National Bank of the Republic of North Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

March 2019

Recent Macroeconomic Indicators

Review of the Current Situation – Implications for the Monetary Policy

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

According to the latest estimates, the global economic environment is less conducive compared to the October forecasts, which caused downward revisions of the global economic growth. Thus, risks to the global economy are still significantly downward, while similar to October the main risk arises from any further escalation of the global trade protectionism, despite the agreement between the United States and China for temporary delay in the planned increase in tariffs in early 2019. Other risks relate to the potential major slowdown in China's growth, the possibility for a no-deal Brexit, increased political risks in some EU countries and the potential escalation of geopolitical tensions in the Middle East and East Asia. Regarding the **economic developments in the euro area**, as our major trading partner, the initial GDP data show an annual increase of 1.9% in 2018, which is a significant slowdown compared to 2017 (2.5%), in part as the result of temporary factors related to the automotive industry, pronounced at the end of the year. The latest high-frequency data and household and corporate surveys indicate possibility for deceleration of the economic growth in the first quarter of 2019. In this context, the ECB made a significant downward revision of the forecasts for the euro area economic growth for 2019, from 1.7% in December to 1.1% in March, with a smaller downward revision for 2020 (from 1.7 % to 1.6%). Growth in 2021 is still expected to be 1.5%. However, the labor market conditions are still favorable, whereby the unemployment rate in January was 7.8% (7.9% in the fourth quarter of 2018). The estimated February data on inflation in the euro area indicate minor acceleration of 1.5% (from 1.4% in January). Amid weaker performance and lower expected economic growth, the latest ECB inflation forecasts have also been revised downwards throughout the entire forecast horizon compared to December[1]. At the regular meeting in March, the ECB did not make changes to the interest rate policy, but announced the third series of quarterly targeted long-term refinancing operations (TLTRO-III) to be implemented in the period September 2019 - March 2020, in order to preserve the favorable lending terms and the efficiency of the monetary transmission. Also, the ECB expects the policy rates to remain at current levels by at least until the end of 2019, in contrast to the previous expectations to remain unchanged at least until the end of summer 2019. Consequently, the **EURIBOR** was revised downward especially for 2020, and it is expected to continue to be in the negative zone over the forecast horizon.

Analyzing the quantitative external environment indicators of the Macedonian economy, the foreign effective demand forecast was revised downwards for 2018 and 2019, while remaining the same for 2020 compared to the October forecast. A slight upward revision for the **foreign effective inflation** forecast was made for 2019, while maintaining the October forecast for 2020. Compared to October, the US dollar is expected to appreciate rather than to remain unchanged in 2019 and to depreciate at a similar pace in 2020. **Forecasts for primary commodities prices on the world markets for 2019 are generally revised downwards relative to the October forecasts, whereas for 2020, all prices were revised upwards.** Observed by product, the latest assessments of **world oil prices** point to a faster price fall rather than growth in 2019 and a slower decline in 2020 compared to October. **Metal prices** were subject to upward revisions, whereby the

[1] Forecasted inflation rate of 1.2%, 1.5% and 1.6%, respectively, for 2019, 2020 and 2021 compared to 1.6%, 1.7% and 1.8% respectively, in December 2018.

prices of copper and nickel for 2019 are expected to increase rather than to decrease as forecasted in October, while for 2020, the copper price is expected to register a smaller decline, and the nickel price to slightly increase rather than to slightly decrease as expected in October. Regarding the **world prices of primary food commodities**, the revisions for 2019 are downward, i.e. fall rather than rise in the wheat price and slower increase in the maize price. On the other hand, the expected rise in the wheat price for 2020 was revised upward, with no major changes in the maize price compared to October. However, one should bear in mind that the assessments of the prices of primary commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the longer term.

The comparison of the latest macroeconomic indicators with their dynamics forecast in October indicates deviations in some economic segments. According to the estimated GDP data, in the last quarter of 2018, the economic activity registered an annual growth of 3.7%, which is higher than the growth in the October forecast (3%). This upward deviation mainly reflects the higher growth of private and public consumption than expected in October, while the increase in gross capital formation is slightly slower than expected. In addition, the net export demand made negative rather than positive contribution to the growth as expected (amid high exports and imports growth). Observed for the whole of 2018, the real economic growth of 2.7% is higher than expected (forecasted growth rate of 2.3%). Having a limited scope of available data, we could barely provide precise assessment of the economic situation for the first quarter of 2019. However, most data point to the continuation of favorable economic movements (faster industrial and further trade growth). When it comes to changes in consumer prices, February as well as the first month of the year witnessed a moderate inflation rate (1.1% on average for the first two months), which is lower than the October forecast. Moreover, external input assumptions in the inflation forecast for the entire 2019 have been revised downwards. Currently, in such circumstances, risks to the inflation forecast for 2019 have been assessed as downward. Yet, there is still uncertainty around the movement of world primary commodity prices, especially oil prices.

Last available foreign reserves data (adjusted for the price and exchange rate differentials and securities price changes), as of February 2019, indicate that they have declined. Analyzing growth factors, the reduction of reserves is due to the transactions on behalf of the government, while the other categories made positive contribution. The available data for January 2019 point to a trade deficit that is generally as expected for the first quarter of the year, but the assessment period is short for making reliable conclusions in this area. Currency exchange market data as of the second 10-day period of February point to net inflows of private transfers as expected for the first quarter of 2019. The balance of payments for 2018 points to a lower current account deficit than forecasted in October (0.3% of GDP versus the forecast of 0.5% of GDP), and significantly better financial account position (net inflows of 5.3% of GDP, compared to the forecast of 4% of GDP), mainly due to higher inflows of direct investments. The analysis of foreign reserves adequacy indicators shows that they are still within the safe zone.

Data for the monetary sector developments in January show a monthly decline in **total deposits** (of 0.6%), that follows the growth in the previous month (3.0%). The monthly decrease in total deposits in January is seasonal, which analyzed by sector, is solely due to the decrease in corporate and household deposits, amid slight growth in other sectors deposits. Analyzing the currency structure, the decrease in total deposits is solely due to denar deposits (including demand deposits), with a small positive contribution of foreign currency deposits. On an annual basis, total deposits in January grew by 12.2%, which is above the forecasted growth of 10.5% for the end of the first quarter of 2019, according to the October forecast, which is mainly due to the higher base effect and the positive deviation at the end of 2018. Analyzing the credit market, in January, **total private sector loans** registered a monthly fall of 0.8%, following the growth in the previous month (2.2%). In January, lending usually decreases, solely due to the reduced corporate lending, with minor positive contribution of household lending. Analyzing the currency structure, the monthly fall of total loans is mainly due to the decrease in denar loans, with small positive contribution of the foreign currency loans. Considering the lower lending performance at the end of 2018, annually, the total loans in January were higher by 7.8%, despite the forecast for growth of 9.8% for the first quarter of 2019.

In January 2019, the Budget of the Republic of North Macedonia registered a deficit of Denar 708 million mostly financed from domestic sources through a new issue of government securities on the domestic financial markets and by withdrawing portion of the government funds from account with the National Bank. The deficit in the Budget of the Republic of North Macedonia was 4% of the deficit planned in the 2019 Budget.

The latest macroeconomic indicators and assessments indicate deviations from the forecasted dynamics, with improved perceptions about some segments of the monetary policy environment compared to the previous forecast. At the end of February 2019, foreign reserves (adjusted for price and exchange rate differences and securities price changes) are slightly lower relative to the end of 2018, mainly due to transactions on behalf of the government, but still move within a safe zone. Regarding the economic activity, the GDP data for the fourth quarter and for the whole of 2018 are better than the growth rates forecasted in October, and the available high frequency data suggest continuation of favorable movements in the first quarter of 2019. Analyzing the inflation, amid lower than forecasted performances for the first two months of 2019 and downward revisions of the external assumptions for the period ahead, the current risks are assessed as downward. Observing the monetary sector, the annual deposit growth in January is higher than forecasted for the first quarter of 2019, while the annual growth of loans is currently slightly lower than forecasted.

Increase in the economic activity of 3.7% in the fourth quarter of 2018.

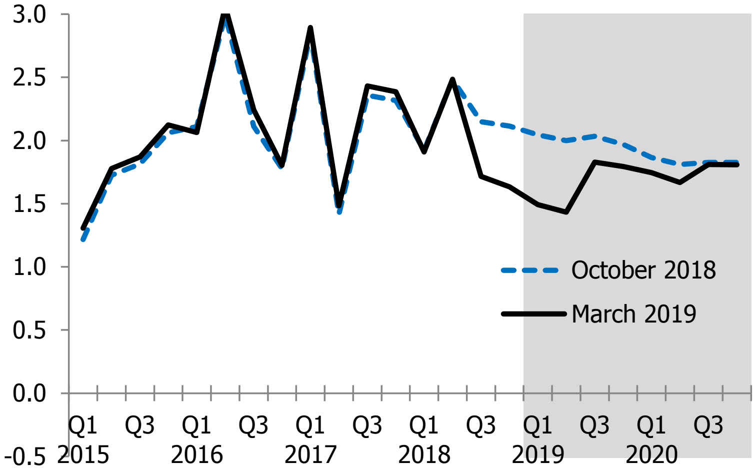
According to the estimated SSO data, in the fourth quarter of the year, the annual real economic growth rate was 3.7%, which is an acceleration of the annual growth dynamics. Observing the manufacturing industry, in the fourth quarter of 2018, most sectors registered higher value added, with the trade, transport and tourism, construction (for the first time, after six quarters of continuous negative contribution to growth), as well as the industry being the largest contributors to the GDP growth. Analyzing the demand, the growth in the fourth quarter was mainly prompted by domestic demand, with small negative contribution of net exports. Private consumption is the main growth factor of the domestic demand, with positive contribution of the other two components (public consumption and gross capital formation that grew for the first time, after three quarters of continuous decline). While exports registered the highest rate of real growth when observed by demand component, net exports made a negative contribution, due to the faster growth of imports compared to exports in absolute terms.

Selected economic indicators /1	2015	2016	2017				
	2015	2016	Q1	Q2	Q3	Q4	2017
I. Real sector indicators							
Gross domestic product (real growth rate, y-o-y) /2	3.9	2.8	1.0	-1.8	0.1	1.6	0.2
Industrial production /3							
y-o-y	4.9	3.4	-1.5	3.7	-2.4	0.9	0.2
cumulative average	4.9	3.4	-1.5	1.2	-0.1	0.2	0.2
Inflation /4							
CPI Inflation (y-o-y) /5	-0.4	-0.2	0.6	1.2	1.5	2.1	2.4
CPI Inflation (cumulative average)	-0.3	-0.2	0.6	0.9	1.1	1.4	1.4
Core inflation (cumulative average)	0.5	1.3	1.9	2.0	2.2	2.3	2.3
Core inflation (y-o-y)	0.5	1.3	1.9	2.1	2.6	2.8	2.3
Labor force							
Unemployment rate	26.1	23.7	22.9	22.6	22.1	21.9	22.4
II. Fiscal Indicators (Central Budget and Budgets of Funds)							
Total budget revenues	161,207	169,356	42,734	43,633	44,592	48,714	179,673
Total budget expenditures	180,632	185,407	46,279	48,377	47,346	54,559	196,561
Overall balance (cash)	-19,425	-16,051	-3,545	-4,744	-2,754	-5,845	-16,888
Overall balance (in % of GDP) /1	-3.5	-2.7	-0.6	-0.8	-0.4	-0.9	-2.7
III. Financial indicators /6							
Broad money (M4), y-o-y growth rate	6.9	6.2	4.2	7.5	6.2	5.1	5.1
Total credits, y-o-y growth rate	9.6	-0.1	-1.1	4.1	4.1	5.4	5.4
Total credits - households	12.9	7.0	6.6	9.5	9.8	9.2	9.2
Total credits - enterprises	7.3	-5.3	-7.2	-0.4	-0.9	2.3	2.3
Total deposits (incl. demand deposits), y-o-y growth rate/7	6.4	6.1	4.2	7.4	5.9	5.0	5.0
Total deposits - households	4.1	2.5	1.8	6.5	5.6	6.1	6.1
Total deposits - enterprises	13.0	13.4	8.8	10.8	5.6	2.1	2.1
Interest rates /8							
Interst rates of CBBills	3.25	3.75	3.25	3.25	3.25	3.25	3.25
Lending rates							
denar rates	7.4	7.0	6.8	6.7	6.6	6.4	6.6
f/x rates (aggregated, incl. f/x and denar with f/x clause)	6.2	5.7	5.4	5.3	5.2	5.1	5.3
Deposit rates							
denar rates	2.9	2.5	2.3	2.2	2.1	2.2	2.2
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1.3	1.0	0.9	0.9	0.8	0.8	0.9
IV. External sector indicators							
Current account balance (millions of EUR)	-177.1	-275.5	-135.4	-90.8	189.4	-66.1	-102.9
Current account balance (% of GDP)	-2.0	-2.8	-1.3	-0.9	1.9	-0.7	-1.0
Trade balance (millions of EUR) /9	-1,713.6	-1,777.4	-435.1	-450.8	-385.9	-545.9	-1,817.7
Trade balance (% og GDP)	-18.9	-18.0	-4.3	-4.5	-3.8	-5.4	-18.1
import (millions of EUR)	-5,801.1	-6,106.7	-1,583.8	-1,721.7	-1,648.8	-1,870.6	-6,824.9
export (millions of EUR)	4,087.6	4,329.3	1,148.6	1,270.9	1,263.0	1,324.7	5,007.2
rate of growth of import (y-o-y)	5.4	5.3	16.7	10.5	7.1	13.2	11.8
rate of growth of export (y-o-y)	9.1	5.9	16.8	20.3	10.0	16.1	15.7
Foreign Direct Investment (millions of EUR)	202.8	316.9	96.5	-22.3	-63.0	168.8	180.0
External debt							
Gross external debt (in milllions of EUR)	6,290.5	7,216.6	7,699.7	7,705.4	7,627.6	7,372.5	7,372.5
public sector	2,933.7	3,445.3	3,819.9	3,741.0	3,710.2	3,461.8	3,461.8
public sector/GDP (in %)	32.4	35.4	37.9	37.2	36.9	34.4	34.4
private sector	3,356.9	3,771.2	3,879.9	3,964.3	3,917.4	3,910.7	3,910.7
Gross external debt/GDP (in %)	69.4	74.2	76.5	76.5	75.8	73.2	73.2
Gross official reserves (millions of EUR) /10	2,261.7	2,613.4	2,534.4	2,399.9	2,271.4	2,336.3	2,336.3

