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

Recent Macroeconomic Indicators
Review of the Current Situation

March 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 (January - February 2018) and to make a comparison with the latest macroeconomic projections (November 2017). 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.

In the past period, the global economy continued to grow at a faster pace, making upward revisions on the global growth forecasts for the current and the following year. Nevertheless, despite the more favorable global outlooks, risks continue to be present, especially in relation to the announced implementation of protectionist policies by the USA and possible reciprocal reaction of other countries, effects from the potential strengthening of the global financial conditions, as well as increased political and geopolitical risks in many regions of the world. The analysis of the economic developments in the euro area, as our key partner, shows solid deviations in 2017 i.e. growth acceleration from 1.6% to 2.5%. ECB estimates a continuation of the favorable economic performances in following period, whereby the latest estimations from March 2018 point to growth of the real GDP by 2.4% in 2018 (compared to 2.3% in December) and 1.9% and 1.7% in 2019 and 2020, respectively. Regarding the labor market, the initial indications for the first quarter show improved labor market conditions, whereby the unemployment rate in January amounted to 8.6% (9.7% in the fourth quarter of 2017). Regarding inflation, performances in February show further acceleration of the annual rate to 1.2% (from 1.3% in January) which is mostly due to the low food inflation of 1.1% amid slight decrease of the energy inflation (2.1%). On the other hand, core inflation did not register any changes compared to the previous month and amounted to 1%. The latest ECB inflation forecasts remained generally unchanged compared to December[1]. Based on performances and estimations for the following period, at the meeting in March, the ECB decided to change monetary policy setup.

Observed from the viewpoint of the individual quantitative external environment indicators of the Macedonian economy, the forecasts regarding foreign effective demand were revised upwards relative to the October expectations throughout the entire forecast period. Similar upward revisions were also conducted in **foreign effective inflation** for the current and following year. In terms of the **euro/US dollar exchange rate**, the US dollar is expected to register a greater depreciation compared to October, especially in 2018. **Forecasts for primary commodities prices on the world markets for 2018 are mainly revised upwards in relation to the October forecasts, whereas for 2019 most prices register a minor downward revision.** Observed by individual products, the latest assessments of **world oil prices** point to a higher price growth in 2018 and greater decline in 2019 compared to October. **Metal prices** in 2018 are revised in different directions, forecasting a significantly higher growth of the nickel price and minimum lower growth of the copper price. On the other hand, metal prices in 2019 register a minor downward correction, amid expectations for their lower growth in the October forecasts. In terms of **global prices of primary food products**, revisions for 2018 are upward, whereby a higher growth of wheat prices and lower decline of corn prices is forecasted, which could lead to greater import pressures on domestic inflation. On the other hand, in 2019, wheat prices were corrected upwards

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[1]The forecasted inflation rate of 1.4%, 1.4% and 1.7% for 2018, 2019 and 2020 compared to 1.4%, 1.5% and 1.7% respectively, in December 2017.

and corn prices were corrected downwards compared to October. However, considering that price estimations for these commodities are extremely volatile, this creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term.

The comparison of the latest macroeconomic indicators with their forecast dynamics within the October forecast round does not indicate major deviations in the individual segments of the economy. The published estimated **GDP data for the fourth quarter** verify the economy growth, which is lower than the expected increase within the October forecast. Observed for the whole 2017, the real GDP change rate shows stagnation of the Macedonian economy, which is mainly as a result of the decrease of the investment activity and does not represent a significant deviation in relation to the forecasted growth rate of 0.5%. For the first quarter of 2018, amid limited available data it is difficult to form a reliable estimation for the situation in the economy, but still most of the currently available high-frequency data for January point to favorable movements. When it comes to **changes in consumer prices**, in February, as well as in the first month of the year, a moderate inflation rate was measured, which is still lower than the October forecast. On the other hand, external input assumptions in the inflation forecast for the entire 2018 have been revised upwards. In such circumstances, risks regarding the inflation forecast for 2018 have been assessed as balanced. However, the uncertainty around the forecasted movement of world primary commodity prices, especially regarding oil prices still remains.

Recent available foreign reserves data (adjusted for the effects of price and exchange rate differentials and price changes of securities), as of February 2018, indicate to their decline. In terms of change factors, the increase of the reserves was mostly due to transactions on behalf of the government as a result of the issuance of the sixth Eurobond on the international financial markets. Currently available data for the first quarter (referring to January 2018) point to a slightly higher than expected trade deficit for this period, but still the evaluation period is short for making reliable conclusions in this domain. Data on the currency exchange market as of February point to net inflows from private transfers within the expectations for the first quarter of 2018. Balance of payments in 2017 point to lower current account deficit compared to the October forecast, and better financial account position, mainly due to certain short-term flows (trade loans and currency deposits). 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 January show a monthly decline in **total deposits** (of 0.8%), after the solid growth in the previous month of 3.7%. Such dynamics is common for the first month of the year and is partially explained by the seasonal factors influence. Analyzed by sector, the monthly decline of total deposits was mostly due to the monthly decline of corporate deposits, amid household deposits decrease. Analyzing the currency structure of household savings, in January, there was a reduction in the local currency deposits (including demand deposits), amid moderate growth of foreign currency deposits. On annual basis, total deposits in January grew by 5.3%, which is below the forecasted growth of 6.1% for the first quarter of 2018, according to the October forecast. However, amid exceeding the forecast for the end of 2017, deposits in January are at the forecasted level for the end of the first quarter of 2018. Regarding the credit market, in January, **total loans** to the private sector registered a decrease of 1.3% compared to the previous month following the significant monthly growth in the previous month (3.0%). The reduced credit activity in the first month of the year is entirely due to the significant decline of corporate loans which is a common occurrence registered in the last five years, while household loans register a moderate growth. In terms of currency structure, the monthly decline of total loans is primarily driven by the decline in local currency loans. On annual basis, total loans in January grew by 6.1%, which is insignificantly higher compared to the forecasted growth of 6.0% for the first quarter of 2018. In January, the **Budget of the Republic of Macedonia** registered a deficit of Denar 563 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 latest macroeconomic indicators and assessments indicate significant deviations in terms of the forecasted dynamics and the perceptions about the environment for monetary policy conduct are mainly favorable. At the end of February 2018, foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) registered a growth compared to the end of 2017. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone. Regarding the economic activity, the published GDP data for the fourth quarter and entire 2017 are generally in line with the expected growth dynamics within the October forecast round. In inflation, amid downward deviations in terms of the forecast and upward revision in external prices, the current risks are assessed as balanced. Within the monetary sector, a slightly higher than the forecasted growth of deposits is expected for the end of the first quarter, whereas greater than forecasted deviations are expected in loans.

Selected economic indicators /1	2014	2015	2016 Q1	Q2	Q3	Q4	2016	2017 Q1	Q2	Q3	Oct.	Nov.	Dec.	Q4	2017	2018 Jan.	Feb.
I. Real sector indicators																	
Gross domestic product (real growth rate, y-o-y) /2	**3.6**		**3.6**	**2.3**	**2.4**	**3.3**	**2.9**	**0.0**	**-1.3**	**0.2**				**1.2**	**0.0**		
Industrial production /3																	
y-o-y	4.8	4.9	10.7	1.3	5.0	-1.8	3.4	-1.5	3.7	-2.4	1.3	4.1	-2.6	0.9	0.2	8.4	
cumulative average	4.8	4.9	10.7	5.6	5.4	3.4	3.4	-1.5	1.2	-0.1	0.1	0.5	0.2	0.2	0.2	8.4	
Inflation /4																	
CPI Inflation (y-o-y) /5	-0.5	-0.4	-0.1	-0.7	-0.2	-0.1	-0.2	0.6	1.2	1.5	1.8	2.2	2.4	2.1	2.4	1.1	1.9
CPI Inflation (cumulative average)	-0.3	-0.3	-0.1	-0.4	-0.3	-0.2	-0.2	0.6	0.9	1.1	1.2	1.3	1.4	1.4	1.4	1.1	1.5
Core inflation (cumulative average)	0.5	0.5	1.6	1.4	1.3	1.3	1.3	1.9	2.0	2.2	2.2	2.3	2.3	2.3	2.3	1.6	1.7
Core inflation (y-o-y)	0.5	0.5	1.6	1.3	1.1	1.1	1.3	1.9	2.1	2.6	2.8	2.8	2.8	2.8	2.3	1.6	1.9
Labor force																	
Unemployment rate	28.0	26.1	24.5	24.0	23.4	23.1	23.7	22.9	22.6	22.1				21.9	22.4		
II. Fiscal Indicators																	
(Central Budget and Budgets of Funds)																	
Total budget revenues	145,929	161,207	40,583	41,422	43,808	43,543	169,356	42,734	43,636	44,600	15,390	14,353	18,975	48,718	179,688	13,328	
Total budget expenditures	168,063	180,632	46,218	42,729	45,953	50,507	185,407	46,300	48,377	47,346	15,658	16,215	22,688	54,561	196,584	13,891	
Overall balance (cash)	-22,134	-19,425	-5,635	-1,307	-2,145	-6,964	-16,051	-3,566	-4,741	-2,746	-268	-1,862	-3,713	-5,843	-16,896	-563	
Overall balance (in % of GDP)/1	-4.2	-3.5	-0.9	-0.2	-0.4	-1.2	-2.7	-0.6	-0.8	-0.4	0.0	-0.3	-0.6	-0.9	-2.7	-0.1	
III. Financial indicators /6																	
Broad money (M4), y-o-y growth rate	**10.5**	**6.8**	**6.2**	**2.5**	**4.0**	**6.1**	**6.1**	**4.2**	**7.8**	**6.4**	**6.2**	**5.9**	**5.3**	**5.3**	**5.3**	**5.3**	
Total credits, y-o-y growth rate	**10.0**	**9.5**	**8.4**	**3.5**	**2.5**	**0.9**	**0.9**	**0.0**	**4.4**	**4.3**	**4.8**	**5.6**	**5.7**	**5.7**	**5.7**	**6.1**	
Total credits - households	11.8	12.9	13.0	8.8	7.3	7.0	7.0	6.6	9.5	9.8	9.3	9.7	9.2	9.2	9.2	9.7	
Total credits - enterprises	8.6	7.1	5.1	-0.5	-1.2	-3.8	-3.8	-5.2	0.0	-0.5	0.9	1.9	2.8	2.8	2.8	2.9	
Total deposits (incl. demand deposits), y-o-y growth rate	**10.4**	**6.5**	**6.2**	**2.3**	**4.0**	**5.7**	**5.7**	**4.2**	**7.6**	**6.0**	**6.1**	**5.7**	**5.4**	**5.4**	**5.4**	**5.2**	
Total deposits - households	8.9	4.1	3.1	0.2	1.2	2.5	2.5	1.8	6.5	5.6	5.3	5.4	6.1	6.1	6.1	5.5	
Total deposits - enterprises	15.7	13.0	16.0	5.6	11.3	13.4	13.4	8.8	10.8	5.6	7.2	5.0	2.1	2.1	2.1	2.5	
Interest rates /7																	
Interst rates of CBBills	3.25	3.25	3.25	4.00	4.00	3.75	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	
Lending rates																	
denar rates (aggregated, incl. denar and denar with f/x clause)	7.5	7.1	6.7	6.6	6.6	6.5	6.6	6.4	6.3	6.2	6.1	6.0	5.9	6.0	6.2	6.0	
f/x rates	6.3	5.9	5.6	5.5	5.4	5.2	5.4	5.1	5.0	4.9	4.8	4.8	4.7	4.7	4.9	4.6	
Deposit rates																	
denar rates (aggregated, incl. denar and denar with f/x clause)	3.7	2.9	2.5	2.5	2.5	2.5	2.5	2.3	2.2	2.1	2.2	2.2	2.1	2.2	2.2	2.1	
f/x rates	1.4	1.3	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
IV. External sector indicators																	
Current account balance (millions of EUR)	**-43.2**	**-177.1**	**-48.2**	**-209.4**	**108.1**	**-115.5**	**-265.0**	**-145.2**	**-99.4**	**180.5**	**3.3**	**-34.8**	**-38.1**	**-69.6**	**-133.7**		
Current account balance (% of GDP)	-0.5	-2.0	-0.5	-2.2	1.1	-1.2	-2.7	-1.4	-1.0	1.8	0.0	-0.3	-0.4	-0.7	-1.3		
Trade balance (millions of EUR)/8	**-1757.9**	**-1713.6**	**-373.2**	**-501.5**	**-391.4**	**-511.3**	**-1777.4**	**-435.1**	**-450.8**	**-385.9**	**-152.6**	**-175.2**	**-218.1**	**-545.9**	**-1817.7**	**-139.5**	
Trade balance (% og GDP)	-20.5	-18.9	-3.8	-5.1	-4.0	-5.2	-18.9	-4.3	-4.5	-3.8	-1.5	-1.7	-2.2	-5.4	-18.1	-1.3	
import (millions of EUR)	-5504.5	-5801.1	-1356.6	-1557.7	-1540.0	-1652.4	-6106.7	-1583.8	-1721.7	-1648.8	-622.9	-625.5	-622.2	-1870.6	-6824.9	-560.1	
export (millions of EUR)	3746.6	4087.6	983.3	1056.2	1148.6	1141.1	4329.3	1148.6	1270.9	1263.0	470.3	450.3	404.1	1324.7	5007.2	420.6	
rate of growth of import (y-o-y)	10.5	5.4	3.3	4.9	10.2	3.0	5.3	16.7	10.5	7.1	16.7	18.9	5.0	13.2	11.8	24.2	
rate of growth of export (y-o-y)	15.8	9.1	5.3	1.4	10.5	6.4	16.8	20.3	10.0	21.3	27.9	0.7	16.1	15.7	27.9		
Foreign Direct Investment (millions of EUR)	**197.4**	**202.8**	**129.3**	**41.4**	**20.1**	**126.1**	**316.9**	**111.4**	**-10.0**	**-50.5**	92.71703248	34.63954136	**50.7**	**178.1**	**229.1**		
External debt																	
Gross external debt (in millions of EUR)	5992.3	6290.5	6813.1	6861.2	7488.7	7216.6	7216.6	7786.8	7786.8	7710.2							
public sector	2846.8	2933.7	3279.1	3282.8	3890.9	3445.3	3445.3	3819.9	3741.0	3710.6							
public sector/GDP (in %)	33.2	32.4	33.7	33.8	40.0	35.4	35.4	37.9	37.2	36.9							
private sector	3145.5	3356.9	3534.0	3578.4	3597.8	3771.2	3771.2	3967.0	4045.8	3999.7							
Gross external debt/GDP (in %)	70.0	69.4	70.1	70.6	77.0	74.2	74.2	77.4	77.4	76.6							
Gross official reserves (millions of EUR)/9	**2,436.5**										**2301.0**	**2273.6**	**2336.3**			**2577.4**	**2566.4**

