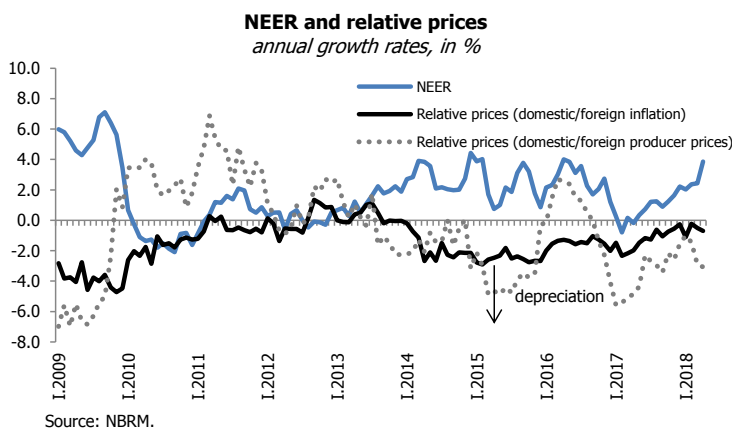
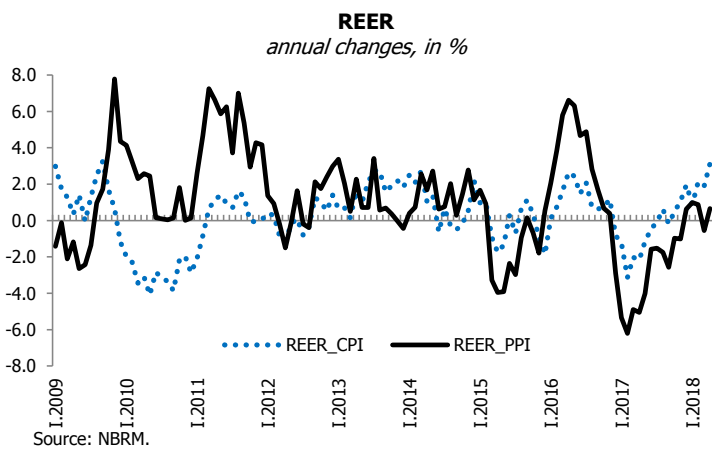
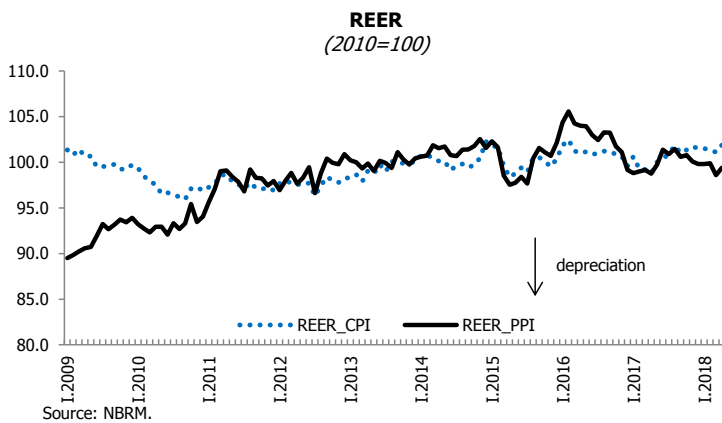
On the other hand, drop was observed in the import of iron and steel, ore and tobacco.

Import of goods in April 2018 suggests possibility for lower than forecasted performance for the second quarter. Viewed by category, the deviation is mostly due to the downward deviation of the import of a significant industrial capacity, with moderate upward deviation in the import of equipment and machinery.

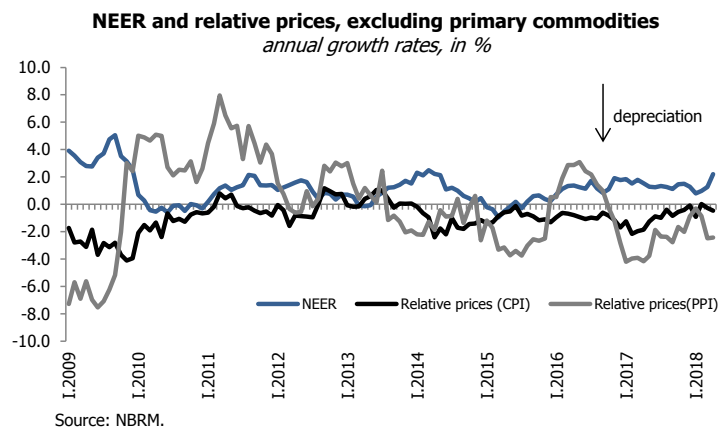
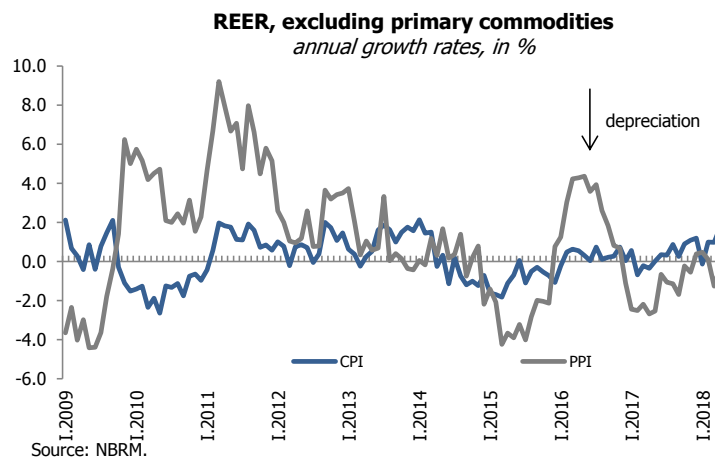
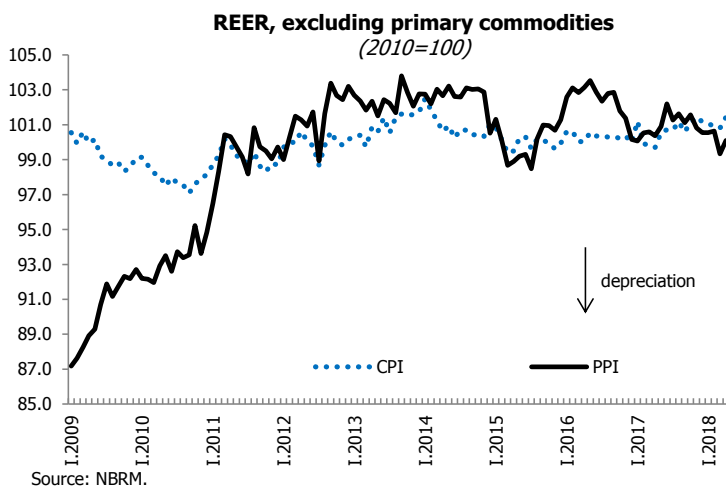


The performance of the foreign trade components indicate a likelihood of a somewhat lower than forecasted trade deficit in the second quarter of 2018, according to the April forecast. However, the period is too short, and movements by months are variable, because of which it is difficult to make reliable statements in this domain.

In April 2018, price competitiveness indicators of the domestic economy worsened moderately. The REER index deflated by consumer prices have appreciated by 3.1% and the REER index deflated by producer prices appreciated by f 0.7%.



These developments are fully due to the NEER dynamics, which appreciated by 3.9% on an annual basis, mainly as a result of the depreciation of the Russian ruble and the Turkish lira against the Denar. On the other hand, the relative consumer prices and the relative producer prices registered an annual decrease of 0.7% and 3.1%, respectively.



REER indices, calculated with weight based on foreign trade without primary commodities¹³ in April 2018 registered divergent movements. Thus the REER index deflated by consumer prices registered appreciation of 1.7%, while the REER deflated by producer prices depreciated by 0.3%.

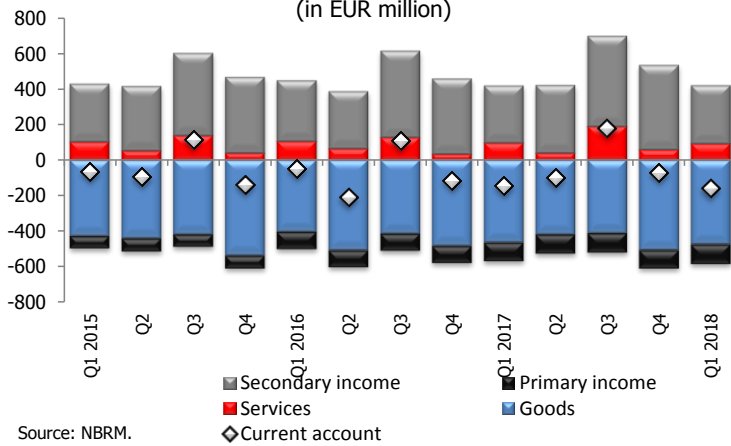
On an annual basis, the relative consumer prices and the relative producer prices decreased by 0.5% and 2.4%, respectively. At the same time, the NEER appreciated by 2.2% on an annual basis.