Selected economic indicators /1	2018																	2019	
	Jan.	Feb.	Mar	Q1	Apr.	May	Jun	Q2	Jul.	Aug	Sep	Q3	Oct.	Nov	Dec	Q4	2018	jan.	feb.
I. Real sector indicators																			
Gross domestic product (real growth rate, y-o-y) /2				0.9				3.0				3.0				3.7	2.7		
Industrial production /3																			
y-o-y	8.4	3.1	4.6	5.2	1.5	1.1	12.1	4.9	8.4	2.1	4.5	5.1	6.4	4.9	7.9	6.4	5.4	12.0	
cumulative average	8.4	5.6	5.2	5.2	4.2	3.5	5.0	5.0	5.5	5.1	5.0	5.0	5.2	5.2	5.4	5.4	5.4	12.0	
Inflation /4																			
CPI Inflation (y-o-y) /5	1.0	1.8	1.6	1.5	1.4	1.7	1.4	1.5	1.7	1.5	1.5	1.6	1.6	1.3	0.9	1.2	0.9	1.2	1.1
CPI Inflation (cumulative average)	1.0	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.2	1.1
Core inflation (cumulative average)	1.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.3	1.0
Core inflation (y-o-y)	1.5	1.8	1.5	1.6	1.4	1.9	1.4	1.5	1.7	1.7	1.5	1.7	1.4	1.2	1.4	1.3	1.5	1.3	0.7
Labor force																			
Unemployment rate				21.6				21.1				20.8				19.4	20.7		
II. Fiscal Indicators (Central Budget and Budgets of Funds)																			
Total budget revenues	13,328	14,060	15,981	43,369	17,084	15,237	14,954	47,275	15,594	15,385	15,013	45,992	16,992	15,747	19,108	51,847	188,483	14,925	
Total budget expenditures	13,930	16,755	15,817	46,502	16,493	17,090	15,097	48,680	18,552	14,748	15,162	48,462	15,947	19,286	21,206	56,439	200,083	15,633	
Overall balance (cash)	-602	-2,695	164	-3,133	591	-1,853	-143	-1,405	-2,958	637	-149	-2,470	1,045	-3,539	-2,098	-4,592	-11,600	-708	
Overall balance (in % of GDP) /1	-0.1	-0.4	0.0	-0.5	0.1	-0.3	0.0	-0.2	-0.5	0.1	0.0	-0.4	0.2	-0.5	-0.3	-0.7	-1.8	-0.1	
III. Financial indicators /6																			
Broad money (M4), y-o-y growth rate	5.2	7.3	7.5	7.5	8.0	10.2	10.1	10.1	11.5	11.7	11.7	11.7	11.7	12.2	11.77	11.8	11.8	12.0	
Total credits, y-o-y growth rate	5.8	6.7	5.7	5.7	5.7	6.1	6.2	6.2	6.2	6.2	7.9	7.9	8.2	7.9	7.27	7.3	7.3	7.8	
Total credits - households	9.7	9.9	9.4	9.4	9.6	9.6	9.7	9.7	10.0	9.9	10.1	10.1	10.5	10.1	10.27	10.3	10.3	9.9	
Total credits - enterprises	2.4	3.7	2.3	2.3	2.1	2.9	2.9	2.9	2.7	2.7	5.7	5.7	6.0	5.8	4.47	4.5	4.5	5.7	
Total deposits (incl. demand deposits), y-o-y growth rate/7	5.2	7.4	7.6	7.6	8.3	10.5	10.6	10.6	12.1	12.2	12.3	12.3	12.2	12.6	12.13	12.1	12.1	12.2	
Total deposits - households	5.5	6.4	7.3	7.3	8.2	8.9	7.9	7.9	9.0	8.8	8.4	8.4	8.2	8.3	9.46	9.5	9.5	9.3	
Total deposits - enterprises	2.5	7.1	4.1	4.1	4.1	9.3	11.6	11.6	13.5	13.7	16.8	16.8	15.4	15.5	9.47	9.5	9.5	10.6	
Interest rates /8																			
Interst rates of CBBills	3.25	3.25	3.00	3.0	3.0	3.0	3.0	3.0	3.0	2.75	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50
Lending rates																			
denar rates	6.3	6.3	6.3	6.3	6.2	6.2	6.2	6.2	6.1	6.1	6.0	6.0	6.0	5.9	5.8	5.9	6.1	5.8	
f/x rates (aggregated, incl. f/x and denar with f/x clause)	5.0	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.8	4.7	4.8	4.9	4.7	
Deposit rates																			
denar rates	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
f/x rates (aggregated, incl. f/x and denar with f/x clause)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
IV. External sector indicators																			
Current account balance (millions of EUR)	-42.8	5.7	-107.4	-144.5	-5.0	44.7	-15.8	23.9	70.4	59.3	66.1	195.8	-12.7	7.85	-102.25	-107.14	-31.95		
Current account balance (% of GDP)	-0.4	0.1	-1.0	-1.3	0.0	0.4	-0.1	0.2	0.7	0.6	0.6	1.8	-0.1	0.07	-0.95	-1.00	-0.30		
Trade balance (millions of EUR) /9	-139.3	-117.0	-218.6	-474.9	-153.1	-119.7	-158.8	-431.5	-160.1	-145.8	-76.0	-381.9	-181.3	-163.1	-178.7	-523.1	-1811.1	-154.5	
Trade balance (% og GDP)	-1.3	-1.1	-2.0	-4.4	-1.4	-1.1	-1.5	-4.0	-1.5	-1.4	-0.7	-3.6	-1.7	-1.5	-1.7	-4.9	-16.9	-1.4	
import (millions of EUR)	-561.8	-577.1	-644.8	-1,783.6	-622.9	-625.2	-641.7	-1,889.8	-641.0	-598.0	-606.4	-1,845.4	-783.8	-709.3	-659.9	-2153.1	-7024.8	-569.6	
export (millions of EUR)	423.2	460.0	426.2	1,309.5	469.9	505.5	482.9	1,458.3	480.8	452.2	530.0	1,463.1	602.5	546.2	481.3	1630.0	5860.8	415.1	
rate of growth of import (y-o-y)	24.6	10.6	5.5	12.6	10.2	1.3	18.9	9.8	16.6	11.2	8.0	11.9	25.8	13.4	6.1	15.1	2.9	1.4	
rate of growth of export (y-o-y)	28.7	19.9	-2.3	14.0	17.3	16.2	10.9	14.7	15.6	17.5	14.7	15.8	28.1	21.3	19.1	23.1	17.0	-1.9	
Foreign Direct Investment (millions of EUR)	66.3	94.2	68.6	229.1	42.3	44.1	0.9	87.4	4.5	21.9	-32.4	-5.9							
External debt																			
Gross external debt (in milllions of EUR)				8,258.6				8,425.7				8,399.8							
public sector				4,053.1				4,077.9				3,986.3							
public sector/GDP (in %)				37.8				38.0				37.1							
private sector				4,205.5				4,347.8				4,413.5							
Gross external debt/GDP (in %)				76.9				78.5				78.2							
Gross official reserves (millions of EUR) /10	2,577.4	2,566.3	2,577.1	2,577.1	2,588.4	2,610.7	2,642.2	2,642.2	2,622.8	2,698.6	2,709.1	2709.1	2,759.4	2,771.6	2,867.3	2,867.3	2,867.3	2,877.6	2,864.6

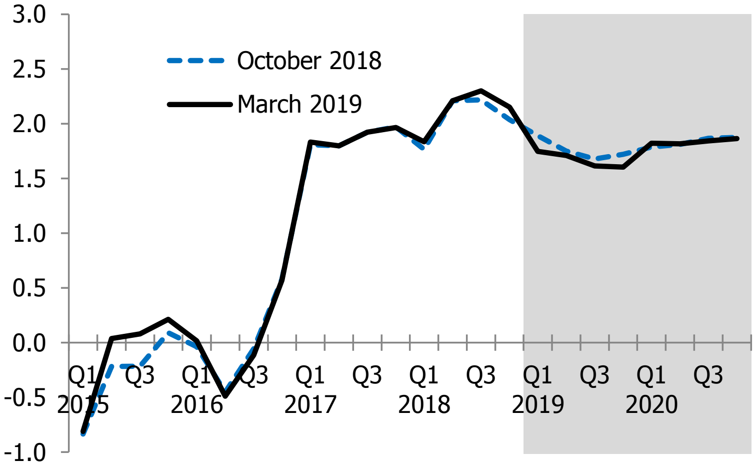
/1 While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2018, the projected level from the NBRM projections from October 2018 is used.
/2 The quarterly data for 2016 are preliminary, while for 2017 and 2018 are estimated (Press release for quarterly data on GDP as of 06.12.2018). The annual data for 2016 is final, and for 2017 is preliminary data (Announcement for annual data for GDP from 28.09.2018).
/3 The changes of Index of industrial production are according to base year 2015=100.
/4 CPI calculated according to COICOP 2017=100.
/5 Inflation on annual basis corresponds to end-year inflation (December current year/December previous year)
/6 The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since June 2018).
/7 it encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.
/8 As of June 2018 data for active and passive interest rates are compiled according to the new methodology of NBRM.
/9 Trade balance according to foreign trade statistics (on c.i.f. base).
/10 The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

Foreign effective demand
(annual changes in %)

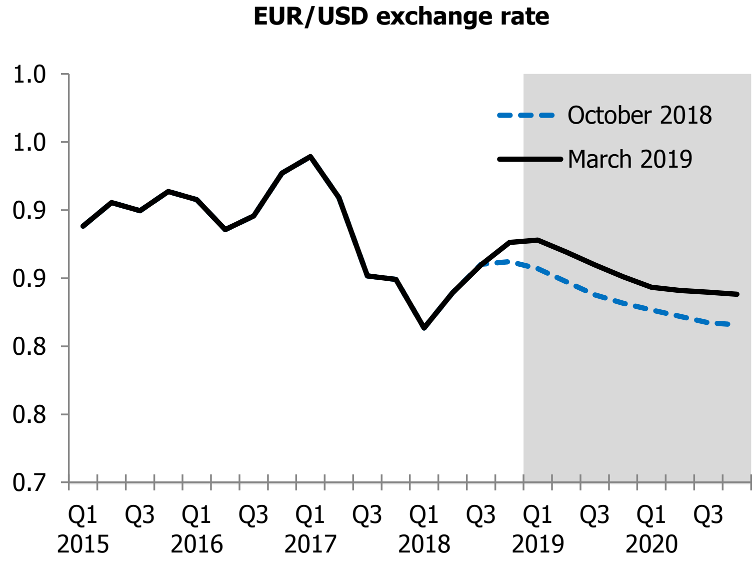


In the latest estimates, **foreign effective demand** for 2018 and 2019 was revised downwards relative to October forecasts. Thus, it is now expected the foreign effective demand to be 1.9% and 1.6% in 2018 and 2019, respectively (2.2% and 2% respectively, according to the October forecasts). The downward revision is largely due to the lower expected growth of the German economy. The same expected growth rate was maintained for 2020 (1.8%).

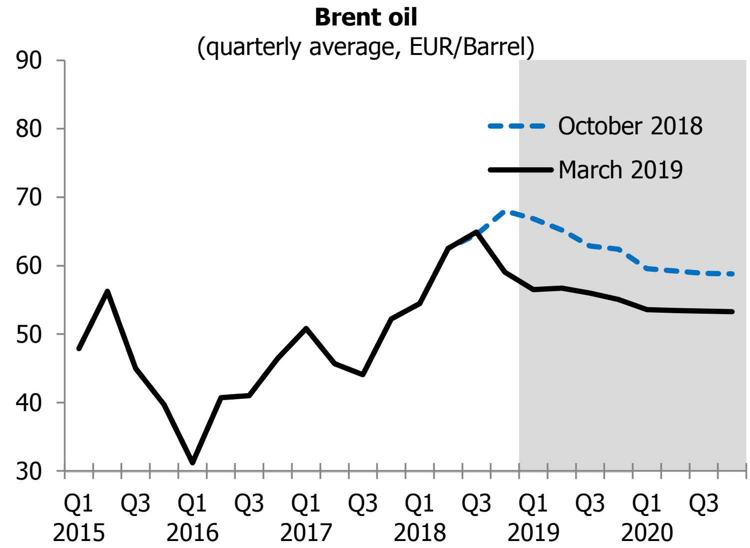
Foreign effective inflation
(annual rates in %)



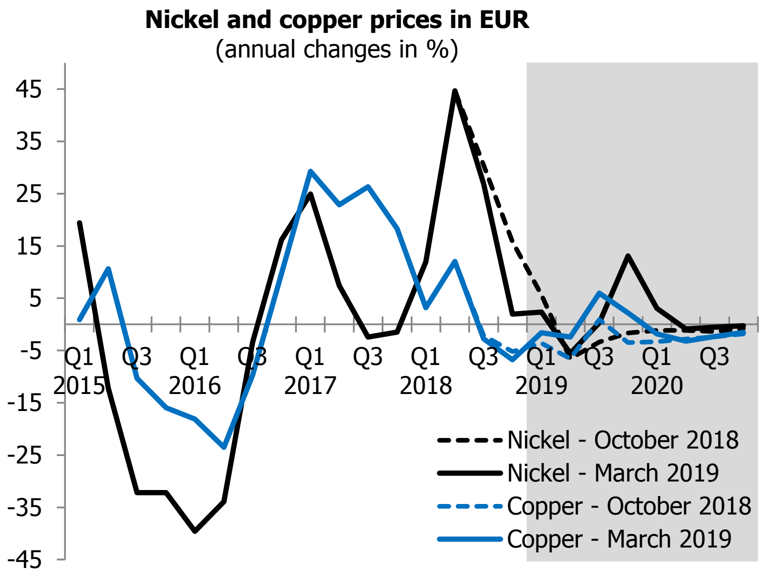
The **foreign effective inflation** for 2019 was revised slightly downward to 1.7% (1.8% in the October forecasts) mainly as a result of expectations for lower imported inflation from Italy and Germany. The expected rate for 2020 is unchanged (1.9%).



The latest **euro/US dollar exchange rate** estimates resulted in an upward revision for 2019, compared to the October forecasts (expectations for moderate appreciation of the US dollar). The changes are related to the solid performance of the US economy, the tightened monetary policy of the Fed[2], as well as the weaker economic performance in the euro area. In 2020, the US dollar is expected to depreciate at a rate forecasted in October.

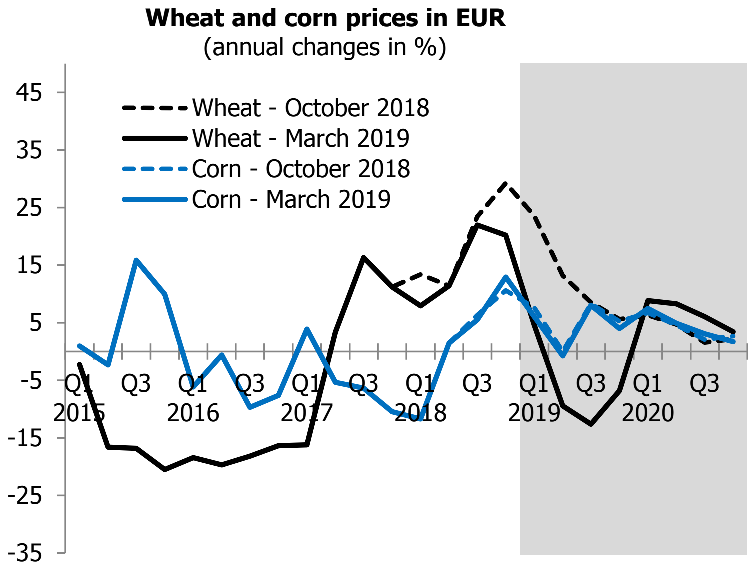


Compared with October, the **expected oil price**[3] for 2019 is corrected downward (a significant decline rather than a small growth as expected in October), mainly caused by the lower expected global oil demand amid contracted global economic activity. **On the other hand, for 2020, a smaller decline is expected compared to October.**

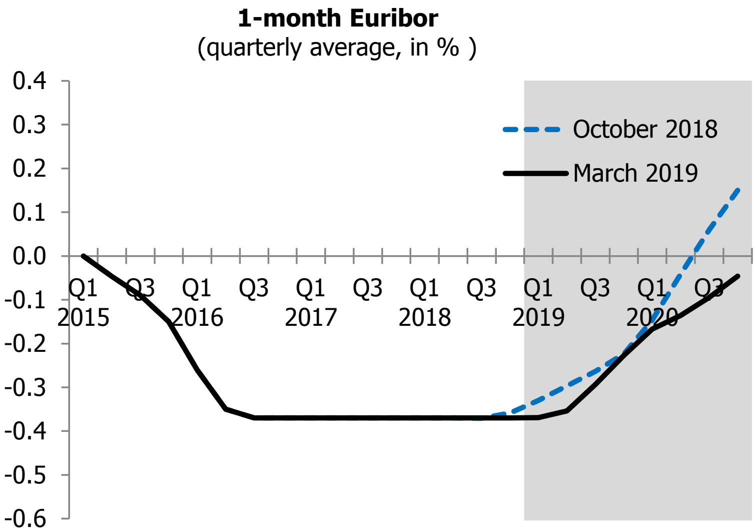


Regarding the prices of other primary commodities for 2019, **nickel and copper prices** were revised upward (small growth rather than fall in October), which is largely due to the expectations for lower supply of these metals globally, but also the expectations for a solid demand in China. A slight upward revision of the prices of both metals was also made for 2020 (a minor rise in the nickel price and a smaller fall in the copper price compared to the October forecasts).

[2] On 19 December 2018, the Fed decided to increase its policy rate by 0.25 percentage points, and now it ranges from 2.25% to 2.5%.
[3] The analysis of prices of oil, metals and primary food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.



According to the latest estimates, **wheat prices** for 2019 were significantly revised downwards compared to October (price fall versus expected growth). Such a change is mainly associated with the high supply of wheat on a global scale, but also with the strained trade relations between the United States and China. In 2020, the expected growth was revised upward, partly due to the low base effect. Generally **maize prices** were not substantially changed (a slightly lower growth is expected for 2019, while the expected growth rate for 2020 is almost the same as in October).