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

Foreign effective demand
(annual changes in %)
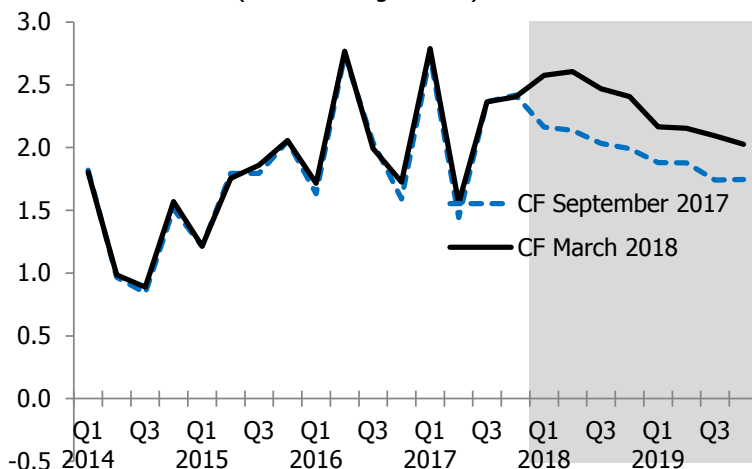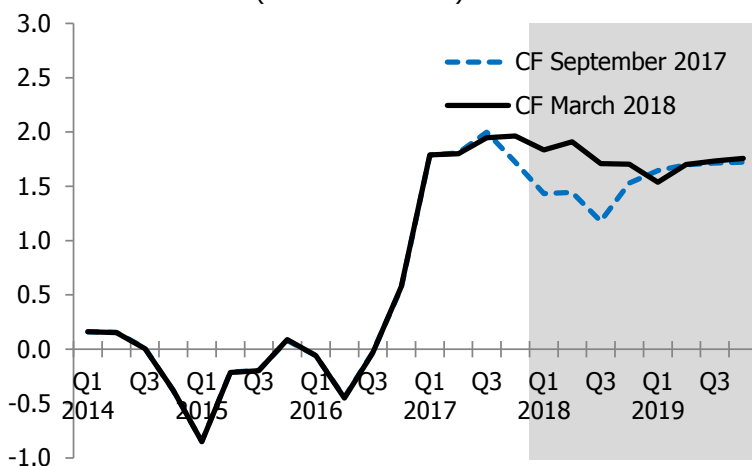

Source: "Consensus Forecast" and NBRM calculations.

In 2017, the foreign effective demand increase amounts to 2.3%, which is a minimal upward deviation in relation to the October forecast of 2.2%.

The latest foreign effective demand estimations for 2018 and 2019 were revised upwards compared to the October forecasts...

...currently expecting it to amount to 2.5% and 2.1%, respectively, compared to 2.1% and 1.8%, respectively in October...

...largely as a result of the expectations for higher economic growth in Germany.

Foreign effective inflation
(annual rates in %)

Source: "Consensus Forecast" and NBRM calculations.

The latest forecasts indicate to a higher foreign effective inflation in the current and following year...

...currently expecting it to amount to 1.8% in 2018 and 2019, individually, compared to 1.4% and 1.7% in October ...

...largely due to estimations for higher imported inflation from Serbia[2]...

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[2] Inflation in Serbia has been adjusted for changes in the exchange rate.

EUR/USD exchange rate

Source: "Consensus Forecast" and NBRM calculations.

Brent oil
(quarterly average, EUR/Barrel)
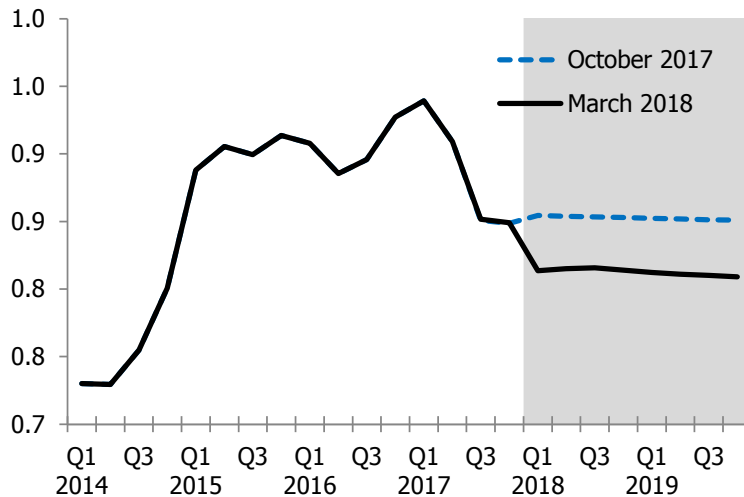
Source: IMF, World Bank and NBRM calculations.

The latest euro/US dollar exchange rate estimations for 2018 and 2019 were revised downwards, expecting a greater depreciation of the US dollar against the euro compared to the forecasted in October, especially in 2018.

...which mostly is a reflection of the relatively higher US current account deficit, amid reduced political risks and more favorable economic performances and forecasts for the euro area.
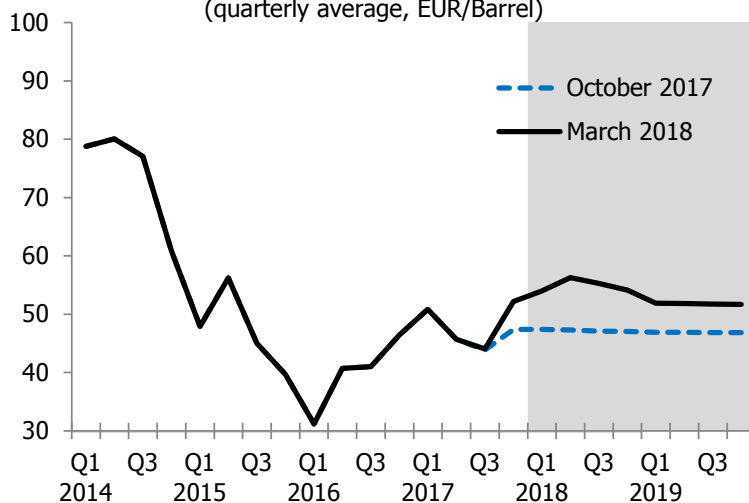
The latest oil price estimations[3] for 2018 were revised upwards...

...expecting a significantly higher price growth...

...mostly due to the agreement of the OPEC countries and Russia to extend the agreement for the reduction of oil production[4], expectations for increased global demand and the ability of US oil producers satisfy the increasing global demand for this energy.

On the other hand, a downward revision was made for 2019...

...expecting a greater oil price reduction than the one forecasted in October.

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[3] 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.
[4] 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.

Nickel and copper prices in EUR
(annual changes in %)
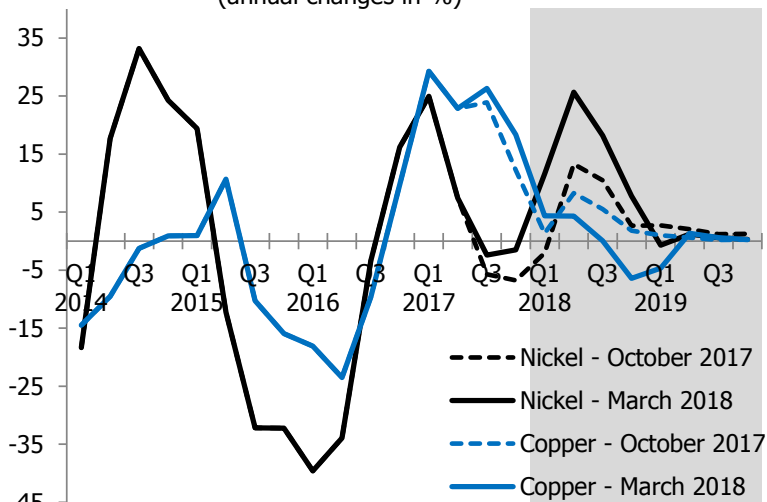
Source: IMF, World Bank and NBRM calculations.

In 2018, nickel prices were revised upwards...

...currently expecting significantly higher growth compared to the October forecast...

...mostly due to the expectations for increased global demand for nickel, as well as possible interruptions in the operation of supply capacities.

On the other hand, in 2019, nickel prices were revised downwards, expecting a slightly lower growth compared to the forecasted in October.

An upward revision of prices denominated in US dollars was made in the latest estimations of copper prices for 2018 and 2019, while prices denominated in euros were revised downwards.

Wheat and corn prices in EUR
(annual changes in %)
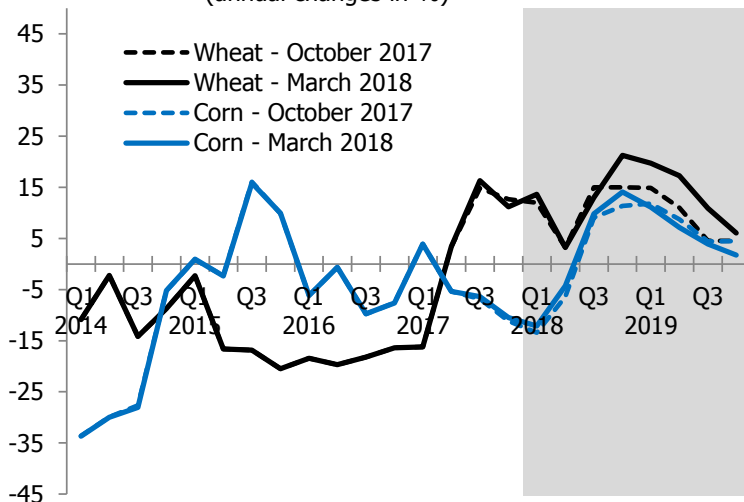
Source: IMF, World Bank and NBRM calculations.

The expectations for the stock prices of food products for 2018 have been revised upwards compared to the October cycle ...

...expecting higher increase in the wheat price[5], mostly as a result of the expectations for reduced production in Brazil and Russia...

...and smaller decline of corn prices, mostly as a result to the expectations for unfavorable weather conditions in Argentina.

On the other hand, corn prices were revised downwards for 2019, while wheat prices were revised upwards...

...i.e. a lower price growth of corn and higher price growth of wheat is expected compared to the October forecasts.

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[5] The October 2017 forecasts started to use a new series of data on wheat prices released by the World Bank, instead of the current IMF series. Due to the differences between the two series, in order to ensure consistency, series of data released by World Bank is used amid comparing both forecasts.

1-month Euribor
(quarterly average, in %)

Source: "Consensus Forecast" and NBRM calculations.
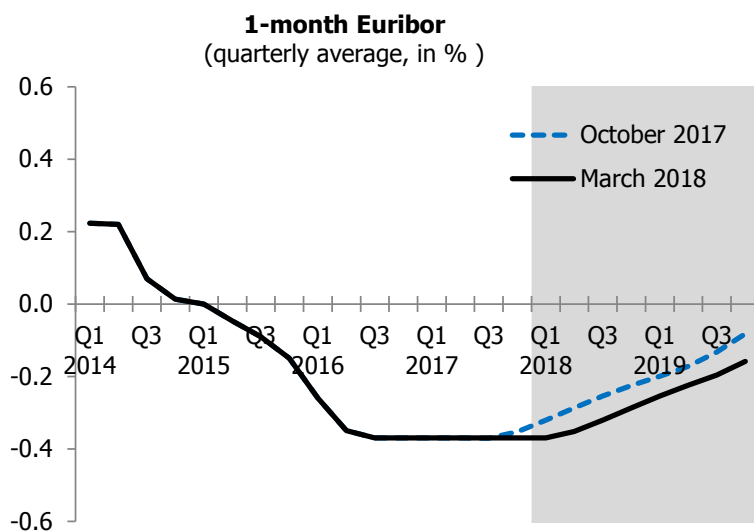
In 2018 and 2019, minor changes were conducted to the one-month EURIBOR estimations...

...predicting it to amount -0.32% in 2018 and -0.14% in 2019 (-0.27% and -0.15% in October, respectively)...

..amid continuing the ECB's quantitative easing program until September 2018 or longer, albeit at a reduced scale[6], as well as amid assessment for a possible beginning of normalization of the interest rate policy by the end of 2019, which would affect the transition of the foreign interest in the positive zone for the first time after a longer period.

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[6] At the ECB's regular meeting in January, the European Central Bank, decided to maintain the current interest rate, and continue the ECB's quantitative easing program until September 2018 with a reduced scale (Euro 30 billion monthly).

Inflation rate
(annual impacts to inflation, in p.p.)
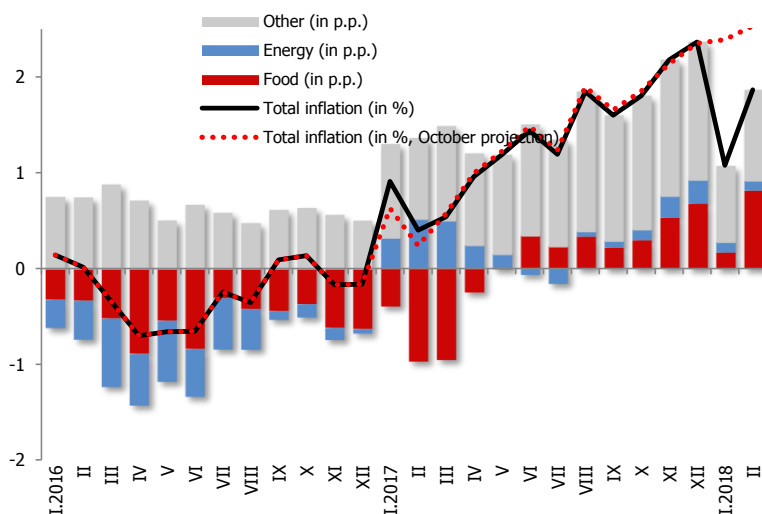
Source: SSO and NBRM.

In February 2018, domestic consumer prices registered a monthly increase of 0.2%[7] (versus the monthly decrease of 0.4% in January)...

...amid growth of food prices and core inflation and simultaneously unchanged energy prices.

Inflation and volatility of food and energy
(annual growth rates, in %)
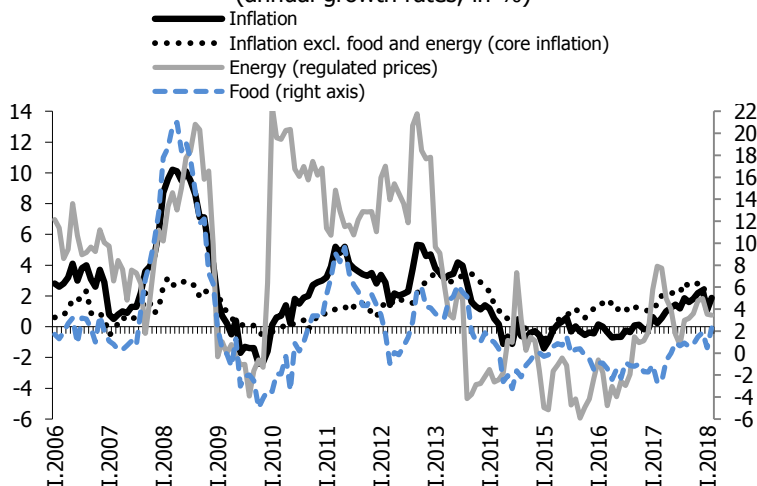
Source: State statistical office and NBRM calculations.

