

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



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

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

The latest estimates still indicate solid global growth in 2018, but the global economic outlook in the medium term is less conducive compared to previous expectations, reflecting the increased global uncertainty. In addition, downward risks are more pronounced in the short term and relate particularly to the effects of the further escalation of trade protectionism globally, the pace of normalization of monetary policies of central banks in developed countries, as well as the increased political and geopolitical risks worldwide. In terms of economic developments in the euro area, as our major partner, the latest high frequency data and surveys of both households and corporations indicate a slight slowdown of economic growth in the third quarter, amid expectations for solid growth rate. Analyzing the prospects of the European economy, in September, the ECB made a small downward revision of the growth for 2018 and 2019 (from 2.1% to 2% and from 1.9% to 1.8%, respectively), mainly as a result of the smaller contribution of foreign demand, while retaining the June growth forecasts for 2020 (1.7%). Labor market indicators for the euro area point to further improvement in the conditions. Thus, the unemployment rate continued to decline, reducing to 8.2% in the period July-August (8.3% in the second quarter). Euro area inflation estimates for September show minor acceleration to 2.1% (from 2% in August), mostly reflecting the faster growth of energy inflation of 9.5% (9.2% in August) and food inflation of 2.7% (2.4% in August). On the other hand, core inflation continued to slow down and in September equaled 0.9% (1% in August). The latest ECB inflation forecasts have not been revised relative to the June assessments, and it is still forecasted to 1.7% for 2018, 2019 and 2020. According to the latest estimates, **EURIBOR** was revised downwards for 2018 and 2019, and is expected to be slightly more negative compared to April.

Analyzing the quantitative external environment indicators of the Macedonian economy, the foreign effective demand forecast was moderately revised downwards for 2018 and 2019 compared to the April forecast. On the other hand, foreign effective inflation forecasts were revised moderately upwards for this year and the next one. The exchange rate of the US dollar to euro for 2018 is expected to depreciate slightly compared to April and to remain unchanged in 2019, unlike the April expectations for its depreciation. **Forecasts for primary commodities prices on the world markets for 2018 were generally revised upwards in relation to the April forecasts, while for 2019, most prices were slightly revised downwards.** Observed by product, the latest assessments of **world oil prices** still indicate faster price growth in 2018, and rise instead of fall for 2019, compared to April. **Metal prices** in 2018 were revised upwards relative to the April forecasts, with expectations for faster rise in the prices of nickel and copper. On the other hand, the prices of these metals for 2019 were revised downwards, forecasting a fall instead of small growth in the nickel price and faster fall in the copper price. Analyzing the **primary food commodities**, the assessment for increase in the wheat price for 2018 was revised upwards, while the assessment for the price of maize remained unchanged compared to April, and is again expected to slightly increase. On the other hand, in 2019, wheat and maize prices were corrected downwards compared to the increase forecasted in April. However, one should bear in mind that the assessments of the prices of primary commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long term.

**The comparison of the latest macroeconomic indicators with their dynamics forecasted in April indicates certain deviations in some segments of the economy.**

According to the published **GDP** estimates, the economic growth in the first half of 2018 is solid (1.6%), yet lower compared to the forecast for the first half of the year (3.3%). This downward divergence mainly reflects the protracted fall in gross investments, despite the expectations for their gradual recovery since the beginning of the year. Their effect was tangibly offset by the positive contribution of the net export demand. As for the economic activity in the third quarter of 2018, the currently available high frequency data for the first two months of the quarter point to favorable shifts in the economy (accelerated growth of industrial activity, further trade growth, and increasing trust of the economic agents). Regarding the changes in **consumer prices**, in September, the average annual inflation rate was 1.5%, which is a downward deviation compared April. Amid upward revision of external assumptions in the inflation forecast for the entire 2018 and lower inflation than forecasted, the assessments say that the risks to the inflation forecasts for 2018 are balanced. Yet, there is still pronounced uncertainty about the expected movement of the prices of primary commodities.

**Recent data on shifts in the foreign reserves (adjusted for the effects of price and exchange rate differentials and changes in securities prices) indicate an increase in the third quarter.**

Analyzed by change factor, the NBRM purchase of foreign currency on the foreign exchange market was the main generator of growth of the foreign reserves in the third quarter, while the scheduled servicing of government external liabilities acted in the opposite direction<sup>1</sup>. Analyzing the available external sector data for the third quarter of the year, the currency exchange market data as of September point to net inflows of private transfers slightly higher than expected for the third quarter. Furthermore, foreign trade data as of July and August point to larger trade deficit than expected in the April forecast. The analysis of foreign reserves adequacy indicators shows that they remain in a safe zone.

As for the monetary sector developments, final data as of August show a further monthly increase in **total deposits** (of 1.4%) with a moderate pace acceleration (1.2% in June). Analyzing by sector, the monthly increase in total deposits results primarily from the growth in corporate deposits, with positive, but relatively smaller contribution of household deposits and deposits of other financial institutions. Analyzing the currency structure, the increase in total deposits was mostly due to denar deposits (including demand deposits). On an annual basis, total deposits in August grew by 12.2%, which is still above the growth of 7.2%, forecasted for the third quarter of 2018 in April. Analyzing the credit market, in August, **total loans** of the private sector increased by 0.2% on a monthly basis and continued to increase but at moderately slower pace compared to the previous month (monthly growth of 0.4%). The increase in lending activity in August came entirely from loans granted to households, with little negative contribution of corporate loans. According to the currency structure, the monthly growth of total loans stems solely from denar loans. On an annual basis, total loans in August grew by 6.2%, which exceeds the growth of 4.8% forecasted for the third quarter of 2018.

In the fiscal sector, in the January-August 2018 period, the Budget of the Republic of Macedonia registered a deficit of Denar 6,838 million, which was mostly funded by external sources, by net inflows from the Eurobond of the Republic of Macedonia issued in January 2018, with part of these funds being kept as deposits on the government account with the National Bank. Smaller portion of the budget deficit was funded through the issue of government securities on the domestic financial markets. The deficit in the Budget of the Republic of Macedonia was 37.5% of the deficit planned in the 2018 Budget.

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<sup>1</sup> In July, *inter alia*, the annual interest on the two Eurobonds was repaid.

**In summary, the latest macroeconomic indicators and assessments point to certain deviations from the forecasted dynamics, but without significant changes in the perceptions of the monetary policy environment.** The movements on the foreign exchange and currency exchange markets remain conducive. The analysis of foreign reserves adequacy indicators still shows that they move within a safe zone. The relatively weak economic performance in the first quarter, despite the solid growth in the second quarter, still creates downward risks to the economic growth forecasted for 2018. Risks to the inflation are still assessed as balanced, having in mind the lower performance than forecasted, amid current significant upward revision to the world prices of some primary commodities used as inputs in the forecasts. Within the monetary sector, the annual growth in deposits and loans in August exceeded the growth forecasted for the third quarter of the year.

## Solid growth of total deposits

The favorable movements in total deposits<sup>2</sup> continued in August. Since April, they have registered a solid monthly increase, whereby the total deposit increase in the first eight months of this year significantly exceeded the performance in the same period last year, when the growth in total deposits was minor. Observed by sector, such movements reflect the accelerated growth of household deposits, as well as the significant increase in corporate deposits, which declined in the same period last year. These movements point to stable expectations, and are consistent with the favorable movements on the foreign exchange market since the beginning of the year. On an annual basis, total deposits grew by 12.2%, which is still above the growth of 7.2%, forecasted in April for the third quarter of 2018.

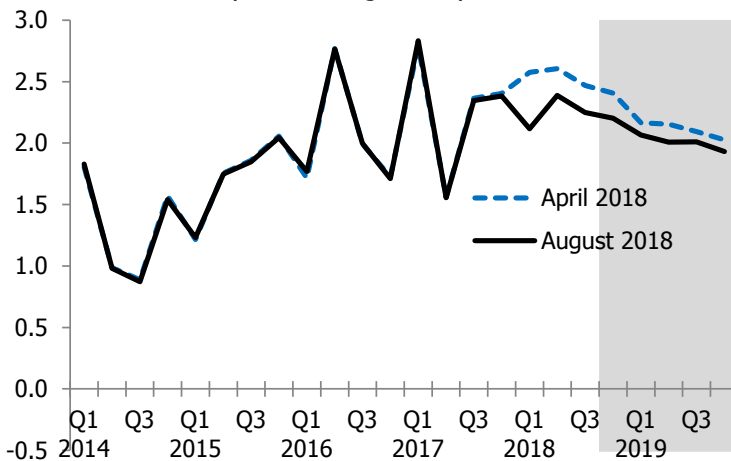
### Selected economic indicators<sup>1</sup>

	2015		2016		2017					2018									
	2015	2016	Q1	Q2	Q3	Q4	2017	Jan.	Feb.	Mar	Q1	Apr.	May	Jun	Q2	Jul.	Aug	Sep	Q3
<b>I. Real sector indicators</b>																			
Gross domestic product (real growth rate, y-o-y) <sup>1,2</sup>	3.9	2.8	0.0	-1.3	0.2	1.2	0.2				0.1				3.1				
<b>Industrial production<sup>3</sup></b>																			
y-o-y	4.9	3.4	-1.5	3.7	-2.4	0.9	0.2	8.4	3.1	4.6	5.2	1.5	1.1	12.1	4.9	8.4	2.1		
cumulative average	4.9	3.4	-1.5	1.2	-0.1	0.2	0.2	8.4	5.6	5.2	5.2	4.2	3.5	5.0	5.0	5.5	5.1		
<b>Inflation<sup>4</sup></b>																			
CPI Inflation (y-o-y) <sup>5</sup>	-0.4	-0.2	0.6	1.2	1.5	2.1	2.4	1.1	1.9	1.6	1.5	1.4	1.7	1.4	1.5	1.7	1.5	1.5	1.5
CPI Inflation (cumulative average)	-0.3	-0.2	0.6	0.9	1.1	1.4	1.4	1.1	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Core inflation (cumulative average)	0.5	1.3	1.9	2.0	2.2	2.3	2.3	1.6	1.7	1.7	1.7	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Core inflation (y-o-y)	0.5	1.3	1.9	2.1	2.6	2.8	2.3	1.6	1.9	1.5	1.7	1.5	1.9	1.3	1.6	1.7	1.7	1.5	1.6
<b>Labor force</b>																			
Unemployment rate	26.1	23.7	22.9	22.6	22.1	21.9	22.4				21.6				21.1				
<b>II. Fiscal Indicators (Central Budget and Budgets of Funds)</b>																			
Total budget revenues	161,207	169,356	42,734	43,633	44,592	48,714	179,673	13,328	14,060	15,981	43,369	17,085	15,237	14,958	47,280	15,599	15,386		
Total budget expenditures	180,632	185,407	46,279	48,377	47,346	54,559	196,561	13,930	16,755	15,817	46,502	16,493	17,690	15,101	48,684	16,537	14,729		
Overall balance (cash)	-19,425	-16,051	-3,545	-4,744	-2,754	-5,845	-16,888	-602	-2,695	164	-3,133	592	-1,853	-143	-1,404	-2,958	657		
Overall balance (in % of GDP) <sup>2</sup>	-3.5	-2.7	-0.6	-0.8	-0.4	-0.9	-2.7	-0.1	-0.4	0.0	-0.5	0.1	-0.3	0.0	-0.2	-0.5	0.1		
<b>III. Financial indicators<sup>6</sup></b>																			
Broad money (M4), y-o-y growth rate	6.9	6.2	4.2	7.5	6.2	5.1	5.1	5.2	7.3	7.5	7.5	8.0	10.2	10.1	10.1	11.5	11.7		
Total credits, y-o-y growth rate	9.6	-0.1	-1.1	4.1	4.1	5.4	5.4	5.8	6.7	5.7	5.7	5.7	6.1	6.2	6.2	6.2	6.2		
Total credits - households	12.9	7.0	6.6	9.5	9.8	9.2	9.2	9.7	9.9	9.4	9.4	9.6	9.6	9.7	9.7	10.0	9.9		
Total credits - enterprises	7.3	-5.3	-7.2	-0.4	-0.9	2.3	2.3	2.4	3.7	2.3	2.3	2.1	2.9	2.9	2.9	2.7	2.7		
Total deposits (incl. demand deposits), y-o-y growth rate <sup>7</sup>	6.4	6.1	4.2	7.4	5.9	5.0	5.0	5.2	7.4	7.6	7.6	8.3	10.5	10.6	10.6	12.1	12.2		
Total deposits - households	4.1	2.5	1.8	6.5	5.6	6.1	6.1	5.5	6.4	7.3	7.3	8.2	8.9	7.9	7.9	9.0	8.8		
Total deposits - enterprises	13.0	13.4	8.8	10.8	5.6	2.1	2.1	2.5	7.1	4.1	4.1	4.1	9.3	11.6	11.6	13.5	13.7		
<b>Interest rates<sup>8</sup></b>																			
Interest rates of CBIBills	3.25	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.0	3.0	3.0	3.0	3.0	3.0	2.75		
Lending rates																			
denar rates	7.4	7.0	6.8	6.7	6.6	6.4	6.6	6.3	6.3	6.3	6.3	6.2	6.2	6.2	6.2	6.1	6.1		
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	5.0	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.8		
Deposit rates																			
denar rates	2.9	2.5	2.3	2.2	2.1	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.0		
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	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8		
<b>IV. External sector indicators</b>																			
Current account balance (millions of EUR)	-177.1	-275.5	-135.4	-90.8	189.4	-66.1	-102.9	-41.7	-1.2	-105.8	-148.7	-3.0	49.5	-26.1	20.5				
Current account balance (% of GDP)	-2.0	-2.8	-1.3	-0.9	1.9	-0.7	-1.0	-0.4	0.0	-1.0	-1.4	0.0	0.5	-0.2	0.2				
Trade balance (millions of EUR) <sup>9</sup>	-1,713.6	-1,777.4	-435.1	-450.8	-385.9	-545.9	-1,817.7	-139.3	-117.0	-218.5	-474.9	-153.1	-119.7	-158.8	-444.4	-160.1	-145.4		
Trade balance (% of GDP)	-18.9	-18.0	-4.3	-4.5	-3.8	-5.4	-18.1	-1.3	-1.1	-2.1	-4.5	-1.5	-1.1	-1.5	-4.2	-1.5	-1.4		
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	-561.8	-577.1	-644.7	-1,783.6	-623.0	-625.1	-641.8	-1,883.9	-641.0	-597.5		
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	422.5	460.0	426.2	1,308.7	469.9	505.5	482.9	1,439.5	480.8	452.1		
rate of growth of import (y-o-y)	5.4	5.3	16.7	10.5	7.1	13.2	11.8	24.6	10.6	5.5	12.6	10.2	1.3	18.9	9.4	16.6	11.2		
rate of growth of export (y-o-y)	9.1	5.9	16.8	20.3	10.0	16.1	15.7	28.5	19.9	-2.3	13.9	17.3	16.2	10.9	13.3	15.6	17.4		
Foreign Direct Investment (millions of EUR)	202.8	316.9	96.5	-22.3	-63.0	168.8	180.0	66.1	102.6	68.5	237.2	42.5	44.3	0.7	87.4				
<b>External debt</b>																			
Gross external debt (in millions of EUR)	6,290.5	7,216.6	7,699.7	7,705.4	7,627.6	7,372.5	7,372.5				8,268.4				8,432.9				
public sector	2,933.7	3,445.3	3,819.9	3,741.0	3,710.2	3,461.8	3,461.8				4,053.1				4,077.9				
public sector/GDP (in %)	32.4	35.4	37.9	37.2	36.9	34.4	34.4				38.5				38.7				
private sector	3,356.9	3,771.2	3,879.9	3,964.3	3,917.4	3,910.7	3,910.7				4,215.3				4,355.0				
Gross external debt/GDP (in %)	69.4	74.2	76.5	76.6	75.8	73.2	73.2				78.5				80.0				
Gross official reserves (millions of EUR) <sup>10</sup>	2,261.7	2,613.4	2,534.4	2,399.9	2,271.4	2,336.3	2,336.3	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	2,709.1