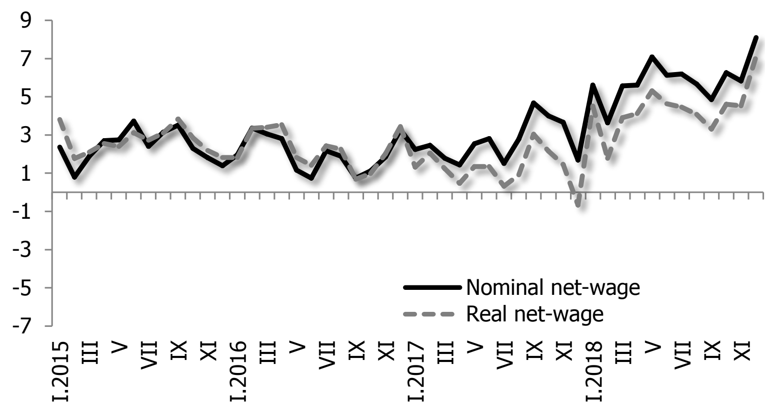


According to the latest estimates, the one-month Euribor expected for 2019 was minimally revised downwards (-0.31% versus -0.28% in October forecasts), with downward revision also made for 2020 (-0.11% versus 0.01% according to the October forecasts). Euribor's trend in the negative zone corresponds with expectations that the ECB will keep the rates low for a period longer than initially announced[4].

[4] ECB Press Conference 7 March 2019.

In December 2018, the average net wage registered high nominal annual growth of 8.1% (acceleration of the growth of 2.3 percentage points compared to the previous month). The wage growth in the last month of 2018 was the highest in the last nine years, largely stemming from one-off factors. In this period, wage growth was reported by most sectors[5] primarily information and communications, art, entertainment and recreation, and mining and quarrying.

Average net-wage
(annual changes, in %)

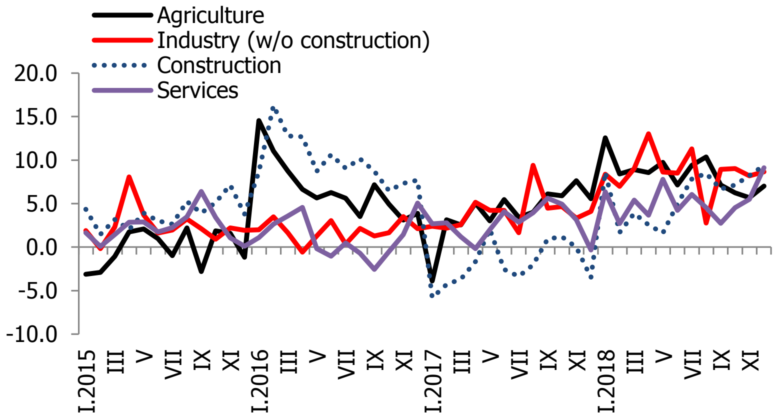


Source: SSO.

Amid moderate annual growth of consumer prices, the **real annual wage growth rate was 7.1% in December.**

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

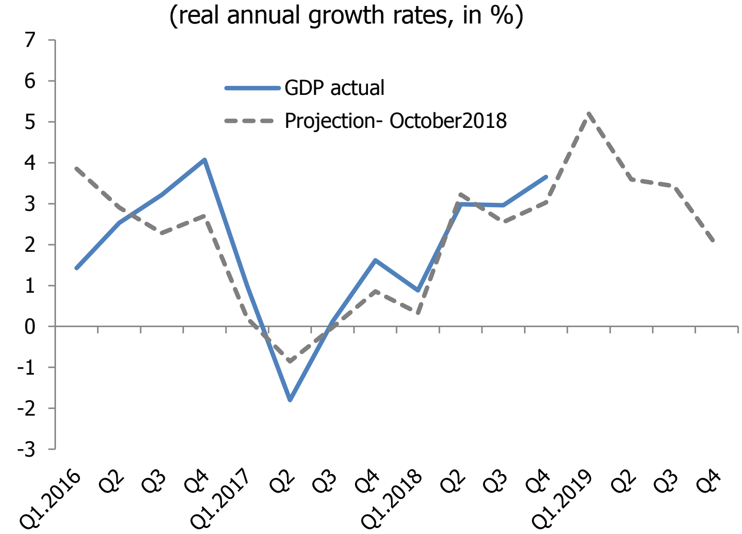
Average monthly net wage paid by sectors
(nominal annual changes, in %)



Source: SSO.

In the fourth quarter of 2018, the economic activity strengthened, which corresponds with the dynamics expected with the October forecasts. The real GDP growth rate in the fourth quarter was 3.7%, which exceeds the forecasted growth of 3%. Observed for the whole of 2018, the real economic growth of 2.7% was higher than expected (forecasted growth rate of 2.3%).

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



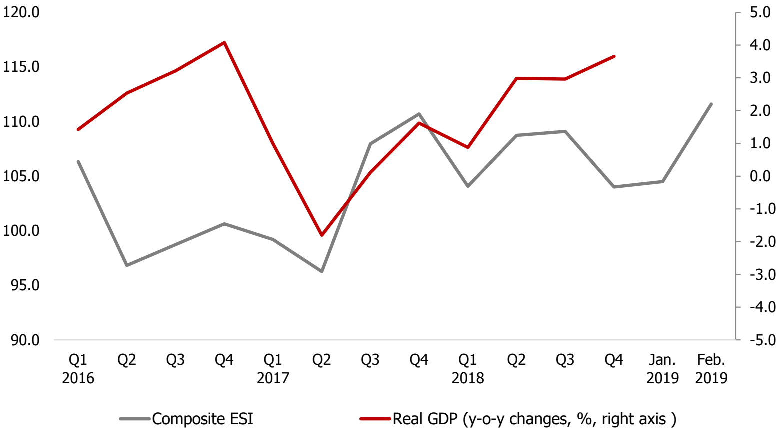
Source: SSO and NBRNM projections.
There are changes in the series as a result of regular revisions by SSO.

The growth in the fourth quarter of 2018 was mainly prompted by the domestic demand, with small negative contribution of net exports. The better than forecasted performance in the fourth quarter reflects the stronger growth of private and public consumption, thus the contribution of total domestic demand was higher than expected. Better than forecasted performance was also observed in the export activity. Yet, amid stronger import pressures, the net export made a small negative contribution, despite the forecasts for its positive contribution to growth.

Private consumption is the main generator of growth of the domestic demand, with positive contribution of the other two components (public consumption and

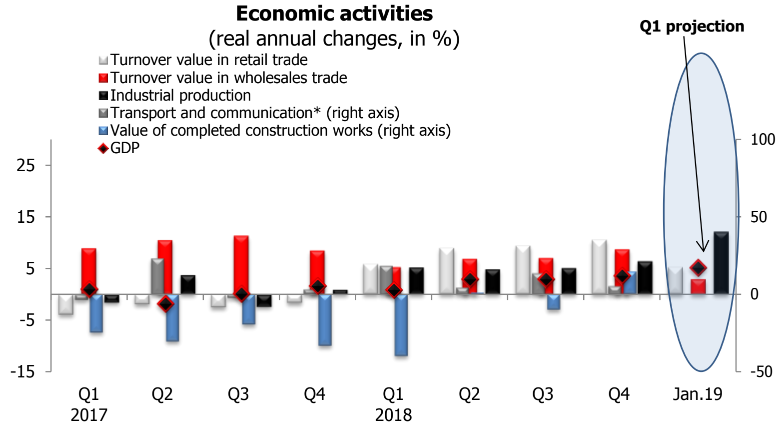
[5] Lower wages in December 2018 were paid only in transport and storage, and other services.

Economic sentiment indicator and GDP



Source: State statistical office and European Commission.

Economic activities
(real annual changes, in %)



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

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2017				2018						2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.
	real annual changes in %										
Gross domestic product	1.0	-1.8	0.1	1.6	0.9	3.0	3.0	3.7	-	-	-
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	4.9	5.1	6.4	4.9	7.9	12.0
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	12.0	12.0	-
Retail and wholesale trade	3.0	4.4	4.7	3.9	5.8	8.2	7.3	9.2	7.8	8.2	4.0
Retail trade	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	10.5	9.8	8.7	5.2
Wholesale trade	8.9	10.4	11.2	8.4	5.2	6.8	7.0	8.6	7.5	7.4	3.0

* real growth rates are calculated by the NBRNM, by dividing nominal growth rates with annual inflation, measured by CPI.
Source: SSO and NBRNM staff calculations.

gross capital formation). Analyzing the demand components, exports registered the highest real growth rate and made the largest positive contribution to the GDP growth, as forecasted in October.

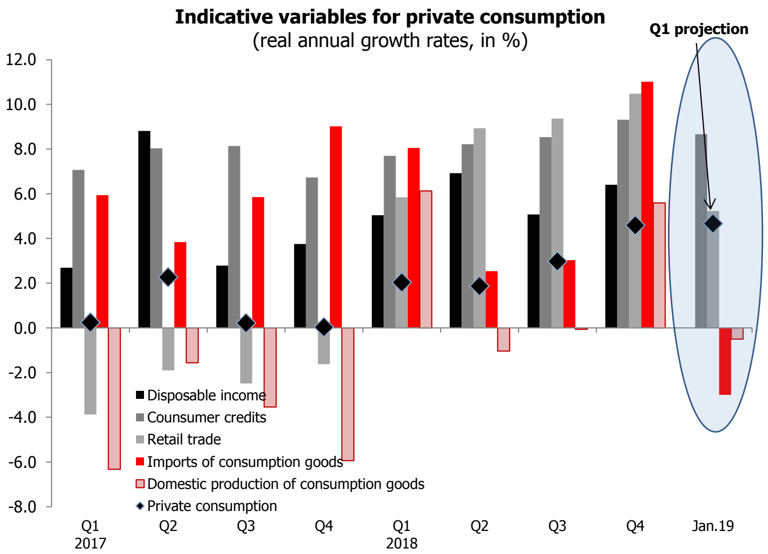
Observing the manufacturing industry, in the fourth quarter of 2018, most sectors registered higher value added, with the trade, transport and tourism, construction, as well as the industry being the largest contributors to the GDP growth.

Amid limited volume of available data, it is difficult to form reliable estimation of the economic situation in the first quarter of the year; yet, most of the available high-frequency data for January point to favorable shifts. The surveys on the economic agents' perceptions for the economic situation[6] in the January-February period suggest increasing optimism compared to the same period last year.

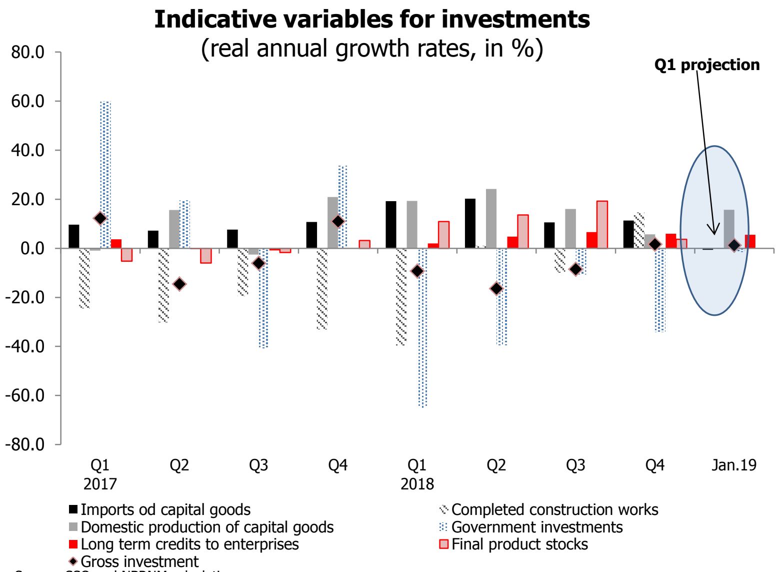
Regarding the high frequency indicators of the economic situation from the aspect of offer, data on trade and industry are available for January 2019.

Thus, in January, the **industrial manufacture registered high growth of 12.0% annually.** While these favorable developments are a reflection of the favorable performance in the energy sector and manufacturing, the mining production was reduced. Analyzing the manufacturing industry, most of its activities reported higher annual production, with the highest contribution of the activities of the foreign export facilities such as the production of machinery and equipment, motor vehicles and electrical equipment. Also, significant contribution was made by the production

[6] It refers to the surveys conducted by the European Commission to measure the economic confidence of agents in an economy. The composite indicator of economic confidence is a weighted average of the consumer confidence indicators and economic sectors confidence indicators (construction, industry, retail trade and services). Starting from January 2019, the European Commission revised the structure of consumer confidence indicator, and accordingly, the composite indicator of economic confidence. For more information on the new methodological changes visit: https://ec.europa.eu/info/files/revised-consumer-confidence-indicator_en



Source: SSO and NBRNM calculations.



Source: SSO and NBRNM calculations.

of beverages, metals, basic pharmaceutical products and textile.

The annual growth of **total trade** continued in the first month of 2019, given the increase in all types of trade (wholesale trade, retail trade and trade in motor vehicles). However, the growth of trade is moderate compared to the annual growth in the previous month, which is noticeable for all types of trade.

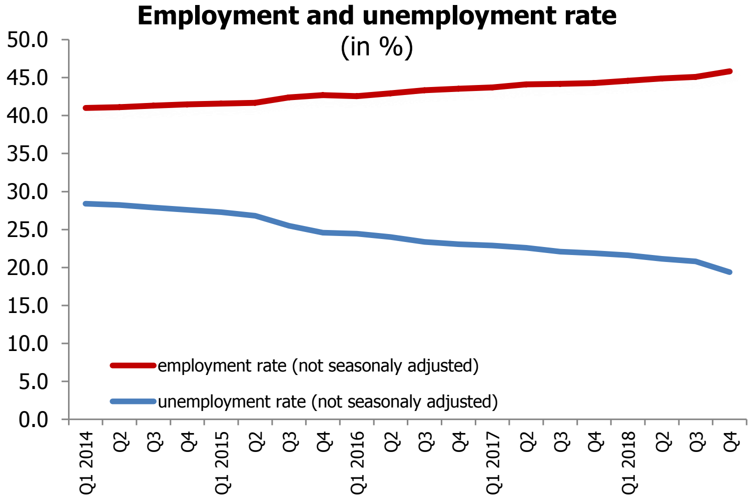
Also, available **aggregate demand** indicators mostly point to economic growth in the first quarter of the year.

Thus **private consumption** indicators mainly point to its 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. Also, the short-term indicators of private consumption dynamics are also favorable, given the growth of retail trade (albeit slower), with a small growth in VAT revenues (after the fall in December 2018). Only the manufacture and import of consumer goods registered a decrease.

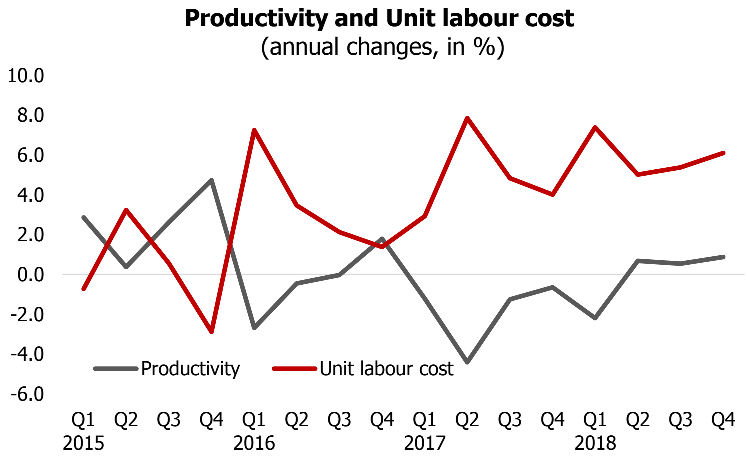
From the indicative categories for **gross capital formation in January,** growth was registered in long-term corporate lending, industrial output and domestic production of capital goods, while government capital investments registered a decline, albeit slower, same as the import of investment products.

Foreign trade data as of January indicate potential deficit expansion in the first quarter, given the reduced exports and increased imports.

The budget execution as of January indicates a stronger annual growth of **public consumption** in the first quarter, given the growth of all categories of public spending.



Source:SSO, LFS



Source: SSO and NBRNM calculations.