The annual inflation rate in February amounted to 1.9%, compared to 1.1% in January, and the growth acceleration is mostly due to the food component. Compared to the October round of forecasts, the performance in February is lower than the expectations.

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

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[7] Observed by group products, food i.e. fruits and meat have the highest positive contribution to the monthly growth in February.

Contributions to the annual inflation rate (in p.p.)

Restaurants and hotels
Recreation and culture
Transport
Furnishings, HH equipment and maintenance
Clothing and footwear
Food and non-alcoholic beverages
Core Inflation (in %)

Education
Communication
Health
Housing, water, electricity, gas and other fuels
Alcoholic beverages, tobacco
Total Inflation (in %)
Miscellaneous goods and services

Source: SSO and NBRM.

Foreign effective food prices* and domestic food prices

(indices, 2005 =100)

Foreign effective food prices
Domestic food prices

* 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.

Core inflation rate in February amounted to 0.1% on a monthly basis, whereas on annual basis the increase amounted to 1.9% (compared to 1.6% in January).

The growth structure of core inflation in February is similar to the previous month. The annual growth is connected to the price growth in most categories within the core inflation, from which prices of air transport and tobacco[8] have the highest positive contribution.

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 to a higher growth compared to the expectations of the October round of forecasts. At the same time, expectations in crop prices point to upward pressures i.e. it is expected that wheat prices will grow significantly faster, whereas corn prices are currently expected to register a lower decline compared to October.

Amid current inflation lower than the one forecasted in October 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, primarily oil prices, remains.

In December 2017, the average net wage registered a nominal annual growth of 1.7%, which is a deceleration of the growth of 1.9 percentage points compared to the previous month.

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[8] The annual growth of tobacco prices in February is a combination of the increase in the price of a certain type of cigarettes in April and June 2017. 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) which did not reflect on the monthly changes in tobacco prices.

Average net-wage
(annual changes, in %)

Source: SSO.

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

Source: SSO.

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

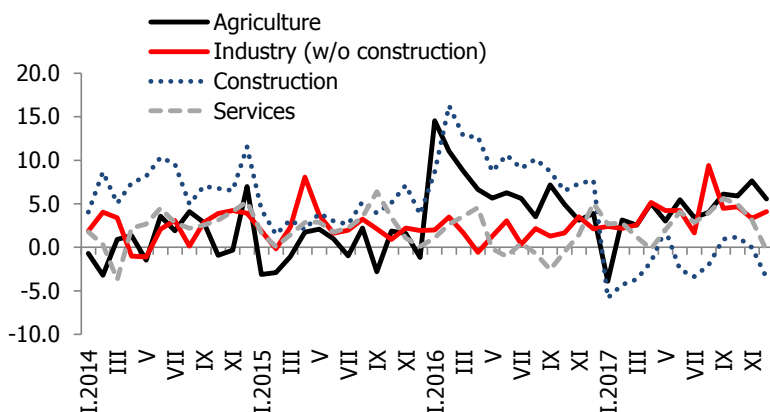Source: SSO and NBRM projections.

Most sectors registered growth of wages in the last month of the year which was most pronounced in: "other services", "manufacturing industry" and "accommodation facilities for lodging and food service activities". On the other hand, an annual decline of wages is registered in several activities, whereby "art, entertainment, recreation" registered the highest decline of paid salaries.[9]

Amid annual growth of living costs as well as deceleration of the growth of nominal wages in December, **the real wages registered a decline of 0.7%.**

Wages in the last quarter of the year were higher than expected within the October forecast.

In the fourth quarter of the year, there was further strengthening of the economic activity which corresponds with the expected dynamics in the October round of forecasts. The growth rate in the fourth quarter was 1.2% and is lower than the forecasted growth rate (2.7%).

Growth structure, observed in terms of the demand does not generally deviate from the October forecast. Thus, the growth in the fourth quarter was stimulated by the domestic demand, while net exports had a negative contribution. Analyzed by individual components, the exports made the highest contribution to the GDP growth, which is also in line with the forecast. Within the domestic demand, private consumption is the driver of the growth, which also registered a relatively high growth in the fourth quarter of the year, while the two remaining components - gross investments and public consumption registered a decline.

Analyzed by production, growth carrier in the fourth quarter is trade, while agriculture and real estate activities have

---

[9] Lower wages in December 2017 were paid in "art, entertainment, recreation", "information and communication", "professional, scientific and technical activities" as well as in construction and "water supply; waste water disposal, waste management and environment sanitation".

a higher value added. All the remaining activities registered a decline in the value added.

Regarding the economic situation in the first quarter of the year, amid limited volume of available data, it is difficult to form reliable estimation for the situation in the economy, however, the largest part of currently available high-frequency data for January point to more favorable shifts. Regarding the perceptions of economic agents for the economic situation[10], surveys regarding January-February show improvement on an annual basis, although at a decelerated pace.

Analyzed on the supply side, high-frequency data for January for individual economic sectors point to more favorable movements compared to the fourth quarter.

Thus, in the first month of 2018, **total trade** registered an enhanced growth which is due to the more favorable movements registered in all the types (wholesale trade, retail trade and trade of motor vehicles).

Also, in January there was an increase of the **industrial output by 8.4% annually.** Such favorable movements are a reflection of the more favorable movements in the manufacturing industry, whereas production in mining and energy sector was reduces.

Observed by individual sectors of the manufacturing industry, most activities register a growth of the production especially expressed in activities where the largest export oriented facilities produce (machinery and devices, electrical equipment). On the other hand, at the beginning of the year, unfavorable

Economic sentiment indicator and GDP

Composite ESI (y-o-y changes, %) — GDP (y-o-y changes, %)
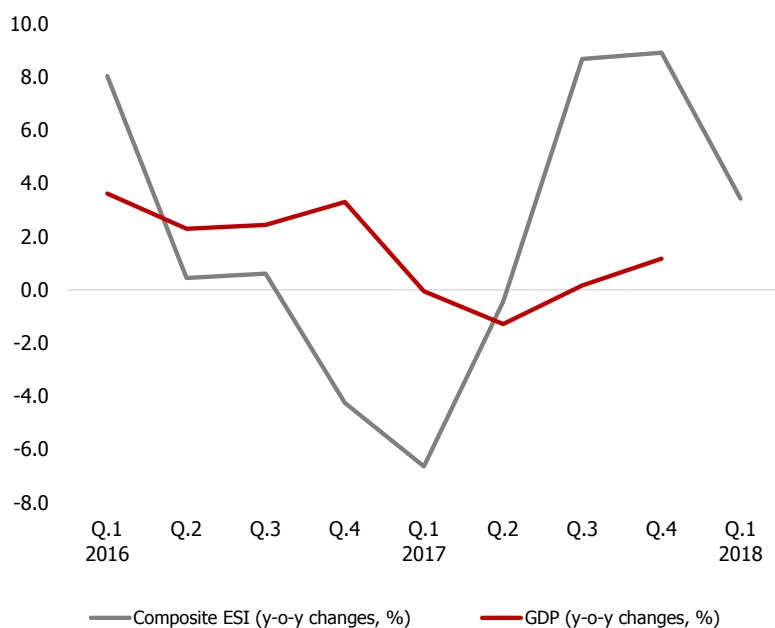
*First quarter is only for January-February 2018
Source: State statistical office and European Commission.

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[10] It refers to the surveys conducted by the European Commission to measure the economic confidence of entities in an economy. The composite indicator economic confidence is obtained as a weighted average from the confidence indicators for consumers and confidence indicators for individual economic sector (construction, industry, retail trade and services).

Economic activities
(real annual changes, in %)
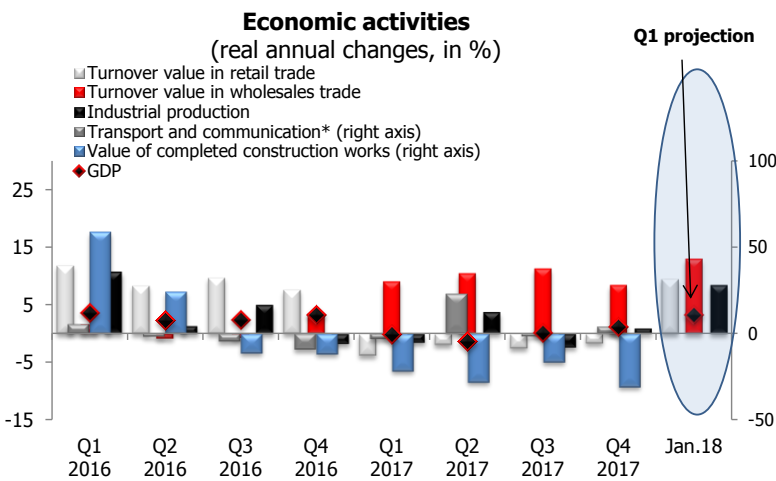
*Simple average of annual growth rates of the different types of transport and the telecommunications.
Source: SSO and NBRM calculations.

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

Source: SSO and NBRM calculations.

movements[11] were retained in part of the traditional services.

Available **aggregate demand** indicators mostly point to growth of the economic activity in the first quarter of the year.

Private consumption indicators mainly point to further growth supported by the increase of part of the disposable income components (available data for pensions only) as well as through the stable increase of household loans. Additionally, unlike the previous period when retail trader registered a decline, in January this segment also registers an increase. Regarding indicators, decline is only registered in consumer goods production.

The small volume of available high-frequency indicators for **gross investments** makes it difficult to form more reliable estimations for their dynamics in the beginning of the year. Regarding investment indicators, long-term corporate loans registered an increase, while government capital investments registered a decline.

Data on **foreign trade** for January indicate potential widening of the deficit in the first quarter.

Budget performances as of January indicate an annual decline of **public consumption** in the first quarter, amid greater decline of expenditures for goods and services and other categories also register a decline.
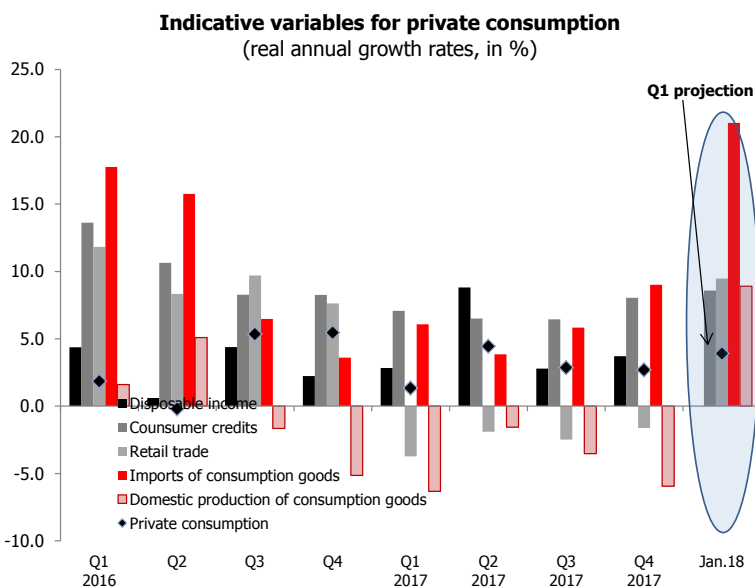
The favorable shifts in the labor market also continued in the fourth quarter of 2017...

...amid further decline in the unemployment rate, which was reduced to 21.9% in the fourth quarter (22.1% in the

---

[11]Annual decline of the production within the manufacturing industry is registered in: "production of tobacco products", "production of clothes", "production of leather and leather products", 'production of basic pharmaceutical products and pharmaceutical preparations", "metal production" and "production of computer, electronic and optic products".
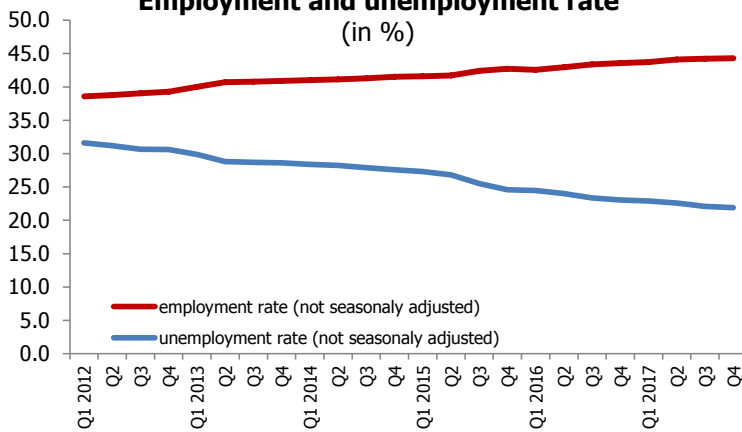
Indicative variables for investments
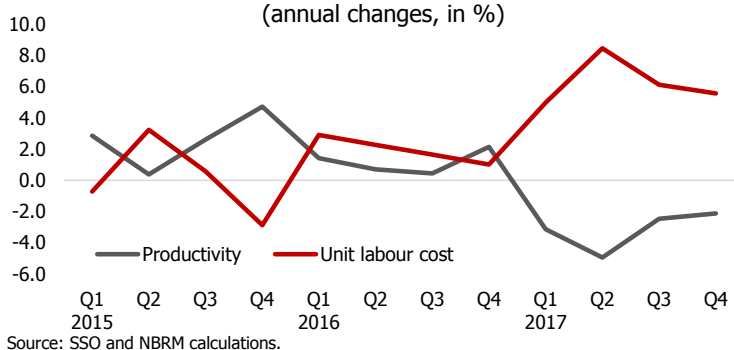(real annual growth rates, in %)

Source: SSO and NBRM calculations.

Employment and unemployment rate
(in %)

Source: SSO, LFS

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

Source: SSO and NBRM calculations.
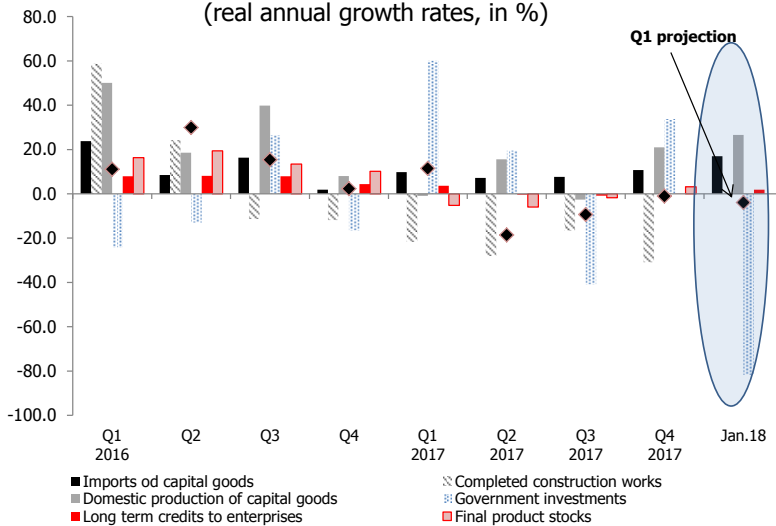
third quarter of 2017)...