In the first quarter of 2018, the current account deficit totaled Euro 157.9 million, or 1.5% of GDP,¹⁴ which is higher deficit in the first three months than expected in April projection.

¹³ 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.

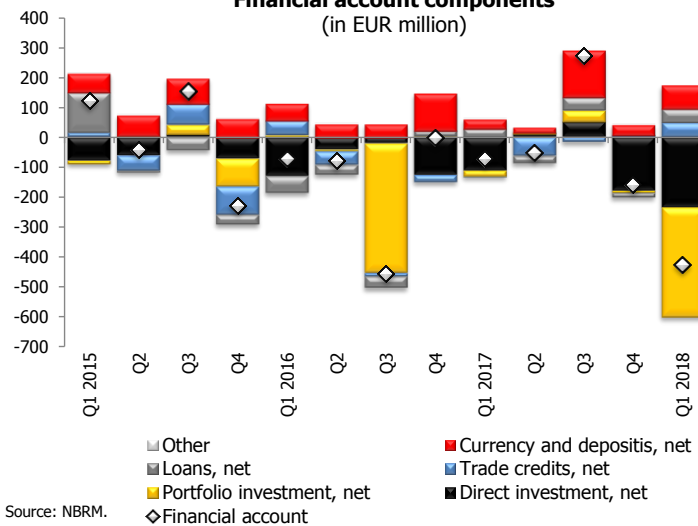
¹⁴ The analysis of nominal GDP for 2018 uses the NBRM April 2018 forecasts.

Main components of the current account
(in EUR million)



From the aspect of the structure, the deviation is predominantly due to the larger deficit in the trade of goods with foreign countries. On the other hand, the service surplus is slightly higher than the expectations, while the surplus in the secondary income and the deficit in the primary income are in line with the estimates for the first quarter

Financial account components
(in EUR million)

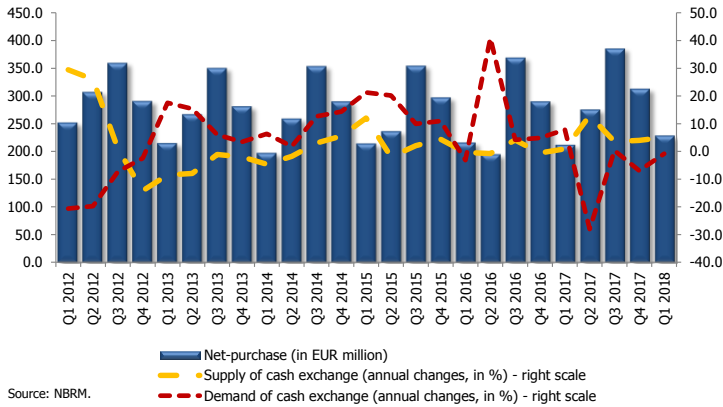


During the first quarter, the financial account registered net inflows of Euro 426.3 million (or 4% of GDP), which is higher than the expectations for the first quarter of 2018.¹⁵ Thus, most of the higher realized net inflows result from the upward deviation of direct investments. Positive deviations are noted in the short and long term loans, in the direction of net inflows i.e. smaller net outflows, respectively, compared with the projected flows. On the other hand, the lower net inflows than expected are registered also in the portfolio investments¹⁶. Simultaneously, the categories trade credits and currencies and deposits register higher net outflows than expected.

¹⁵ According to the new methodology for compilation of the balance of payments BPM6, the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.

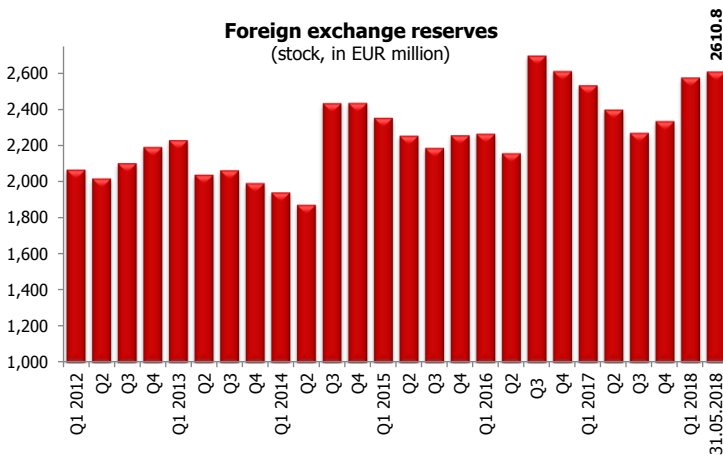
¹⁶ Such movements are mainly due to the reduced scope of liabilities based on equity and shares/stakes in investment funds.

Cash exchange market



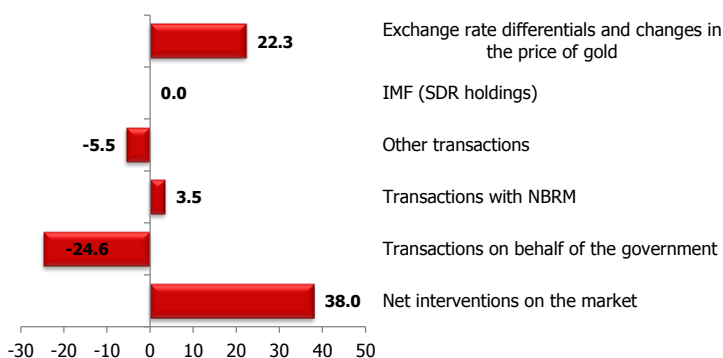
The net purchase on the currency exchange market registered within April - May period equaled Euro 209.9 million, which is an annual increase of 13.6%. These developments are the result of the higher increase in the supply of foreign currency (8.9%) than the growth in the demand for foreign currency (4.5%).

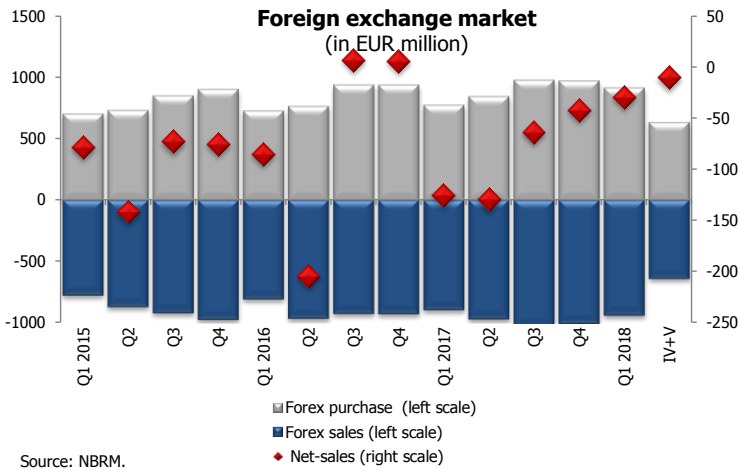
Foreign exchange reserves (stock, in EUR million)



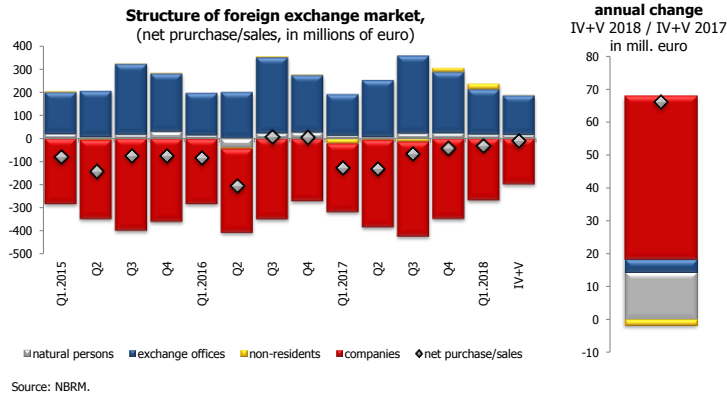
As of 28 February 2018, gross foreign reserves amounted to Euro 2,610.8 million, which is an increase of Euro 33.7 million compared to the end of 2017. The increase in foreign reserves mainly stems from the NBRM interventions on the foreign exchange market towards purchase of foreign exchange, and less from the price and exchange rate differentials.