<sup>1</sup> While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2018, the projected level from the NBRM projections from April 2018 is used.  
<sup>2</sup> The quarterly data for 2016 are preliminary, while for 2017 and 2018 are estimated (Press release for quarterly data on GDP as of 06.09.2018). The annual data for 2016 is final, and for 2017 is preliminary data (Announcement for annual data for GDP from 28.09.2018).  
<sup>3</sup> The changes of index of industrial production are according to base year 2015=100.  
<sup>4</sup> CPI calculated according to COICOP 2017=100.  
<sup>5</sup> Inflation on annual basis corresponds to end-year inflation (December current year/December previous year)  
<sup>6</sup> The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since June 2018).  
<sup>7</sup> It encompasses the deposits from non-government sector at Banks and Savings houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.  
<sup>8</sup> As of June 2018 data for active and passive interest rates are compiled according to the new methodology of NBRM.  
<sup>9</sup> Trade balance according to foreign trade statistics (on c.i.f. base).  
<sup>10</sup> The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

<sup>2</sup> Non-government deposits in banks and savings houses, transferable denar deposits of other financial institutions and transferable denar deposits of local self-government.

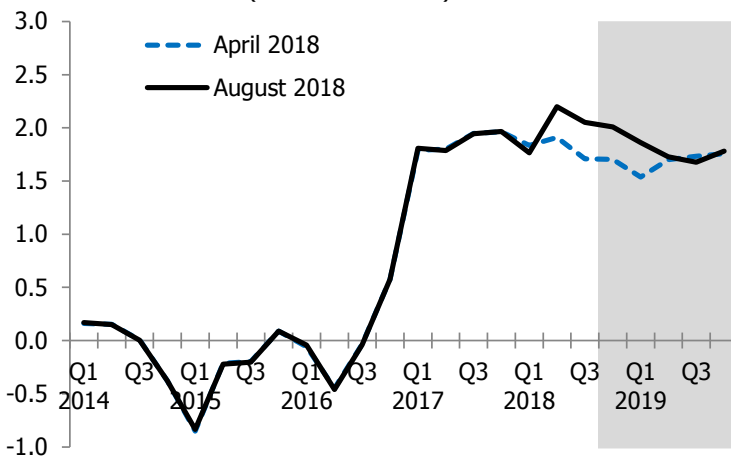
**Foreign effective demand**  
(annual changes in %)



The latest estimates of the quantitative external environment indicators point to changes in external assumptions<sup>3</sup>.

In the latest estimates, foreign effective demand forecast for 2018 and 2019 was revised downwards relative to April forecasts. Thus, it is now expected that in 2018 the foreign demand will be 2.2% (2.5% in April) and 2.0% in 2019 (2.1% in April). The downward revision is almost solely due to the expectations for a lower growth of the German economy.

**Foreign effective inflation**  
(annual rates in %)

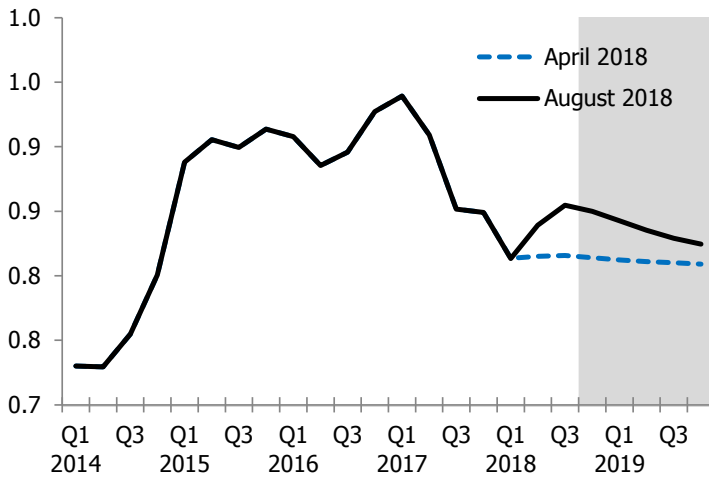


On the other hand, the latest expectations of the **foreign effective inflation** are slightly higher than the April forecasts. Thus, the foreign effective inflation is now expected to be 2.1% and 1.8% in 2018 and 2019, respectively (1.8% and 1.7% in April). The revision of foreign inflation is mainly a result of estimates for higher imported inflation from Serbia<sup>4</sup>, Germany and France.

<sup>3</sup> Changes are relative to the expectations with the April forecast.

<sup>4</sup> Inflation in Serbia and Croatia was adjusted for the changes in the exchange rate.

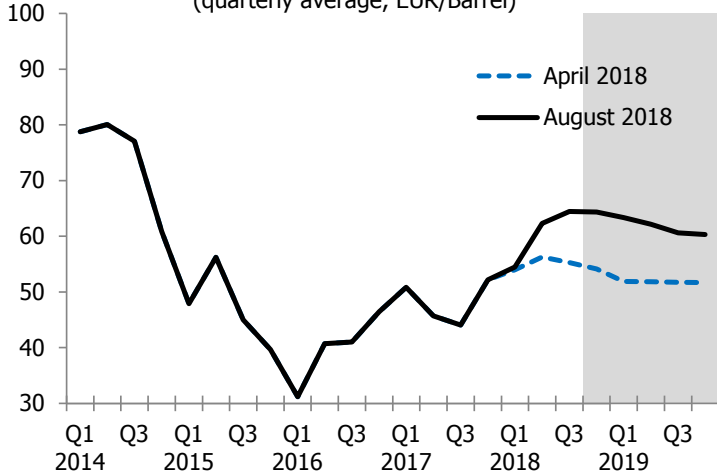
EUR/USD exchange rate



The euro/US dollar exchange rate for 2018 and 2019 was revised upwards, so now the rate of the US dollar against the euro is expected to slightly depreciate in 2018 and to remain unchanged rather than to depreciate in 2019. The upward revision was largely due to the growing concern of investors for the Italian economy and the reduced inflationary pressures in the euro area, seen as a signal of a possible slowdown in the economic growth of the entire region.

Brent oil

(quarterly average, EUR/Barrel)



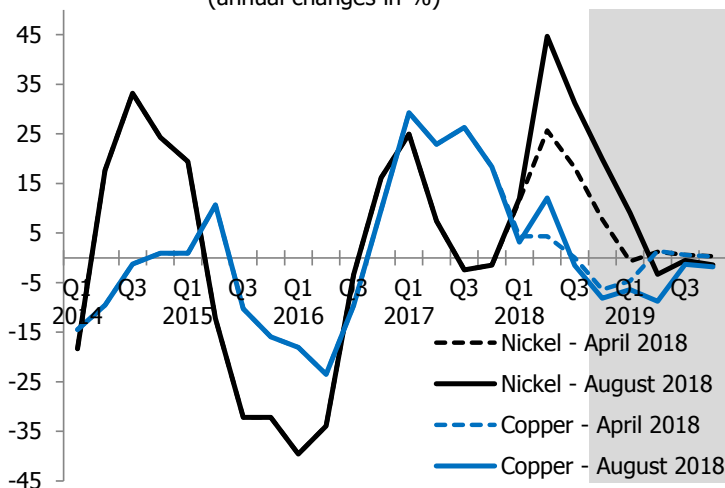
The expected increase in oil price<sup>5</sup> for 2018 was revised significantly upwards, which amid stable demand, was mostly due to the expectations for deficit on the supply side as a result of the geopolitical tensions between the United States and Iran<sup>6</sup>. For 2019, oil price was also revised upwards, expecting a small growth rather than fall as expected in April.

According to recent estimates, the nickel price for 2018 was significantly revised upwards against the April forecast cycle. The upward correction was largely due to the high demand for products where nickel serves as an intermediate input (such as steel products), the reduction of nickel stocks, and the positive outlook in the electric vehicle industry, globally. On the other hand, the

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

<sup>6</sup> On 6 July 2018, the US President made a decision to impose additional sanctions on Iran (after those imposed on 8 May 2018) which will mainly hit the oil sector. According to the latest statements of the President Trump's administration, the sanctions will come into force on 4 November 2018.

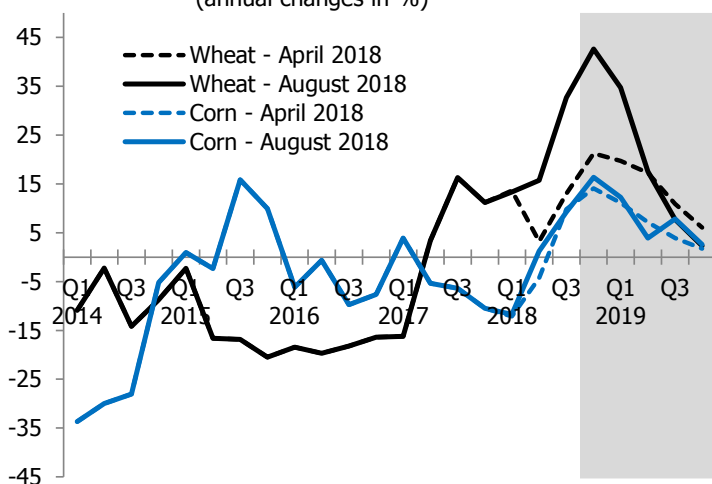
**Nickel and copper prices in EUR**  
(annual changes in %)



nickel price for 2019 was revised downwards, with the latest expectations pointing to a slight decline in the price, despite the minimum growth expected in the April forecast.

The **copper price in euro** for 2018 was corrected upwards, while the price in US dollars was revised downwards compared to the April forecast. These differences arise as a result of the expected changes in the euro/US dollar exchange rate. On the other hand, the copper price in euro and in US dollars for 2019 was revised downwards, against the backdrop of political and trade tensions between the United States and China, as well as expectations for a gradual slowdown in the Chinese economy.

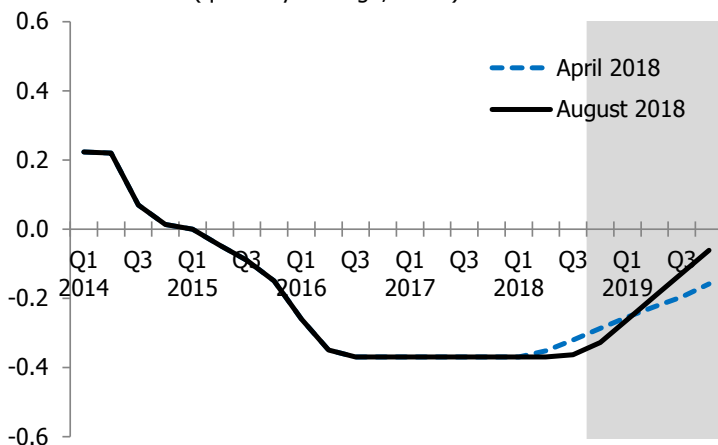
**Wheat and corn prices in EUR**  
(annual changes in %)



The latest estimates of **wheat price** point to a significant upward revision for 2018 compared to the April forecasts, mainly fueled by the high demand, but also by the gradual reduction of wheat supply worldwide. Against this background, the wheat price for 2019 was slightly corrected downwards. Compared to the April forecasts, the **maize price in euro** for 2018 remained unchanged, while the price in US dollars was revised downwards due to the expected changes in the euro/US dollar exchange rate. On the other hand, the maize price in both euros and US dollars for 2019 was revised slightly downwards.



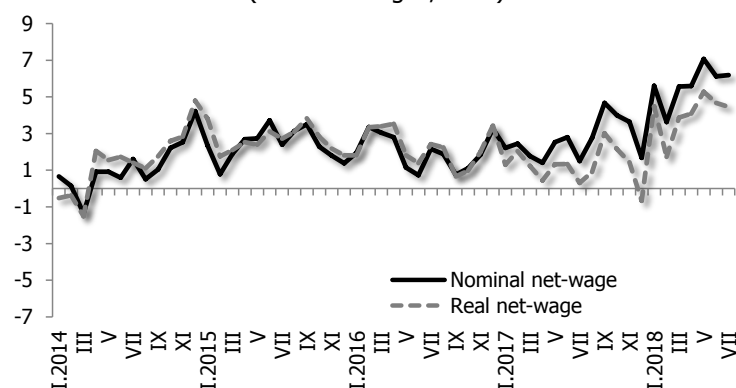
**1-month Euribor**  
(quarterly average, in % )



The **one-month Euribor** was corrected moderately downwards in the forecast horizon, so the latest expectations indicate that it will be -0.37% and -0.28% in 2018 and 2019, respectively (-0.33% and -0.21% with the April forecast), amid ECB's announcements for retention of the level of current policy rate at least until the end of summer 2019, while extending the quantitative easing program by the end of 2018<sup>7</sup>.

<sup>7</sup> At the ECB's regular meeting in September 2018, the European Central Bank decided to maintain the current policy rate, while extending the quantitative easing program by the end of 2018, but with slower intensity. Thus, it will amount to Euro 30 billion/a month as of September 2018 and Euro 15 billion per month from October to the end of December 2018, after which the program is expected to be ceased, but depending on the data that needs to confirm the inflation prospects in the medium term.