...and annual increase in the number of employed persons of 1.9%[12].

In the fourth quarter of 2017, **labor productivity**[13] continued to decrease (annual decline of 2.1%), but at a slower intensity compared to the third quarter (annual decline of 2.5%). At the same time, there also was a deceleration of the growth of the **unit labor costs** to 5.6% compared to 6.1% in the third quarter.

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[12] "Manufacturing industry", "construction", "accommodation facilities for lodging and food service activities" made the largest contribution to the growth of employment.

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

14

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

Source: NBRM.

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

Source: NBRM.

In January 2018, the foreign trade deficit registered a widening (of 14.3%) on an annual basis which is due to the higher nominal growth of total import compared to the growth of the export component.

Export of goods in January is higher by 27.9% compared to the same period in the previous year, which is mostly due to the favorable performances in the new export oriented facilities and manufacturing industry, and almost all other export segments (except export of energy where a moderate decline is registered) made a contribution to the growth.

Compared to the October forecast, **the export in January points to the possibility of a higher export than expected for the first quarter.** Thus, upward deviations were registered in several components, amid more significant contribution of export of new export oriented facilities in the economy, as well as export of iron and steel.

Import of goods in January 2018 is higher by 24.2% on an annual basis. The growth of import is relatively dispersed, whereby import of new export oriented facilities register the largest contribution, as well as import of iron and steel. Decrease was registered in the import of ores only, which is associated with the non-function of a larger capacity of the metal processing industry.

Import of goods in January 2018 points to the possibility of a higher than forecasted import for the first quarter, according to the October forecast, as a result to the upward deviations in most import segments, amid more pronounced contribution of the import of equipment and machinery, as well as import of iron and steel.
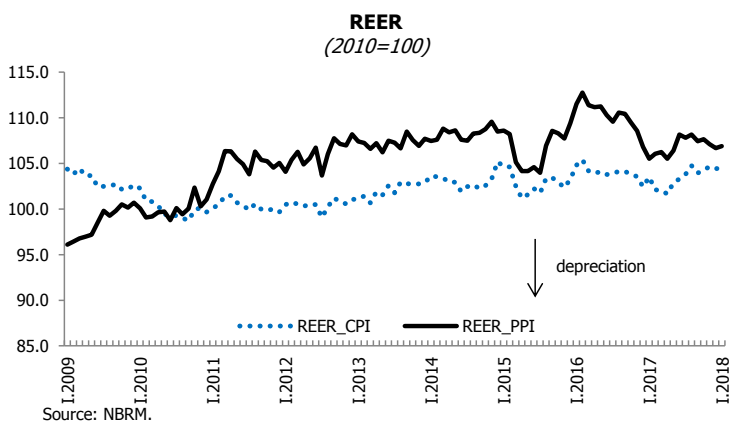
Performances in foreign trade components indicate to the possibility of a moderately higher trade deficit than expected for the first quarter of 2018, according to the October forecast. However, due to the variability
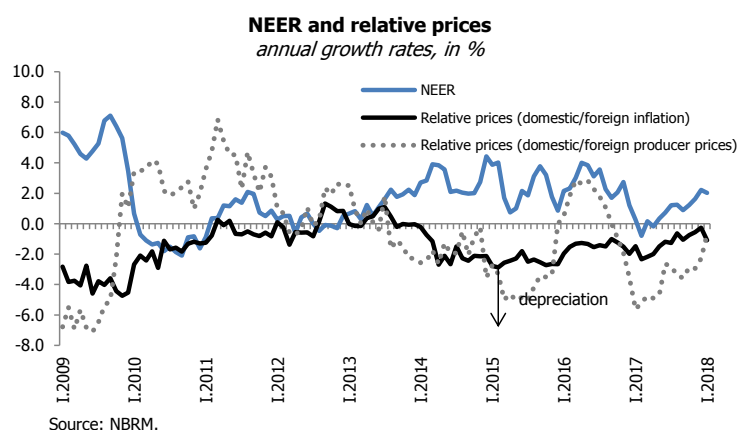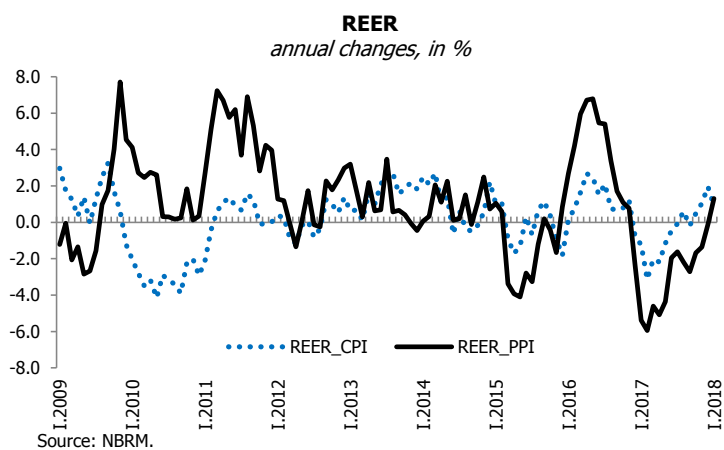
15
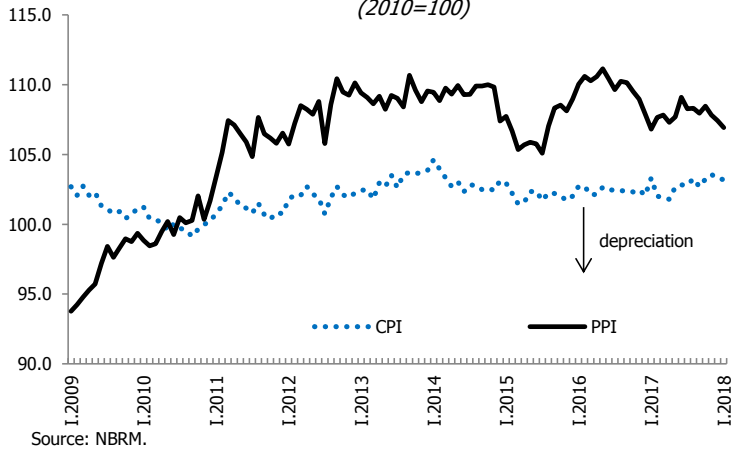
REER
(2010=100)
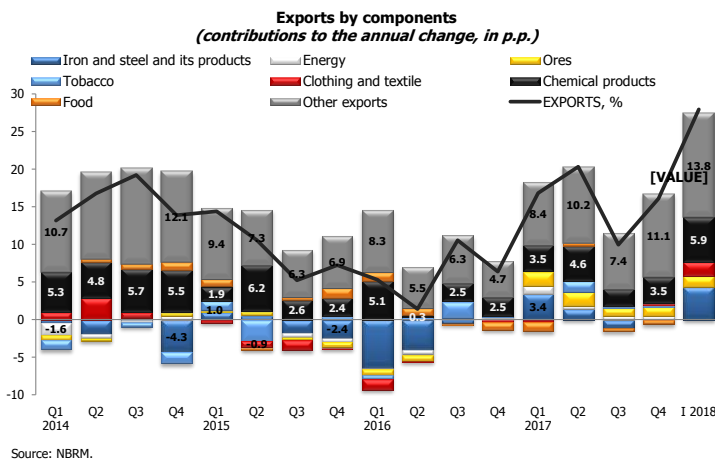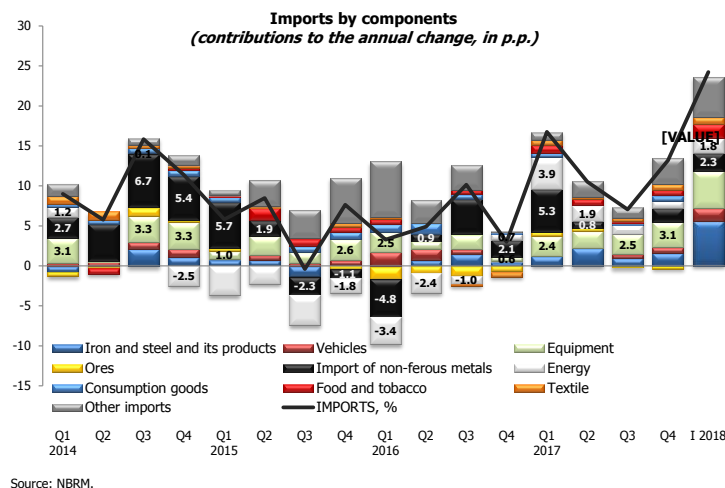
Source: NBRM.

of the monthly movements and the fact that the analyzed period is very short, more reliable conclusions in this domain cannot be provided.

In January 2018, price competitiveness indicators of the domestic economy registered minor unfavorable changes. The REER index deflated by consumer prices appreciated by 0.9% and the REER index deflated by producer prices, after a longer period (November 2016) appreciated by f 1.3%.

REER
annual changes, in %

Source: NBRM.

NEER and relative prices
annual growth rates, in %

Source: NBRM.

Such developments are entirely due to the NEER dynamics, which appreciated by 2.0% on an annual basis, mostly as a result of the depreciation of the Turkish lira and US dollar against the Denar. On the other hand, the relative consumer prices and the relative producer prices registered an annual decrease of 1.1% and 0.7%, respectively.

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REER, excluding primary commodities
(2010=100)

Source: NBRM.

REER indices, calculated with weight based on foreign trade without primary commodities[14] in January 2018 did not register any major change. Thus, the REER deflated by consumer prices depreciated by 0.1%, while the REER deflated by producer prices appreciated by 0.1%.

REER, excluding primary commodities
*annual growth rates, in %*

Source: NBRM.
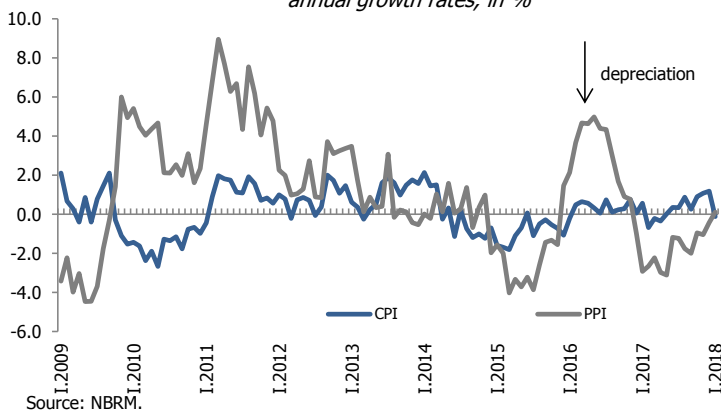
On an annual basis, the relative consumer prices and the relative producer prices decreased by 0.9% and 0.7%, respectively. At the same time, the NEER appreciated by 0.8% on an annual basis.

NEER and relative prices, excluding primary commodities
annual growth rates, in %

Source: NBRM.

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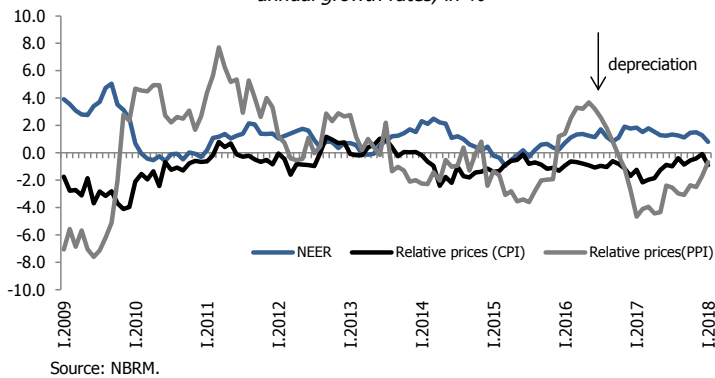
[14] Primary commodities not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

**Main components of the current account**
(in EUR million)
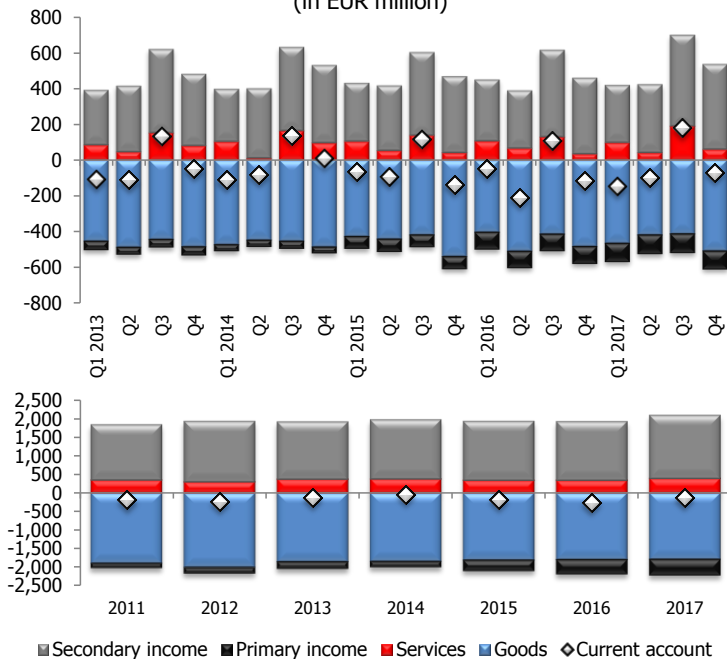
Source: NBRM.

In the last quarter of 2017, the current account of balance of payments registered a deficit of Euro 69.6 million (or 0.7% of GDP), which is twice as low than expected according to the October forecast.

The positive deviation in this period is due to better performances in all current account components, with a significantly individual contribution of the lower deficit in goods and higher positive balance in secondary income compared to the expectations for the fourth quarter.

On annual basis, the current account deficit in 2017 is lower than the projected in the October forecasts that is mostly due to better performances in services (better performances are registered in all service categories) and secondary income. On the other hand, balance of goods registered a slightly higher deficit than expected, while balance of primary income is within the forecast.