Factors of change of the foreign reserves in the April-May 2018 period (in EUR million)





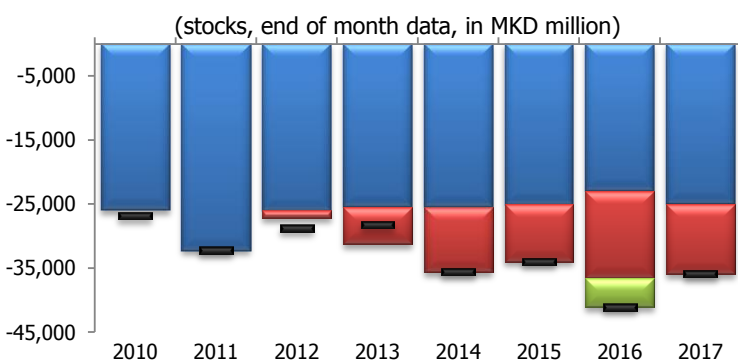
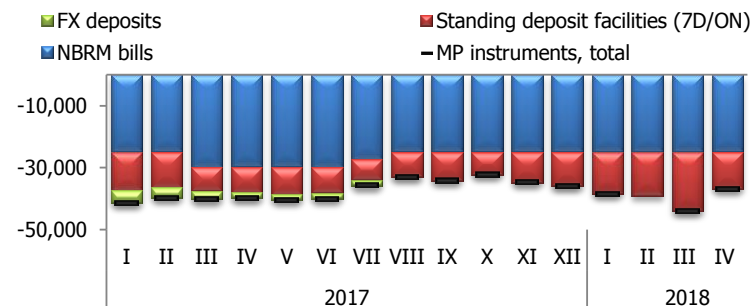
In the period April - May 2018, the foreign exchange market of banks a net sale of Euro 10 million was registered, by Euro 66.3 million lower compared to the same period last year. This annual change is a result of the intensified growth in the supply relative to the minimal rise in the demand for foreign currency.



Sector-by-sector analysis shows that such movements are mostly a result of the lower net sales of the companies in comparison with the same period of the previous year. The higher net purchase by natural persons and exchange offices also acts in the same direction.

Monetary policy instruments

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



Source: NBRM

Monetary instruments in April registered a monthly decrease, which is in line with the expectations for the second quarter of the year according to the April forecast. During the month, the autonomous factors acted towards liquidity withdrawal, whereby the banks provided part of the required liquidity by reducing the excess liquid assets placed in short-term deposits with the NBRM. On the other hand, the level of the CB bills remained unchanged.

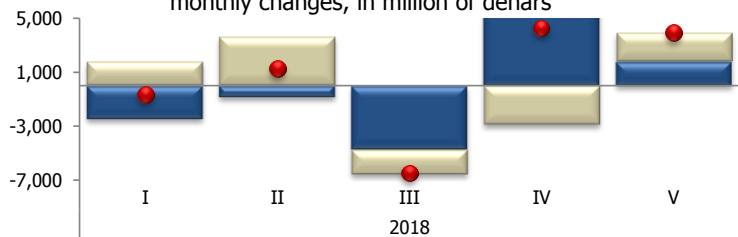
NBRM’s net foreign assets registered moderate monthly increase in April. The increase in the net foreign assets of the NBRM was largely a result of the growth of the foreign exchange assets of the NBRM, with a slight drop in the foreign exchange liabilities of the NBRM. The NBRM's net foreign assets at the end of April are higher than expected for the end of the second quarter, in the April projections.

State deposits with the NBRM increased in April on a monthly basis, reflecting the growth in deposits in domestic currency, while foreign currency deposits registered a moderate decrease compared to the previous month. Compared with the projection for the end of the second quarter, the government deposits with the NBRM at the end of April are higher than projected.

The reserve money in April registered monthly growth, with their level close to the projected for the end of the second quarter. The increase in the reserve money was mostly a result of the growth of the banks' reserves, with moderate monthly growth and currency in circulation.

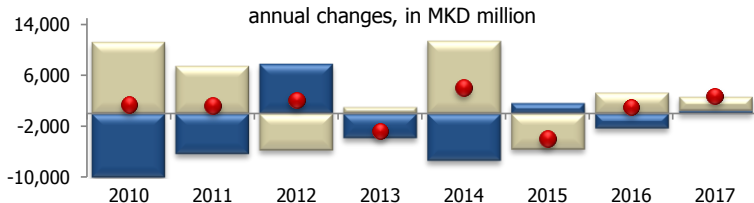
Banks liquidity*

monthly changes, in million of denars



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

annual changes, in MKD million

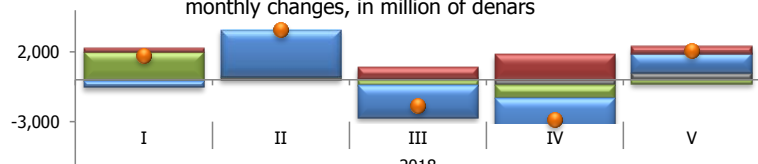


Source: NBRM.

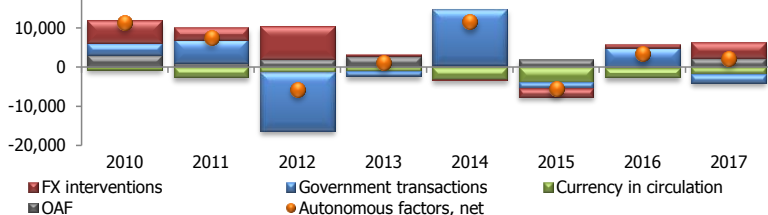
* positive change: liquidity creation, negative change: liquidity withdrawal

Autonomous factors*

monthly changes, in million of denars



annual changes, in million of denars

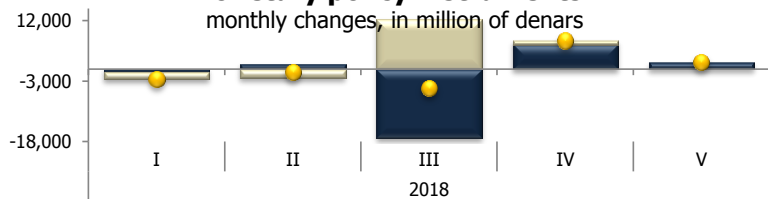


Source: NBRM.

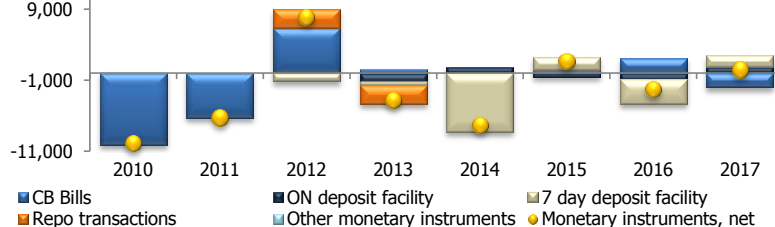
* positive change: liquidity creation, negative change: liquidity withdrawal

Monetary policy instruments*

monthly changes, in million of denars



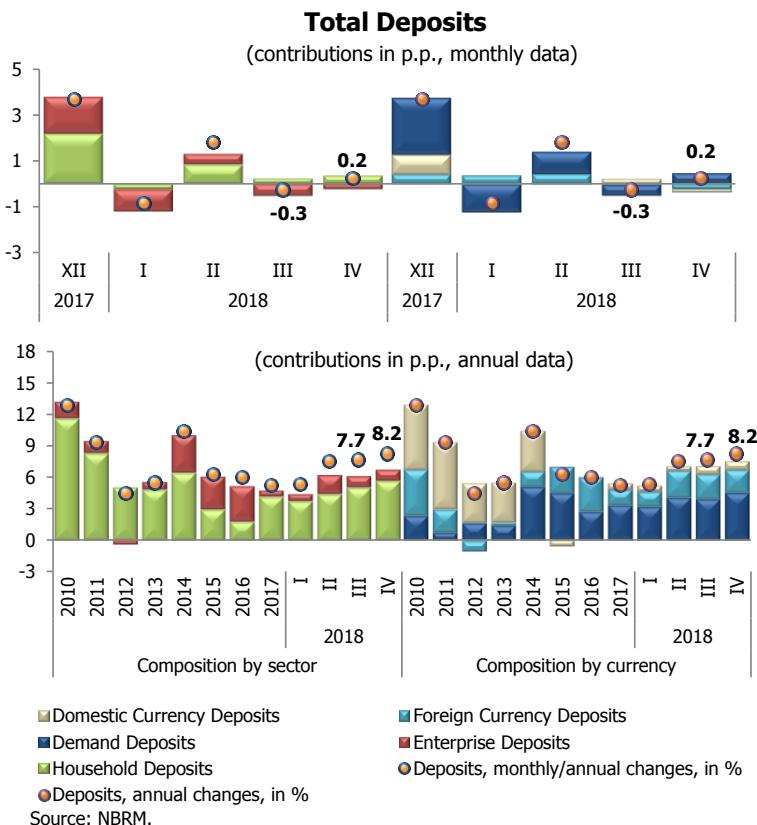
annual changes, in million of denars



Source: NBRM.

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

In February, the liquidity of the banking system increased. The banks' liquidity growth, according to the operational data on liquidity flows, was influenced primarily by the autonomous factors, mostly as a result of the country's transactions. Monetary instruments also acted to increase liquidity, due to the lower interest of banks for placing free liquid assets in short-term deposits with the NBRM.