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

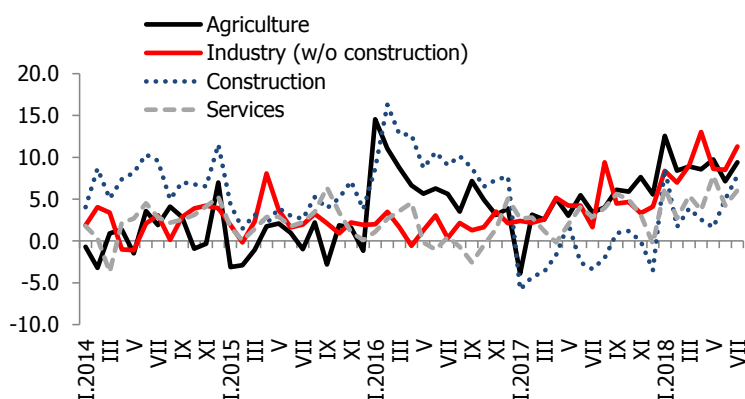


Source: SSO.

In July 2018, the average net wage registered a nominal annual growth of 6.2% (a minor growth acceleration of 0.1 percentage points compared to June 2018), which partially reflects the increase in the minimum wage in September last year<sup>8</sup>. Wage increased in almost all sectors<sup>9</sup>, particularly in the mining and quarrying, information and communications, and accommodation and catering services, with solid rise in wages in the manufacturing industry.

Amid moderate increase in consumer prices, in July, the **real wages increased by 4.5%**.

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



Source: SSO.

In July, wages were higher than expected for the third quarter of 2018 as forecasted in April.

**The high-frequency data on the supply and the demand side available for the period July-August 2018 are generally favorable and point to continuation of the annual economic growth in the third quarter.** Surveys for the perceptions of economic agents for the economic environment<sup>10</sup> for the third quarter of the year show higher confidence of economic agents.

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

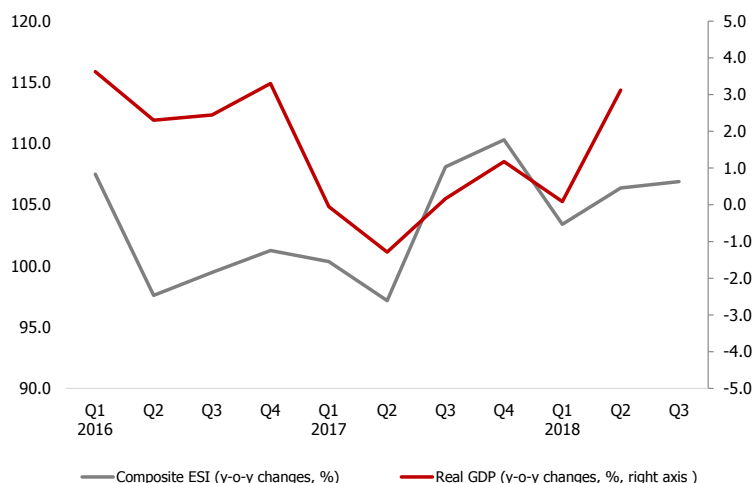
Thus, in the period July-August 2018, the turnover in **total trade** continued increasing, given the growth in wholesale and retail trade.

<sup>8</sup> On 19 September 2017, the Assembly of the Republic of Macedonia adopted the amendments to the Minimum Wage Law of the Republic of Macedonia. Pursuant to the amendments, from the wage for September 2017, the amount of the minimum wage in the Republic of Macedonia for all sectors in the economy is set to Denar 17 300, gross, or Denar 12 000, net.

<sup>9</sup> In July 2018, wages decreased only in professional, scientific and technical sector.

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

### Economic sentiment indicator and GDP

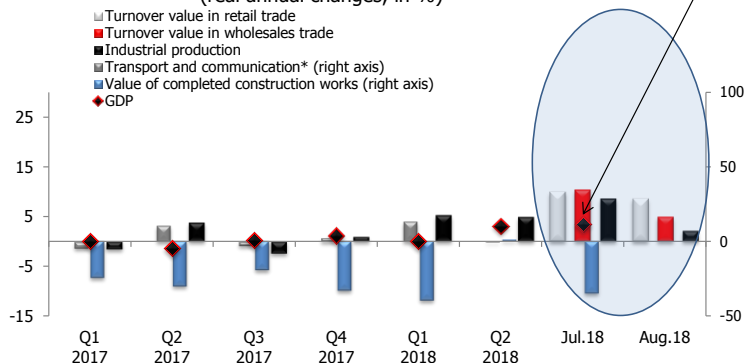


Source: State statistical office and European Commission.

Also, **industrial output** continued registering favorable movements in the period July-August 2018, at slightly faster pace of annual growth. Growth entirely reflects the further positive developments in manufacturing industry, while production in mining and energy sectors went down. Analyzing the manufacturing industry, in the period July-August, the highest positive contribution was registered in the production of machines and devices, with solid growth in other sectors of the major foreign export facilities, as well as in some of the traditional sectors.<sup>11</sup>

The growing number of tourists, overnight stays and turnover in **catering services** in July 2018 indicates continuation of the favorable movements in this sector in the third quarter of the year.

### 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.

On the other hand, after the minor growth in the second quarter, in July 2018, **construction works** declined given the high base effect. The decline in the value of completed construction works in July was due to the simultaneous decline in both building construction and civil engineering.

### INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2017				2018				
	Q1	Q2	Q3	Q4	Q1	Q2	June	July	August
	<i>real annual changes in %</i>								
Gross domestic product	0,0	-1,3	0,2	1,2	0,1	3,1	-	-	-
Industrial output*	-1,5	3,7	-2,4	0,9	5,2	4,9	12,1	8,4	2,1
Construction	-24,5	-30,2	-19,5	-33,1	-39,6	0,9	14,1	-34,9	-
Retail and wholesale trade	3,0	4,4	4,7	3,9	5,7	8,2	10,2	9,7	5,7
Retail trade	-3,9	-1,9	-2,5	-1,6	5,8	8,9	8,6	9,9	8,6
Wholesale trade	8,9	10,4	11,2	8,4	5,2	6,8	11,2	10,3	4,9

\*annual rates in % from base index 2015=100.  
Source: SSO and NBRM's own calculations.

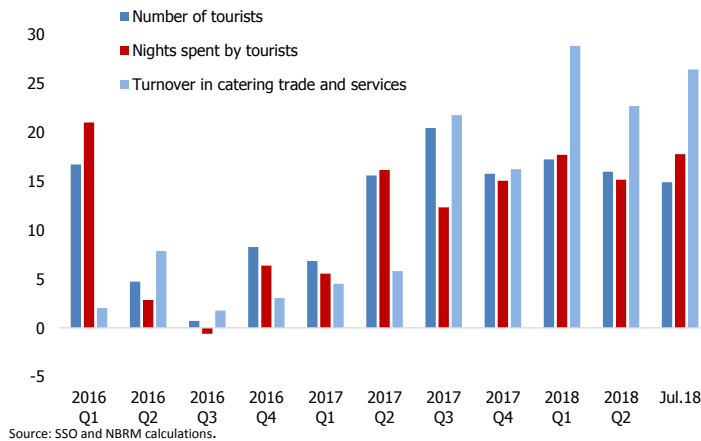
The available **aggregate demand** indicators show divergent movements in economic activity in the third quarter of the year.

**Private consumption**<sup>12</sup> indicators mainly point to its further growth in the third quarter. Growth was seen in all funding sources of private consumption, amid growth in disposable income components (growth in

<sup>11</sup> In the period July-August 2018, the production of beverages, production of tobacco products, production of leather and leather products, production of paper and paper products, printing and production of recorded media, production of fabricated metal products other than machinery and equipment, production and installation of machines and equipment, and production of computer, electronic and optical products made a negative contribution to the growth of the manufacturing industry.

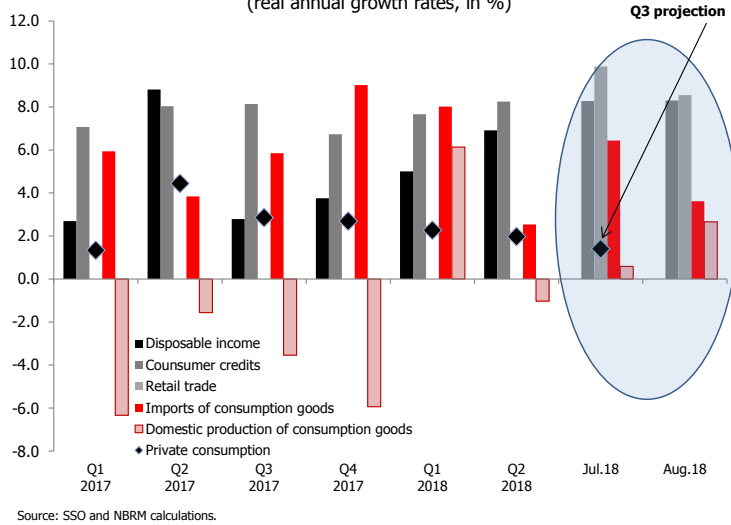
<sup>12</sup> Data on the turnover in retail trade, import of consumer goods, domestic production of consumer goods, household loans and pensions are as of July-August 2018, while data on net wages and private transfers are as of July 2018.

**Toursim indicators**  
(real annual changes)



real wages, net private transfers and the balance of pensions), as well as through the stable growth of household lending. Short-term indicators of the dynamics of private consumption are also favorable. Thus, in this period, the turnover in retail trade increased (at a faster pace of annual growth), as well as the domestic production and the import of consumer goods.

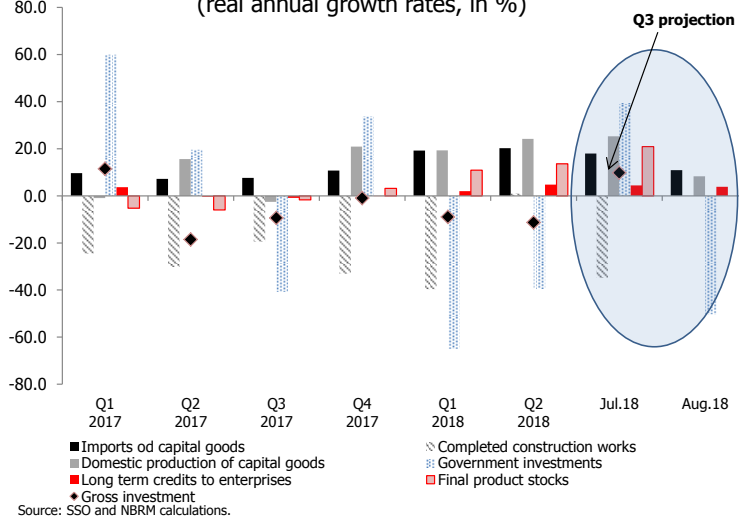
**Indicative variables for private consumption**  
(real annual growth rates, in %)



High frequency data on **gross investments**<sup>13</sup> in the period July-August are divergent which impedes the formation of accurate assessment of the third quarter. Thus, long-term corporate loans, domestic production of capital goods, imports of investment products, and direct investments increased on an annual basis. On the other hand, government capital investments and construction declined.

**Foreign trade** data for the period July-August point to a potential deficit expansion in the third quarter compared to the same period last year.

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



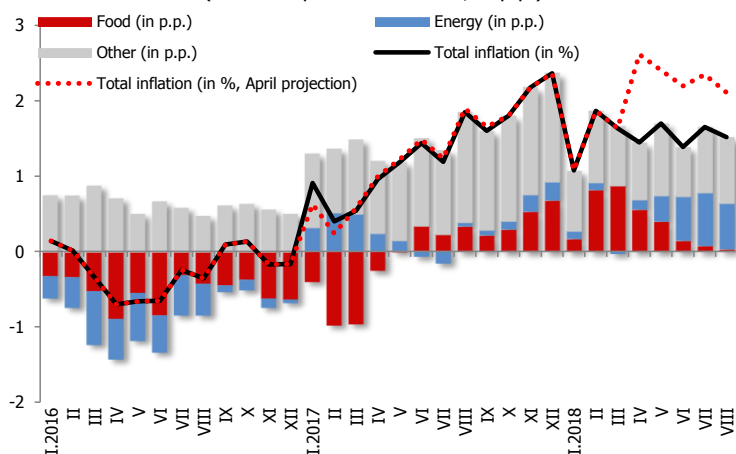
Budget performance in July-August 2018 show increasing *public consumption* mainly as a result of the growing expenses for goods and services and higher health transfers<sup>14</sup>.

<sup>13</sup> Data on import of working capital, domestic production of capital goods, government capital investments, and long-term corporate loans are as of July-August 2018, while data on completed construction works, direct investments, and stocks of manufactured articles are as of July 2018.

<sup>14</sup> Most of these assets relate to expenditures on goods and services of the Health Insurance Fund.

**Inflation rate**

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



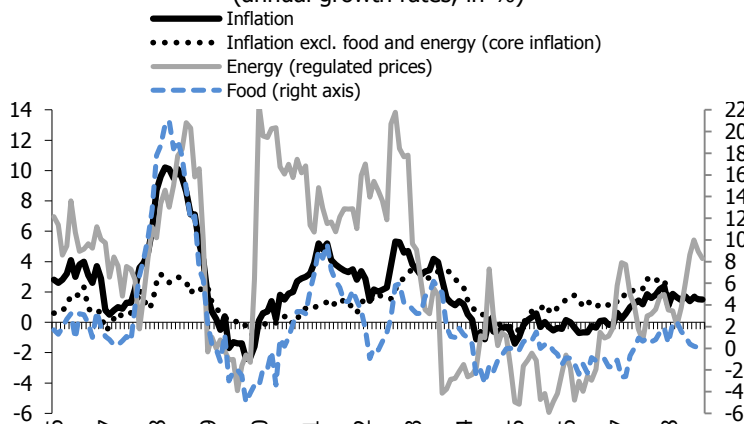
Source: SSO and NBRM.

**In September 2018, domestic consumer prices decreased by 0.1%<sup>15</sup> on a monthly basis (0.3% increase in August)...**

...reflecting the downtrend in core inflation, with minor growth in food and energy prices on a monthly basis.