Financial account components
(in EUR million)
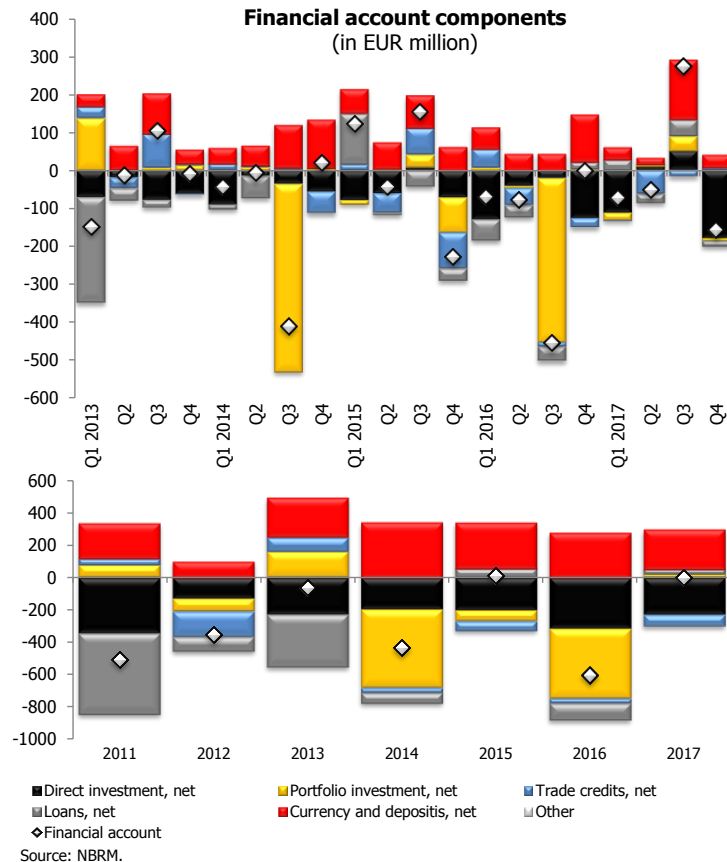
Source: NBRM.

During the fourth quarter, the financial account registered net inflows of Euro 156.9 million (or 1.6% of GDP), which is higher than the expectations for the last quarter[15] according to the October forecast.

Positive deviations are more significant in foreign direct investments, where higher net inflows on net basis have been registered during the last quarter. More favorable developments regarding the expectations are registered in currency and deposits (registering lower than expected net outflows) and in loans (higher than forecasted net inflows, driven by long-term loans to other sectors). On the other hand, trade credits are weaker, registering net outflows instead of the forecasted net inflows according to the October forecast. Net inflows in portfolio investments are on the forecasted level.
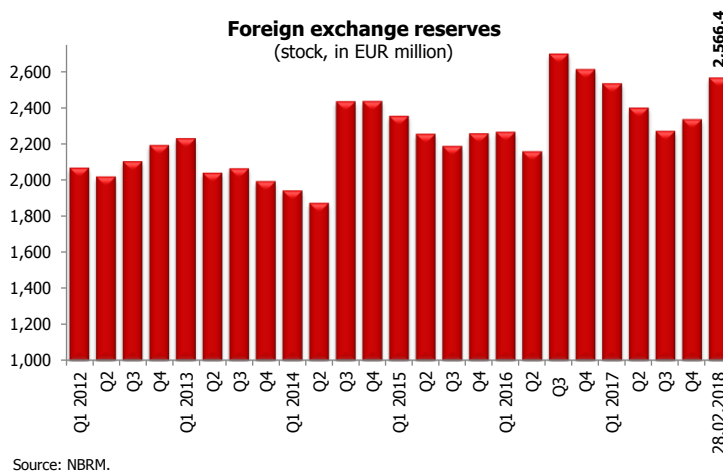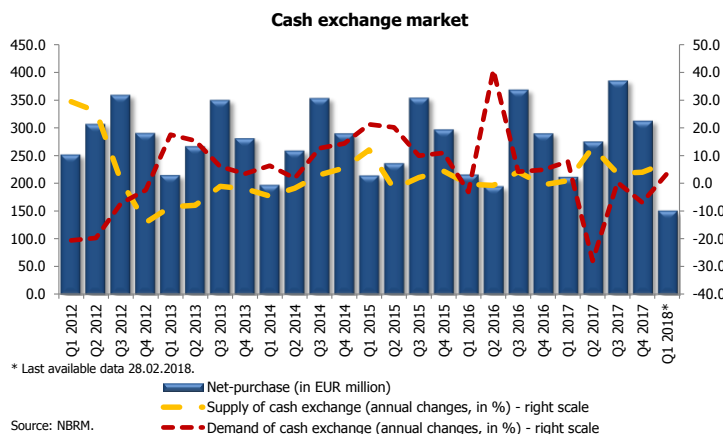
On annual basis, the financial account in 2017 registered minor net inflows compared to the expectations for net outflows according to the October forecasts. Thus,

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[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.

positive deviations are registered in trade credits and currency and deposits, compared to weaker performances in direct investments (mainly due to lower performance in the second and third quarter) and portfolio investments.
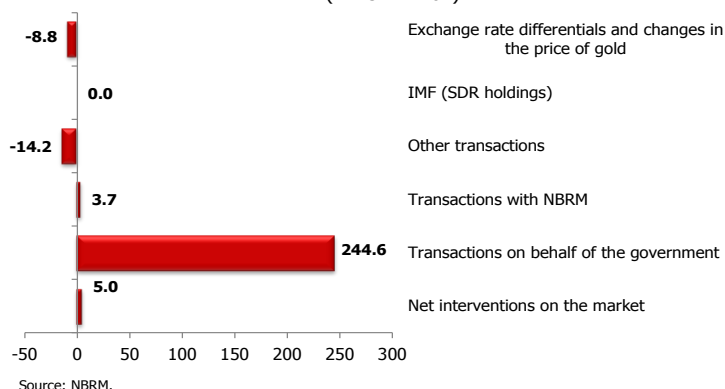
Recent data on currency exchange operations as of February 2018 indicate annual increase in both foreign currency supply and demand.

The net purchase on the currency exchange market registered in the period January-February 2018 was Euro 151 million, which is an annual increase of 9.2%.
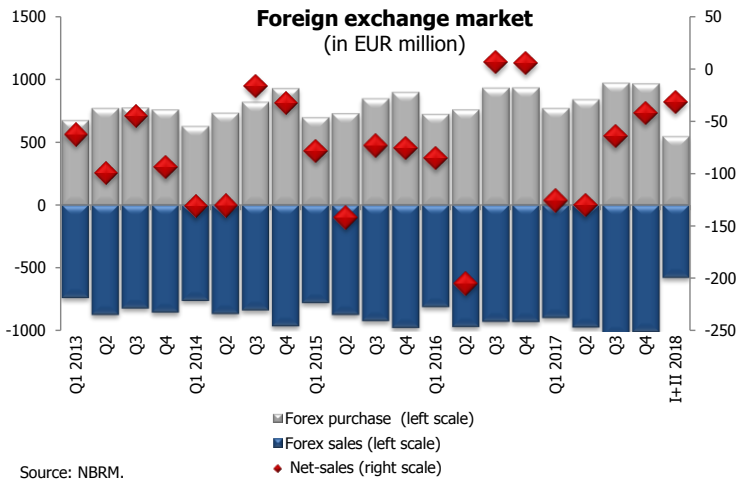
Cash exchange market

* Last available data 28.02.2018.

Source: NBRM.

- Net-purchase (in EUR million)
- Supply of cash exchange (annual changes, in %) - right scale
- Demand of cash exchange (annual changes, in %) - right scale

Foreign exchange reserves
(stock, in EUR million)

Source: NBRM.

As of 28 February 2018, gross foreign reserves amounted to Euro 2,566.4 million, which is an increase of Euro 230.1 million compared to the end of 2017. The increase in foreign reserves was partially due to transactions on behalf of the government, as a result of the issuance of the sixth Eurobond on the international financial markets[16]. The remaining flows had a moderate impact on the changes in foreign reserves in the observed period.
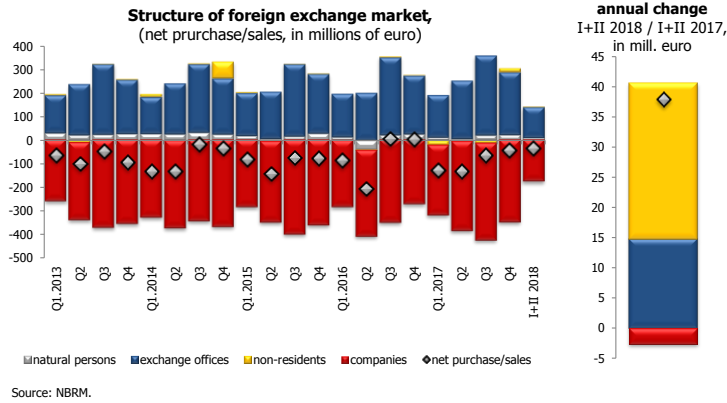
Factors of change of the foreign reserves in the January-February 2018 period
(in EUR million)

-8.8	Exchange rate differentials and changes in the price of gold
0.0	IMF (SDR holdings)
-14.2	Other transactions
3.7	Transactions with NBRM
244.6	Transactions on behalf of the government
5.0	Net interventions on the market

Source: NBRM.

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[16] In July 2018, the sixth Macedonian Eurobond was issued in the nominal amount of Euro 500 million, a maturity of 7 years and an interest rate of 2.75%. Thus, one part of the foreign currency assets was used for early repayment of part of external debt liabilities, which are due in 2020, as well as for the regular repayment of foreign debt by the end of January.

Foreign exchange market
(in EUR million)

■ Forex purchase (left scale)
■ Forex sales (left scale)
♦ Net-sales (right scale)

Source: NBRM.

In the period January-February 2018, banks' foreign exchange market registered net sale of Euro 31.1 million which is twice as low compared to the net sale in the same period of the previous year, as a result to the more intensified supply compared to the demand of foreign currencies.

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

■ natural persons ■ exchange offices ■ non-residents ■ companies ◆ net purchase/sales

Source: NBRM.

annual change
I+II 2018 / I+II 2017,
in mill. euro

Sectoral analysis shows that such shifts are mainly due to non-residents, due to the base effect from last year (in the period January-February 2017, non-residents registered net sale compared to the minor net purchase this year), as well as higher net purchase from the exchange offices. No significant shifts are registered in firms and individuals compared to the same period of the previous year.

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Monetary policy instruments
(stocks, end of month data, in MKD million)
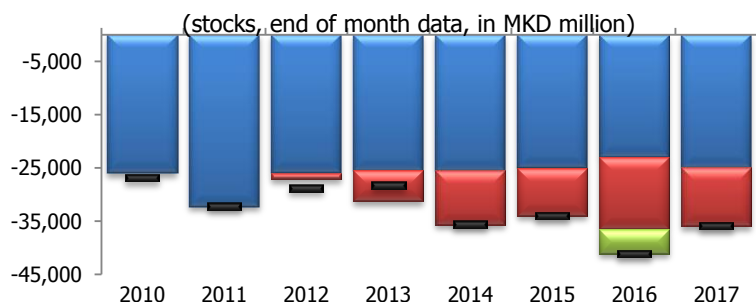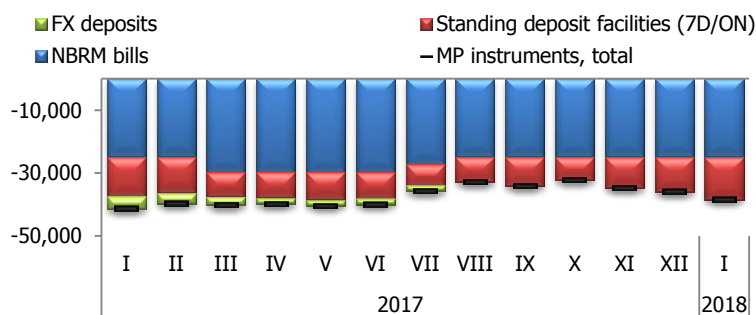
Monetary instruments in January registered a monthly growth, which is in line with the expectations for the first quarter of the year according to the October forecast. Amid creating liquidity through autonomous factors, and unchanged supply of CB bills from the NBRM[17], the increase of the monetary instruments (withdrawing liquidity from the banking system) was due to banks' further interest to place excess liquid assets in short-term deposits with the NBRM.

NBRM's net foreign assets registered a monthly increase in January. The increase of NBRM's net foreign assets was mostly influenced by inflows based on government's external borrowing, and NBRM's interventions on the foreign exchange market (purchase of foreign currency) also acted in the same direction. Such performances are in line with the October forecasts, which forcasted a growth of NBRM's net foreign assets for the first quarter of the year.

The inflows from government's external borrowing in January also had an effect on government deposits which registered a significant growth in January. The increase of government deposits was expected with the October forecasts, which forecasted a growth in this balance category for the first quarter of the year.

Amid a seasonal decline of currency in circulation, reserve money decreased in January. Compared to the October forecasts, reserve money at the end of January are in line with the expectations for the end of the first quarter of the year.

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[17] At the CB bills auction of the NBRM, held on 10 January 2018, CB bills in the amount of Denar 25,000 million were offered and sold with an interest rate of 3.25% and maturity of 28 days.
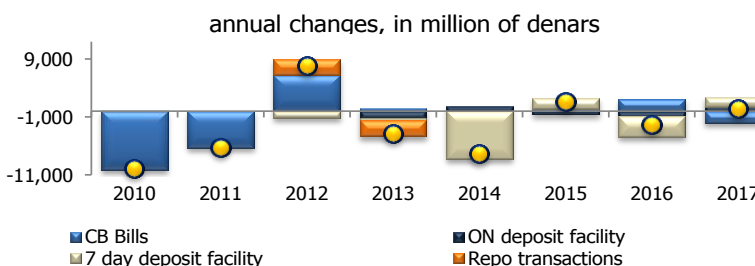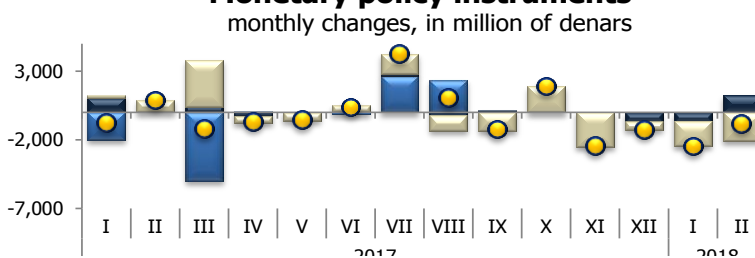
Banks liquidity*
monthly changes, in MKD million

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

annual changes, in MKD million
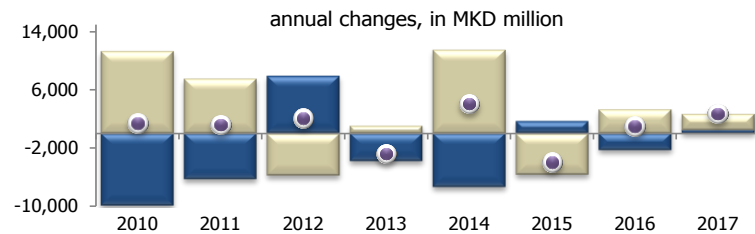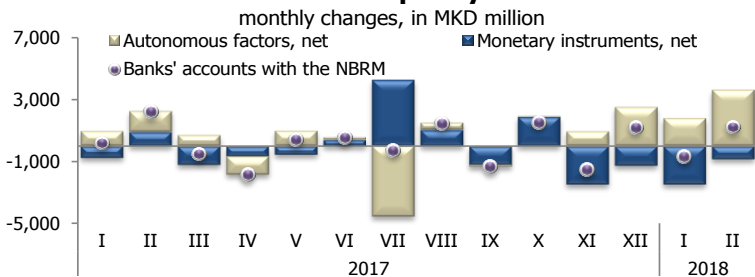
* positive change: liquidity creation, negative change: liquidity withdrawal
Source: NBRM.