After the moderate decrease in the previous month, in April, the total deposits with the banks registered a small monthly growth of 0.2%.

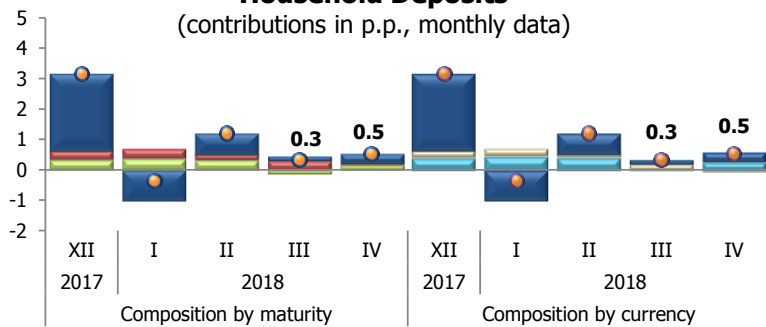
According to the sector structure, monthly growth is driven by household deposits, while deposits of enterprises have a negative contribution. Observed from the currency aspect, the increase resulted from the denar deposits (as a result of demand deposits, unlike the previous month, when they declined). Foreign currency deposits had a negative contribution to the growth of total deposits.

In April 2018, the total deposits registered monthly increase of Denar 844 million, compared to the moderate quarterly decline in the April projection for the second quarter of the year.

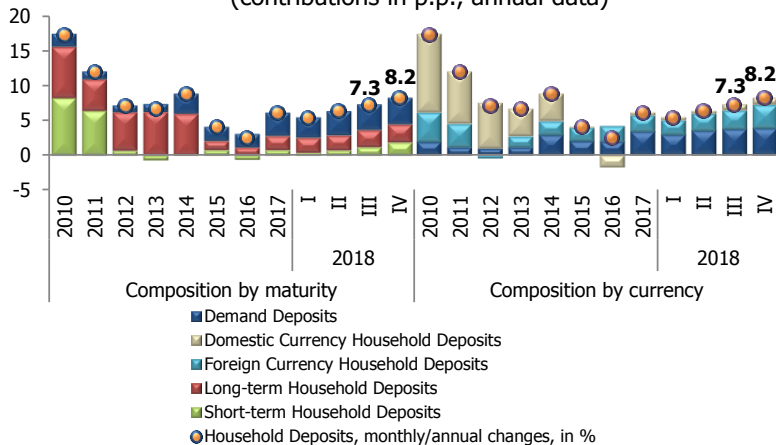
The annual growth rate of total deposits in April was 8.2% (4.2% in March), which exceeds the growth projected for the second quarter of 2018 (of 7.4%) according to the April projection. The annual growth of total deposits in April, from a sectoral aspect, is dominantly influenced by household deposits, with corporate deposits also having positive contribution. In terms of currency, the largest portion of the deposit growth is mostly due to the growth of local currency deposits (including demand deposits), but relatively lower contribution to the annual growth and foreign currency deposits.

Household Deposits

(contributions in p.p., monthly data)



(contributions in p.p., annual data)

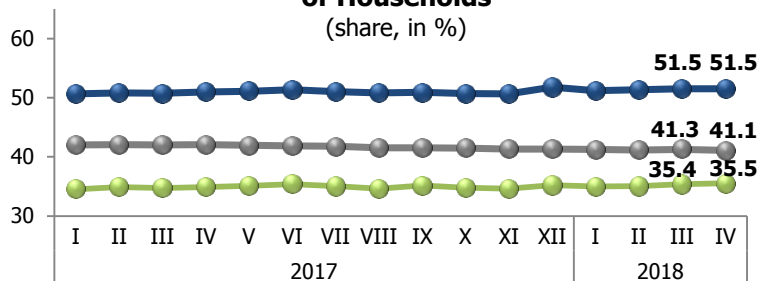


Source: NBRM.

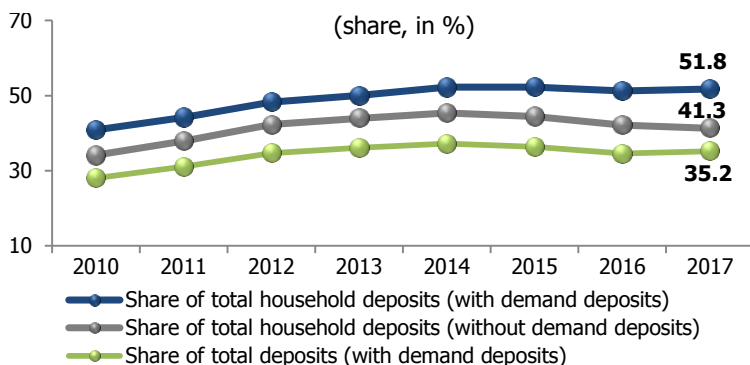
In April, the household deposits registered a monthly increase. Monthly growth of household deposits by 0.5% (0.4% increase in the previous month) is almost equally driven by the increase in denar deposits (as a result of demand deposits) and deposits in foreign currency. In April, the share of denar deposits (with demand deposits) in the total household deposits remained unchanged compared to the previous month, amounting to 51.5%. **On annual basis, the household growth rate amounts to 8.2%.**

Denar Deposits of Households/Total Deposits of Households

(share, in %)



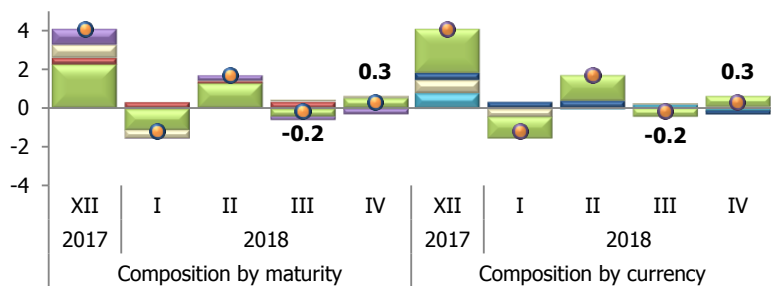
(share, in %)



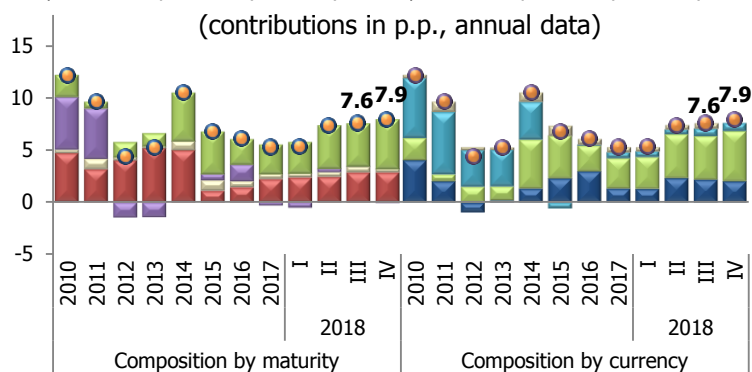
Source: NBRM.

Broad Money M4

(contributions in p.p., monthly data)



The money supply, measured through the broad money M4, grew in April on a monthly basis. Monthly growth of the broad money of 0.3% (decrease of 0.2% in the previous month) from a maturity perspective is mostly explained by the increase in demand deposits, while the contribution of term deposits is negative mainly due to short-term deposits. Observed from the currency point of view, the growth is dominantly driven by the denar deposits (due to the demand deposits), while the foreign currency deposits have a negative contribution. As a result of such performance in April, the share of the denar share in the total money supply went up to 62.7% (62.3% in the preceding quarter).

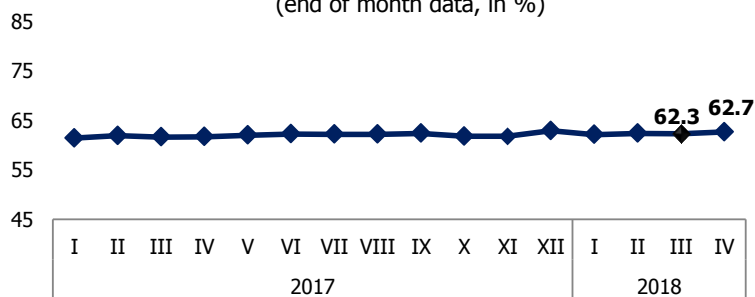


- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits
- Total Foreign Currency Deposits
- Total Long-term Deposits
- Broad Money M4, monthly/annual Changes, in %

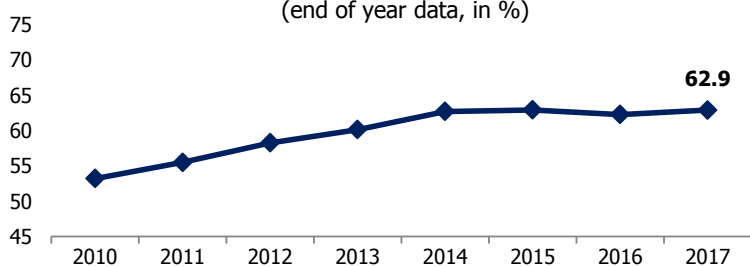
Source: NBRM.