**Inflation and volatility of food and energy**

(annual growth rates, in %)



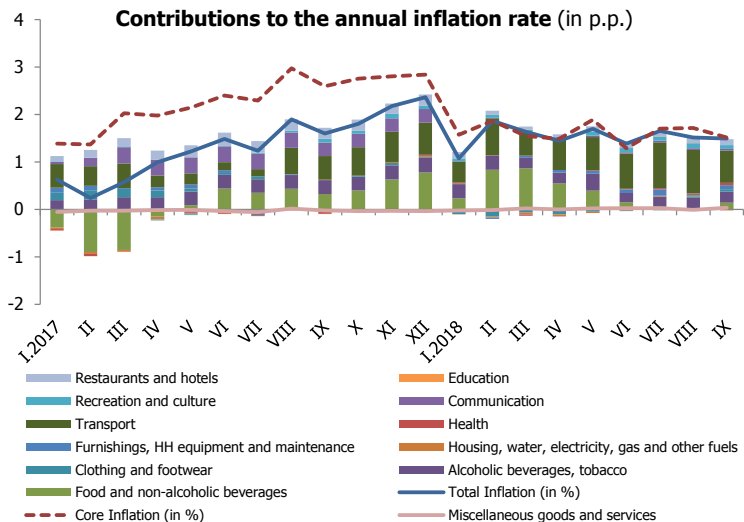
Source: State statistical office and NBRM calculations.

**The annual inflation was 1.5% in September** (same as the month before), which is a downward deviation from the April forecast.

Observed by price category, there was a significant downward deviation in food prices, with small upward deviation than forecast in energy prices and core inflation.

**For the first time since January this year, in September, core inflation decreased by 0.5% on a monthly basis,** which also slowed down the annual growth rate to 1.5% (1.7% in August), given the significant slowdown in the annual increase in air traffic fares.

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



Source: SSO and NBRM.

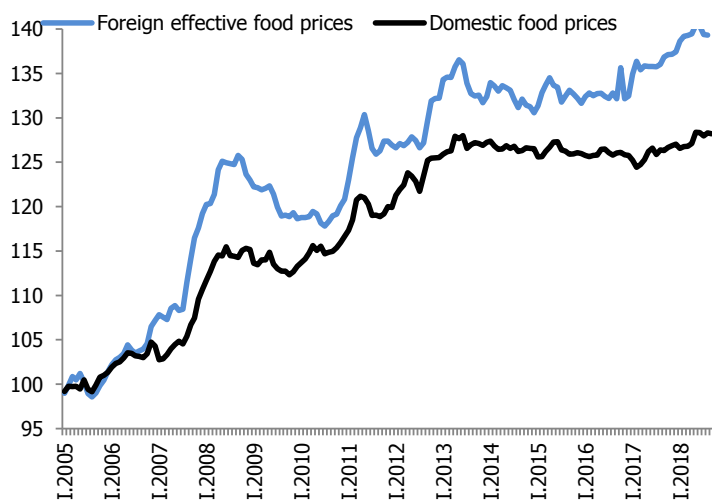
The growth structure of core inflation in September was similar to that of beginning of the year. Namely, the annual growth is attributed to the growth in the prices of most core inflation categories, with the greatest positive contribution of tobacco prices<sup>16</sup> and slightly lower contribution of hotel and restaurant services.

<sup>15</sup> Analyzed by groups of products, the highest contribution to the monthly fall in prices in September was made by the fall in air traffic fares.

<sup>16</sup> The annual growth of tobacco price in September reflects the increase in the prices of cigarettes in April, May and July, in the eve of the increase in excise duties on cigarettes at the beginning of July 2018. The increase in excise duties of 0.20 denars/a piece is envisaged for each year, until 1 July 2023.

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

(indices, 2005 =100)



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

**The expected price movements in external assumptions in the inflation forecast for the entire 2018 were mainly revised upwards.**

Thus, the latest oil price estimates for 2018 indicate significantly faster growth compared to the April forecasts. At the same time, a slightly higher foreign effective inflation is expected, as well as a significantly faster growth of wheat prices than expected in April, while the expectations for maize prices are as expected in April.

**Amid inflation lower than forecasted in April and mainly upward adjustment in external assumptions, for now, risks to the inflation forecast are considered balanced.** However, the forecasted movement of world primary commodities prices remains uncertain.

In July-August 2018, foreign trade deficit widened by 6.6% on an annual basis.

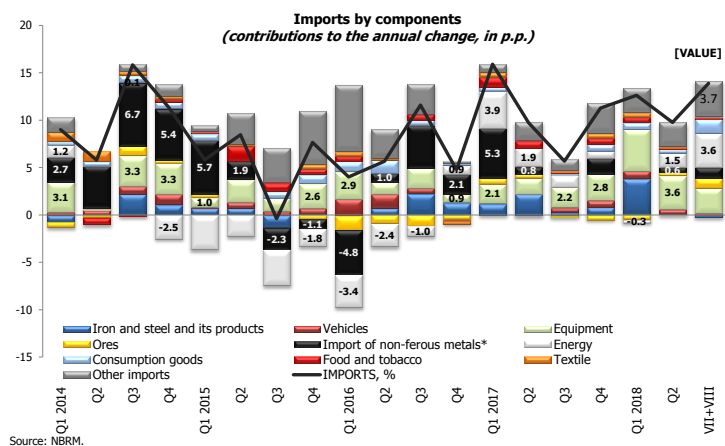
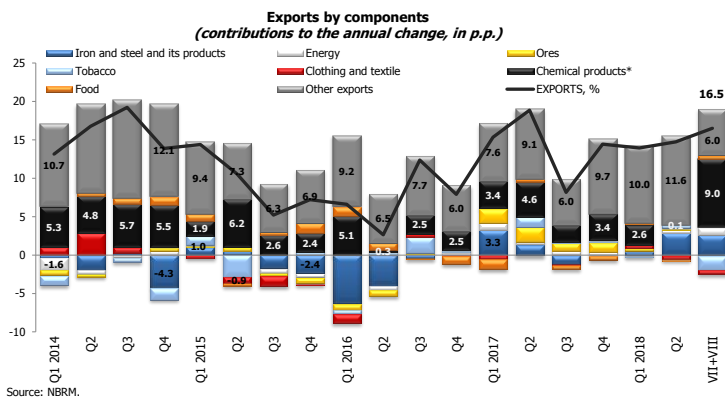
**Export of goods** in July and August increased annually by 16.5%, which is mainly due to the favorable performance of the new export facilities in the economy. Iron and steel exports, as well as energy exports also made a moderate positive contribution to the growth.

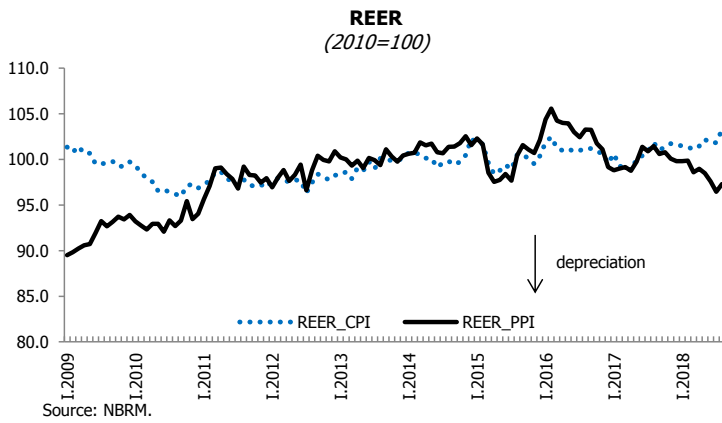
*Compared to the April forecast, the performance in July and August point to possibly higher than expected exports for the third quarter. Pronounced upward deviation was noted in the export of some of the new production facilities, while tobacco exports show a faster downward deviation from the expectations.*

In the period July-August, the **import of goods** grew by 13.9% annually, reflecting the growth of most import categories, primarily import of raw materials for the new industrial facilities, energy imports and import of equipment and machinery.

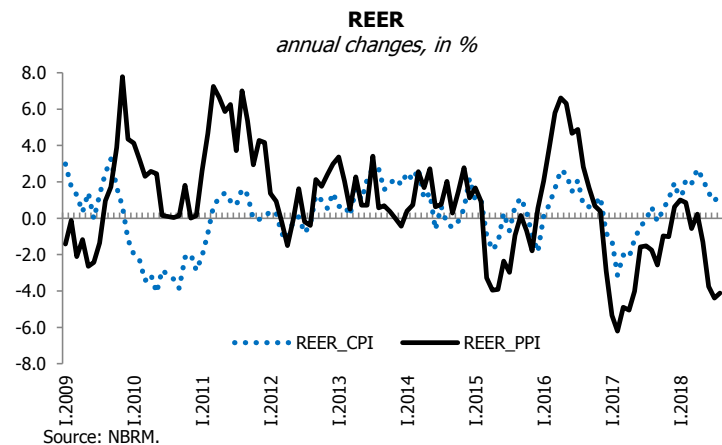
*The import of goods in July and August is higher than forecasted in April, which points to possibly higher import than forecasted for the third quarter. Analyzed by category, the deviation is largely due to upward deviations in energy imports, raw material imports for some of the new foreign facilities and the import of ores.*

**The performance of foreign trade components in the period of July-August 2018, indicate a possibly higher trade deficit than expected for the third quarter of 2018, as forecasted in April.**

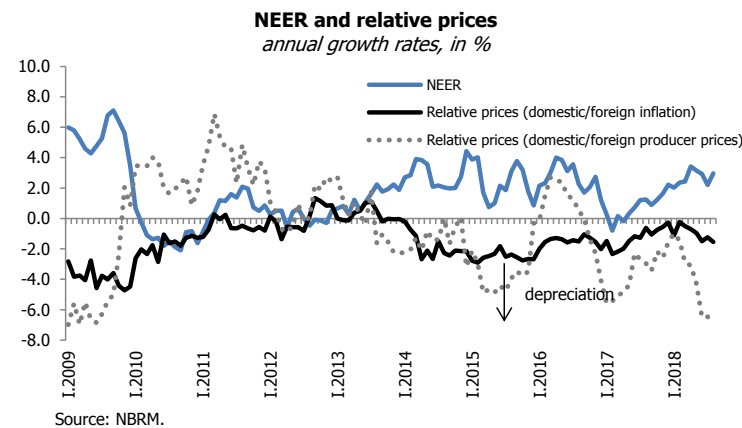




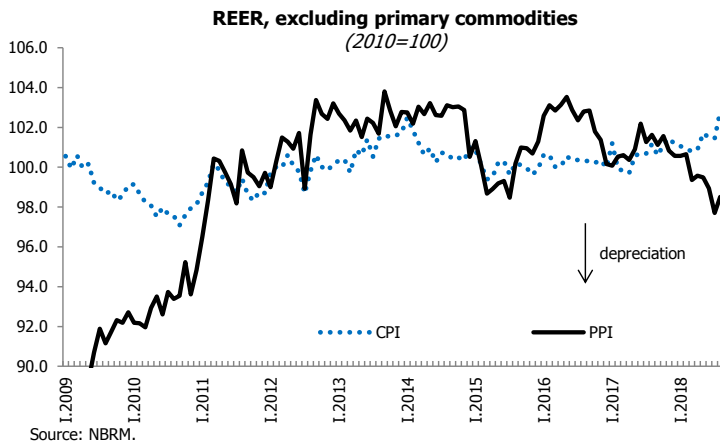
**In August 2018, price competitiveness indicators of the domestic economy registered divergent movements compared to the same period last year.** The REER index deflated by consumer prices appreciated by 1.4% on an annual basis, and the REER index deflated by producer prices depreciated by 4.1%.



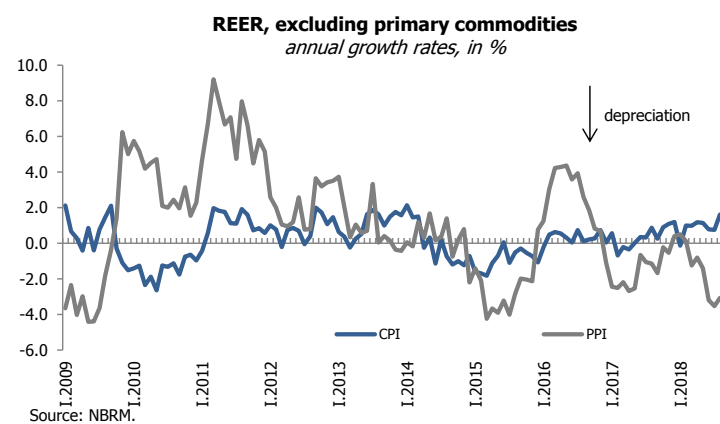
These developments are partially due to the favorable changes in relative prices, with 1.5% decrease in the relative consumer prices, and faster decrease of 6.9% in the relative producer prices. The NEER acted in the opposite direction, appreciating by 3% on an annual basis, mostly as a result of the depreciation of the Turkish lira and the Russian ruble.



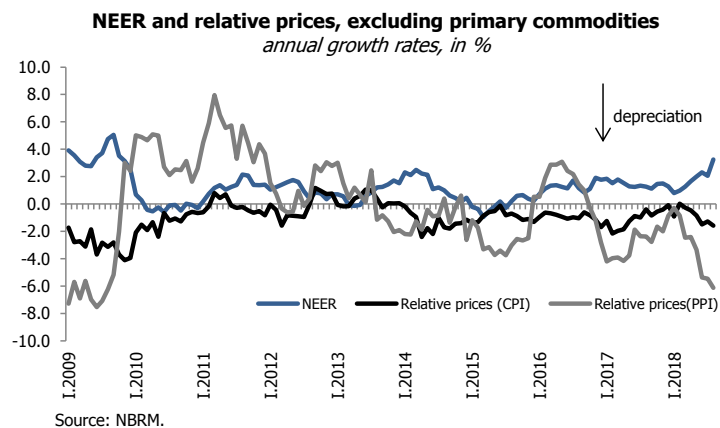




The analysis of REER indices, as measured using weights based on the foreign trade without primary commodities<sup>17</sup>, also shows similar movements. Thus, in August 2018, the REER index deflated by consumer prices appreciated by 1.6%, while the REER deflated by producer prices depreciated by 3.1%.

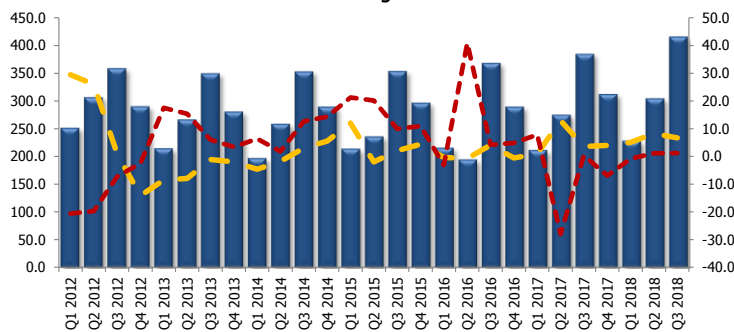


On an annual basis, the relative consumer prices and the relative producer prices decreased by 1.6% and 6.1%, respectively. At the same time, the NEER has appreciated by 3.2% on an annual basis.