The favorable labor market developments continued in the last quarter of 2018, amid further cut in unemployment which in the fourth quarter reduced to 19.4% (20.8% in the previous quarter), while the number of employed persons registered annual growth of 3.6%[7].

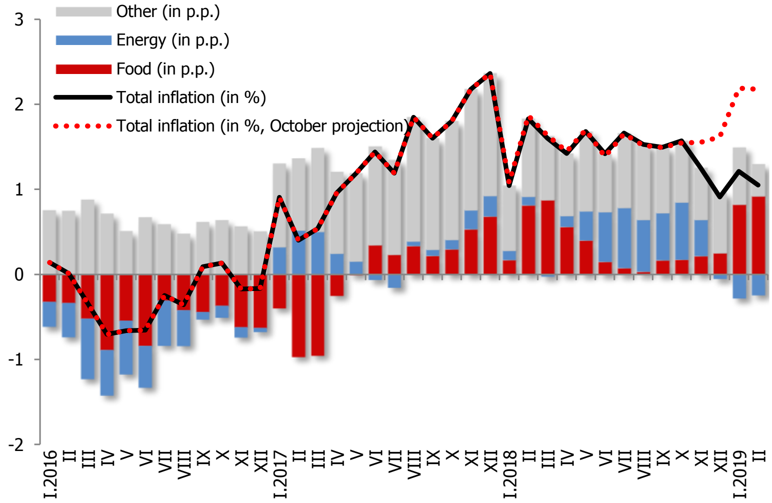
In the fourth quarter, **labor productivity**[8] increased annually by 0.9%, which is a minor acceleration compared to the previous quarter.

Simultaneously, unit labor costs are higher by 6.1% annually, given the slight acceleration of growth pace.

[7] The largest contribution to the employment growth was made by the manufacturing industry, transport and storage, and health and social care.

[8] Total productivity is a weighted sum of the productivity at sectoral level. Sector productivity is the ratio of the sector's value added to the number of employees.

Inflation rate
(annual contribution to inflation, in p.p.)

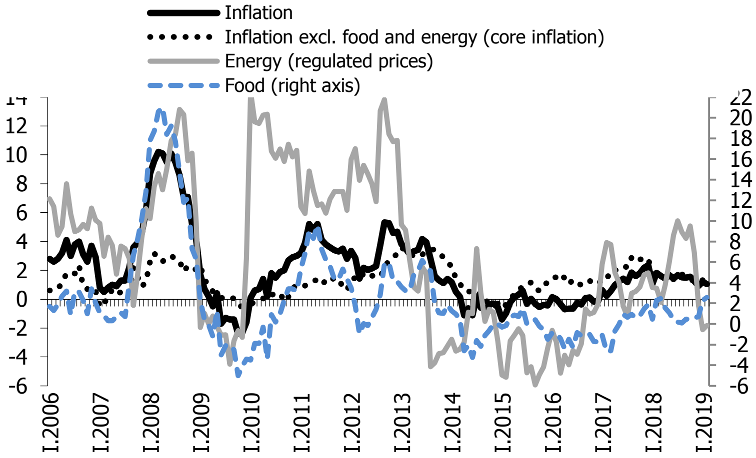


Source: SSO and NBRNM.

In February 2019, **domestic consumer prices** remained at the level of the previous month[9], upon minor fall of 0.1% in January...

...amid decrease in core inflation, while energy and food prices registered a slight monthly increase.

Inflation and volatility of food and energy
(annual growth rates, in %)



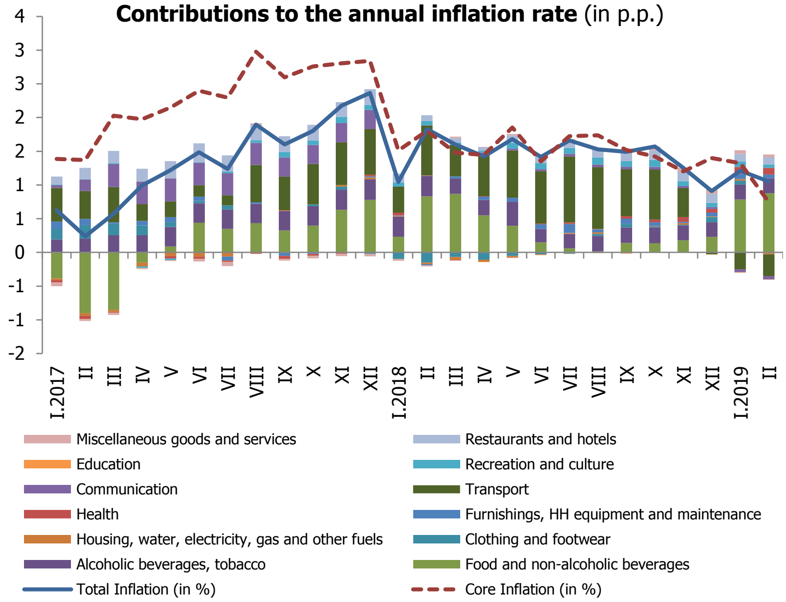
Source: State statistical office and NBRNM calculations.

The annual inflation rate was 1.1% in February (1.2% in January), which is a downward deviation from the October forecast.

Structurally observed, all three categories registered downward deviation from the forecast, particularly energy prices and core inflation.

[9] Observed by group of products, while the higher prices of vegetables and liquid fuels have the highest positive contribution, the lower prices of air transport, solid fuels, clothing and footwear have the highest negative contribution.

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

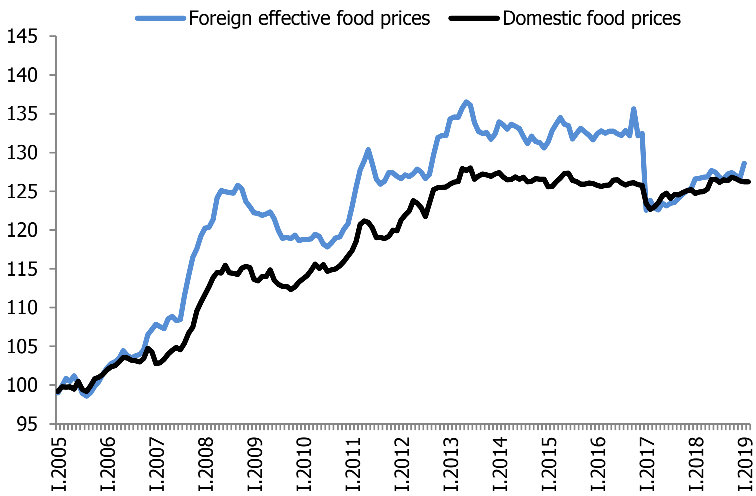


Source: SSO and NBRNM.

In February, **core inflation** decreased by 0.5% on a monthly basis which also decelerated the annual growth to 0.7% (1.3% in January), primarily given the lower air traffic fares.

In February, core inflation growth was similar to the previous month, i.e. mainly influenced by tobacco prices[10], and less by prices of hotel and restaurant services, and prices of health and hospital services.

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

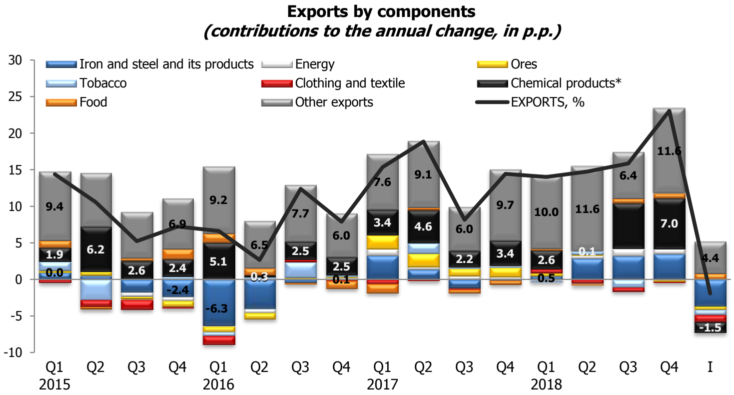


* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.

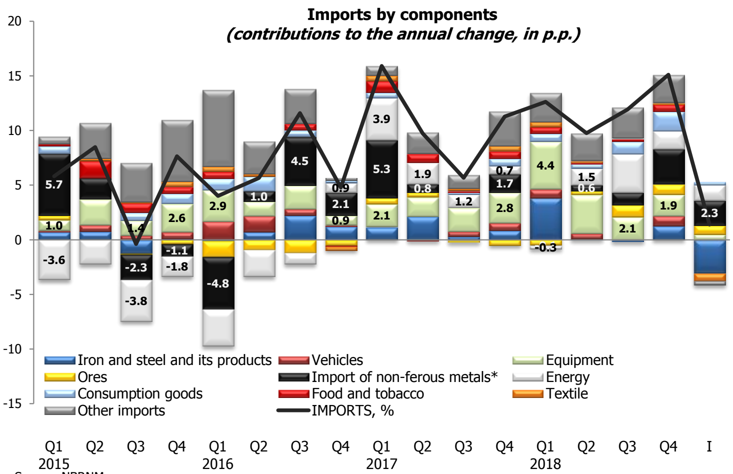
The expected movements of primary commodities price and foreign effective inflation, as external assumptions underlying inflation forecast for 2019 were revised downwards.

Given the slightly lower current inflation than forecasted in October and downwardly revised external assumptions, risks to the inflation forecast for 2019 are currently considered downwards. Yet, the movement of global primary commodities prices remains uncertain.

[10] The annual growth of tobacco price in February reflects the increase in the prices of cigarettes in April, May and July, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023.



Source: NBRNM.



Source: NBRNM.

In January 2019, **foreign trade deficit widened by 11.5% annually** due to the moderate fall in exports and mild increase in imports.

Export of goods in January moderately decreased by 1.9% largely due to the unfavorable performance of export of iron and steel. On the other hand, the export decline was partially offset by the higher export of
the new production facilities in January.

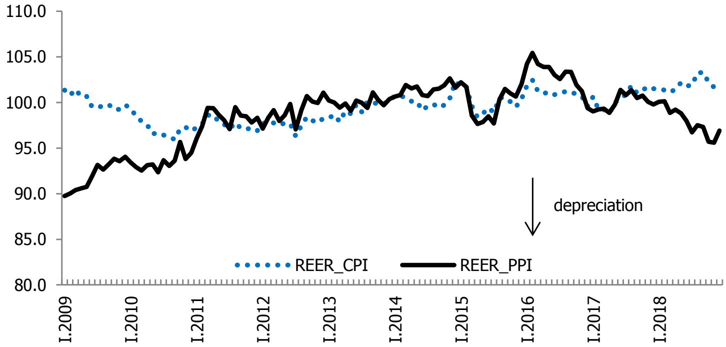
Compared to the October forecast, the January performances point to the possibility for higher exports than expected for the fourth quarter, with the highest downward deviation in the export of iron and steel.

Import of goods in January 2019 registered a slight increase of 1.4% annually, reflecting the growth of imports for the needs of some of the new industrial capacities, as well as energy imports. In contrast, import of iron and steel, as well as the import of other products, decreased. The remaining import categories did not undergo major changes.

Import of goods in January 2019 points to the possibility of slight downward deviation in this category from the forecast for the first quarter of 2019.

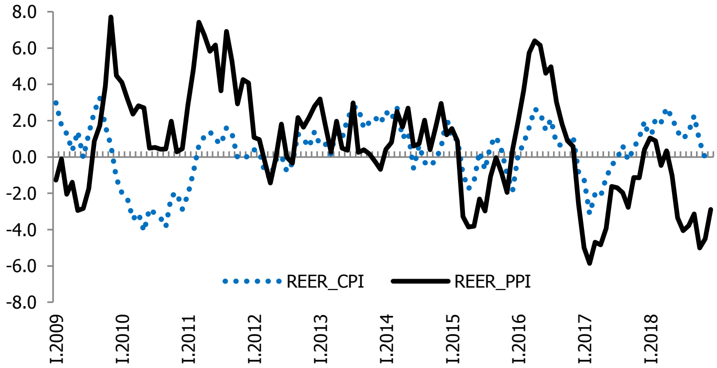
Considering the downward deviation of both exports and imports, the performances in January 2019 point to the possibility that the trade deficit will be as expected for the first quarter of 2019, according to the October forecast. However, the period is way too short to draw any reliable conclusion.

REER
(2015=100)



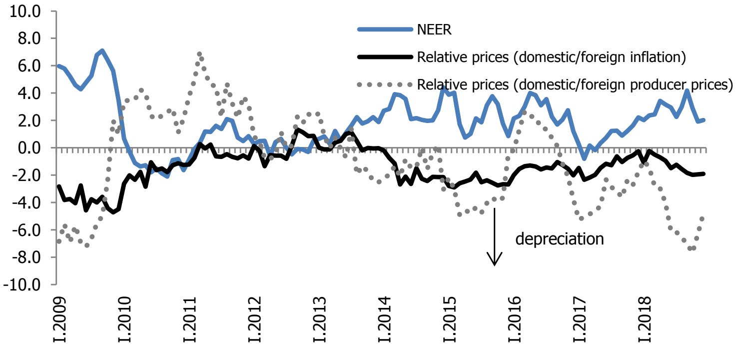
Source: NBRNM.

REER
annual changes, in %



Source: NBRNM.

NEER and relative prices
annual growth rates, in %

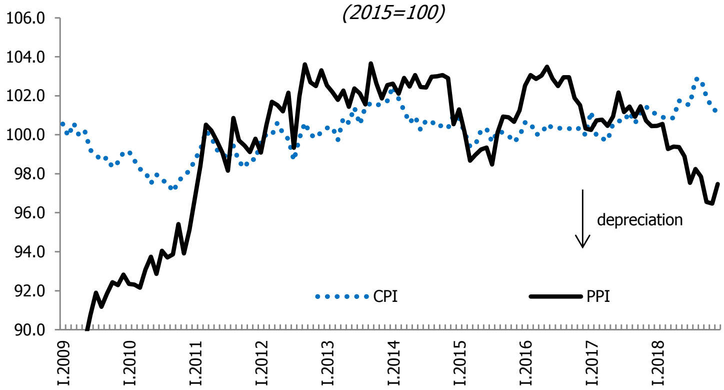


Source: NBRNM.

In January 2019, **price competitiveness indicators of the domestic economy registered divergent movements compared to the same period last year.** While the REER index deflated by consumer prices registered a slight appreciation of 0.4%, the REER index deflated by producer prices depreciated by 2.5%.

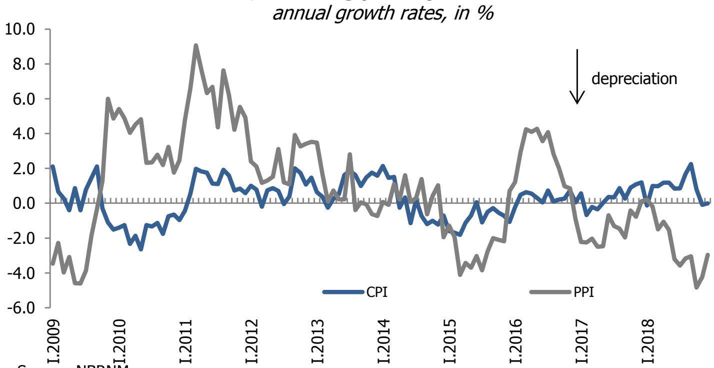
These developments are partially due to the favorable changes in relative prices, with 1.5% decrease in the relative consumer prices, and faster decrease of 4.3% in the relative producer prices. The movement of NEER that appreciated by 1.9% acted in the opposite direction mostly as a result of the depreciation of the Turkish lira and the Russian ruble.

REER, excluding primary commodities
(2015=100)



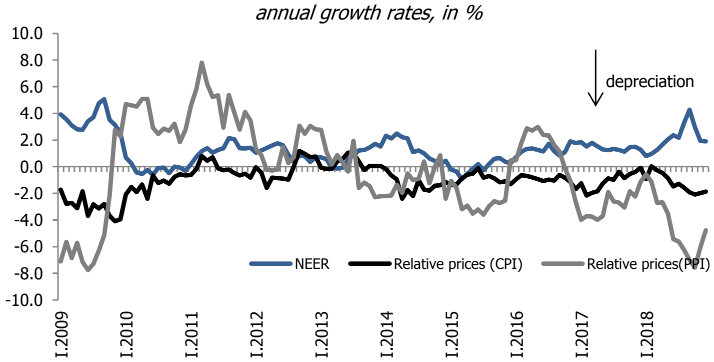
Source: NBRNM.