Share of Denar M4 in total M4

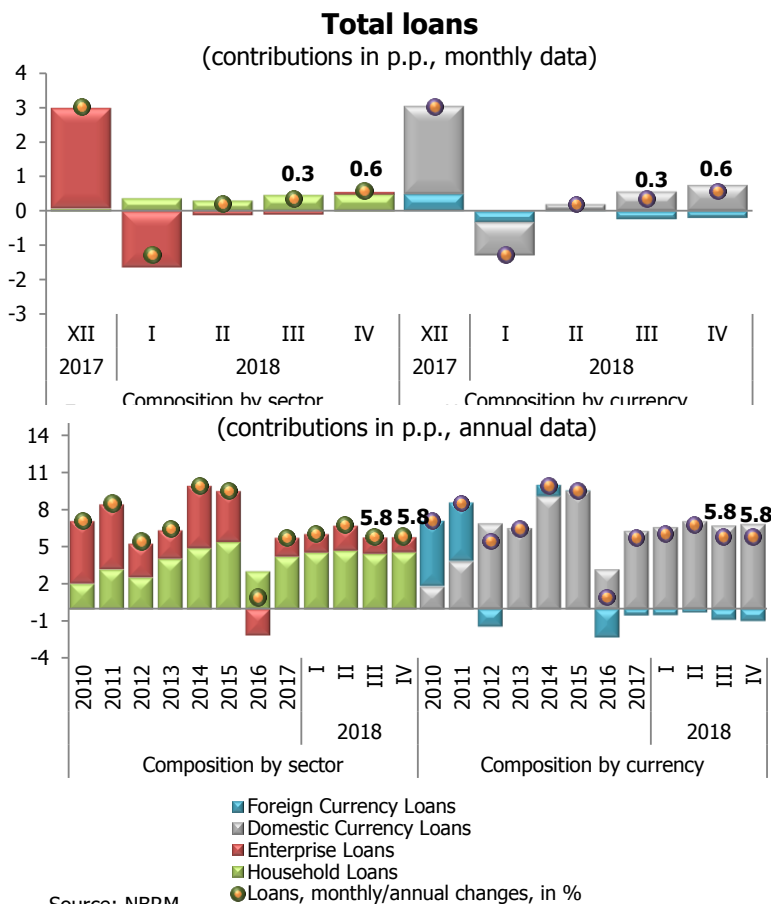
(end of month data, in %)



(end of year data, in %)



Source: NBRM.



Source: NBRM.

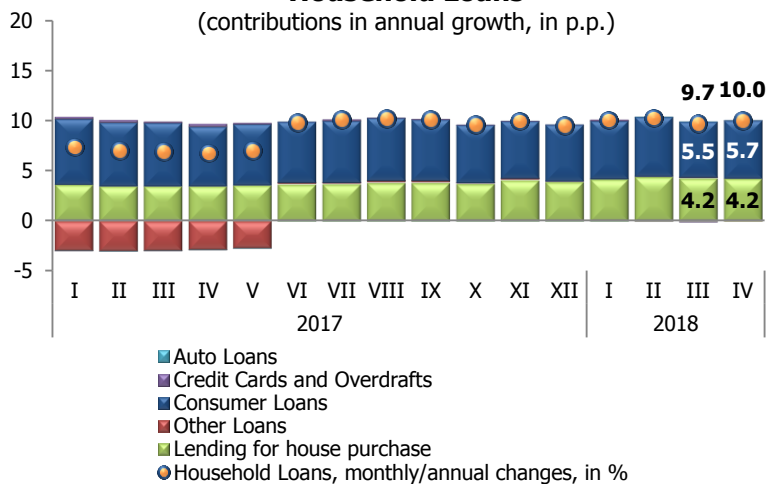
In April, total loans of the private sector registered monthly rise of 0.6% (increase of 0.3% in March). From sector point of view, the movements are driven by the growth of household loans (with similar contribution as in the previous month), while the lending to enterprises has a slight positive contribution, unlike the negative one in the previous month. According to the currency structure, the monthly growth of the total credits in April was driven by the credits in domestic currency, while the loans in foreign currency registered negative contribution.

The registered increase in the total loans in April 2018 is moderately lower than the forecast for the second quarter of the year.

On annual basis, total loans in April grew by 5.8%, which is above the forecasted growth (of 4.1%) for the second quarter of 2018. Observing the currency, the annual growth of total loans in April 2018 is due to the growth of denar loans, while the contribution of the foreign currency loans remains negative. From the sector point of view, the positive contribution of the "households" sector was even more pronounced, while the positive contribution was also registered in the corporate sector loans.

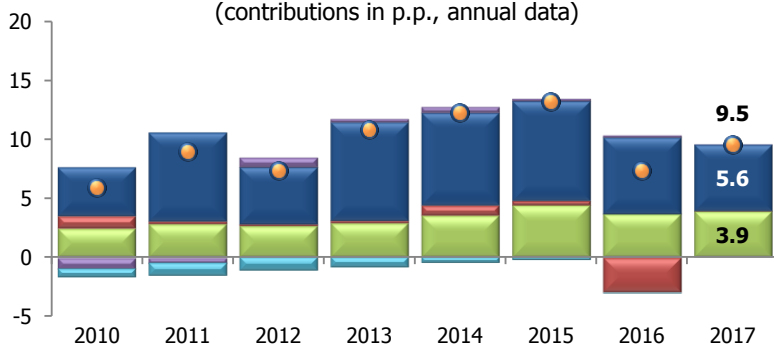
Household Loans

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



The annual growth of household loans in April amounted to 10.0% (9.7% in the previous month) and was almost entirely driven by consumer and housing loans, contributing by 5.7 pp. and 4.2 pp, respectively.

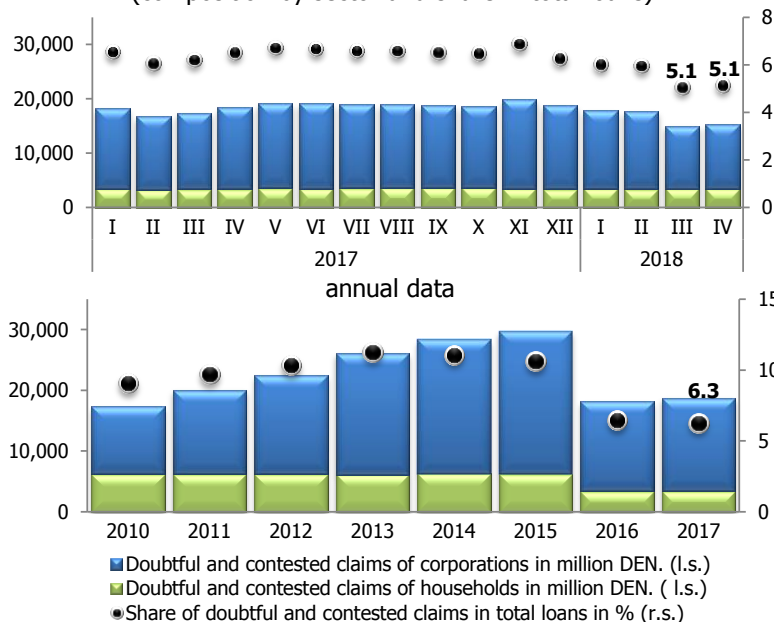
(contributions in p.p., annual data)



Source: NBRM.