<sup>17</sup> Primary commodities not included in the calculation are oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

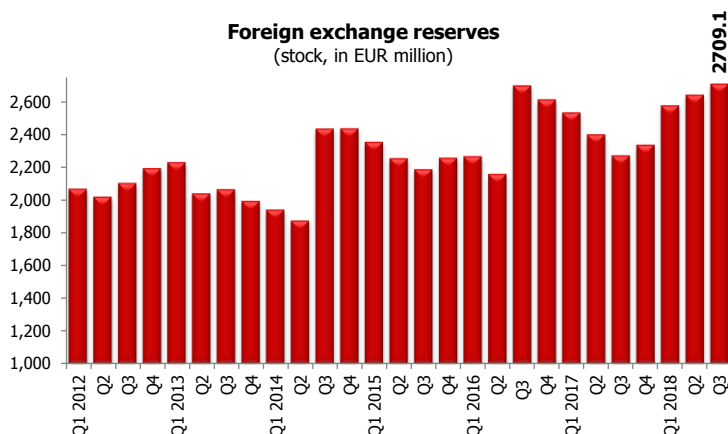
### Cash exchange market



\* Last available data 10.08.2018.

Source: NBRM.

### Foreign exchange reserves (stock, in EUR million)

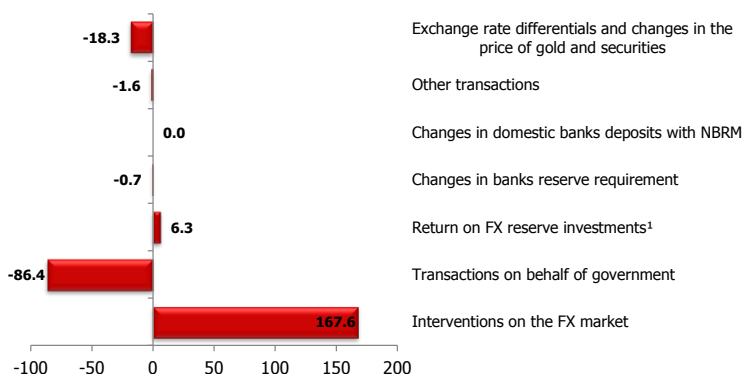


Source: NBRM.

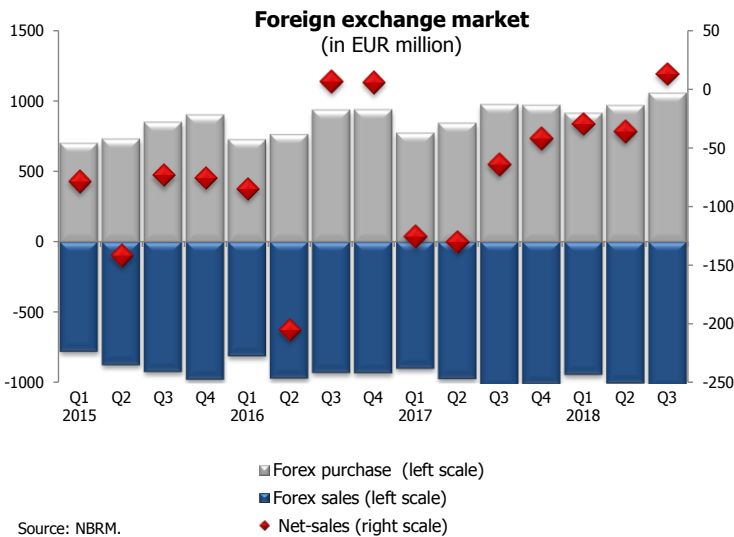
**Euro 415.9 million was purchased on the currency exchange market in the third quarter, which is an annual increase of 8.1%.** These developments are the result of the faster growth of supply than the growth of demand for foreign currency (by 6.7% and 1.2%, respectively).

**As of 30 September 2018, gross foreign reserves stood at Euro 2,709.1 million,** which is an increase of Euro 66,9 million compared to the end of the second quarter of 2018. The increase in the foreign reserves mainly arises from the NBRM purchase of foreign currency on the foreign exchange market. On the other hand, the decrease in foreign reserves mainly results from the NBRM's transactions on behalf of the government, primarily the regular external debt servicing, and less the price and exchange rate differentials. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.

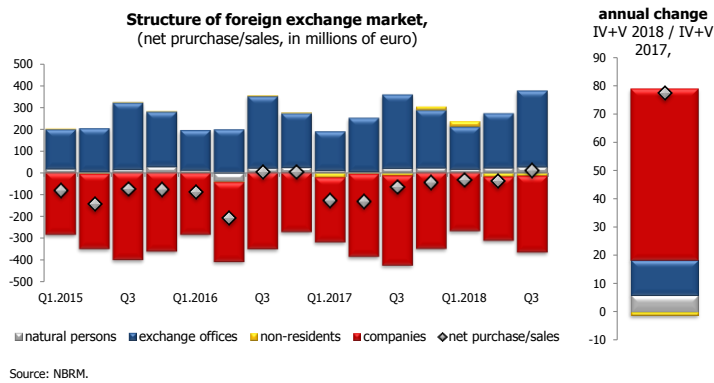
### Factors of change of the foreign reserves in the third quarter of 2018 (in EUR million)



Source: NBRM.

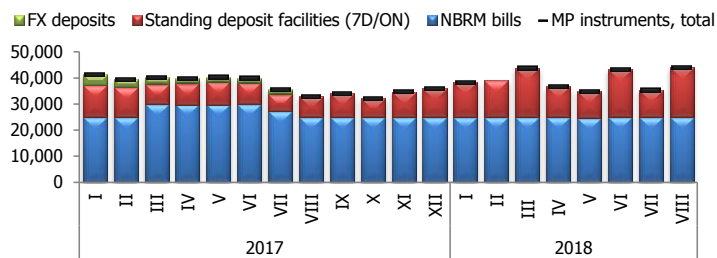


In the third quarter of 2018, the banks' foreign exchange market reported a net purchase of foreign currency of Euro 13.7 million, versus the net sale of Euro 63.8 million in the same period last year. This annual change is mainly due to the faster growth in the supply of foreign currency, amid almost unchanged demand.

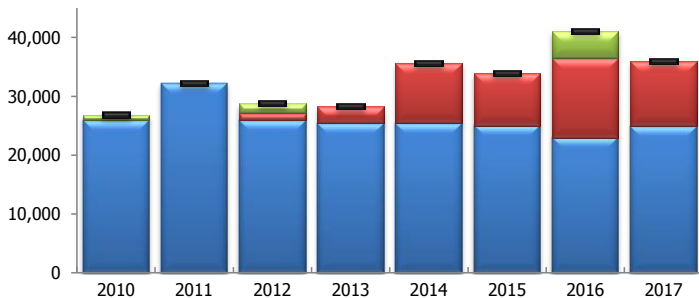


Sector-by-sector analysis shows that such shifts mostly result from the lower net sales of companies. The higher net purchase from the exchange offices and natural persons acted in the same direction, but to a smaller extent, without significant changes on an annual basis with the non-residents.

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



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



Source: NBRM

**In August, the monetary instruments increased on a monthly basis.** The monthly growth was predominantly due to the higher stock of banks' assets placed in short-term deposits with the NBRM, while the stock of CB bills remained stable<sup>18</sup>. The level of monetary instruments at the end of August almost matched the forecasts for the end of the third quarter of the year<sup>19</sup>.

**The NBRM net foreign assets registered a monthly growth in August.** The increase in August was mainly due to the growth in the NBRM foreign exchange assets, predominantly as a result of the NBRM interventions on the foreign exchange market (purchase of foreign currency), with slower growth in the NBRM foreign exchange liabilities. Compared with the forecast for the end of the third quarter, the stock of NBRM net foreign assets at the end of August was moderately higher than expected.

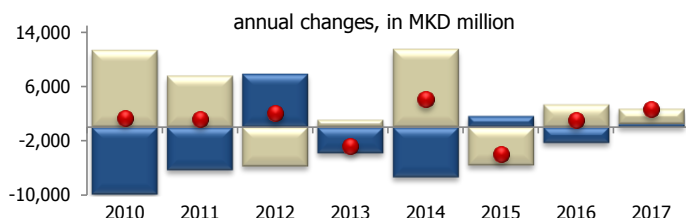
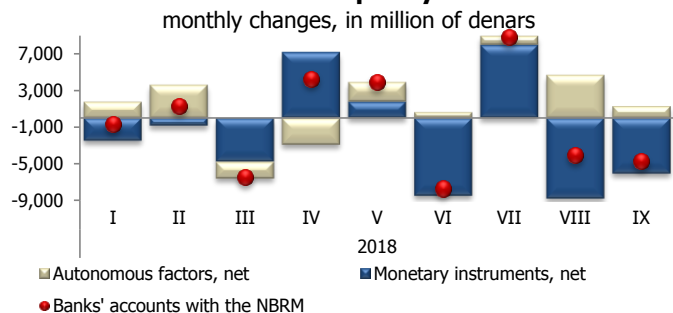
**In August, the total government deposits registered a small monthly increase.** The change arises from the increase in denar deposits, with simultaneous slight decrease in foreign currency deposits. Compared with the forecast for the end of the third quarter, the stock of total government deposits was higher at the end of August.

**In August, reserve money decreased on a monthly basis,** mostly as a result of the decrease in the banks' total reserves on the accounts with the NBRM, with insignificant fall in currency in circulation. Compared with the April forecast for the end of the third quarter, the stock of reserve money was slightly higher at the end of August.

<sup>18</sup> At the CB bills auction held on 15 August 2018, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.75% and maturity of 28 days.

<sup>19</sup> The performance comparisons are against the forecasts in April 2018.

**Banks liquidity\***

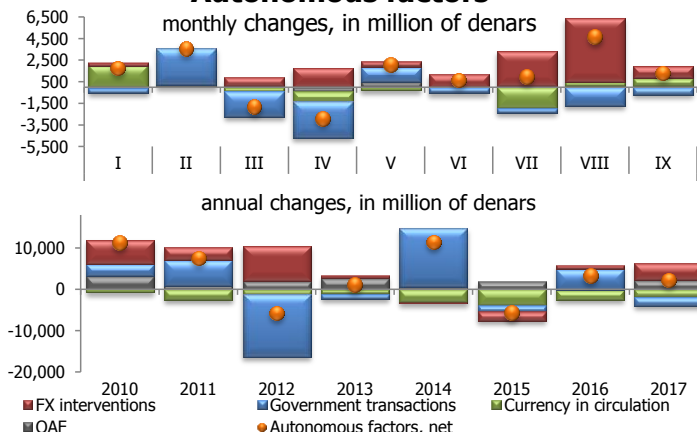


Source: NBRM.

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

**In September, the banking system liquidity decreased.** According to the operational data on liquidity flows, the decrease fully reflects the shift in monetary instruments, i.e. the higher amount of banks' funds placed in short-term deposits with the NBRM, amid unchanged stock of CB bills<sup>20</sup>. The autonomous factors, net, created liquid assets in the system, predominantly influenced by the foreign exchange interventions of the NBRM (purchase of foreign currency) and less by the declining currency in circulation. Government deposits with the NBRM acted in the opposite direction in September, in part compensating for the effect of other autonomous factors.

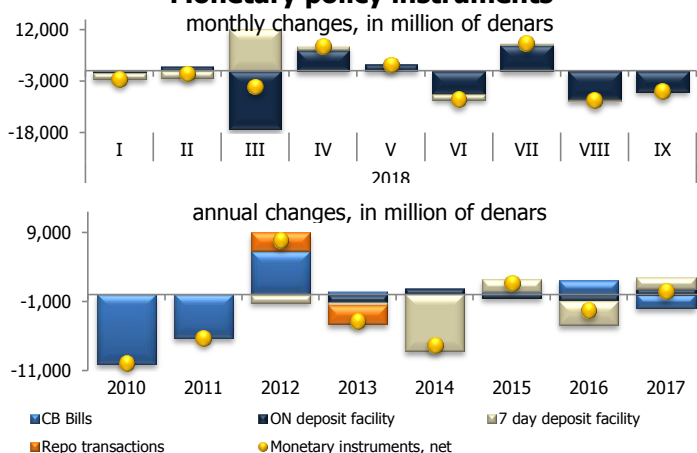
**Autonomous factors\***



Source: NBRM.

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

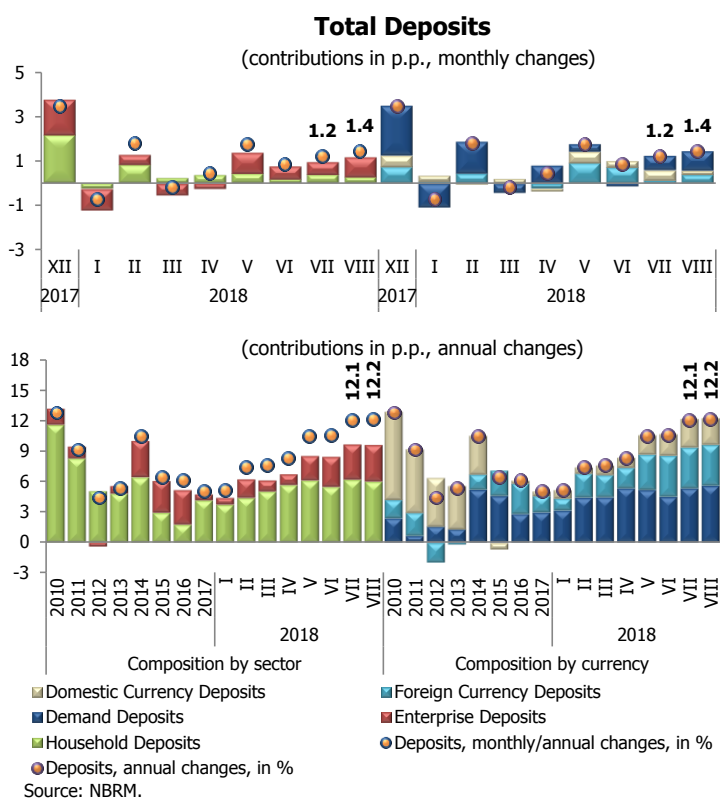
**Monetary policy instruments\***



Source: NBRM.

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

<sup>20</sup> At the CB bills auction held on 12 September 2018, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.75% and maturity of 28 days.



**In August, total deposits<sup>21</sup> registered a faster monthly growth compared to the previous month.** Observed by sector, the monthly increase of 1.4% was mainly generated by corporate deposits, with positive, but relatively smaller contribution of household deposits and deposits of other financial institutions<sup>22</sup>. Analyzed by currency, the monthly deposit growth is mostly driven by denar deposits (including demand deposits), with a lower positive contribution of foreign currency deposits.