REER, excluding primary commodities
annual growth rates, in %



Source: NBRNM.

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

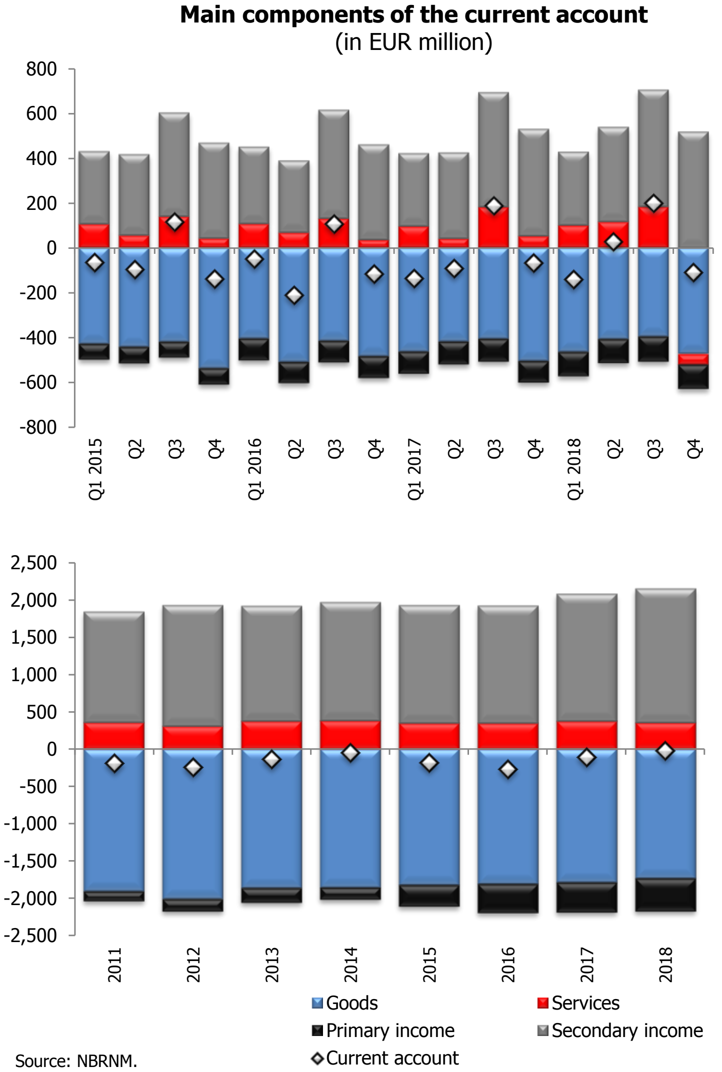


Source: NBRNM.

The analysis of REER indices, measured using weights based on the foreign trade without primary commodities[11] indicates generally similar movements. While the REER index deflated by consumer prices appreciated by 0.5%, the REER deflated by producer prices depreciated by 2.3%.

On an annual basis, the relative consumer prices and the relative producer prices decreased by 1.4% and 4.2%, respectively. At the same time, the NEER has appreciated by 2.0% on an annual basis.

[11] 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.



Source: NBRNM.

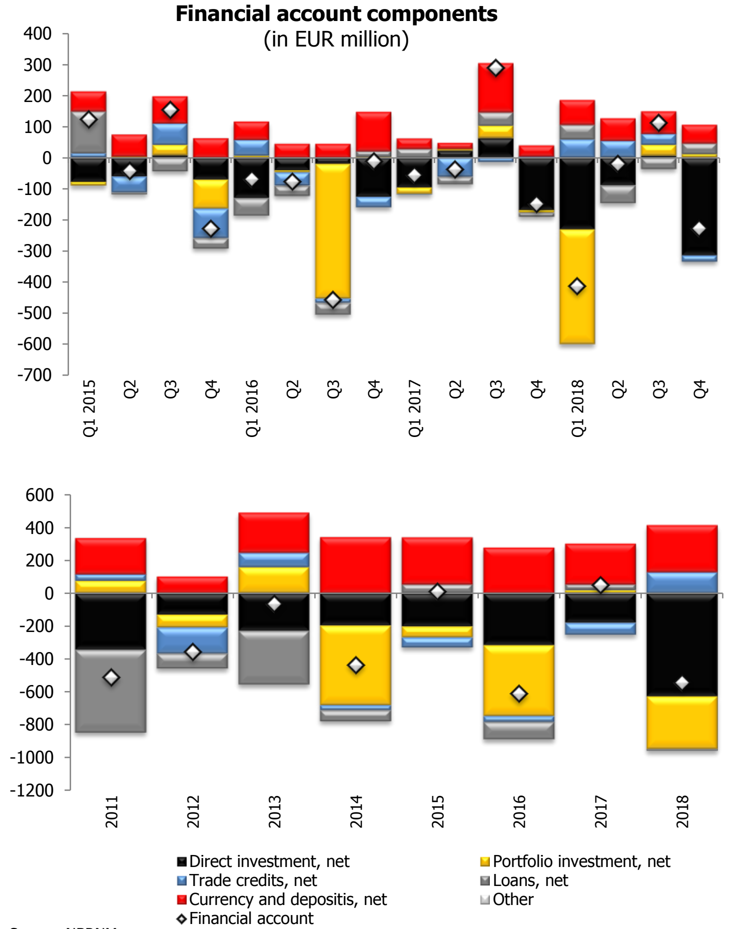
In the fourth quarter of 2018, the current account registered a deficit of Euro 107.1 million (or 1% of GDP)[12], which is lower than expected with the October forecast.

The positive deviation in this period stems from the improved achievements in the balance of goods and secondary income, while the primary income is within the expectations. On the other hand, services balance[13] registered significant downward deviation with net outflows, instead of surplus as expected for the fourth quarter of the year.

The current account deficit in 2018 is moderately lower than expected in the October forecast. The better performances in the trade balance and the secondary income are largely offset by the services surplus that are significantly lower than expected and the higher outflows from the primary income.

[12] The analysis uses the National Bank's October forecasts for the nominal GDP for 2018.

[13] In December 2018, there were larger outflows from intellectual property services (category of other services).



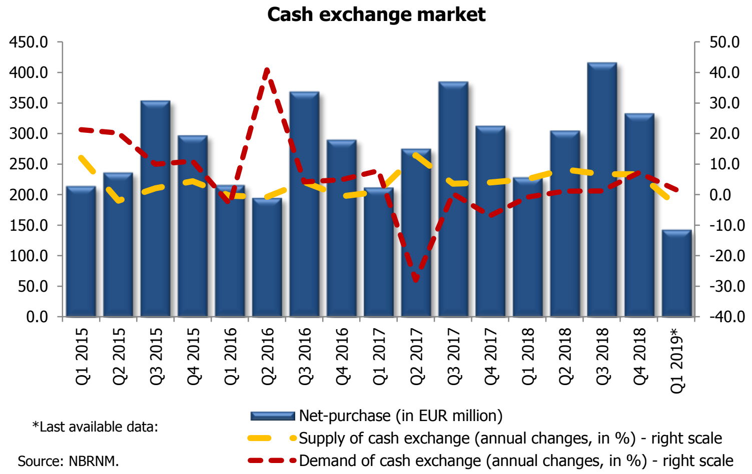
Source: NBRNM.

** Negative financial flows mean net inflows, while positive financial flows indicate net outflows.

In the fourth quarter, the financial account registered net inflows[14] **of Euro 226.5 million (or 2.2% of GDP)**, which indicates significantly better performances than expected for the last quarter of 2018.

The favorable financial account movements are almost entirely due to direct investments, amid higher net inflows than expected for the fourth quarter. On the other hand, significant negative deviations are observed in the short-term and volatile categories, especially in trade credits (smaller net inflows than expected), and less in short-term loans. The remaining financial flows are generally as expected in the October forecast.

Annually, the financial account in 2018 registered minor net inflows than expected in the October forecasts. Thereby, direct investments registered positive deviations despite the weaker performance of trade credits.



*Last available data:

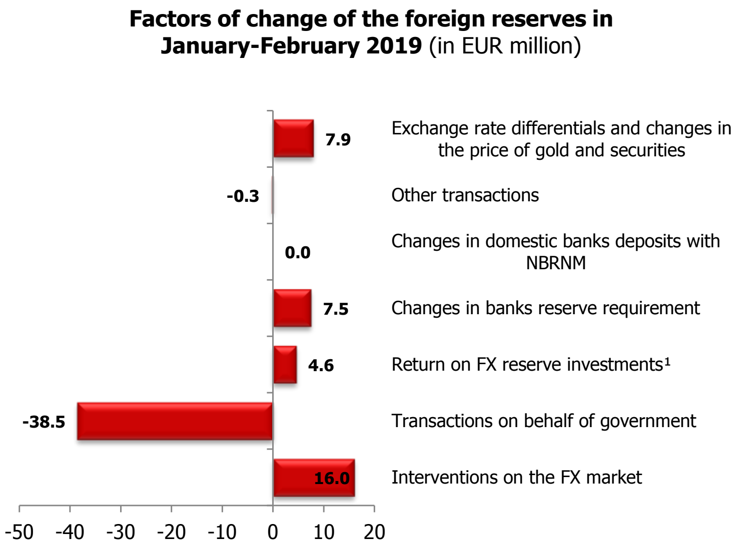
Source: NBRNM.

The net purchase on the currency exchange market in the period from 1 January to 20 February 2019 was Euro 122.5 million, which is an annual decrease of 5.2%. These developments are the result of the lower supply of and demand for foreign currency (by 3.8% and 0.2%, respectively).

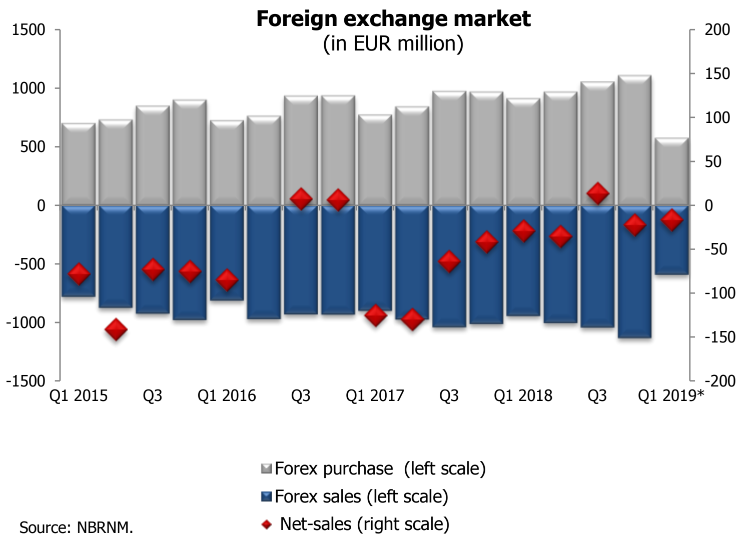
[14] According to the new methodology for compiling the balance of payments (BPM6), the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.

Source: NBRM.

As of 28 February 2019, the gross foreign reserves stood at Euro 2,864.3 million, down by Euro 2.8 million compared to the end of 2018. The small fall in foreign reserves stems from transactions on behalf of the government, while the other categories contribute to their increase.

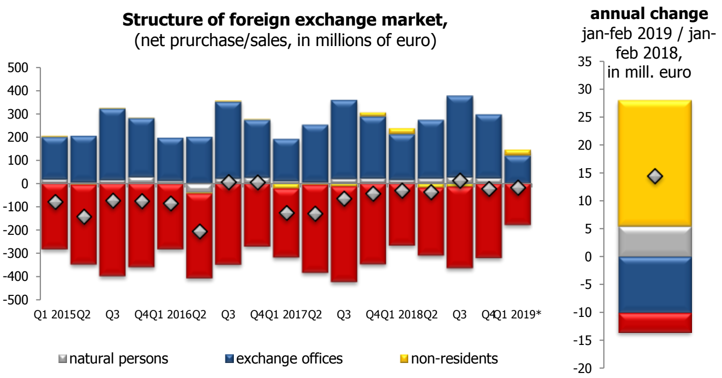


Source: NBRNM.



Source: NBRNM.

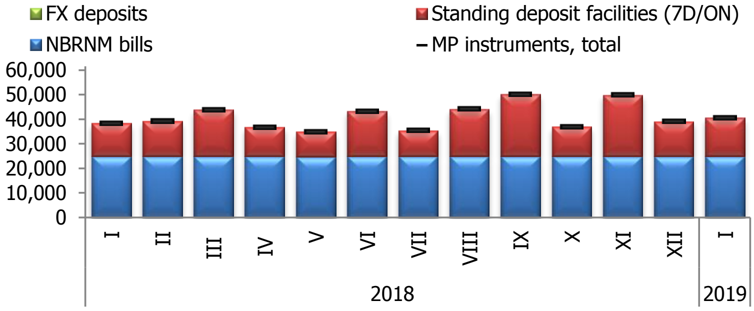
In January-February 2019, the banks' foreign exchange market reported a net sale of foreign currency of Euro 16.6 million, down by Euro 14.5 million compared to the same period last year. This annual change is a result of the faster growth of the supply of than the demand for foreign currency.



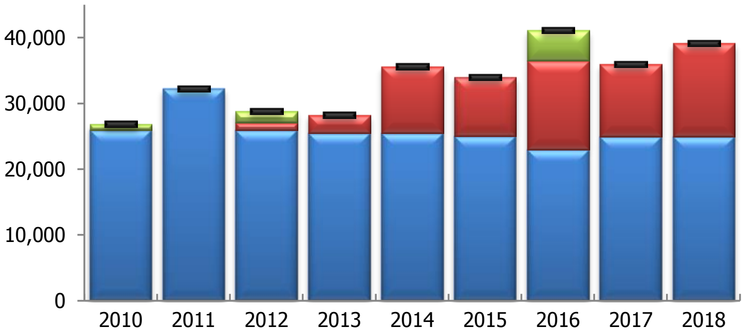
* Last available data: 28.02.2019.
Source: NBRNM.

Sector-by-sector analysis suggests that such movements stem primarily from the higher net purchase by non-residents, amid lower net purchase by exchange offices.

Monetary policy instruments
(stocks, end of month data, in million of denars)



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



Source: NBRNM

In January 2019, the monetary instruments registered a small monthly increase. The growth was due to the lower stock of banks' assets placed in short-term deposits with the National Bank, while the stock of the CB bills remained stable[15]. The stock of monetary instruments at the end of January was lower than forecasted for the end of the first quarter of 2019[16].

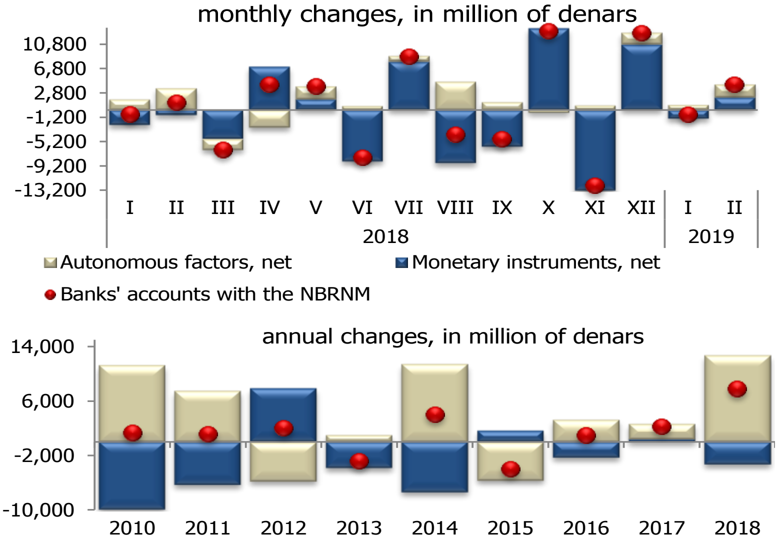
In January 2019, the net foreign assets of the National Bank registered a small monthly increase. The increase reflects the growth of foreign assets, amid growth of the National Bank's foreign liabilities. Compared with the forecast for the end of the first quarter of 2019, the National Bank's net foreign assets at the end of January are higher than expected.

The total government deposits with the National Bank as of January 2019 registered a moderate monthly decrease. The lower government deposits derive entirely from the decrease in foreign currency deposits, amid slight increase in denar deposits. The total government deposits at the end of January were higher than forecasted for the end of the first quarter of 2019.