Autonomous factors*
monthly changes, in million of denars

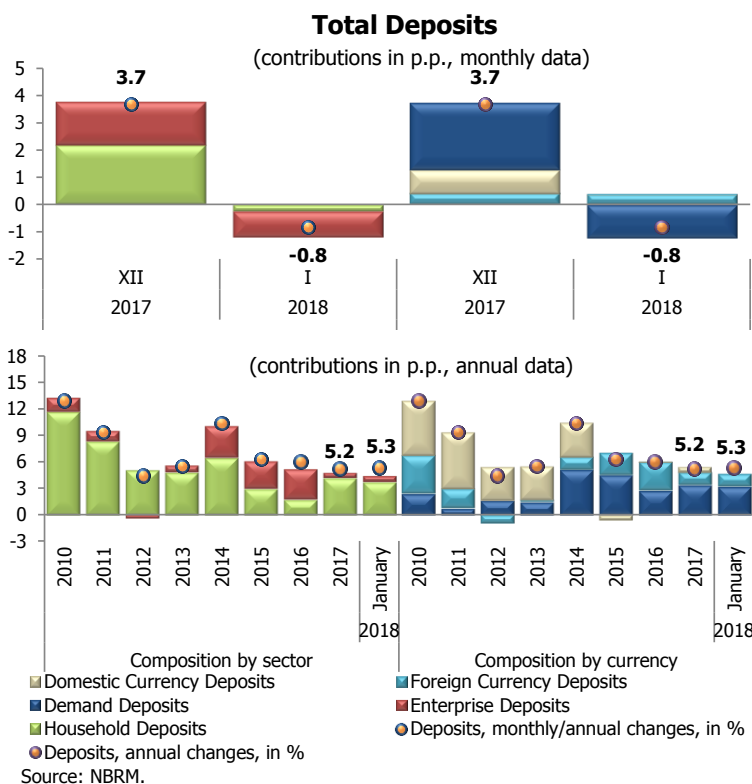### annual change, in millions of denars
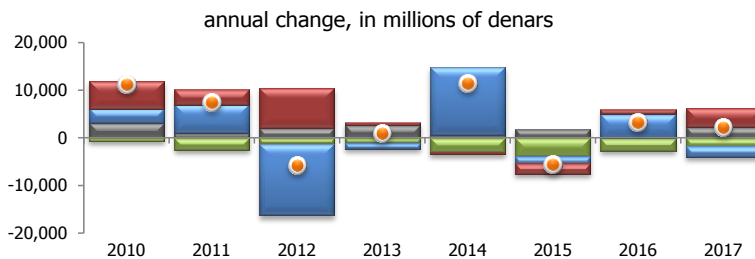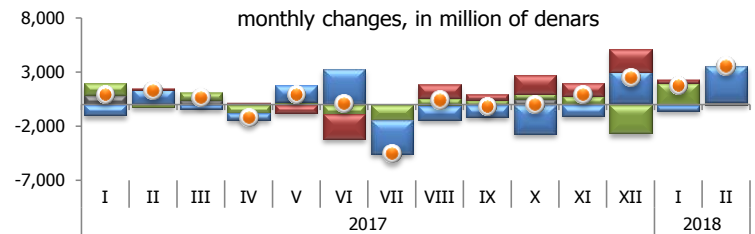
■ FX interventions   ■ Government transactions   ■ Currency in circulation
■ OAF   ● Autonomous factors, net
Source: NBRM .
* positive change: liquidity creation, negative change: liquidity withdrawal

Monetary policy instruments*
monthly changes, in million of denars

annual changes, in million of denars

■ CB Bills   ■ ON deposit facility
■ 7 day deposit facility   ■ Repo transactions
Source: NBRM .
* positive change: liquidity creation, negative change: liquidity withdrawal

In February, the liquidity of the banking system increased. The increase of banks' liquidity, according to the operational data for the current liquidity was under the influence of autonomous factors (government's transactions), which amid unchanged CB bills offer further increased the monetary instruments.
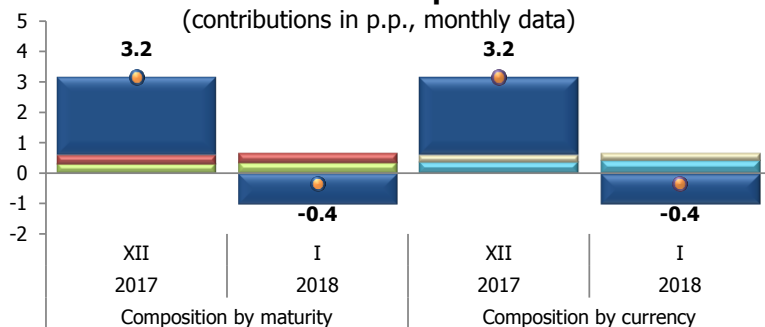
22

Total Deposits

(contributions in p.p., monthly data)

(contributions in p.p., annual data)

Composition by sector
- Domestic Currency Deposits
- Demand Deposits
- Household Deposits
- Deposits, annual changes, in %

Composition by currency
- Foreign Currency Deposits
- Enterprise Deposits
- Deposits, monthly/annual changes, in %

Source: NBRM.

Total deposits in January 2018 registered a decrease on a monthly basis, partly due to the influence of the seasonal factors. The monthly deposits' decrease (of 0.8%) is usual for this month of the year (noticeable in five previous years) following their high growth in the previous month (of 3.7%). Observed by sectors, the monthly deposits' decrease in January is mostly due to corporate deposits (which registered a significant growth in December) and household deposits also contribute to a lesser extent. Observed by currency, deposits' decrease in January was influenced by the decline of demand deposits.

In January 2018, total deposits registered a decline, whereas the October forecast anticipated a quarterly increase of deposits for the first quarter of the year, with an assumption for more expressed growth dynamics by the end of the quarter. However, given the significantly higher than expected level of deposits in 2017, deposits at the end of January were almost on the forecasted level for the first quarter of 2018.

In January, the annual growth rate of total deposits was 5.3% (5.2% in December), which is below the forecasted growth for the first quarter of 2018 (of 6.1%) according to the October forecast. On an annual level, the growth of total deposits in January, from a sectoral aspect, is mostly as a result of the growth of household deposits, with a small positive contribution to the annual growth of corporate deposits as well. 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.
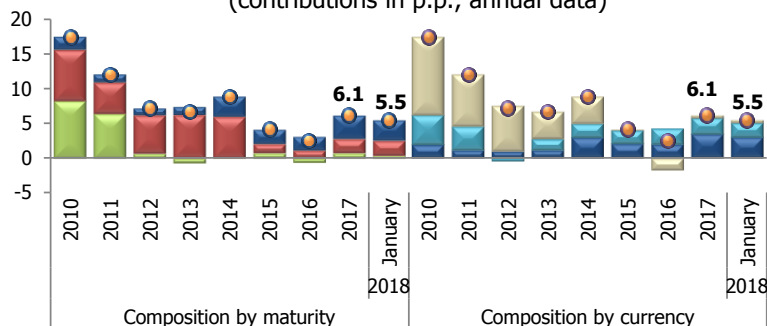
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Household Deposits
(contributions in p.p., monthly data)

(contributions in p.p., annual data)

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

Source: NBRM.

In the January, household deposits registered a monthly decline, partially influenced by seasonal factors. The monthly decline of household deposits of 0.4% (growth of 3.2% in the previous month) is mostly due to the decrease of denar deposits (entirely due to demand deposits), which is common for this month of the year and also noticeable in the three previous years. **On annual basis, the household growth rate amounts to 5.5%.**
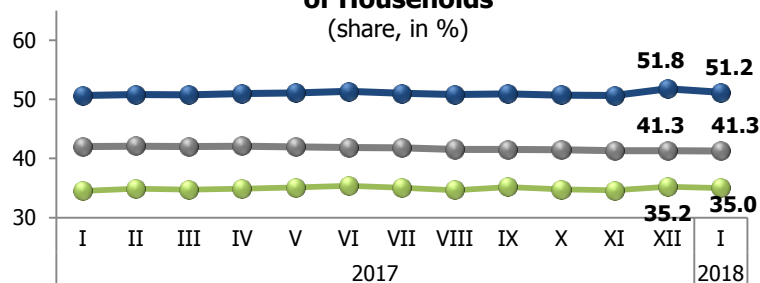
Denar Deposits of Households/Total Deposits of Households
(share, in %)

(share, in %)

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

Source: NBRM.

The share of denar deposits (with demand deposits) in total household deposits in January amounted to 51.2% and decreased on a monthly basis (51.8% in December).
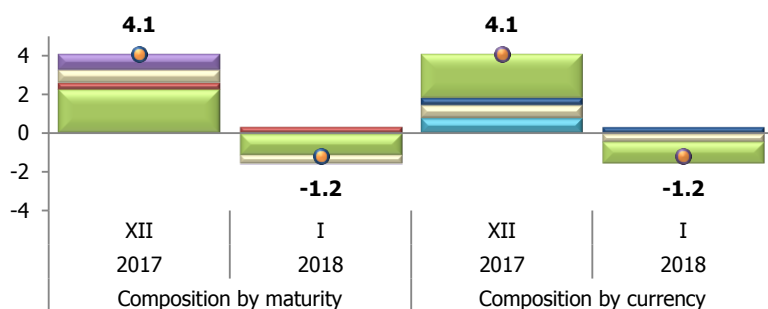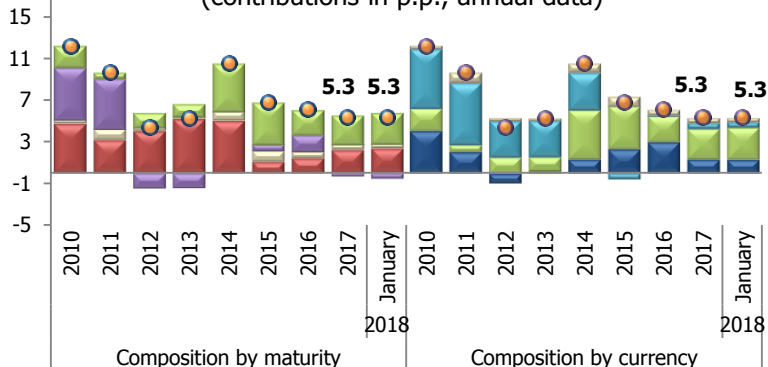
24
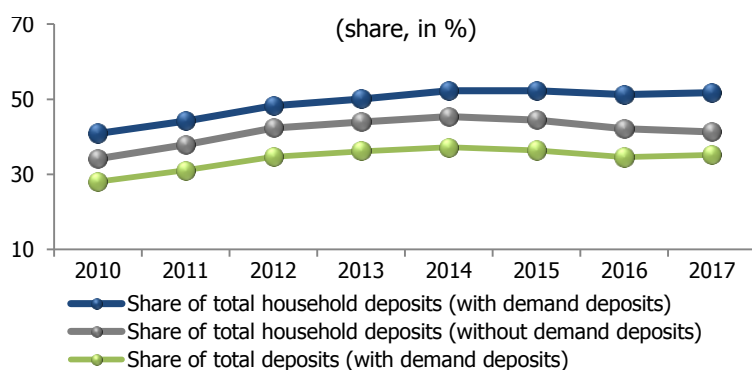
Broad Money M4
(contributions in p.p., monthly data)
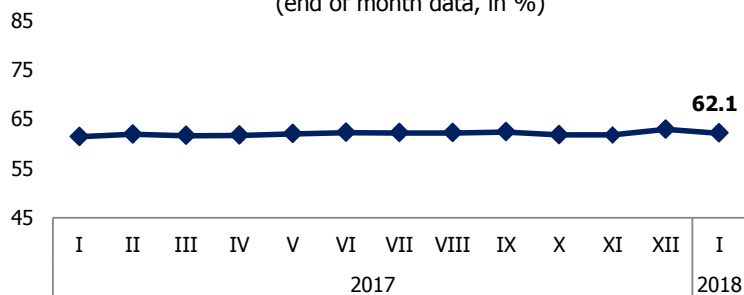

(contributions in p.p., annual data)

- ☐ 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 %
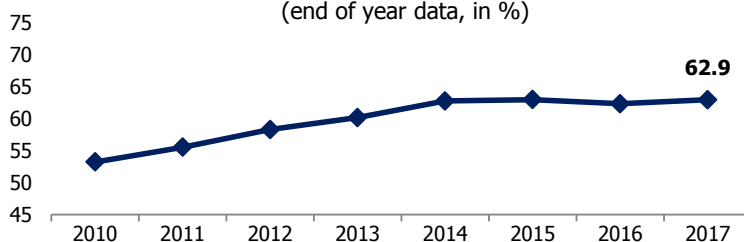
Source: NBRM.

During January, broad money M4 registered a monthly decline following the significant growth in the previous month. The monthly decrease of the broadest money supply (of 1.2%) is mostly due to the decrease in the total deposits and currency in circulation also made a minor negative contribution. **On annual basis, the broad money is higher by 5.3% (5.3% in December), which is below the forecasted growth of 6.3% for the first quarter of 2018.** With the performances in January, the share of the denar share in the total money supply decreased to 62.1% (62.9% in the previous month).
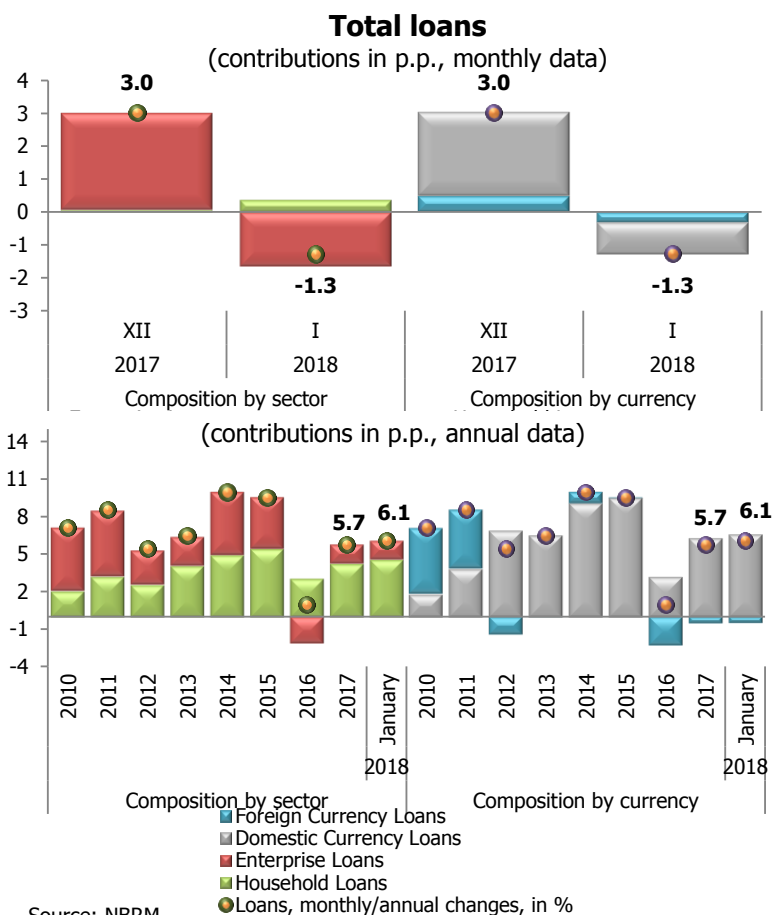
Share of Denar M4 in total M4
(end of month data, in %)

(end of year data, in %)

Source: NBRM.