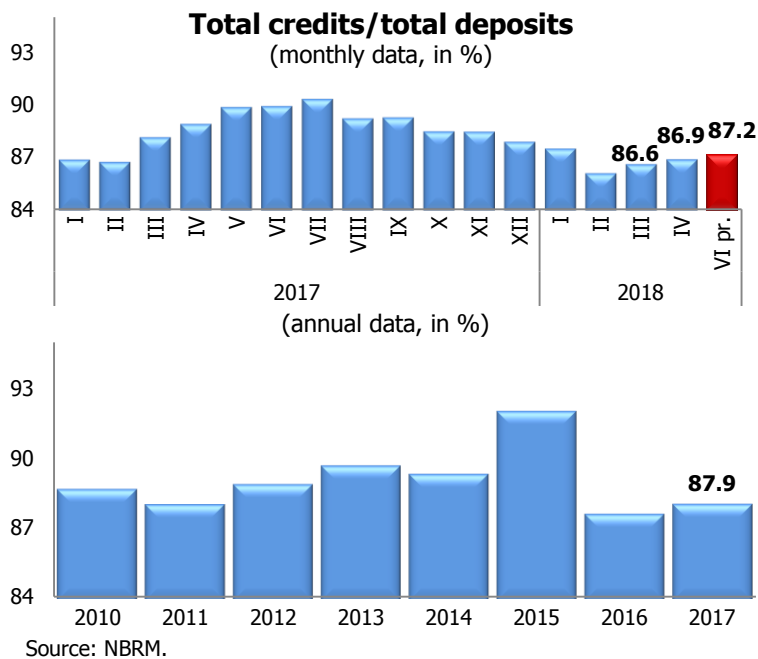
Doubtful and contested claims

(composition by sector and share in total loans)

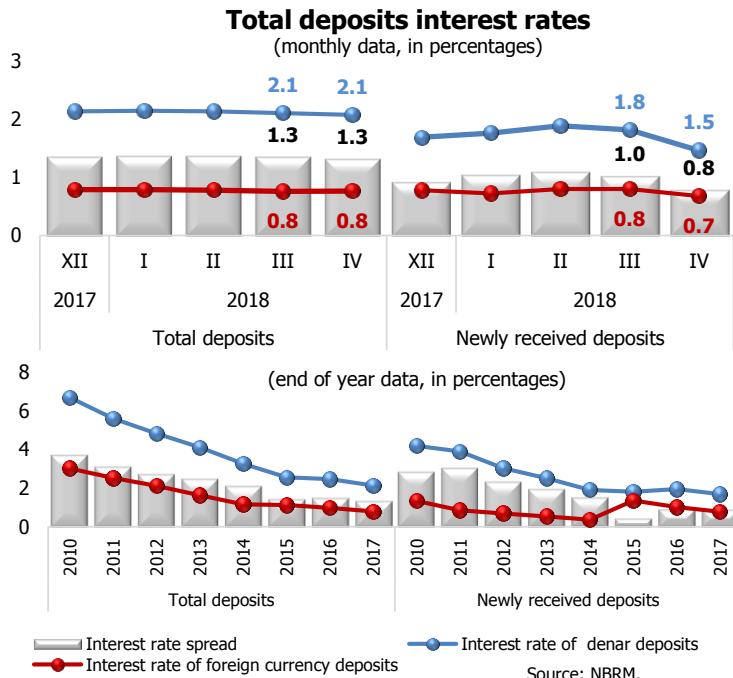


Source: NBRM.

The share of doubtful and contested claims in the total credits in April remained at the level of the previous month, when they decreased. Thus, non-performing loans in April amounted to 5.1% of total loans. From the sector point of view, non-performing loans to the corporate sector dominate in the total non-performing loans, while the share of non-performing loans in the household sector is significantly lower.



The utilization of the deposit potential for lending to the private sector increased in April. The increase of the loan-to-deposit ratio (from 86.6% to 86.9%) in January is due to the relatively higher loans increase compared to the deposit growth. With the April performance, the indicator of credit-to-deposit ratio is lower compared to the expectations for the second quarter of 2018, according to the April projection.

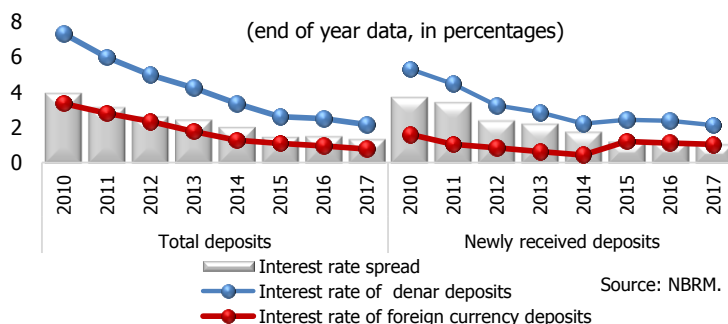
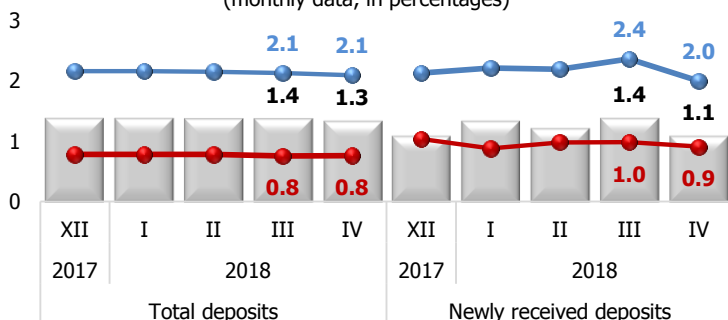


In April, the interest rates on total deposits (in denar and foreign currency) registered no significant changes compared to the previous month, whereby the interest rate spread between the interest rates on denar and foreign currency deposits maintained at 1.3 percentage points. The situation is also similar in the **newly accepted total deposits**, the interest rate spread between denar and foreign currency deposits increased from 1.0 percentage points to 0.8 percentage points, amid fall in the interest rates on newly accepted denar deposits of 0.3 percentage points and decrease in the interest rates of foreign currency deposits of 0.1 percentage points¹⁷.

¹⁷ Regarding interest rates on the newly accepted deposits, it should be taken into consideration that they are characterized with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they have been driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.

Households' deposits interest rates

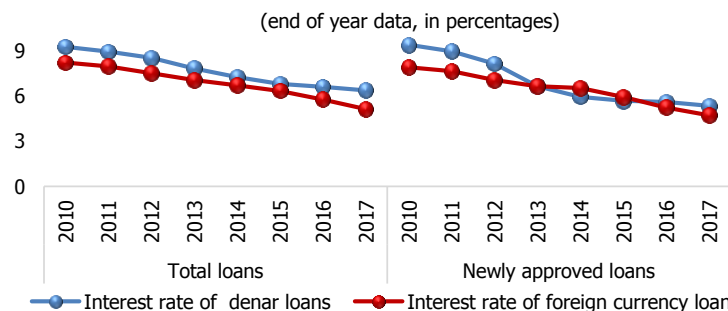
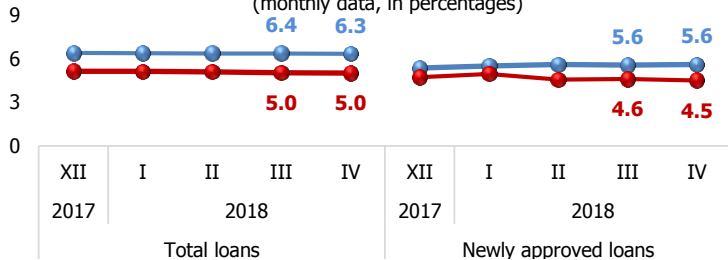
(monthly data, in percentages)



In April, the **interest rates on household deposits** registered minor changes compared to the previous month, whereby the interest rate spread between denar and foreign currency interest rates decreased from 1.4 percentage points to 1.3 percentage points. In **newly accepted household deposits**, the interest rates on the denar deposits registered a decline of 0.1 percentage points in April, while the interest rates on the foreign currency deposits decreased insignificantly (by 0.1 percentage points), which resulted in a reduction of the interest rate spread from 1.4 to 1.1 percentage points.

Total loans interest rates

(monthly data, in percentages)

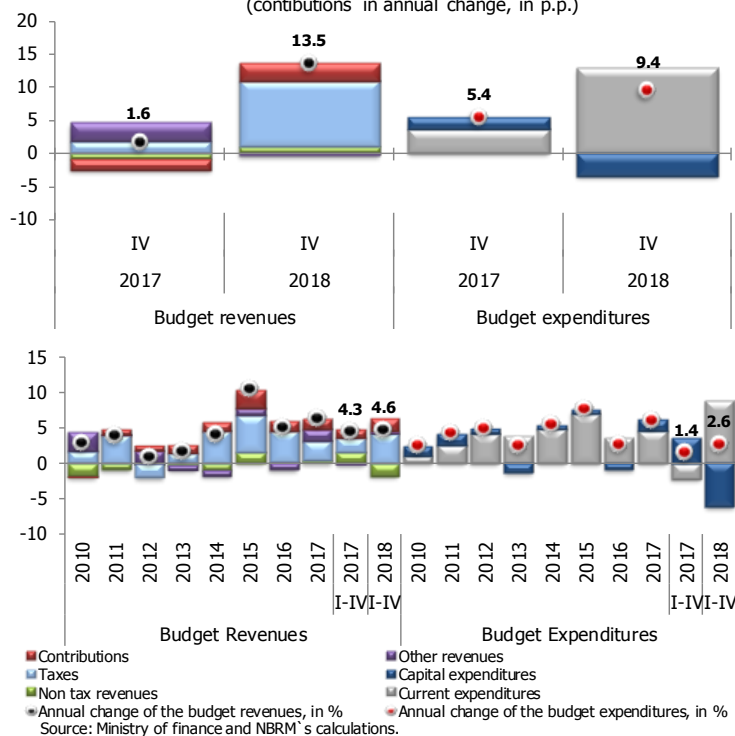


In April, the **interest rates on total loans (denar and foreign currency)** of households decreased by 0.1 p.p. compared to the previous month, while the interest rates on the total corporate loans remained unchanged. In the **newly approved total loans**, the interest rates for households did not change, while interest rates for enterprises decreased by 0.1 pp.¹⁸.