In January 2019, reserve money registered a slight monthly decrease. The change is a result of the reduction of banks' total reserves on the accounts with the National Bank and the currency in circulation. Compared with the forecast for the end of the first quarter of 2019, the reserve money increased at the end of January.

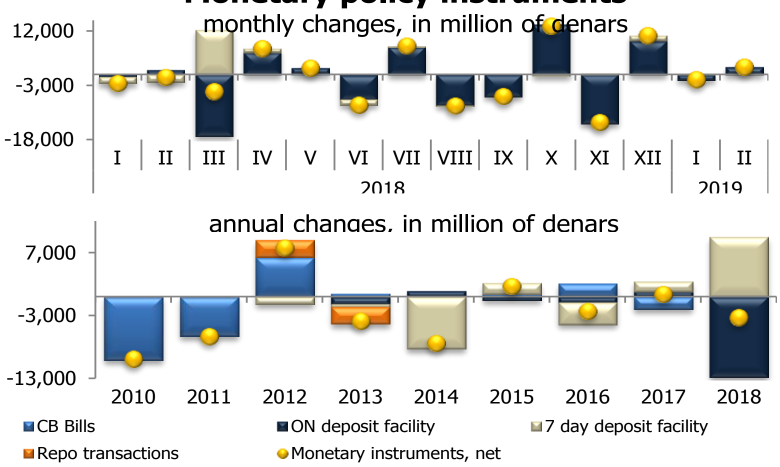
[15] At the CB bills auction of the National Bank, held on 16 January 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.5% and maturity of 28 days.
[16] The performance comparisons are against the October forecasts of the National Bank.

Banks liquidity*



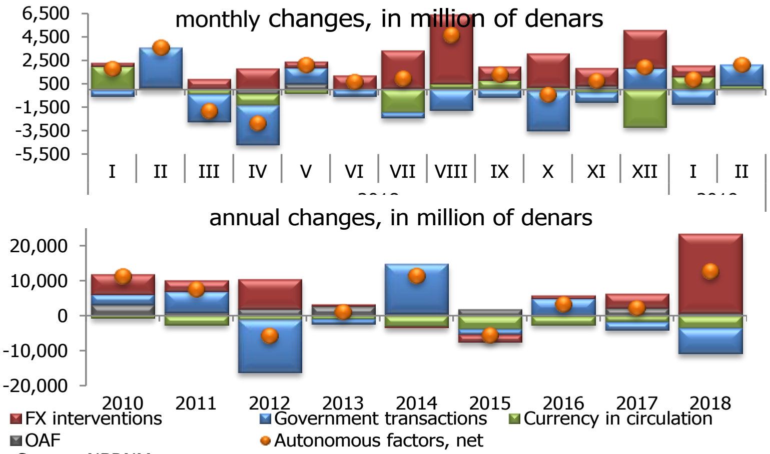
Source: NBRNM.
* positive change: liquidity creation, negative change: liquidity withdrawal

Monetary policy instruments*



Source: NBRNM .
* positive change: liquidity creation, negative change: liquidity withdrawal

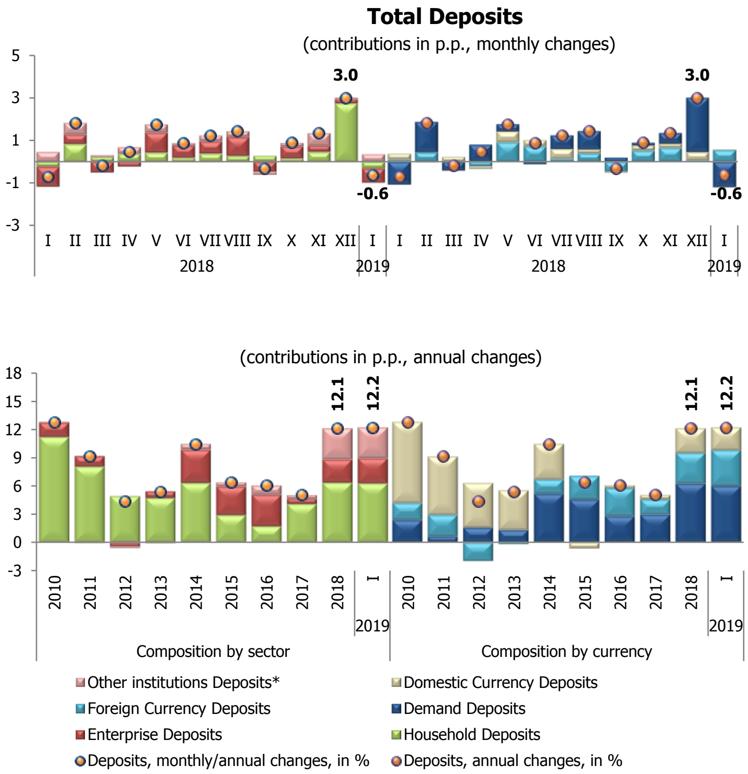
Autonomous factors*



Source: NBRNM.
* positive change: liquidity creation, negative change: liquidity withdrawal

In February 2019, the liquidity of the banking system increased. According to the operational data on liquidity flows, the increase is a result of the shift in monetary instruments, i.e. the lower amount of banks' funds placed in short-term deposits with the National Bank (mostly due to overnight deposits), amid unchanged stock of CB bills[17]. The autonomous factors, net, created liquid assets in the system, primarily as a result of the government transactions and the reduction in the currency in circulation.

[17] At the CB bills auction of the National Bank held on 13 February 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.5% and maturity of 28 days.



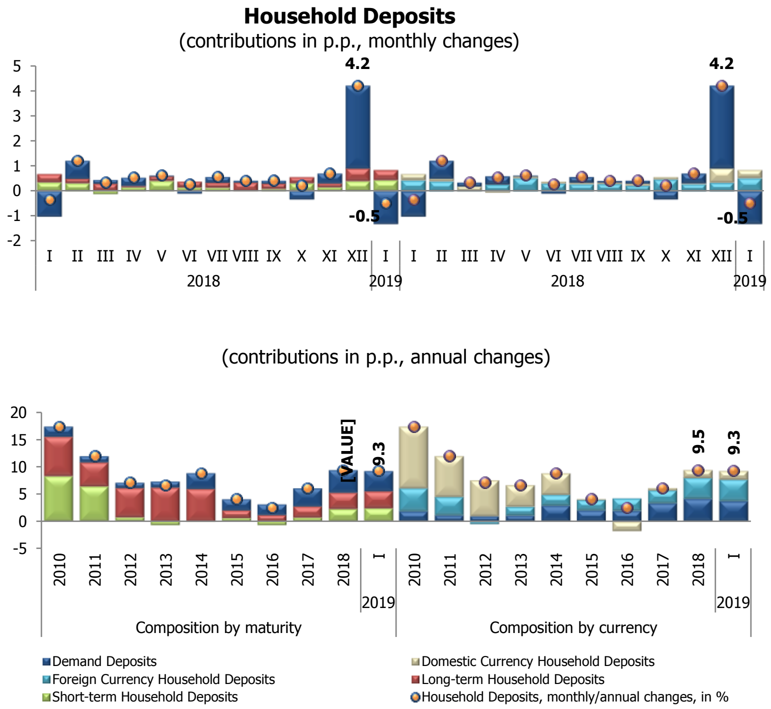
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit insitutions serving householda at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the National bank.

Total deposits[18] in January 2019 decreased, despite the growth in the previous month, which is a usual for this period. The monthly fall of 0.6% is mostly due to the corporate deposits and less to the household deposits, with increase in the other sectors deposits. Analyzing the currency, the decline in deposits in January entirely derives from denar deposits, i.e. from the decline in demand deposits, amid moderate growth of foreign currency deposits.

In January, total deposits registered a seasonal decline, whereas the October forecasts pointed to a quarterly increase for the first quarter of the year, with an assumption for pronounced growth for the other months of the quarter.

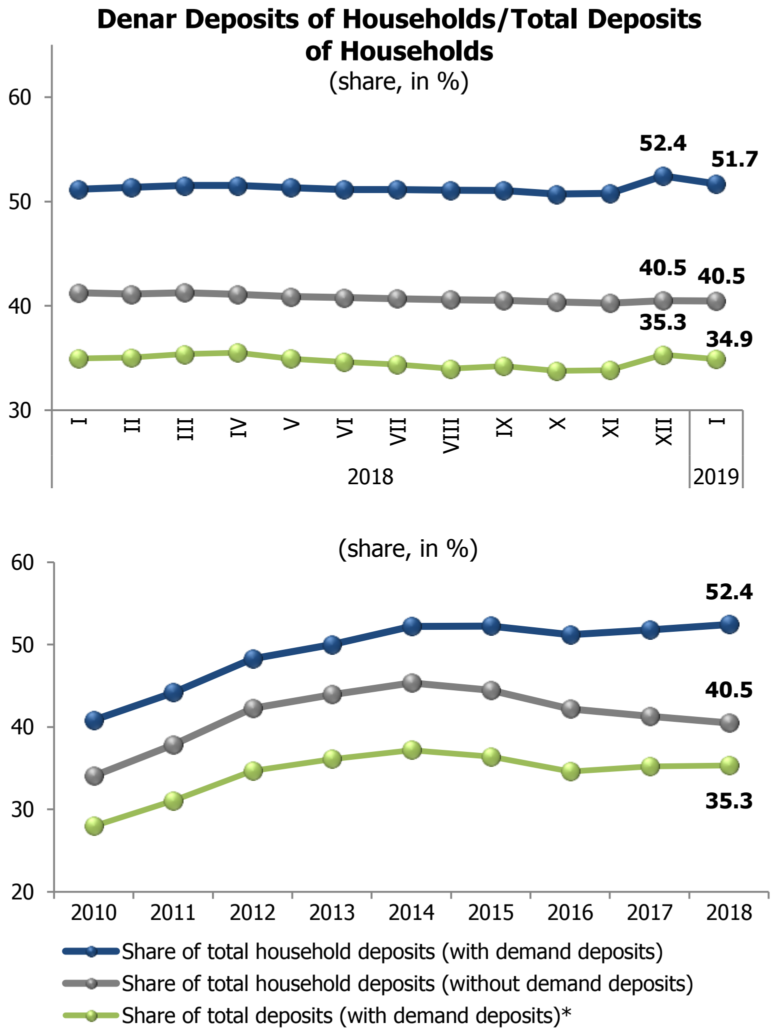
The annual growth rate of total deposits in January was 12.2%, exceeding the forecasted annual growth for the first quarter of 2019 (of 10.5%), as forecasted in October, reflecting from the higher level and the positive deviation at the end of 2018. Observed by sector, the growth was mostly driven by household deposits, amid positive, but smaller contribution of corporate and other sectors deposits. From currency point of view, most of the growth is due to deposits in domestic currency (including demand deposits), with a positive but relatively smaller contribution of foreign currency deposits.

[18] Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspx.



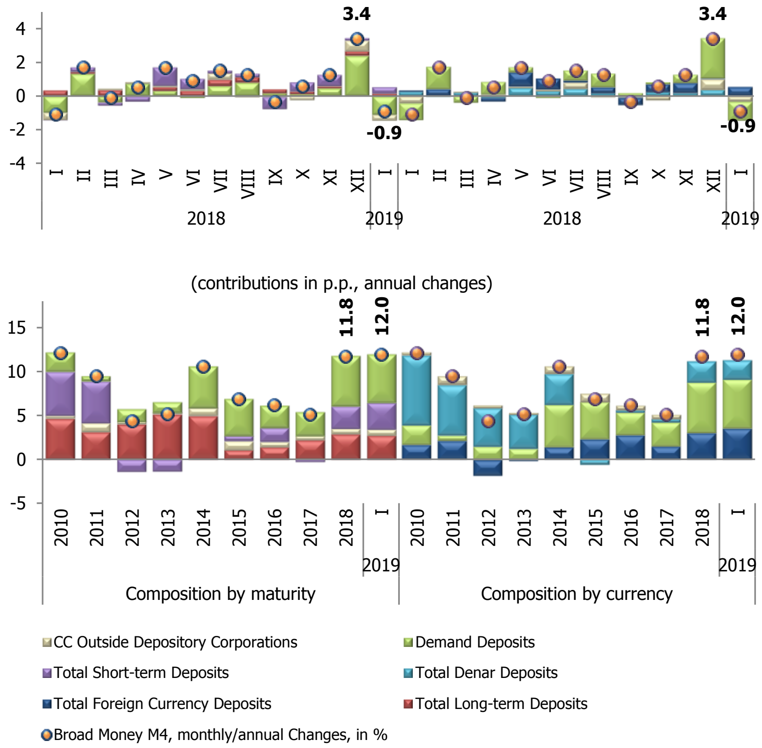
Source: NBRNM.

Household deposits in January 2019 declined, despite the significant monthly growth in the previous month. The monthly decline of household deposits of 0.5% (growth of 4.2% in the previous month) is mostly due to the decrease in denar deposits (solely due to demand deposits), which is common for this month of the year. Thus, the share of denar deposits (including demand deposits) in total household deposits was 51.7%, which is lower, compared to the previous month (52.4%). **The annual increase in household deposits in January was 9.3%.**



* Includes deposites at Banks and Saving Houses
Source: NBRNM.

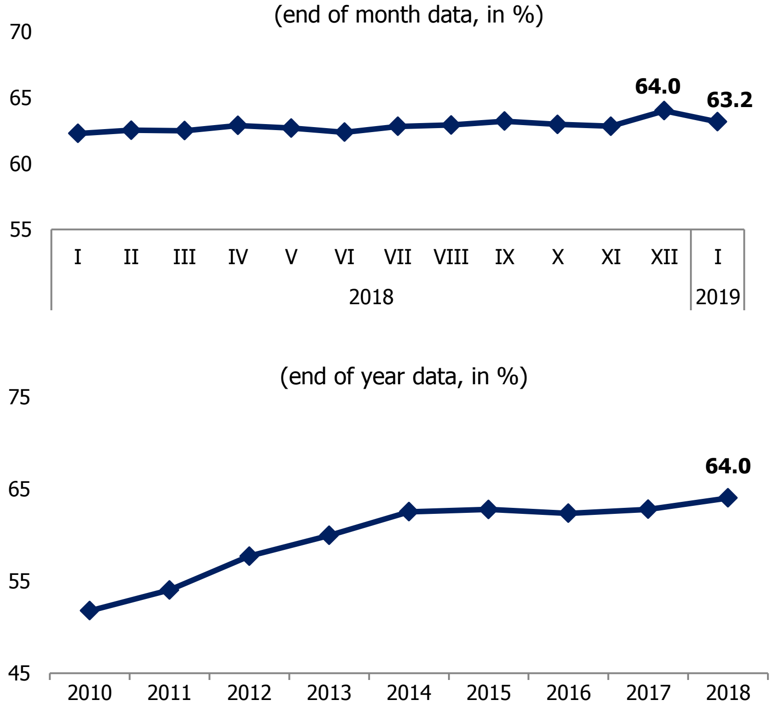
Broad Money M4
(contributions in p.p., monthly changes)



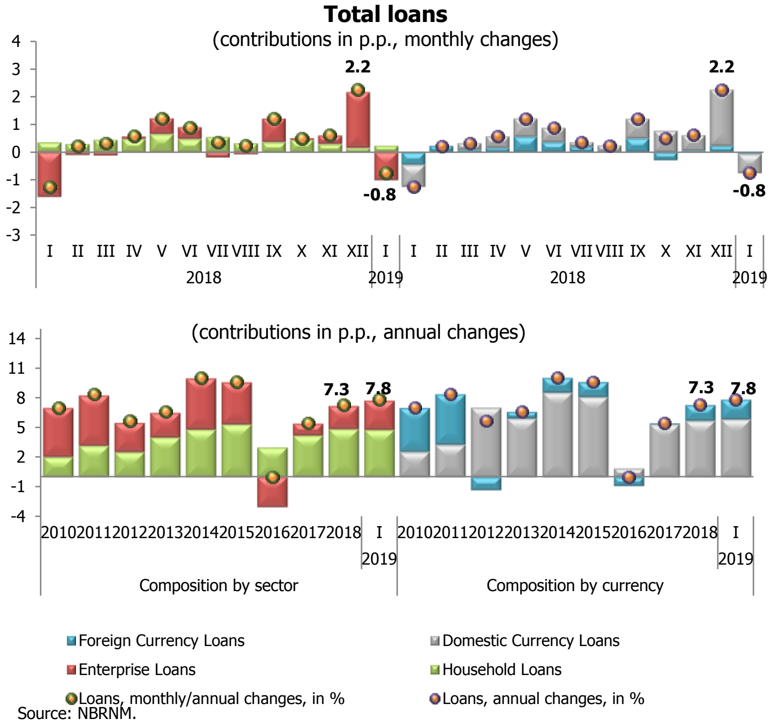
Source: NBRNM.