In the period July-August 2018, total deposits increased, and at the end of August, they were higher than expected for the end of the third quarter of 2018.

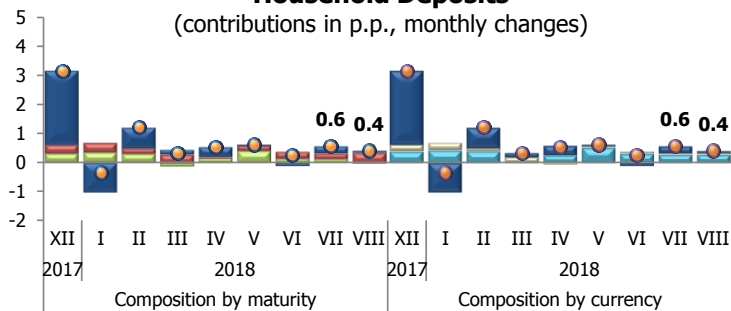
**In August, the annual growth rate of total deposits was 12.2%, which is above the growth forecasted for the third quarter of 2018 (of 7.2%) in April.** Observed by sector, the growth was mostly driven by household deposits, with positive, but smaller contribution of corporate deposits. Analyzing the currency, most of the growth is due to domestic currency deposits (including demand deposits), with a positive, but relatively smaller contribution of foreign currency deposits.

<sup>21</sup> Data refer to non-government deposits in banks and savings houses, transferable denar deposits of other financial institutions and transferable denar deposits of local self-government. They are consistent with the methodological changes of the NBRM from June 2018. For more information on the methodological changes visit: [http://www.nbrm.mk/monetarna\\_statistika\\_i\\_statistika\\_na\\_kamatni\\_stapki.nsp](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp).

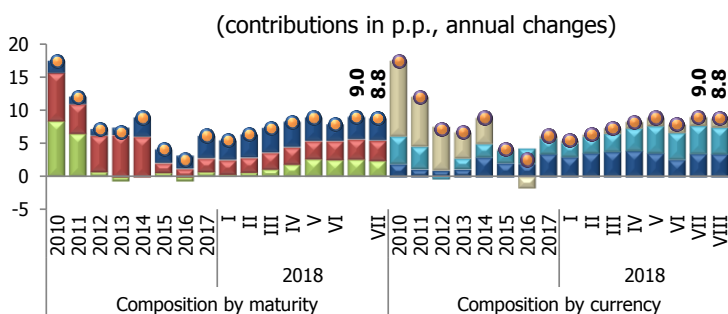
<sup>22</sup> Other financial institutions include investment funds, pension funds, insurance companies, investment funds management companies and pension funds management companies, financial companies and finance leasing companies.

**Household Deposits**

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



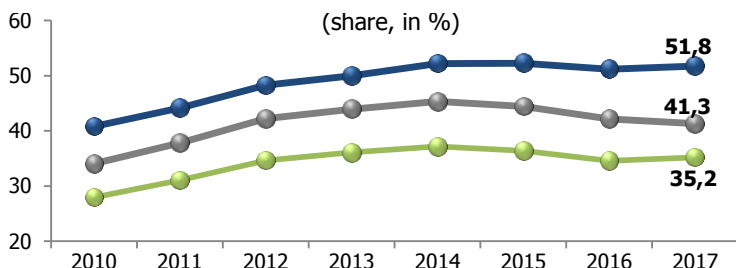
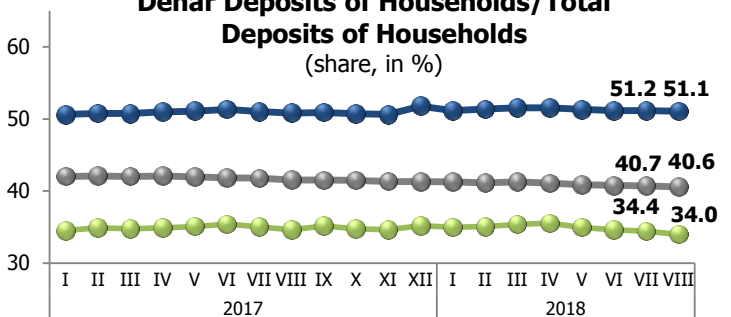
- Demand Deposits
- Foreign Currency Household Deposits
- Short-term Household Deposits
- Domestic Currency Household Deposits
- Long-term Household Deposits
- Household Deposits, monthly/annual changes, in %

Source: NBRM.

**In August, household deposits continued to grow on a monthly basis, at a moderately slower pace compared to the previous month.** Observing the maturity, the monthly growth of household deposits of 0.4% was predominantly driven by long-term deposits, while observed by currency, foreign currency deposits made the largest contribution to the growth. Denar deposits (with demand deposit) continue to make a small positive contribution. In August, the share of denar deposits (including demand deposits) in total household deposits equaled 51.1%, which was insignificantly lower compared to the previous month (51.2%). **The annual increase in household deposits in August was 8.8%.**

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

(share, in %)

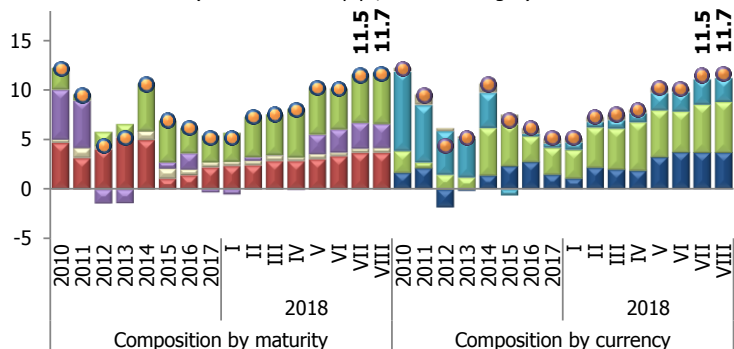
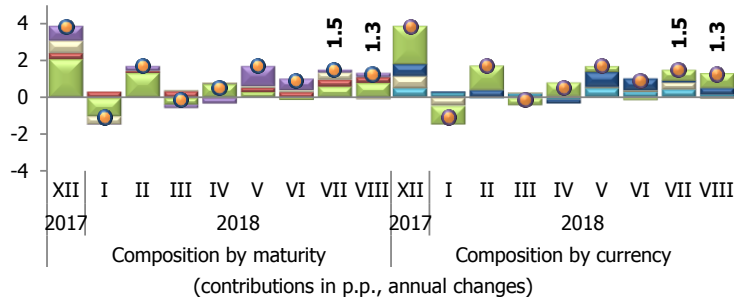


- Share of total household deposits (with demand deposits)
- Share of total household deposits (without demand deposits)
- Share of total deposits (with demand deposits)

Source: NBRM.

**Broad Money M4**

(contributions in p.p., monthly changes)



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

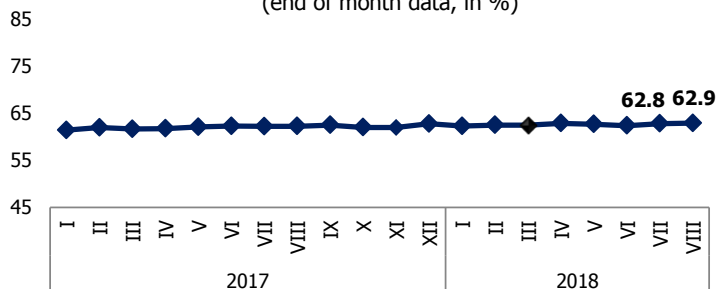
Source: NBRM.

**In August, broad money, measured through M4, registered a monthly increase, which was lower compared to the previous month.** The monthly growth of 1.3% was predominantly driven by the contribution of demand deposit, with a positive, but lower contribution of long-term and short-term deposits. Observed by currency, the growth was mostly influenced by denar deposits (with demand deposits), with a relatively lower positive contribution of foreign currency deposits. In August, the denar share in total broad money increased to 62.9% (62.8% in the previous month).

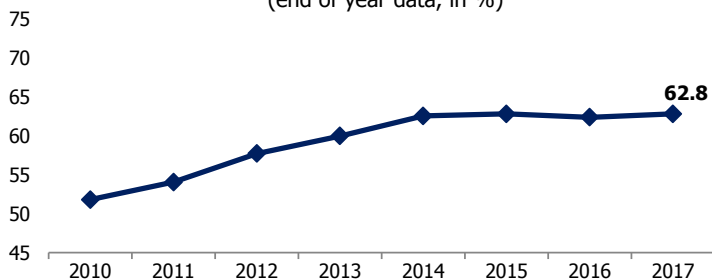
**In August, broad money increased by 11.7% annually, exceeding the growth of 7.1% forecasted for the third quarter of 2018.**

**Share of Denar M4 in total M4**

(end of month data, in %)

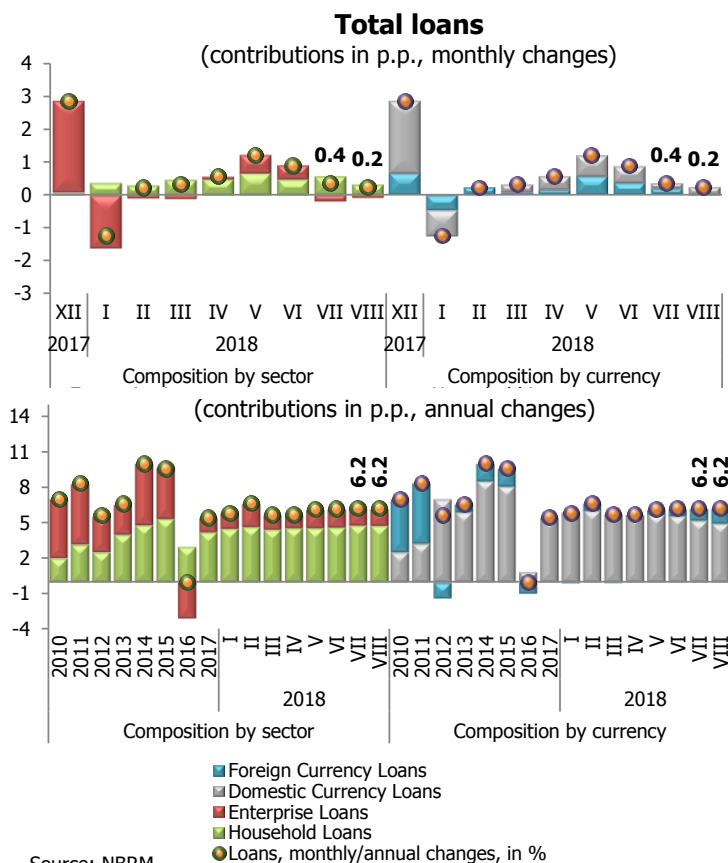


(end of year data, in %)



Source: NBRM.





Source: NBRM.

**Total loans extended by banks to private sector registered a monthly increase in June, which was moderately lower, compared to the previous month.**

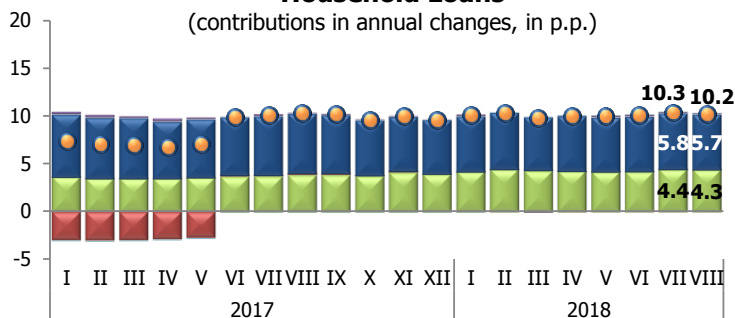
Observed by sector, the monthly increase stemmed entirely from loans granted to households, with little negative contribution of corporate loans. Analyzed by currency structure, the monthly growth of the total loans stemmed entirely from loans in domestic currency.

In the period July-August 2018, total loans increase, thus loans approved by banks to the private sector at the end of August were higher than expected at the end of the third quarter of 2018.

**In August, total loans grew by 6.2% annually, exceeding the growth (of 4.8%) forecasted for the third quarter of 2018.** Observing by currency, the annual growth of total loans was still mostly driven by the growth of loans in domestic currency, with a positive, but small contribution made by loans in foreign currency. Observed by sector, the annual growth of total loans was still predominantly driven by household loans, with positive, but smaller contribution of corporate loans.

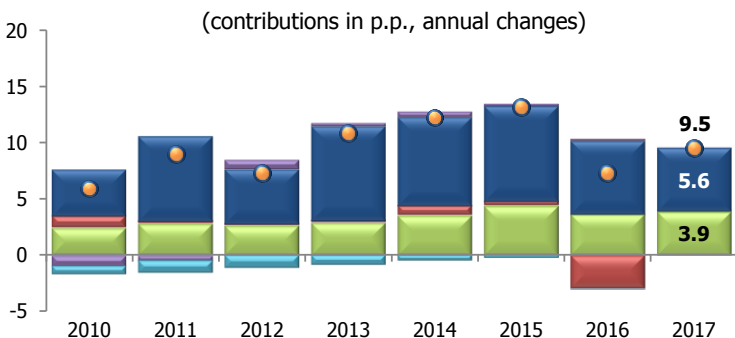
**Household Loans**

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



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

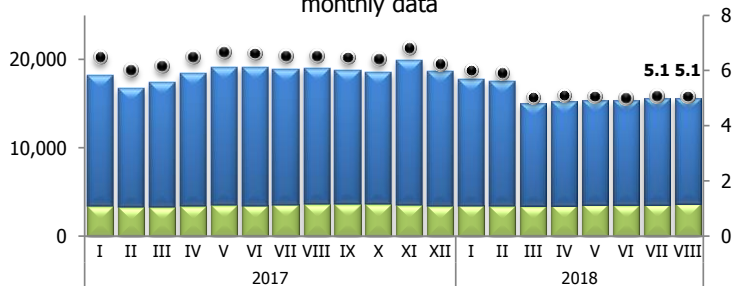
The annual growth of household loans<sup>23</sup> was 10.2% in August, which is a slight decrease compared to the previous month. The growth of household loans was still almost entirely driven by consumer and housing loans that contributed with 5.7 and 4.3 percentage points, respectively.



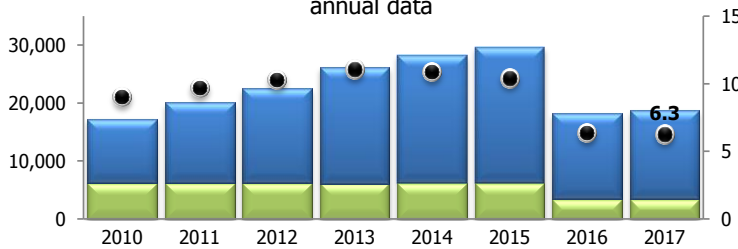
Source: NBRM.