¹⁸ Regarding the interest rates on the newly approved loans, it should be taken into consideration that they are characterized with variable movements. The interest rate variability on newly newly approved loans is due to the fact that the same are driven by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures

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



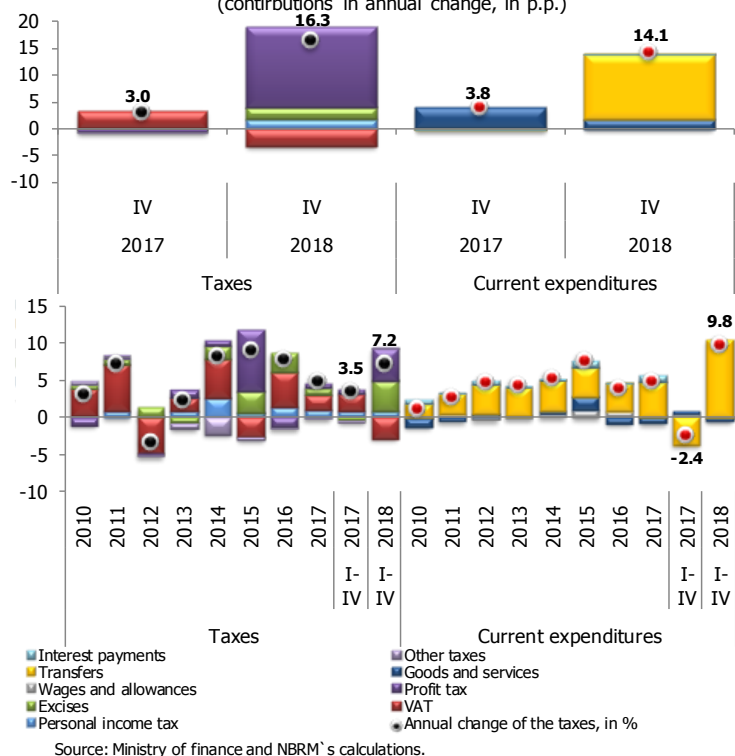
In the Budget of the Republic of Macedonia (central budget and budgets of the funds), in April 2018, the total budget revenues and expenditures increased on an annual basis.

The increase in the budget revenues in April (by 13.5%) is mostly due to the tax revenues, which contributed with 9.9 p.p, while the revenues from the paid contributions and non-tax revenues have a relatively lower positive contribution (of 2.8 p.p. and 0.9 p.p, respectively). Within the tax income, which in April increased by 16.3%, on annual basis, the growth generator is the profit tax¹⁹ (with a contribution of 15.1 p.p.), while the positive, although smaller contribution had excises and personal income tax (2.2 p.p. and 1.8 p.p, respectively). The contribution of the revenues on the basis of VAT, with a higher tax rebate, is negative, amounting to 3.4 p.p.²⁰. The increase in the **budget revenues** in April (of 9.4%) arises from the current costs, with contribution of 12.8 p.p., while the contribution of capital expenditures is negative (3.4 p.p). In the structure of the current costs, which registered an annual rise of 14.1% in April, dominates the category transfers (11.9 p.p.), which is related with the payment of the subsidies, common for this period of the year.²¹

In the period January - April 2018, total budget revenues and expenditures increased cumulatively by 4.9% compared to the same period last year. The increase in **budget revenues** (by 4.6%) is largely the result of better tax performance (in conditions of higher profits on the basis of corporate income tax) and paid contributions, while non-tax revenues have a negative contribution in relation to the same period of the previous year. **In budget expenditures**, the growth in the period January - April (2.6%) is entirely due to the higher current costs (in terms of higher transfers), while the contribution of capital expenditures is negative.

Taxes and current expenditures

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



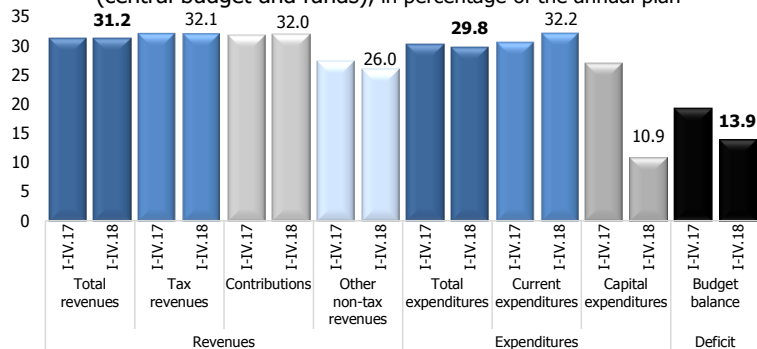
¹⁹ The increase in the profit tax in the period March-April is due to the corporate income tax paid by companies that have so far been exempt from the obligation to pay the tax on profit.

²⁰ Lower net VAT revenues in April 2018, on an annual basis, are mostly explained by the higher payment of VAT refunds, by 50%. Cumulatively, for the period January-April, the payment of VAT refunds is higher by 40.6% on annual basis.

²¹ With the payment of subsidies for agricultural production in April 2018 (in the amount of Denar 910 million, including for capital investments in agriculture), the total amount of subsidies for agricultural production from the Budget of the Republic of Macedonia from the beginning of the year reached Denar 3,540 million, which represents 42% of the annual plan in the Budget of RM for 2018.

Budget implementation , per categories

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

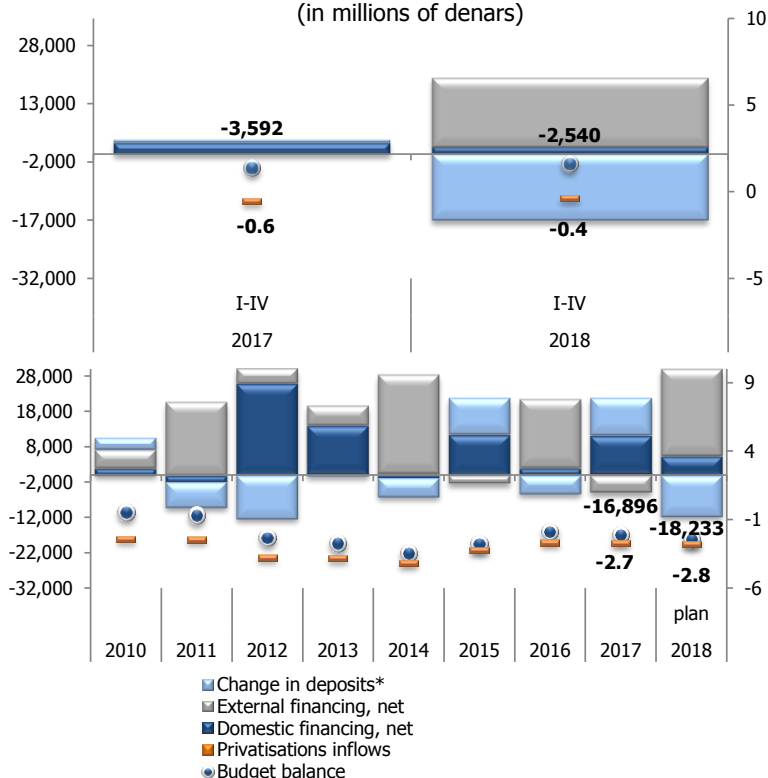


*for 2017 and 2018, figures are calculated compared to the Budgete rebalance in August 2017 and the planned Budget for 2018, respectively.

Source: Ministry of Finance and NBRM's calculations.

Financing of the budget balance

(in millions of denars)



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

Source: MoF.

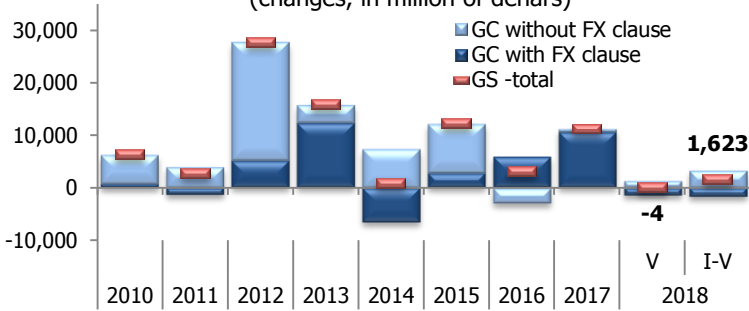
Regarding the annual budget plan for 2018, the realized budget revenues in the period January - April amounted to 31.2% of the total planned revenues for 2018 (similar to the previous year), analyzed by categories, total taxes and contributions were realized with 32.1% and 32.0%, respectively, from the annual plan, while the realization in the category "other non-tax revenues" was moderately lower and amounted to 26.0%. **Budget expenditures in the same period represent 29.8% of the total planned expenditures for 2018** (30.2% in 2017), with the percentage of realization at current expenditures moderately higher than last year and amount to 32.2% of the annual plan, while in capital costs it is lower, accounting for 10.9% of the annual plan (27% in 2017).