In January, broad money measured through M4, registered a monthly decrease in the growth compared to the previous month. The decrease of 0.9% (growth of 3.4% in December) is mostly due to the decline in demand deposits, with lower negative contribution of currency in circulation. Short-term and long-term deposits still make positive contribution to the growth of money supply. Observed by currency, the fall of total broad money solely results from the decrease in denar deposits (including demand deposits), amid moderate growth of foreign currency deposits. In January, the denar share in the broad money was 63.2% (64.0% in the previous month). **In January, broad money increased by 12% annually, exceeding the growth of 10.2% forecasted for the first quarter of 2019.**

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



Source: NBRNM.



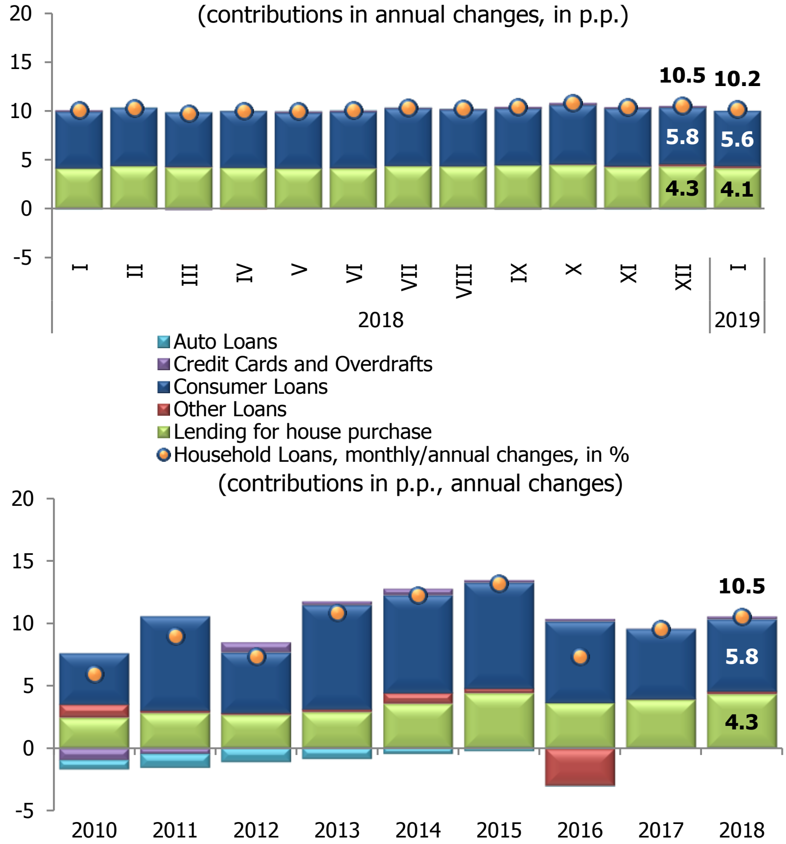
Source: NBRNM.

Total loans granted by banks to the private sector declined in January, despite the growth in the previous month. The monthly decline in lending activity by 0.8%, (growth of 2.2% in December) is usual for this month of the year and is solely due to the reduction of corporate loans, with a small positive contribution of household loans. Analyzing the currency structure, the monthly fall of total loans almost entirely results from loans in domestic currency, amid small decrease in foreign currency loans.

In January, total loans registered a generally seasonal decline, whereas the October forecasts pointed to a quarterly increase for the first quarter of the year, with an assumption for pronounced growth for the other months of the quarter.

Taking into account the lower loan level at the end of 2018, **the annual growth rate of total loans in January was 7.8%, which is below the annual growth for the first quarter of 2019 (of 9.8%) forecasted in October.** Observed by sector, the annual growth of total loans still mostly results from the household loans, with stronger positive contribution of corporate loans. Observing the currency, the annual growth of total loans in January 2018 was due to the growth of denar loans, amid minor positive contribution of foreign currency loans.

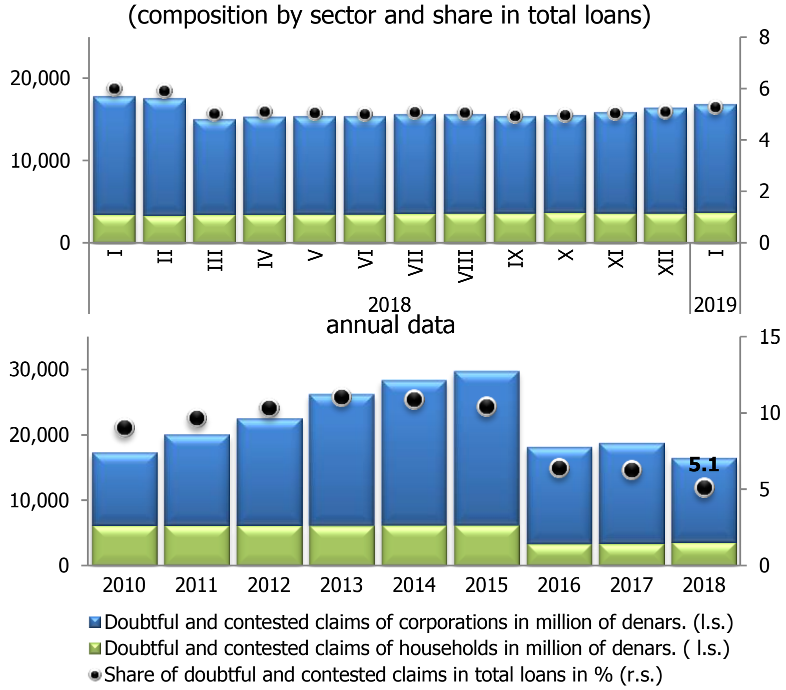
Household Loans*



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

The annual growth of household loans[19] in January 2019 was 10.2%. The growth is still almost entirely due to consumer and housing loans that contributed with 5.6 and 4.1 percentage points, respectively.

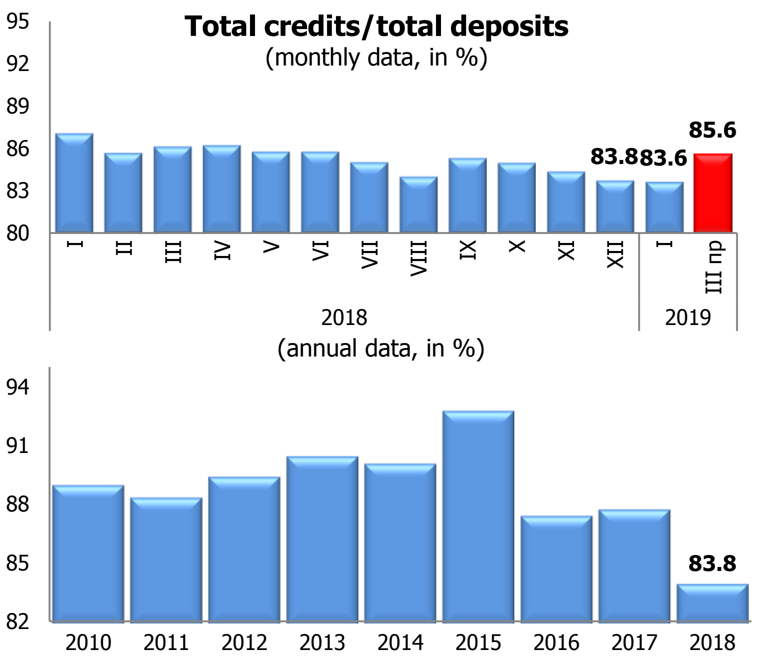
Doubtful and contested claims



Source: NBRNM.

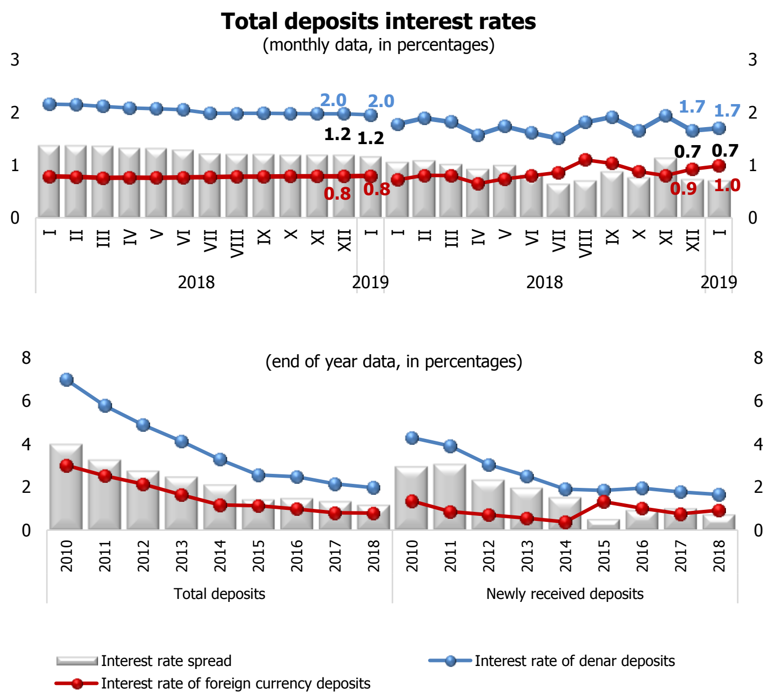
In January, the share of doubtful and contested claims in total loans was 5.3% (5.1% in the previous month), whereby the structure is still predominated by non-performing loans of the corporate sector, with significantly lower share of the non-performing loans of the household sector.

[19] Excluding loans of self-employed individuals.



Source: NBRNM.

The utilization of banks' deposit potential for lending to the private sector was 83.6% in January. Given the faster deposit growth than expected, this indicator is lower than the October forecasts for the first quarter of 2019.

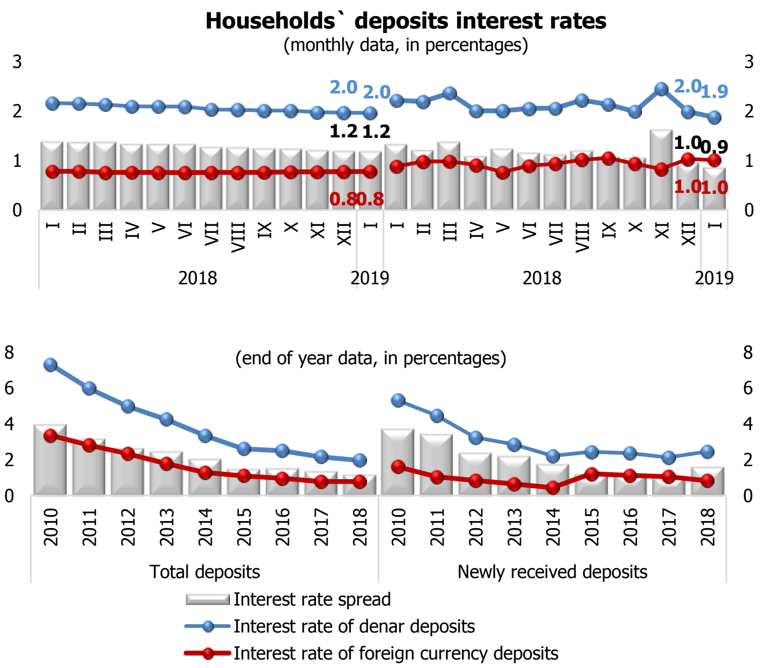


Source: NBRNM.

The spread of interest rates on total deposits (denar and foreign currency)[20] remained at 1.2 percentage points, amid unchanged interest rates relative to the previous month. In **total newly accepted deposits**, the interest rate spread between denar and foreign currency deposits remained stable of 0.7 percentage points, amid unchanged interest rate on denar deposits and increased interest rate on foreign currency deposits by 0.1 percentage point[21].

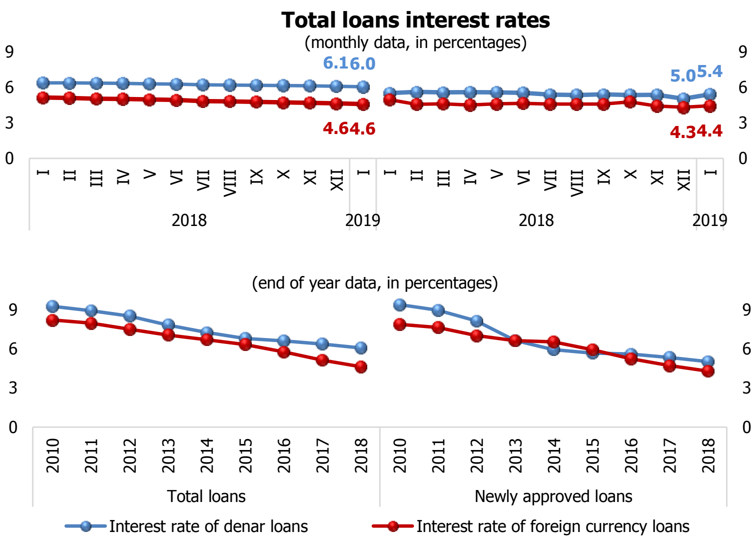
[20] Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspx.

[21] Regarding the interest rates on the newly accepted deposits, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.



Source: NBRNM.

In January, **the interest rates on total household deposits** remained at the same level as in the previous month, so that the spread between denar and foreign currency interest rates is still 1.2 percentage points. In the **newly accepted household deposits**, the interest rate on new denar deposits decreased by 0.1 percentage points, while the interest rate on foreign currency deposits remained unchanged, so that the interest rate spread decreased from 1.0 to 0.9 percentage points.

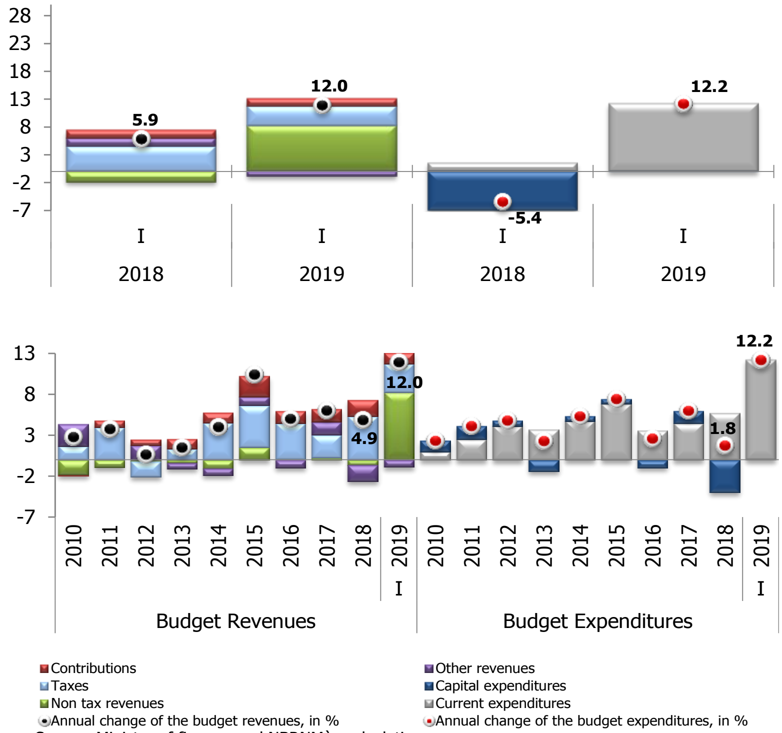


Source: NBRNM.

In January, the interest rate on total household loans declined by 0.1 percentage points to 6%, compared to the previous month, amid unchanged interest rate on total corporate loans of 4.6%. In the **newly approved loans,** the interest rates on household and corporate loans increased by 0.4 percentage points and 0.1 percentage points, respectively and equaled 5.4% and 4.4%[22], respectively.