**Doubtful and contested claims**

(composition by sector and share in total loans)  
monthly data



annual data

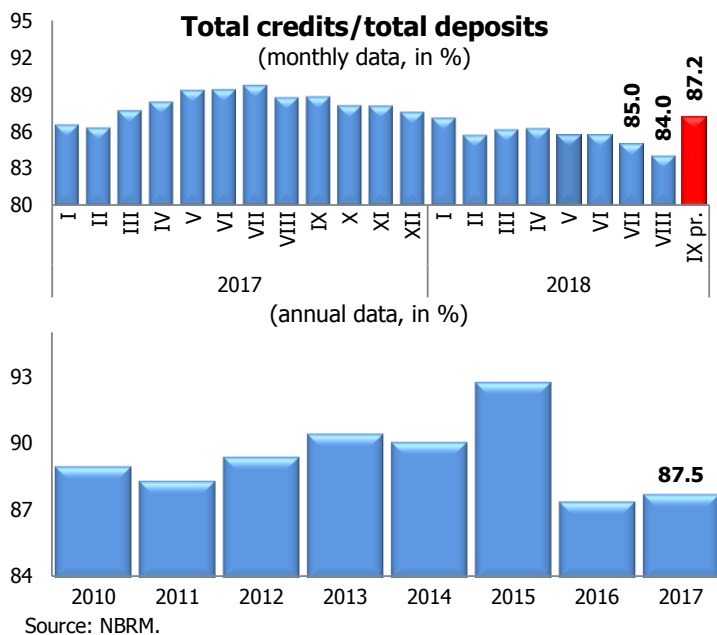


- Doubtful and contested claims of corporations in million DEN. (l.s.)
- Doubtful and contested claims of households in million DEN. (l.s.)
- Share of doubtful and contested claims in total loans in % (r.s.)

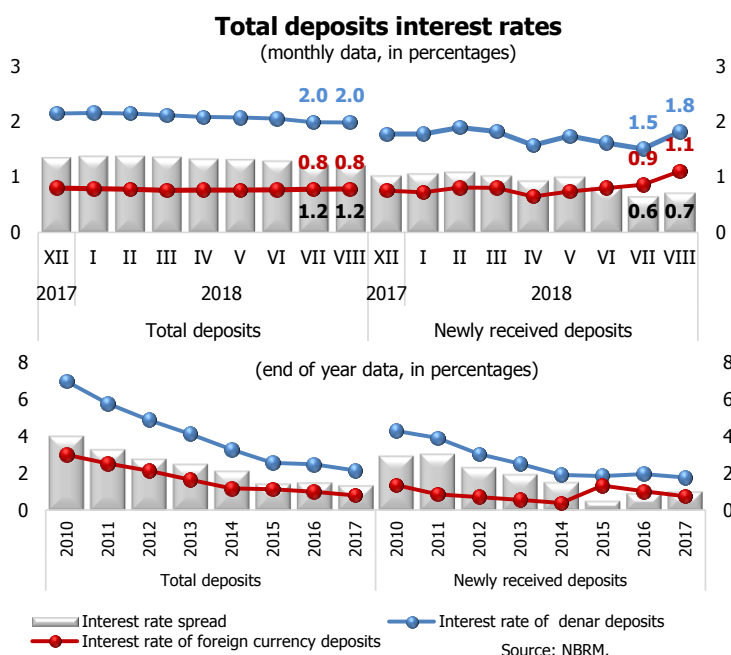
Source: NBRM.

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

<sup>23</sup> Excluding loans of self-employed individuals.



The utilization of banks' deposit potential for lending to the private sector decreased to 84.0% in August. With the August performance, loan to deposit ratio decreased against the expectations for the third quarter of 2018, as forecasted in April.



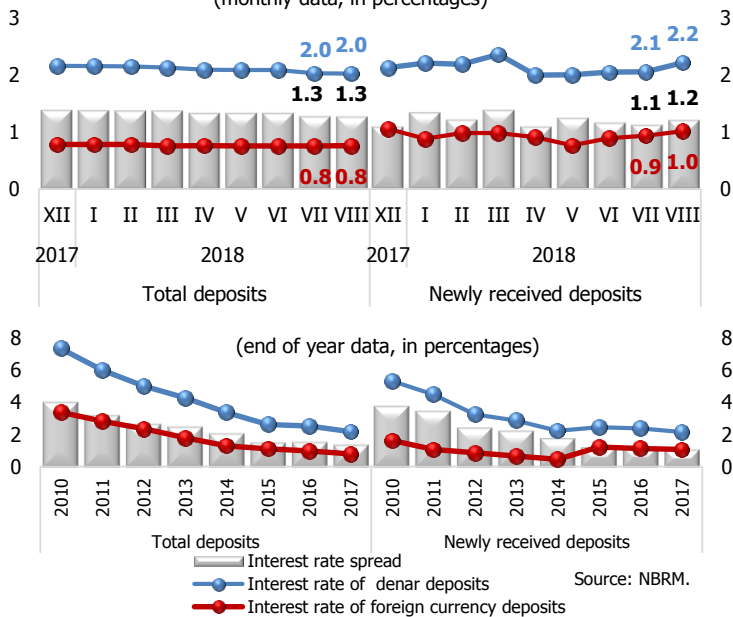
The interest rate spread of the interest rates on total deposits (denar and foreign currency)<sup>24</sup> remained 1.2 percentage points. In total newly accepted deposits, the interest rate spread between denar and foreign currency deposits widened from 0.6 percentage points to 0.7 percentage points, given the increase in interest rates on newly accepted denar deposits of 0.3 percentage point and increase in interest rates on newly accepted foreign currency deposits of 0.2 percentage point<sup>25</sup>.

<sup>24</sup> Data on interest rates are in accordance with the methodological changes of the NBRM from June 2018. For more information on the methodological changes visit: [http://www.nbrm.mk/monetarna\\_statistika\\_i\\_statistika\\_na\\_kamatni\\_stapki.nspix](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix).

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

**Households' deposits interest rates**

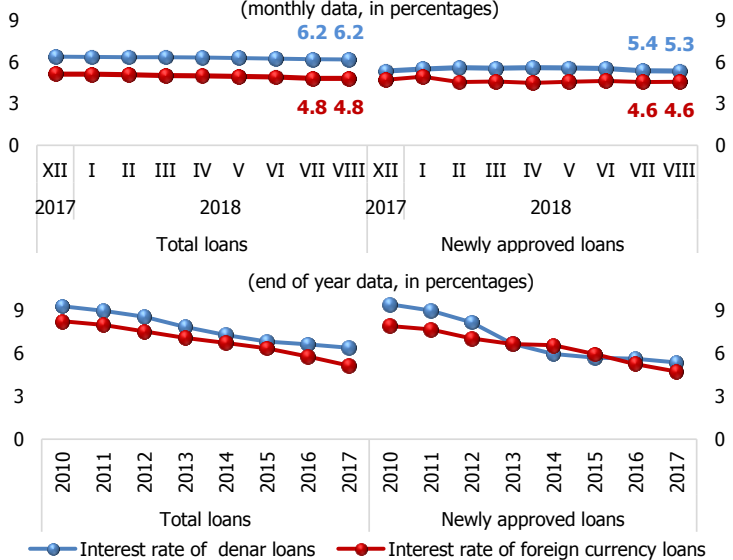
(monthly data, in percentages)



Interest rates on household deposits in August registered insignificant changes, whereby the spread between denar and foreign currency interest rates remained at 1.3 percentage points. Regarding the **newly accepted household deposits**, the interest rates were moved slightly upwards, whereby the interest rate spread in August insignificantly increased from 1.1 percentage point to 1.2 percentage points.

**Total loans interest rates**

(monthly data, in percentages)

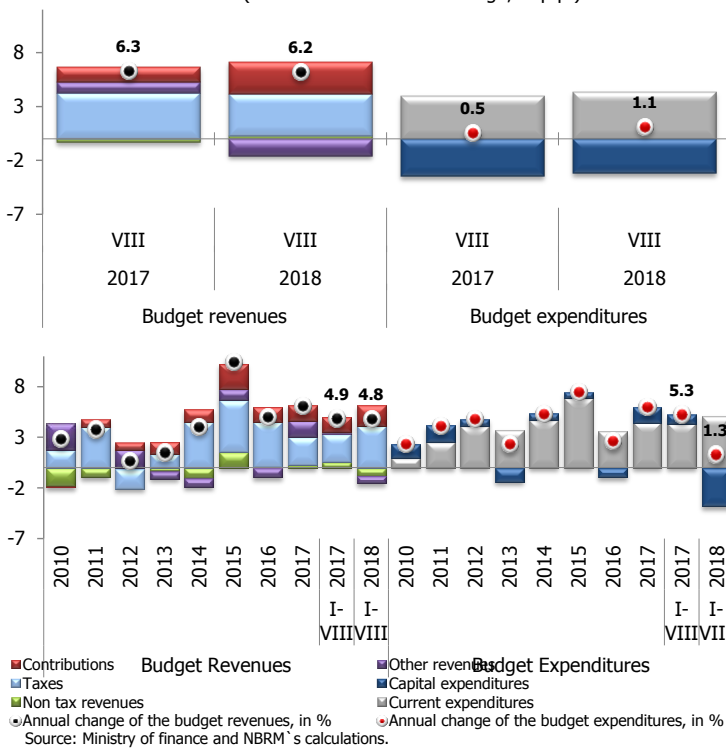


In August, interest rates on total household and corporate loans remained at the level of the previous month (6.2% and 4.8%, respectively). In the **newly approved total loans**, the interest rates on household loans insignificantly decreased (by 0.1 percentage point) to 5.3%, while the interest rates on corporate loans remained at the level of the previous month (4.6%)<sup>26</sup>.

<sup>26</sup> Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are driven by the volume of newly approved loans (which can vary from month to month) and their interest rate.

**Budget revenues and expenditures**

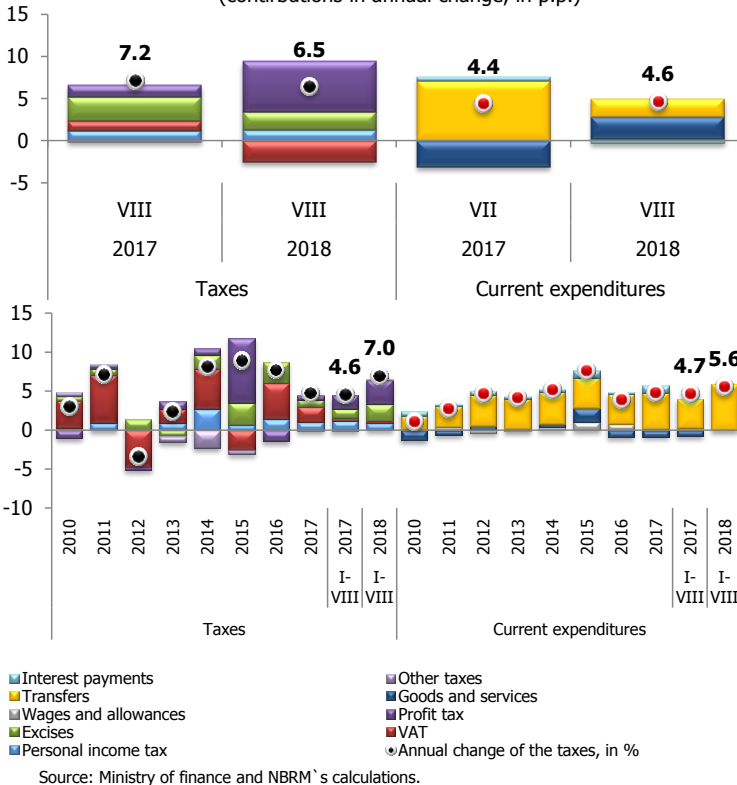
(contributions in annual change, in p.p.)



**In the Budget of the Republic of Macedonia (central budget and budgets of funds), in August 2018, total budget revenues and expenditures registered an annual growth.** The increase in the **budget revenues** in August (of 6.2% annually) was mostly due to the revenues from taxes and contributions that contributed with 3.9 and 2.9 percentage points, respectively. Non-tax revenues also had a positive but lower contribution (of 0.3 percentage points), while the contribution of other revenues<sup>27</sup> was negative. Tax revenues in August grew by 6.5% on an annual basis, which was mostly due to the higher inflows from profit tax (contribution of 6.0 percentage points), with positive contribution of excise taxes and income tax (2.1 percentage points and 1.3 percentage points, respectively). Given the higher amount of paid tax refunds, on annual basis<sup>28</sup>, the contribution of VAT revenue was negative (2.5 percentage points). **Analyzing the budget expenditures**, the annual growth of 1.1% in August mostly reflected the higher current expenses (contribution of 4.3 percentage points), while the contribution of capital expenses was negative (3.2 percentage points).

**Taxes and current expenditures**

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

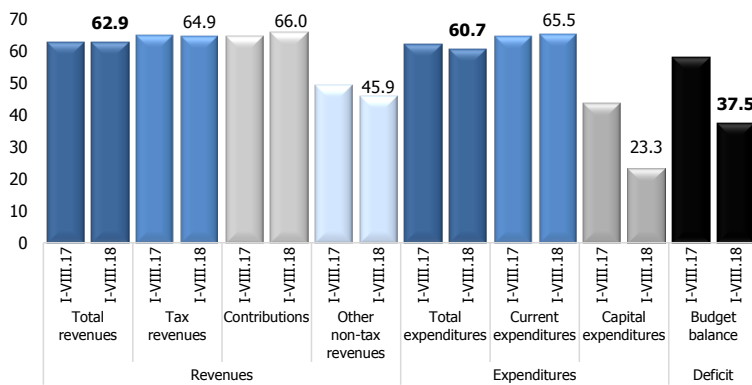


**In the period January-August 2018, total budget revenues and expenditures increased cumulatively compared to the same period last year. Budget revenues** increased by 4.8%, mostly reflecting higher tax and contributions revenues (contribution of 4.1 and 2.1 percentage points, respectively). The higher performance **in budget expenditures** (1.3%) fully reflects the higher current expenditures (contribution of 5.1 percentage points), while the contribution of capital expenses is still negative (3.8 percentage points).

<sup>27</sup> Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

<sup>28</sup> Lower annual net VAT revenues in August 2018 are explained by the higher (by 34.1%) payment of VAT refunds. Cumulatively, for the period January-August, the payment of VAT refunds was by 26.2% higher on an annual basis.