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Total loans
(contributions in p.p., monthly data)

(contributions in p.p., annual data)

Composition by sector   Composition by currency

■ Foreign Currency Loans
■ Domestic Currency Loans
■ Enterprise Loans
■ Household Loans
● Loans, monthly/annual changes, in %
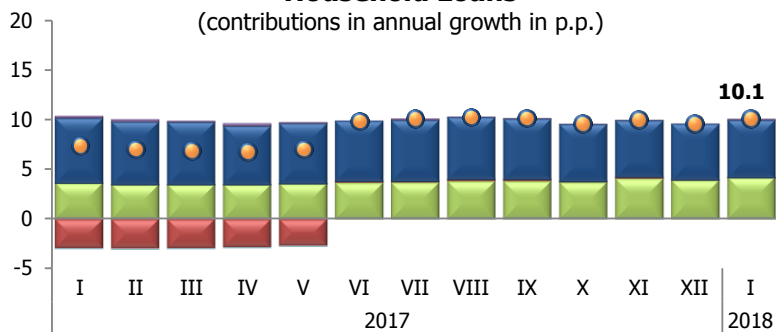
Source: NBRM.

In January, total loans to the private sector registered a monthly decline, following the significant growth in the previous month. The monthly decrease of the credit activity (of 1.3%) is common for this month of the year (present in the last five years) following their high growth in the previous month (of 3.0%). Observed by sectors, the decline of total deposits in January is entirely due to the lower level of corporate loans (which in December registered a major growth), whereas household loans registered a moderate growth. Observing the currency structure, the monthly decline of total loans is driven by domestic currency loans, and foreign currency loans also register a decline but at a smaller scale.

In January 2018, total loans registered a decline, while a quarterly increase of the loans for the first quarter of the year was anticipated in the October forecasts, with the assumption that the growth will accelerate by the end of the year.

On annual basis, total loans in January grew by 6.1%, which is above the forecasted growth (of 6.0%) for the first quarter of 2018. Observing the currency, the annual growth of total loans in January 2018 is due to the growth of denar loans, amid minor annual decline in foreign currency loans. Regarding the sector structure, loans approved to households prevail in the annual growth.

Household Loans
(contributions in annual growth in p.p.)

Legend:
- Auto Loans
- Credit Cards and Overdrafts
- Consumer Loans
- Other Loans
- Lending for house purchase
- Household Loans, monthly/annual changes, in %

(contributions in p.p., annual data)

Source: NBRM.

Household loans in January continued to grow annually, at a moderately accelerated pace. The deceleration of the growth pace of household loans in January (from 9.5% to 10.1%) was almost equally driven by the growth acceleration of housing and consumer loans.
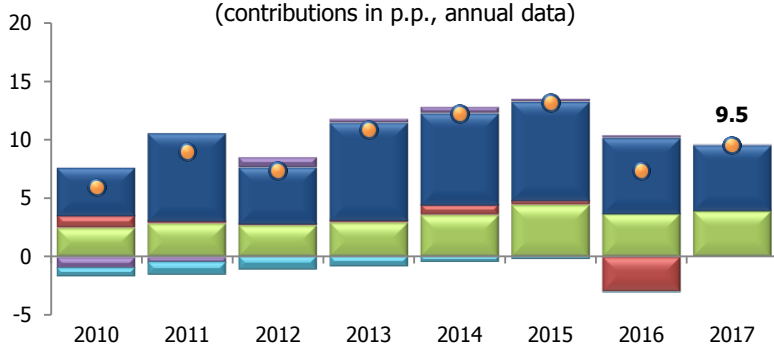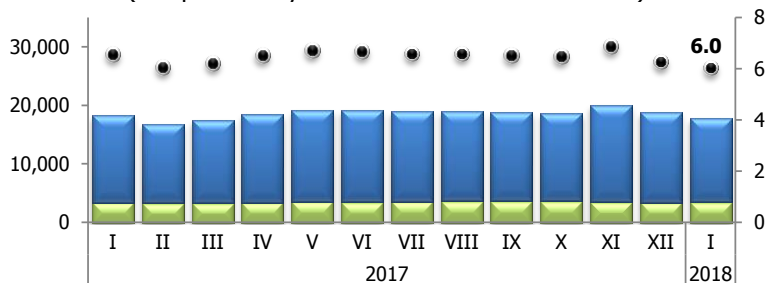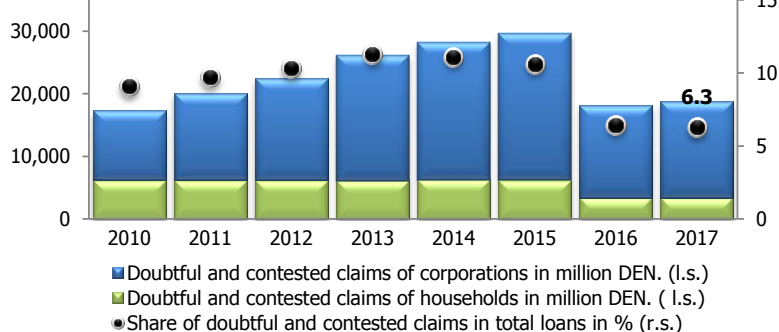
Doubtful and contested claims
(composition by sector and share in total loans)

annual data

- Doubtful and contested claims of corporations in million DEN. (l.s.)
- Doubtful and contested claims of households in million DEN. (l.s.)
- Share of doubtful and contested claims in total loans in % (r.s.)
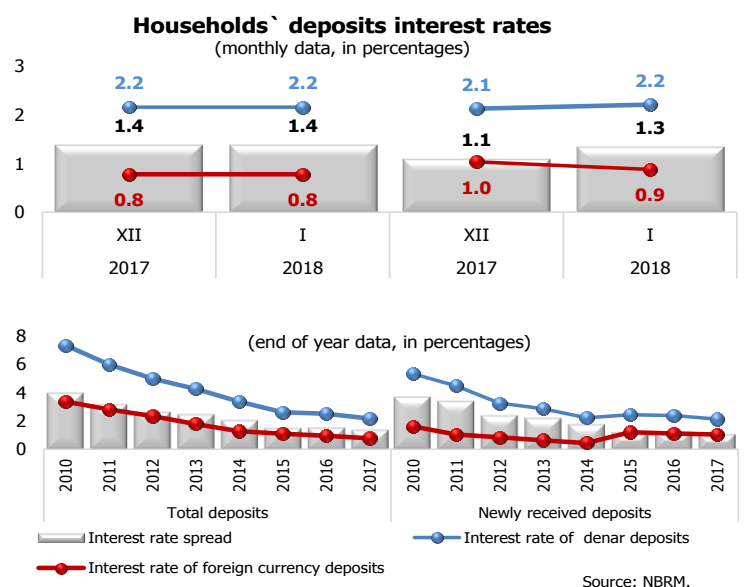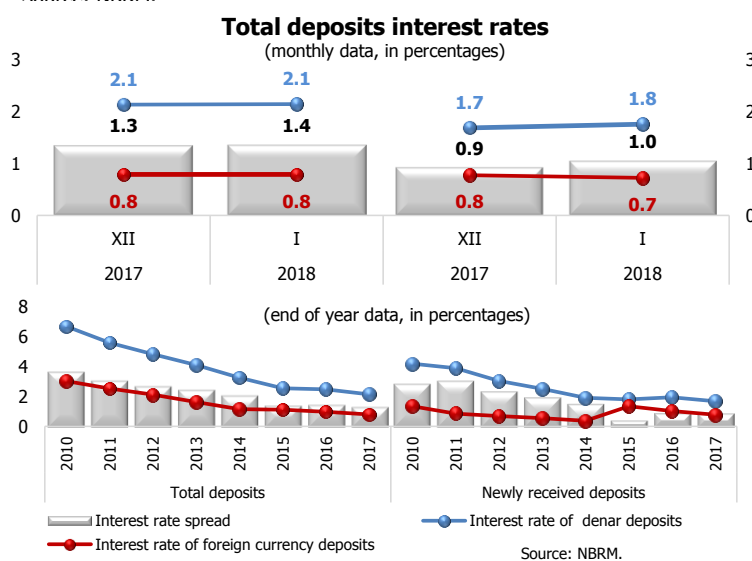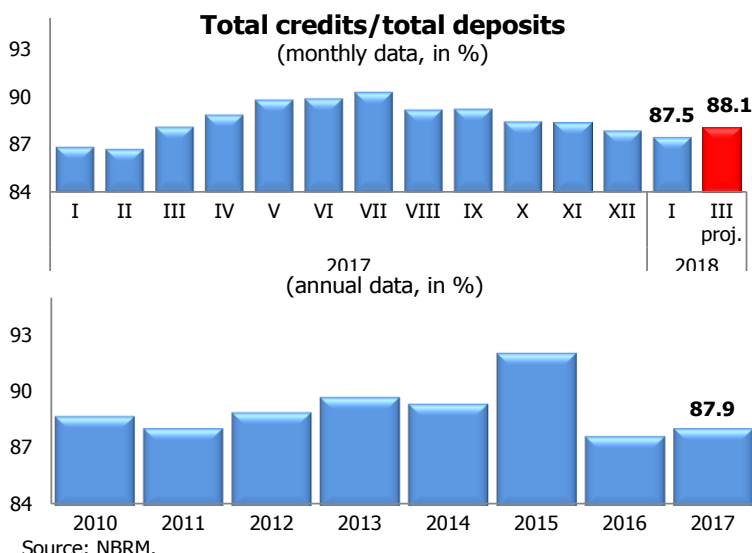
Source: NBRM.

The share of doubtful and contested claims in total loans in January decreased. The rate of total non-performing loans in January was 6.0% and decreased (for the second consecutive month), which observed by sectors is entirely due to the decline of doubtful and contested claims of the corporations.

Total credits/total deposits
(monthly data, in %)

(annual data, in %)

Source: NBRM.

Total deposits interest rates
(monthly data, in percentages)

(end of year data, in percentages)

Interest rate spread — Interest rate of denar deposits
Interest rate of foreign currency deposits

Source: NBRM.

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

(end of year data, in percentages)

Interest rate spread — Interest rate of denar deposits
Interest rate of foreign currency deposits

Source: NBRM.

The utilization of the deposit potential for lending to the private sector decreased in January. The decrease of the ratio between loans and deposits (from 87.9% to 87.5%) in January is due to the relatively higher loans decline compared to the deposits decline. The performance in January is lower compared to the expectations for the first quarter of 2018, in accordance to the October forecast which expects a more pronounced growth pace in deposits and loans by the end of the quarter.
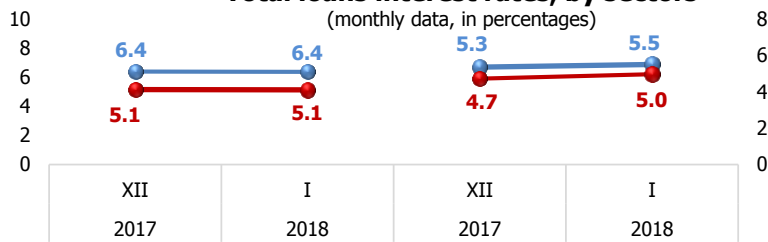
In January, the interest rates on total deposits (in denar and foreign currency) registered no significant changes compared to the previous month, whereby the interest rate spread between the interest rates on denar and foreign currency deposits registered an insignificant growth from 1.3 to 1.4 percentage points. The situation is also similar in the **newly accepted total deposits**, the interest rate spread between denar and foreign currency deposits increased from 0.9 percentage points to 1.0 percentage points, amid growth of interest rates on newly accepted denar deposits of 0.1 percentage points and decrease in the interest rates of foreign currency deposits of 0.1 percentage points[18].

In January, the **interest rates on household deposits** remained stable compared to the previous month, whereby the interest rate spread between denar and foreign currency interest rates remained unchanged (1.4 percentage points). In **newly accepted household deposits**, the interest rates on newly accepted foreign currency deposits registered a decline of 0.1 percentage points in January, while the interest rates on newly accepted denar deposits increased by 0.1 percentage points, whereby the interest rate spread increased from 1.1 to 1.3 percentage points.

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[18] 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.

Total loans interest rates, by sectors
(monthly data, in percentages)

(end of year data, in percentages)

Total loans   Newly approved loans

●— Interest rate of denar loans   ●— Interest rate of foreign currency loans

Source: NBRM.