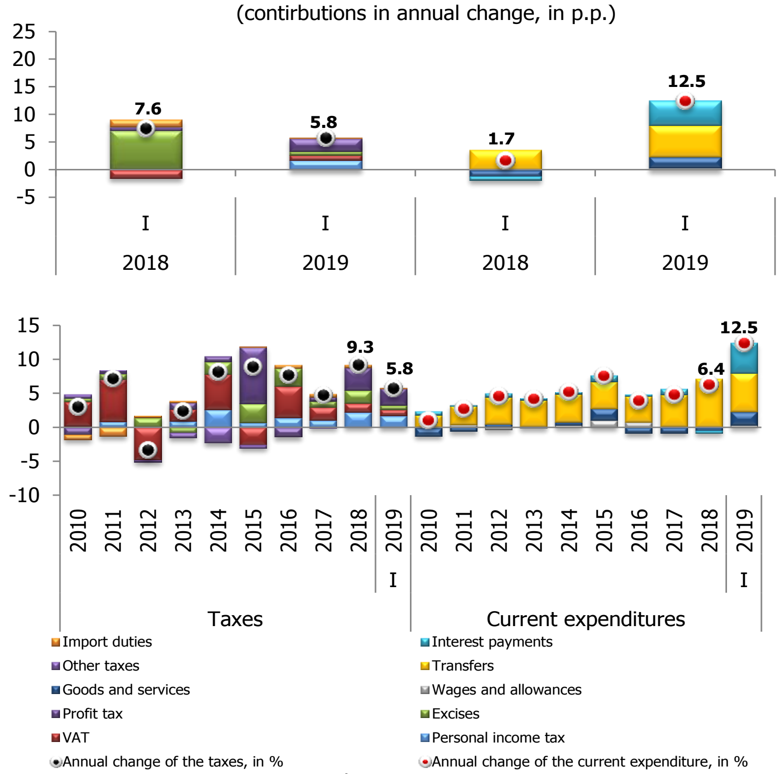
[22] Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures
(contibutions in annual change, in p.p.)



Source: Ministry of finance and NBRNM`s calculations.

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



Source: Ministry of finance and NBRNM`s calculations.

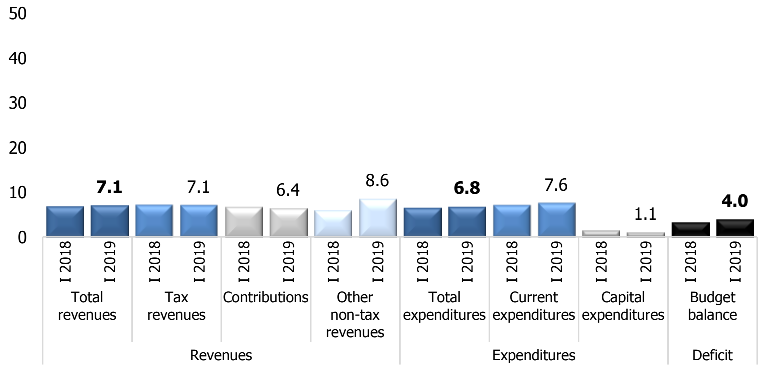
The Budget of the Republic of North Macedonia (central budget and budgets of funds), in January 2019, registered an annual growth of total budget revenues and expenditures. In January, the **budget revenues** increased by 12.0% on an annual basis, mostly as a result of higher non-tax revenues[23] that contributed with 8.2 percentage points. A positive, yet smaller contribution to the growth was made by taxes and contributions (3.5 and 1.4 percentage points, respectively), while other revenues[24] made small negative contribution. Tax revenues in January registered an annual growth of 5.8%, mostly due to the higher inflows of corporate tax, income tax, VAT, excises and import duties (with contribution of 2.4 percentage points, 1.8 percentage points, 0.9 percentage points, 0.7 percentage points and 0.1 percentage points, respectively). **Regarding the budget expenditures,** the annual growth of 12.2% in January was entirely due to the higher current expenses (positive contribution of 12.2 percentage points), whereas the contribution of capital expenses was neutral. Current expenditures increased by 12.5% in January, solely due to the increase in transfers, interest payments and goods and services (positive contribution of 5.7 percentage points, 4.4 percentage points and 2.0 percentage points, respectively).

[23] Higher non-tax revenues in January 2019 were mostly due to inflows to the Pension and Disability Insurance Fund's account in the RNM Budget. These inflows are a result of the transfer of funds of the private pension funds in accordance with the Law Amending the Law on Mandatory Fully Funded Pension Insurance and the Law Amending the Law on Pension and Disability Insurance (Official Gazette of RM No.

245 of 28 December 2018). With these amendments, the membership of some insuree categories in the second pillar of the pension system ceased on 1 January 2019.

[24] Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

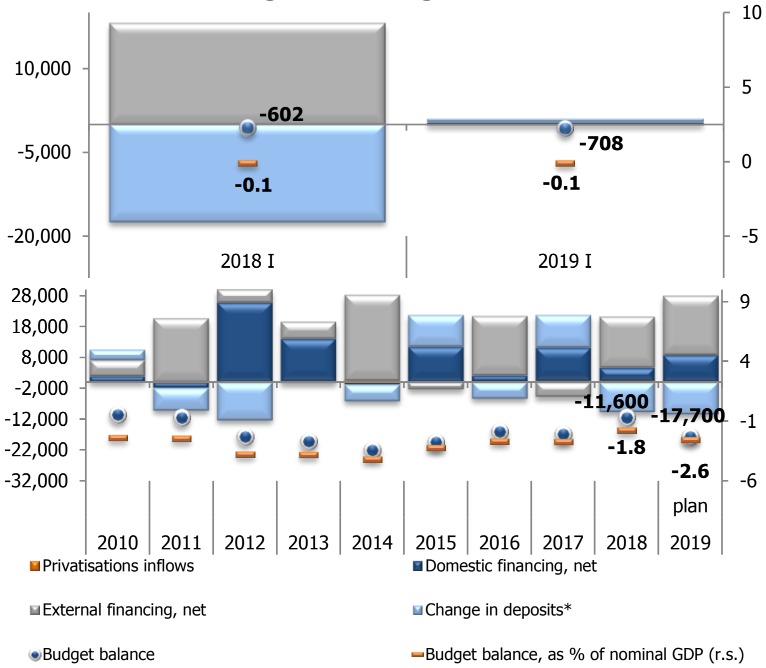
Budget implementation , per categories
(central budget and funds), in percentage of the annual plan*



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

In comparison with the annual Budget for 2019, 7.1% of the budget revenues was realized in January, which is slightly higher than the last year's performance relative to the plan (6.9%), amid highest realization of other non-tax revenues and taxes (8.6% and 7.1%), and the lowest of contributions (6.4%). **Budget expenditures in the same period accounted for 6.8% of the total expenditures planned for 2019**, which is slightly higher than last year's performance compared to the plan. The realization of current expenditures was 7.6% of the plan for 2019, while the realization of capital expenditures was only 1.1%, which is slightly lower than last year's performance (1.5% of the annual plan).

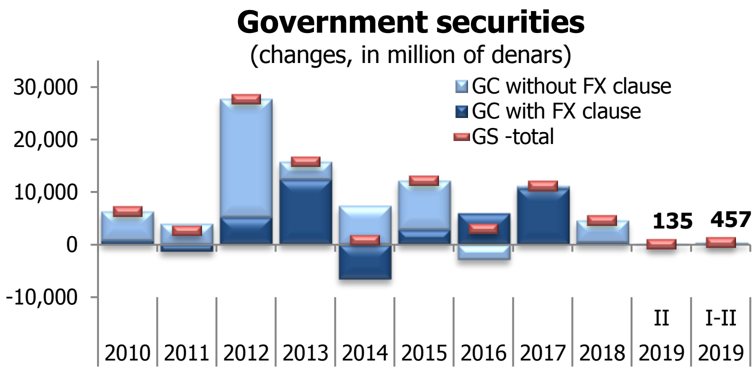
Financing of the budget balance

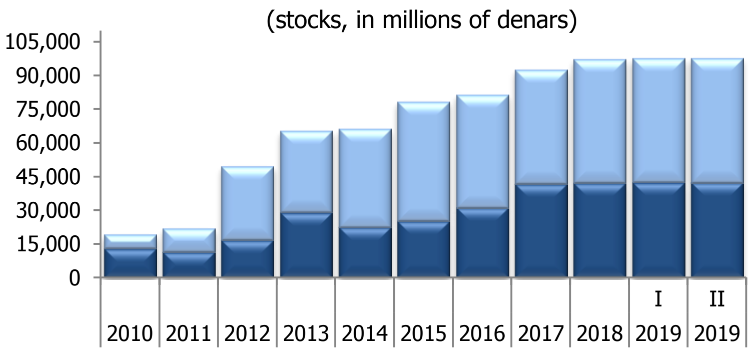


* Positive change: deposits withdrawal; negative change:deposits accumulation.
Source: MoF.

In January 2019, the RNM Budget registered a deficit of Denar 708 million (or 0.1% of the nominal GDP[25]), which is 4.0% of the deficit forecasted for 2019. The budget deficit in January was fully financed through the withdrawal of government deposits from the National Bank and through net issuance of government securities on the domestic financial markets.

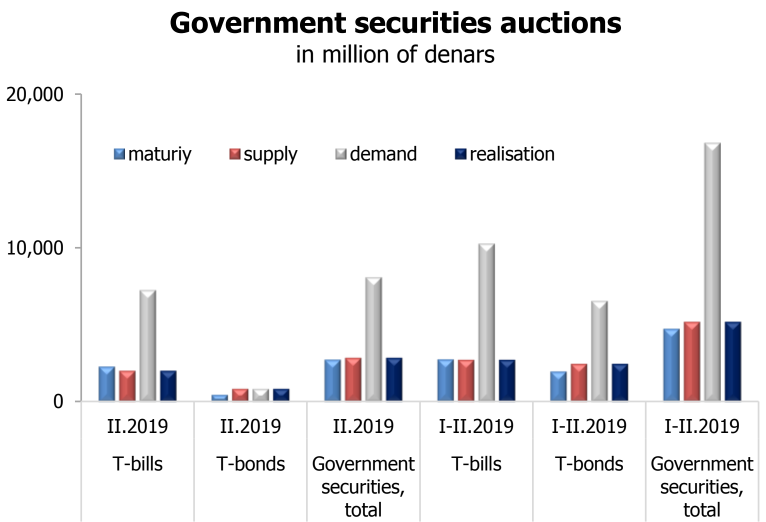
[25] The analysis uses the National Bank October forecast for the nominal GDP for 2018 and 2019.





Source: MoF.

In the primary government securities market in February 2019, the stock of issued securities increased on a monthly basis and at the end of the month reached Denar 97,665 million. The monthly increase (of Denar 135 million[26]) was a full reflection of the increase in government securities without currency clause, while the amount of government securities with currency component decreased. Compared to the end of 2018, the stock of government securities at the end of February increased by Denar 457 million.



Source: Ministry of finance.

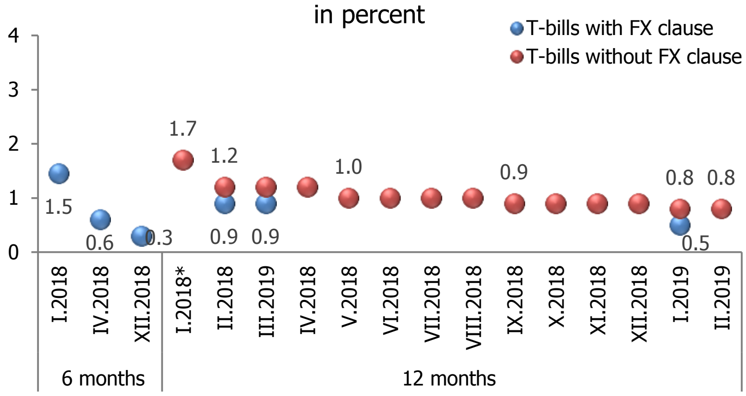
In February 2019, treasury bills and government bonds were issued. The new issues of government securities in February 2019 were with twelve-month, five-year and fifteen-year maturity[27], whereby the market participants' interest this month was higher than the offered amount. Amid issue of government securities (treasury bills and government bonds) in a higher amount than the amount due, their stock increased at the end of February.

[26]The Budget plans a domestic government borrowing of Denar 9,225 million for 2019 through issuance of continuous government securities, i.e. increase in the stock of government securities to Denar 106,433 million.

[27] In February 2019, the twelve-month treasury bills and the five-year government bonds fell due.

Interest rates of T-bills

in percent



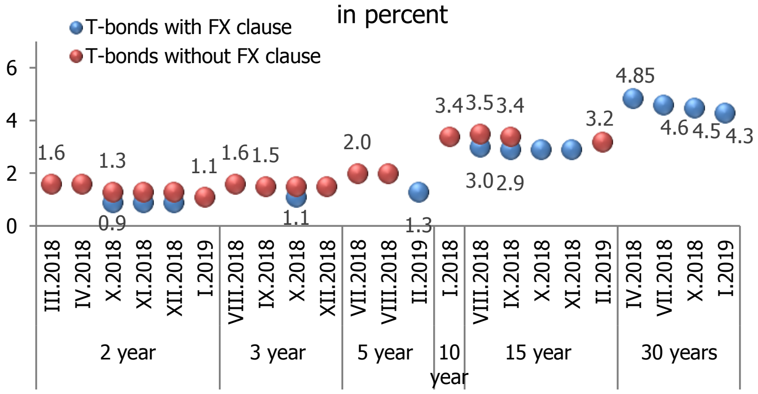
*The interest rate on 12m T-bills in January 2018 (1,7%) is a weighted avarage of the realized amount and the interest rates (1,85% и 1,20%) from the two auctions held in January.

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

Source: Ministry of Finance.

Interest rates of T-bonds

in percent



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

Source: Ministry of Finance

In February 2019, the Ministry of Finance reduced the interest rates on the issued government bonds. Namely, the interest rates on the fifteen-year government bonds without currency clause were cut from 3.4% to 3.2%, while the interest rates on the twelve-month treasury bills without currency clause and the five-year government bonds with currency clause remained unchanged (0.8% i.e. 1.3%, respectively).

Box 1: Indicative private consumption and gross capital formation categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION

	2017				2018						2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	November	December	January
	real annual growth rates in %										
Retail trade*	-3.9	-1.9	-2.5	-1.6	5.8	8.9	9.4	10.5	9.8	8.7	5.2
VAT revenues*	3.4	-6.1	4.8	9.7	-6.6	10.1	-9.8	12.5	17.2	-2.8	0.5
Imports of consumption goods*	5.9	3.8	5.8	9.0	8.1	2.5	3.0	11.0	13.6	7.7	-3.0
Domestic production of consumption goods	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	-0.1	5.6	3.5	7.7	-0.5
Counsumer credits*	7.1	8.0	8.1	6.7	7.7	8.2	8.5	9.3	8.8	9.3	8.7
Average net wage*	1.5	1.0	1.4	1.0	3.4	4.7	3.9	5.4	4.5	7.1	-
Private net transfers*	-3.4	22.9	0.2	5.0	5.5	9.0	4.2	1.8	6.6	1.0	-
Pensions*	6.1	7.0	6.0	4.7	2.1	3.4	2.6	4.4	3.4	4.4	4.6

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

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

INDICATIVE VARIABLES FOR INVESTMENTS

	2017				2018						2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	November	December	January
	real annual growth rates in %, except for FDI in million denars										
Imports od capital goods*	9.7	7.2	7.7	10.7	19.2	20.2	10.5	11.3	15.5	-2.6	-0.7
Completed construction works**	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	12.0	12.0	-
Domestic production of capital goods	-0.9	15.6	-2.6	20.9	19.3	24.2	16.0	5.7	7.8	2.4	15.7
Government investments*	59.9	19.6	-40.8	33.7	-65.0	-39.5	-10.7	-34.1	-2.9	-42.7	-1.5
Direct Investments***	-2118.7	-3997.0	-5202.8	2481.3	8526.7	5940.0	3829.1	8756.7	2462.1	7807.0	-
Long term credits to enterprises*	3.6	-0.4	-0.8	0.0	2.0	4.7	6.6	5.9	7.5	5.9	5.5

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

** real growth rates are obtained using the rate of growth of the construction costs for new housing facilities deflator.

*** real amounts are calculated by NBRNM, by dividing the nominal amounts with the level of the CPI index (base year: 2018=100).

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