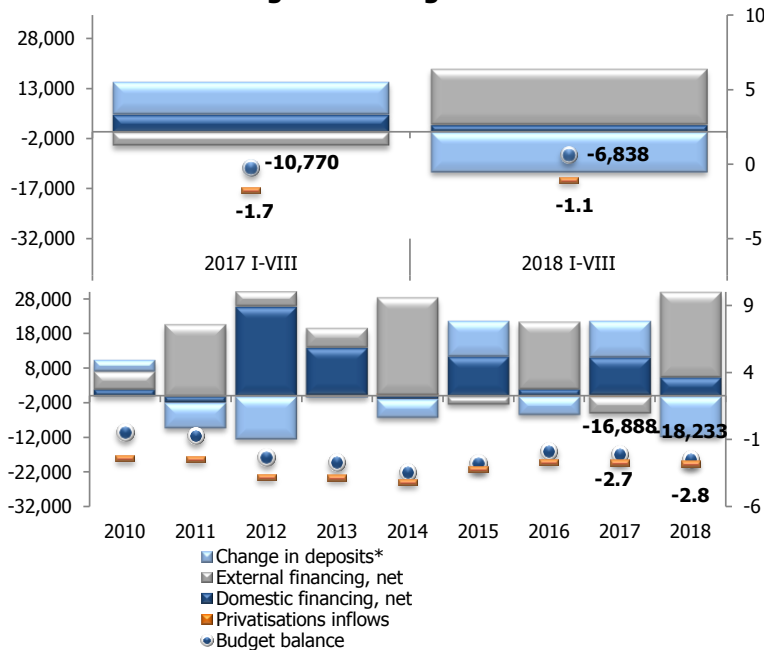
**Budget implementation , per categories**  
(central budget and funds), in percentage of the annual plan\*



\*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.

**Analyzing the annual budget plan for 2018**, 62.9% of the budget revenues was realized in the period January-August, which is same as last year's performance of the plan (62.8%). Analyzed by category, the inflows of taxes and contributions represent 64.9% and 66.0%, respectively, of the annual plan, while the performance in the category of other non-tax revenues was lower and equaled 45.9% of the plan for 2018. **In the same period, budget expenditures constituted 60.7% of the total planned expenditures for 2018** (the last year's performance relative to the plan was 62.4%). The realization of current expenditures was 65.5% of the plan for 2018, while the realization of capital expenditures (23.3% of the annual plan) was noticeably lower than last year's performance (43.8% of the plan for 2017).

**Financing of the budget balance**



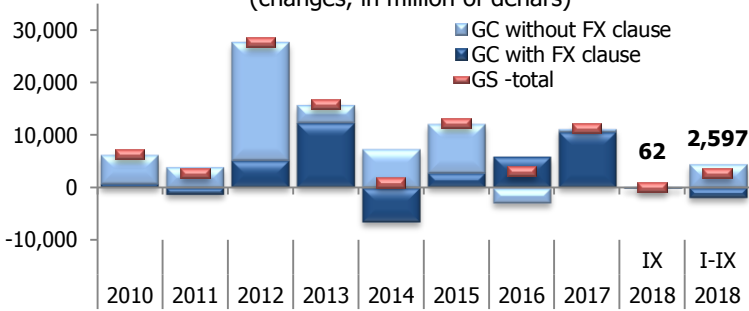
\* Positive change: deposits withdrawal; negative change:deposits accumulation.  
Source: MoF.

**In the period January-August 2018, the Budget of the Republic of Macedonia registered a deficit, mostly funded by government borrowing on international financial markets.** The realized budget deficit in this period was Denar 6,838 million, or 37.5% of the planned deficit for 2018 and 1.1% of the nominal GDP<sup>29</sup>. The budget deficit was mostly financed by external sources, through the issue of Eurobond on the international financial markets in January 2018, with a portion of the foreign assets remaining as deposit on the government account with the NBRM. A small portion of the budget deficit was funded through the issue of government securities on the domestic financial markets.

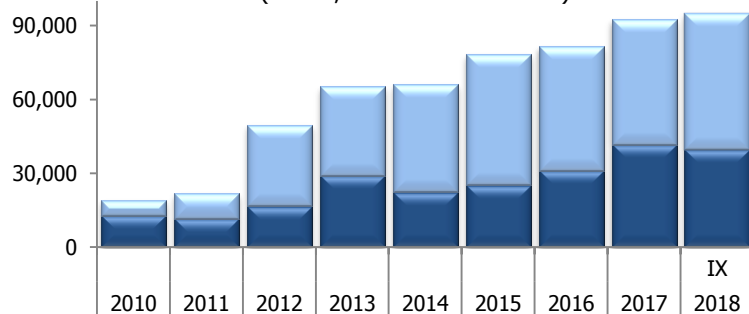
<sup>29</sup> The analysis uses the NBRM April forecast for the nominal GDP for 2018.

**Government securities**

(changes, in million of denars)



(stocks, in millions of denars)

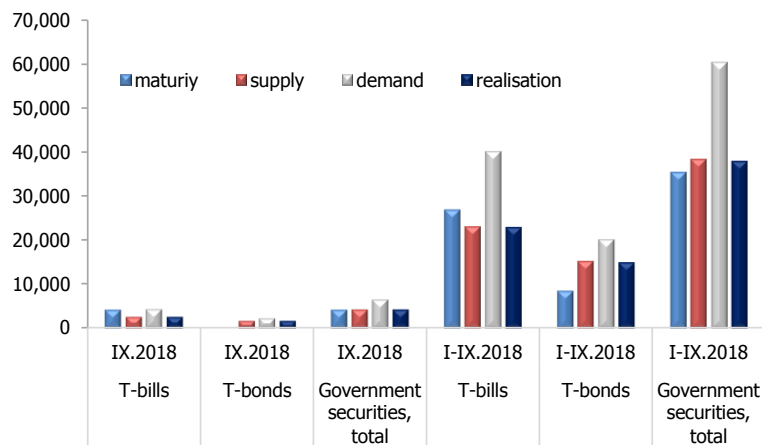


Source: MoF.

**In the primary government securities market in September, the stock of issued securities increased slightly and at the end of the month amounted to Denar 95,181 million.** Analyzed by currency, the monthly increase (of Denar 62 million) 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 2017, the stock of government securities at the end of September 2018 increased by Denar 2,597 million<sup>30</sup>.

**Government securities auctions**

in million of denars



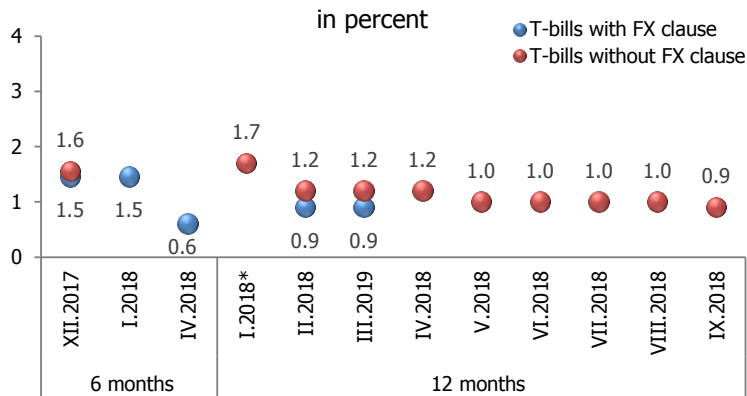
Source: Ministry of finance.

**The Ministry of Finance continued to issue securities with longer maturities.** The new issues of government securities in August were with 12-month, 3-year and 15-year maturity<sup>31</sup>, whereby the market participants' interest in August was higher than the offered amount. Given the lower supply of short-term securities (treasury bills), their stock declined, while the stock of government bonds, for which the offer was increased, grew. Compared to the end of 2017, the growth of the stock of government securities was entirely due to the increase in the stock of government bonds, with a slight decline in the stock of treasury bills.

<sup>30</sup> The annual Budget plans a domestic government borrowing of Denar 5,454 million for 2018, i.e. increase in the stock of government securities to Denar 98,038 million.

<sup>31</sup> The 12-month treasury bills fell due in September 2018.

**Interest rates of T-bills**

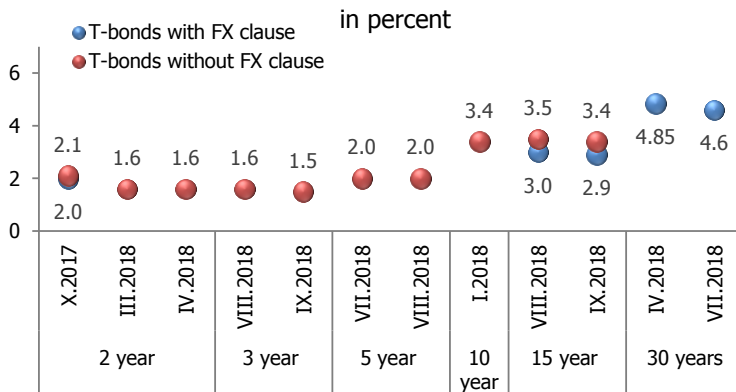


\*The interest rate on 12m T-bills in January 2018 (1,7%) is a weighted average of the realized amount and the interest rates (1,85% и 1,20%) from the two auctions held in January.

Source: Ministry of Finance.

**In September, the Ministry of Finance continued to adjust the interest rates on government securities along the yield curve.** Consequently, interest rates on 12-month treasury bills without currency clause, 3-year government bonds without currency clause and 15-year government bonds with and without currency clause were cut in September, by 0.1 percentage point each. This adjustment follows the cut in interest rates on 3-year government bonds in August<sup>32</sup>.

**Interest rates of T-bonds**



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

Source: Ministry of Finance

<sup>32</sup> In August, the Ministry of Finance cut the interest rate on 3-year government bonds without currency clause by 0.2 percentage points (from 1.8% to 1.6%).



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

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION																							
	2012	2013	2014	2015	2016	2017	2015				2016				2017				2018				
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	June	July	August
<i>real annual growth rates in %</i>																							
Retail trade*	-5.8	-6.2	-6.4	4.2	9.3	-2.4	5,1	6,3	1,5	4,3	11,8	8,3	9,7	7,6	-3,9	-1,9	-2,5	-1,6	5,8	8,9	8,6	9,9	8,6
VAT revenues*	-11.7	0.6	10.4	-4.7	10.5	2.8	-5.8	-2.7	1.3	-10.6	25.7	14.2	5.2	-0.7	3.4	-6.1	4.8	9.7	-6.7	10.1	52.1	-7.4	-7.5
Imports of consumption goods*	-2.2	-4.0	5.3	7.0	10.4	6.2	2.9	6.3	8.4	9.7	17.8	15.8	6.5	3.6	5.9	3.8	5.8	9.0	8.0	2.5	-0.2	6.4	3.6
Domestic production of consumption goods	2.5	6.3	1.4	5.0	-0.4	-4.3	4.1	-5.0	3.0	17.8	1.6	5.1	-1.7	-5.1	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	1.5	0.6	2.7
Consumer credits*	1.6	8.8	12.5	13.5	8.3	6.7	12.4	11.8	13.3	13.5	13.6	10.6	8.3	8.3	7.1	8.0	8.1	6.7	7.7	8.3	8.3	8.3	8.3
Average net wage*	-3.0	-1.6	1.5	2.7	2.3	1.2	2.6	2.7	3.2	2.3	2.8	2.2	1.8	2.1	1.5	1.0	1.4	1.0	3.4	4.7	4.7	4.5	-
Private net transfers*	7.2	-8.2	0.7	3.7	-2.4	5.4	10.4	-0.8	1.7	5.1	0.7	-12.8	3.7	-2.5	-3.4	22.9	0.2	5.0	5.5	9.0	6.2	13.9	-
Pensions*	1.0	6.5	8.0	4.0	6.1	6.0	5.8	1.2	2.0	7.2	6.7	7.3	7.1	3.7	6.1	7.0	6.0	4.7	2.1	3.4	2.8	2.7	2.2

\* real growth rates are calculated by the NBRM, by dividing the nominal growth rates with the annual CPI inflation.  
Source: State Statistical Office, Ministry of Finance and NBRM calculations.

INDICATIVE VARIABLES FOR INVESTMENTS																							
	2012	2013	2014	2015	2016	2017	2015				2016				2017				2018				
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	June	July	August
<i>real annual growth rates in %, except for FDZ in million denars</i>																							
Imports of capital goods*	-4.7	10.6	18.8	14.3	11.4	8.9	11.8	16.1	9.5	18.4	23.8	8.5	16.3	1.9	9.7	7.2	7.7	10.7	19.2	20.2	20.9	17.9	10.9
Completed construction works**	8.1	43.0	-3.3	40.7	7.2	-27.2	-4.9	36.4	89.6	36.9	64.1	26.6	-10.0	-10.1	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	14.1	-34.9	-
Domestic production of capital goods	2.3	9.0	48.5	23.6	27.1	8.1	31.9	16.5	22.3	25.5	50.1	18.6	39.9	8.0	-0.9	15.6	-2.6	20.9	19.3	24.2	34.2	25.2	8.3
Government investments*	2.3	-13.6	6.4	6.3	-8.9	15.3	-3.1	-16.5	19.4	21.8	-24.1	-12.9	26.4	-16.4	59.9	19.6	-40.8	33.7	-65.1	-39.5	-26.2	39.4	-50.3
Direct Investments***	-14216.7	5806.2	-1963.6	377.5	7168.1	-5685.3	-681.1	2843.0	-2710.6	926.3	3191.3	-1183.8	1741.9	3418.7	-2088.4	-3939.8	-5128.4	2445.8	7978.6	6647.4	3989.3	157.0	-
Long term credits to enterprises*	-2.4	-1.3	5.2	9.3	4.4	0.0	4.7	7.0	8.2	9.3	7.9	8.1	8.0	4.4	3.6	-0.4	-0.8	0.0	2.0	4.8	4.8	4.4	3.8
Final product stocks	-3.6	-2.6	3.2	-0.7	14.7	-2.4	-0.3	-5.0	0.2	2.4	16.4	19.4	13.5	10.2	-5.2	-6.0	-1.7	3.1	10.9	13.6	12.3	20.9	-

\* real growth rates are calculated by the NBRM, by dividing the nominal growth rates with the annual CPI inflation.  
\*\* real growth rates are obtained using the rate of growth of the construction costs for new housing facilities deflator.  
\*\*\* real amounts are calculated by NBRM, by dividing the nominal amounts with the level of the CPI index (base year: 2017=100).  
Source: State Statistical Office, Ministry of Finance and NBRM calculations.