Interest rates on total loans (households and corporations) in January remained unchanged compared to the previous month. In **newly approved loans** to households and corporations, interest rates registered a monthly growth of 0.2 and 0.3 percentage points, respectively[19].
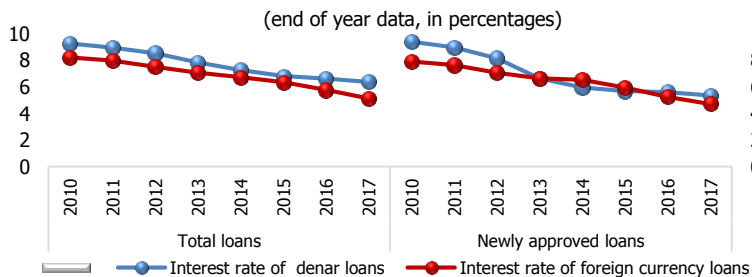
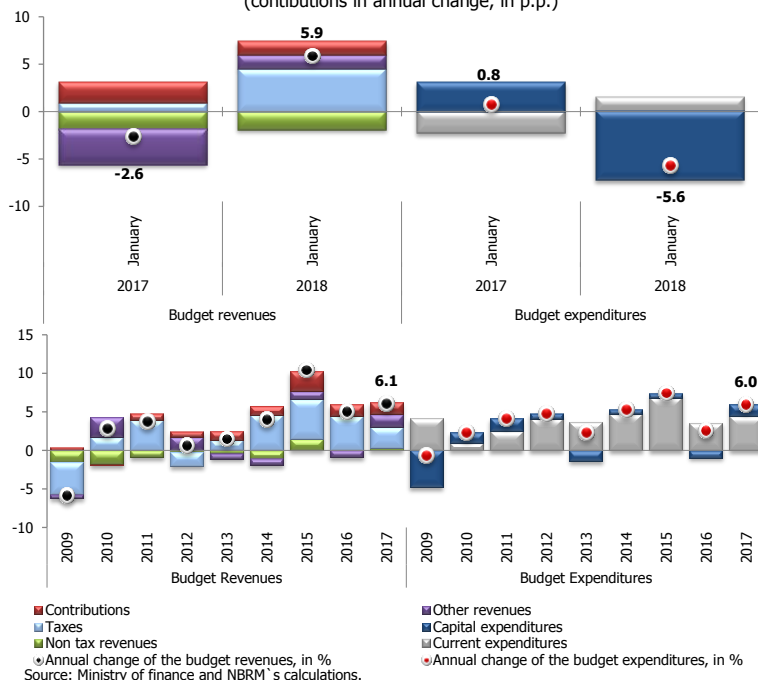[19] Regarding the interest rates on the newly approved loans, it should be taken into consideration that they are characterized with variable movements. The interest rate variability on newly accepted deposits is due to the fact that the same are driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.
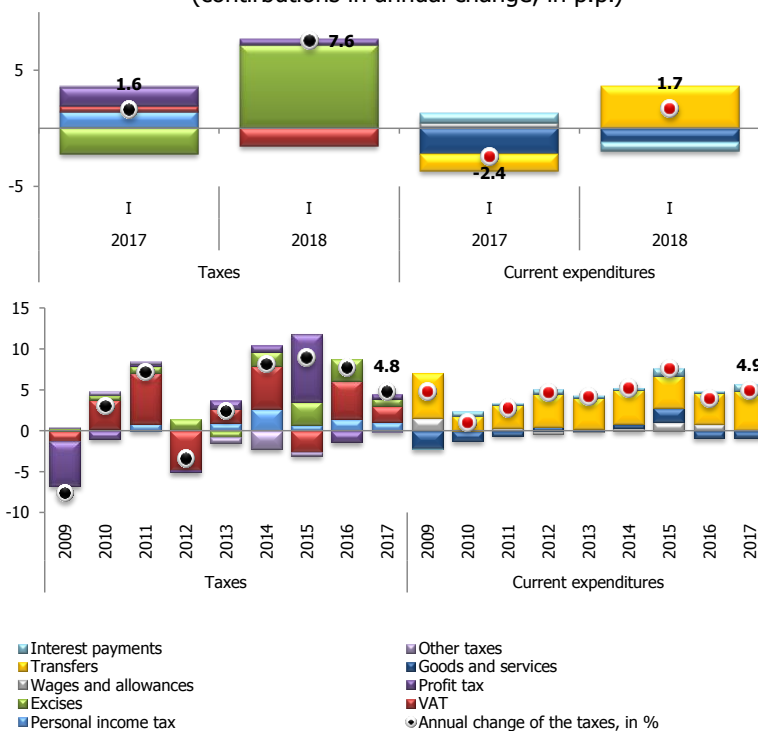
Budget revenues and expenditures
(contibutions in annual change, in p.p.)

Source: Ministry of finance and NBRM`s calculations.

Legend:
- Contributions
- Taxes
- Non tax revenues
- Annual change of the budget revenues, in %
- Other revenues
- Capital expenditures
- Current expenditures
- Annual change of the budget expenditures, in %

In the Budget of the Republic of Macedonia, the budget revenues increased annually, while the budget expenditures decreased. The total budget revenues in the Budget of the Republic of Macedonia (central budget and budget of funds) in January 2018 are higher by 5.9% while total expenditures are lower by 5.6% on annual basis. The better performance in budged revenues is mostly due to tax performances, and a positive but moderately lower contribution also made "other revenues"[20] and contributions. In budged expenditures, the lower performances in January almost entirely are a reflection of the lower capital costs.

Taxes and current expenditures
(contirbutions in annual change, in p.p.)

Source: Ministry of finance and NBRM`s calculations.

Legend:
- Interest payments
- Transfers
- Wages and allowances
- Excises
- Personal income tax
- Other taxes
- Goods and services
- Profit tax
- VAT
- Annual change of the taxes, in %

Analyzed by tax categories, inflows based on excises had a dominant contribution to the annual tax growth (of 7.6%) in January 2018 (with a contribution of 7.1 percentage points) and import costs and profit tax had a positive but lower contribution (1.3 and 0.5 percentage points, respectively), while the contribution of VAT revenues in the annual tax growth is moderately negative (1.5 percentage points). In current expenditures, the annual growth (of 1.7%) is dominantly due to the higher expenditures based on transfers (with a contribution of 3.6 percentage points), whereas expenditures for goods and services and interest rate payments have a negative contribution (of 1.1 and 0.7 percentage points, respectively).

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[20] This category includes capital revenues, foreign donations and revenues from collected loans.

Budget implementation , per categories (central budget and funds), in percentage of the annual plan*
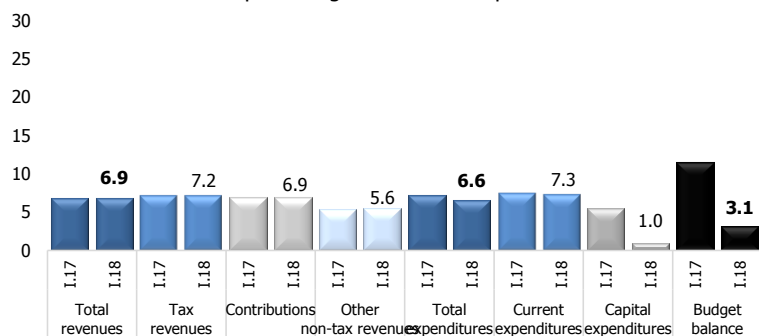
*for 2017 and 2018, figures are calculated compared to the Budgete rebalance in August 2017 and the planned Budget for 2018, respectively.
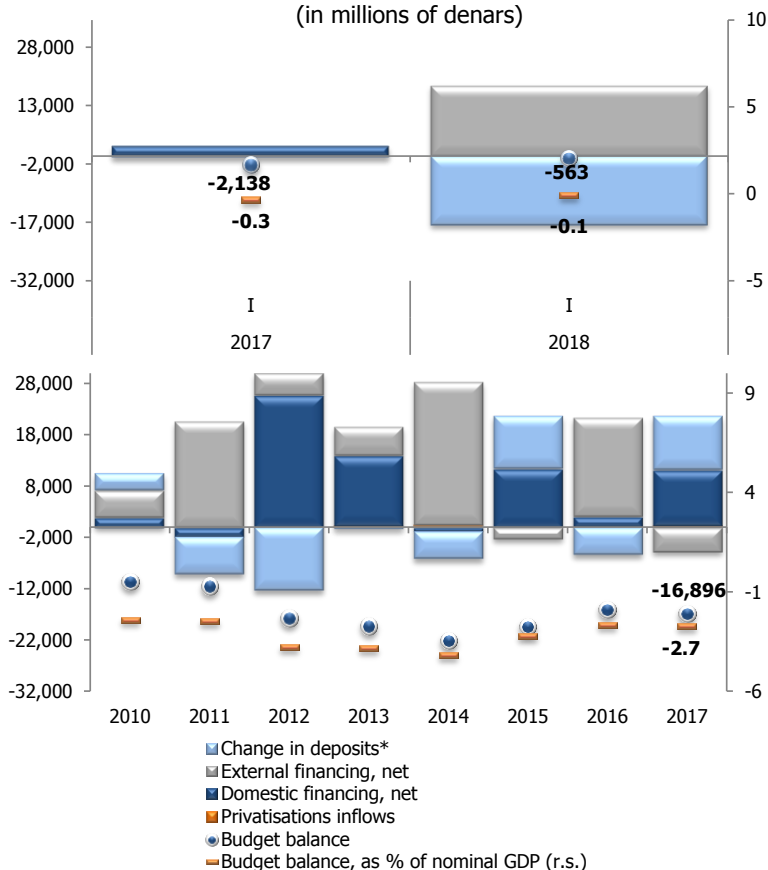Source: Ministry of Finance and NBRM's calculations.

Financing of the budget balance
(in millions of denars)

* Positive change: deposits withdrawal; negative change:deposits accumulation.
  Source: Ministry of Finance

In January 2018, the realized budget revenues constitute 6.9% of the previously planned for the entire year, in accordance to the Budget for 2018. Analyzed by individual categories of budget revenues, performances in taxes and contributions were 7.2% and 6.9%, respectively, of the annual plan, while the performance in the category other non-tax revenues[21] was 5.6%.

Analyzing budget expenditures, in the period January-February 2018, 6.6% of the planned annual expenditures were realized, whereby the realization in current costs amounts to 7.3% of the annual plan, while the realization of the capital expenditures is relatively lower (1.0% of the annual plan).
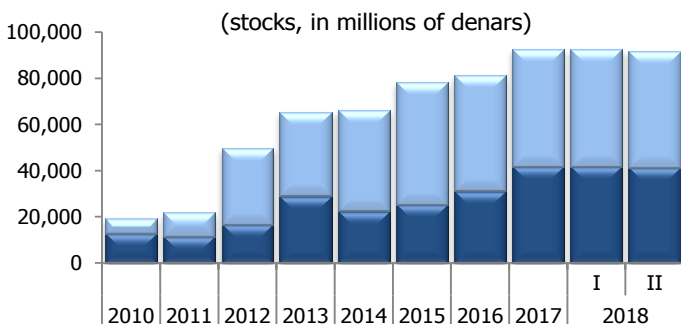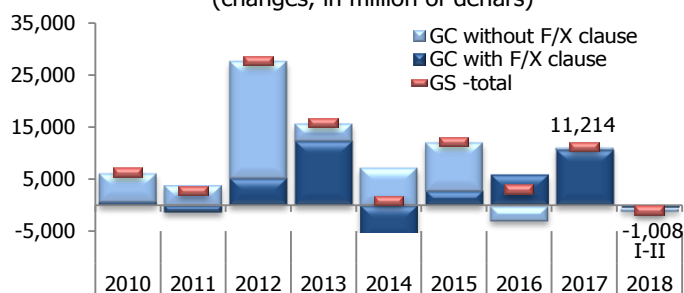
The budget deficit in January 2018 accounts for 3.1% of that planned deficit for 2018. In January, the Budget of the Republic of Macedonia registered a deficit of Denar 563 million, which is 0.1% of the nominal GDP[22]. The deficit was financed by external sources, through the issuance of the Eurobond, whereby one part of inflows were kept as deposits on behalf of the government with the NBRM.

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[21] Other non-tax revenues include non-tax revenues, capital revenues, donations from abroad and revenues of recovered loans.
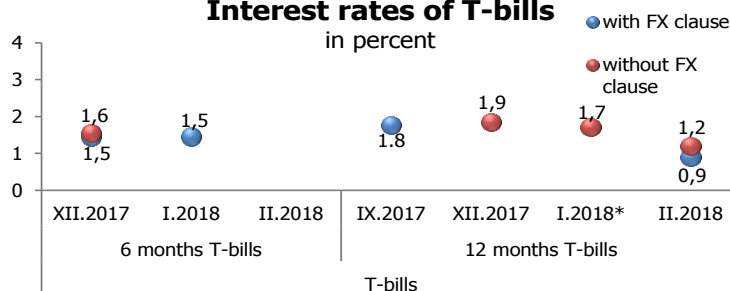[22] The analysis of nominal GDP for 2017 uses the NBRM October forecasts.

Government securities
(changes, in million of denars)

Legend: GC without F/X clause; GC with F/X clause; GS -total

Values on chart: 11,214 (2017); -1,008 (I-II 2018)

Years: 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018

(stocks, in millions of denars)

Years: 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, I / II 2018

Source: MoF.

Interest rates of T-bills
in percent

Legend: with FX clause; without FX clause

6 months T-bills: XII.2017 (1,6 / 1,5); I.2018 (1,5); II.2018
12 months T-bills: IX.2017 (1,8); XII.2017 (1,9); I.2018* (1,7); II.2018 (1,2 / 0,9)
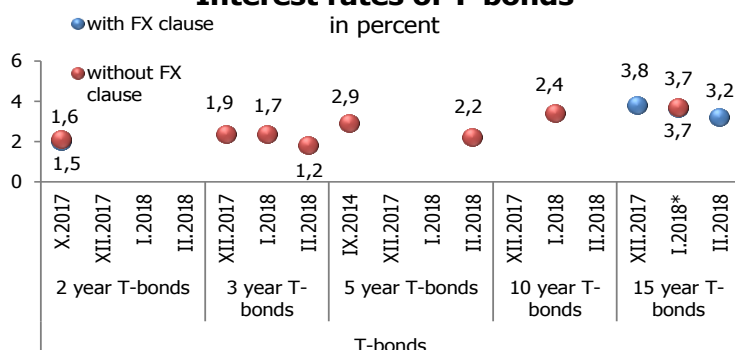
T-bills

*The interest rate on 12m T-bills in January 2018 (1,7%) is a weighted avarage 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
in percent

Legend: with FX clause; without FX clause

2 year T-bonds: X.2017 (1,6 / 1,5); XII.2017; I.2018; II.2018
3 year T-bonds: XII.2017 (1,9); I.2018 (1,7); II.2018 (1,2)
5 year T-bonds: IX.2014 (2,9); XII.2017; I.2018; II.2018 (2,2)
10 year T-bonds: XII.2017; I.2018 (2,4); II.2018
15 year T-bonds: XII.2017 (3,8); I.2018* (3,7 / 3,7); II.2018 (3,2)

T-bonds

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

In February, government securities issued in the domestic market decreased. Observed by currency structure, both categories of securities (with or without a currency clause) register a decline, whereby the decline is relatively higher in government securities with a currency clause. Compared to the end of 2017, government securities (Denar 91,576 million) are lower by Denar 1,008 million[23].

In February, the Ministry of Finance (for the second time since the beginning of the year) reduced the interest rates of government securities. After reducing the interest rates on 12-month government securities and on 5-year government bonds in January, the Ministry of Finance in February reduced the interest rates and 3-year government bonds, from 2.35% to 1.80%. At the same time, for the 12-month government bills with currency clause and for 5-years government bonds, it offered interest rates of 0.90% and 2.20%, respectively, which were set at a lower level compared to the interest rates in the last held auctions of these maturities[24].

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[23] For 2018, with the annual Budget plan, government borrowing in the amount of Denar 5,454 million is planned.

[24] Interest rates on treasury bills with a 12 month maturity (with a currency clause) and government bonds with 5 year maturity, held in September 2017 and November 2014, respectively, amounted to 1.75% and 2.90%, respectively.