In the period January - April 2018, a deficit was realized in the Budget of the Republic of Macedonia, which was mostly financed by borrowing the country on the international financial markets. The realized budget deficit in this period amounted to Denar 2,540 million, which represents 13.9% of the planned deficit for 2018 and 0.4% of the nominal GDP²². The budget deficit in the first four months of the year was mostly financed by external sources, through the issuance of a Eurobond (with one part of the foreign currency inflows retained as deposits on the state account with the NBRM), and in a small part and through a new issue of government securities on the domestic financial markets.

²² The analysis uses the NBRM April forecasts for the nominal GDP for 2018.

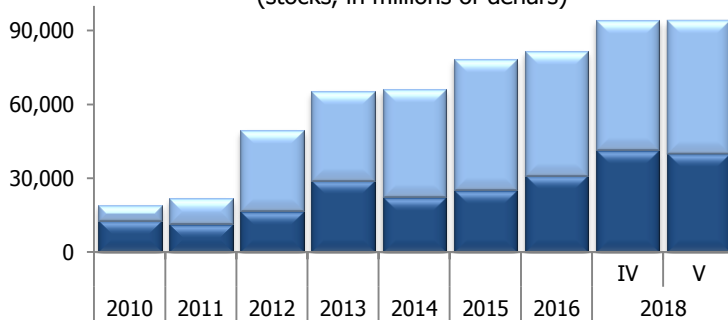
Government securities

(changes, in million of denars)



Source: NBRM.

(stocks, in millions of denars)

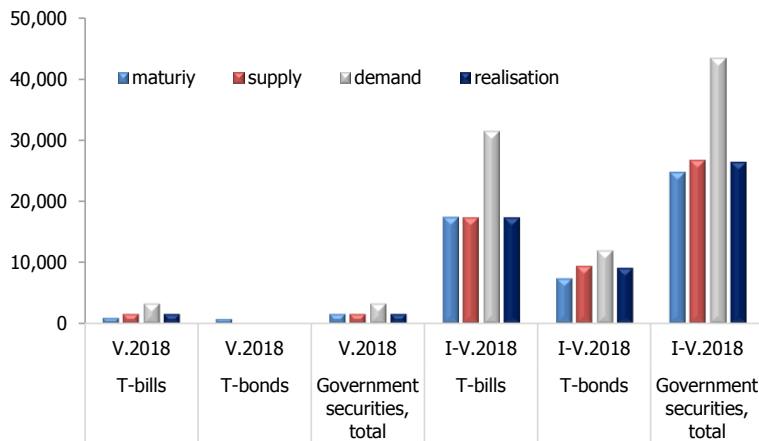


Source: MoF.

In May 2018, the state of total issued government securities on the primary market realized a slight decrease, with favorable movements in the currency structure, in direction of higher growth of denar bonds without foreign exchange clause. The stock of issued government securities in the domestic market amounted to Denar 94,207 million at the end of May 2018 and compared to the end of 2017 is higher by Denar 1,632 million.²³

Government securities auctions

in million of denars



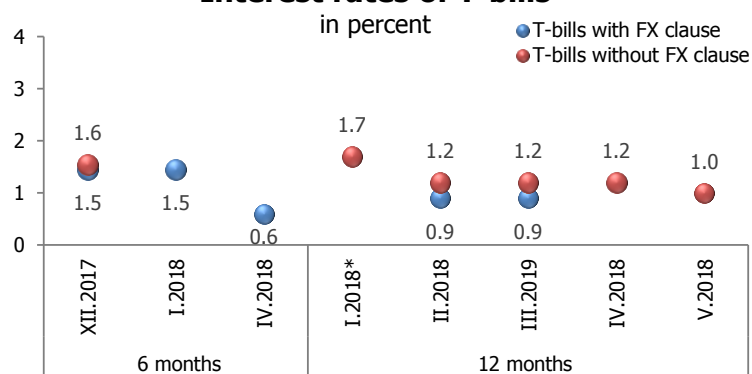
Source: Ministry of finance.

In May, the interest of market participants for government securities on the primary market continued. After the Ministry of Finance issued its 30-year government bonds for the first time in April, the new issue of government securities in May was shorter (12 months)²⁴. The interest of the market participants in May was relatively high, and analyzed from a maturity point of view, the state of the treasury bills grew, while in the absence of a bid on government bonds, their condition was reduced. However, compared to the end of 2017, the increase in the stock of government securities is entirely due to the increase in the state of government bonds, with a slight decline in the state of the treasury bills.

²³ For 2018, with the annual budget plan, domestic government debt is planned in the amount of Denar 5,454 million i.e. growth of the stock of government securities to the level of Denar 98,038 million.

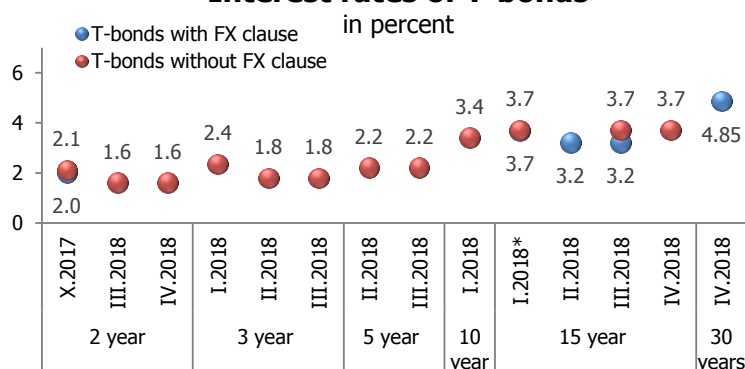
²⁴ In May, 12-month treasury bills and 5-year government bonds were due.

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.
Source: Ministry of Finance.

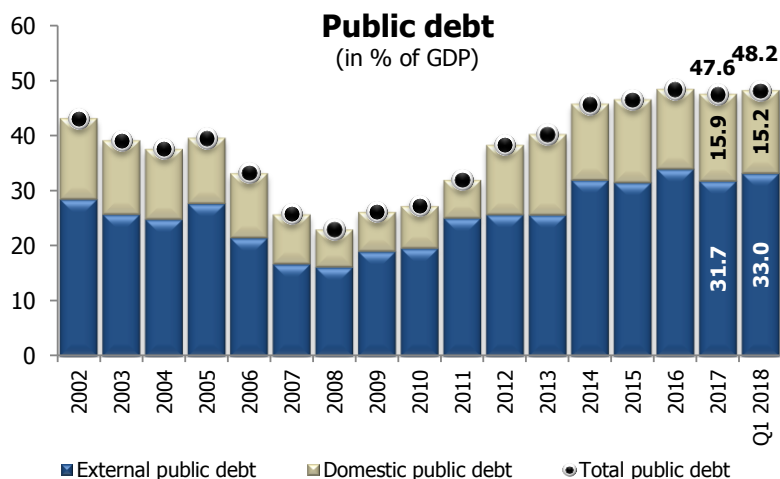
Interest rates of T-bonds



*The interest rate on 15y T-bonds in January 2018 (3,7%) is a weighted average of the realized amount and the interest rates (3,80% и 3,20%) from the two auctions held in January.
Source: Ministry of Finance

The Ministry of Finance continued to adjust the interest rates on government securities along the yield curve.

In May, the Ministry of Finance reduced the interest rate on 12-month treasury bills without foreign currency clause by 0.2 percentage points, i.e. from 1.2% to 1.0%. The adjustment of the interest rate on this maturity segment follows the reduction of the interest rates on the 6-month treasury bills in the previous month²⁵.



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

At the end of the first quarter of 2018, total public debt²⁶ was 48.2% of GDP²⁷, which is an increase of 0.7 percentage points compared to the previous quarter. The change is mostly due to the decrease in the external debt (from 31.7% to 33.7% of GDP), amid moderate decline in the internal debt (from 15.9% to 15.2% of GDP). The total government debt in the first quarter increased by 1.2 p.p. of GDP, while decrease by 0.5 p.p. of GDP on a quarterly basis was registered with the debt of public enterprises.

²⁵ On 3 April 2018, the Ministry of Finance reduced the interest rates on 6-month treasury bills with a currency clause from 1.45% to 0.60%.

²⁶ 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.

²⁷ The analysis uses the NBRM April forecasts for the nominal GDP for 2018.