

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



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

October 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 (April–September 2019) and to make a comparison with the latest macroeconomic forecasts (April 2019). 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 point to less favorable global economic prospects for 2019 and 2020 relative to April, amid downward revisions of the global growth made by international organizations.** At the same time, also the downward risks to the growth forecasts are more pronounced relative to the April forecasts. The main risk to the growth of the global economy is still the trade conflict between the United States and China, while the other risks refer to the possible greater deceleration in the growth of systemically important economies such as China and the euro area, the extremely high uncertainty about the manner and the moment of implementation of the Brexit, the risks associated with the accumulated financial vulnerability of certain emerging economies, the growing disinflationary pressures, as well as the increased geopolitical risks globally. Regarding the **economic developments in the euro area**, as our major trading partner, the latest high-frequency data and household and corporate surveys in September are less favorable relative to August and indicate likelihood of deceleration of the economic growth in the third quarter of 2019. In this context, the ECB in September made a downward revision of the forecasts for the euro area economic growth for 2019 (from 1.2% in June to 1.1%) and for 2020 (from 1.4% in June to 1.2%). The growth for 2021 is still expected to amount to 1.4%. According to the initial announcements, the labor market continues to register favorable developments, whereby unemployment in the period July-August declined to 7.5%, compared to 7.6% in the second quarter. In terms of inflation in the euro area, the initial assessment for September shows its minimal deceleration to 0.9% (from 1% in August). Compared to June, the latest ECB inflation forecasts have also been revised downwards throughout the entire forecast horizon<sup>1</sup>, amid significant downward revision of energy prices. At its regular meeting in September, the ECB made several decisions to further loosen monetary policy. Thus, the ECB reduced the deposit interest rate to -0.5% and announced that the key interest rates will be maintained at the current levels until the inflation reaches a level close enough, but below 2% in the period of forecasts. At the same time, the ECB decided to relaunch the quantitative easing program, amid monthly purchase of Euro 20 billion starting from November 2019, and also announced changes in the modalities of the new program for targeted long-term refinancing operations intended to keep the favorable lending terms and the efficiency of monetary transmission. Hence, according to the latest estimates, the **one-month EURIBOR** was revised downward especially for 2020, currently forecasting more negative values and more different trajectory than that from the April forecasts, which indicated gradual normalization of this interest rate.

**Analyzing the quantitative external environment indicators of the Macedonian economy, the forecasts for the foreign effective demand and for the foreign effective inflation** were revised downwards for 2019 and 2020 compared to the April forecasts. Observing the exchange rate, the US dollar is expected to register a greater appreciation in 2019 and a smaller depreciation in 2020, compared with the previous forecasts. **The latest forecasts of primary commodities prices on the world markets for 2019 and 2020 indicate a downward revision of almost all prices relative to the April forecasts, with the exception of the nickel price, which has been revised upwards.** However, the movements and the assessments of the prices of

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<sup>1</sup> Forecasted inflation rate of 1.2%, 1% and 1.5% for 2019, 2020 and 2021, compared to 1.3%, 1.4% and 1.6%, respectively, in June 2019.

primary commodities are extremely volatile, which creates greater uncertainty about their future dynamics and effects on the domestic economy, especially in the longer term.

**The comparison of the latest macroeconomic indicators of the domestic economy with their forecast dynamics within the April forecasting round indicates certain deviations in the individual segments of the economy.** Based on the published estimated GDP data, the domestic economy registered a solid growth rate of 3.6% in the first half of 2019, which is still slightly lower compared to the expected rate according to the April forecasts. Regarding the economic activity in the third quarter of 2019, the currently available high-frequency data for the period July-August 2019 generally indicate more favorable movements in the domestic economy, bearing in mind the acceleration in the growth of industry and the turnover in trade, as well as the growth of completed construction works in July, after the fall in the second quarter of the year. **Regarding the movements in consumer prices in the domestic economy, in September the annual inflation rate was 0.3%** (versus 0.8% in August), which is a downward deviation compared to the April forecast. Amid lower current inflation than forecasted in April, as well as mainly downward revisions in the external input assumptions, the current risks to the inflation forecast for 2019 are assessed as predominantly downward. However, the expected movement of world primary commodities prices remains uncertain.

**Foreign reserves (adjusted for price and exchange rate differentials and securities price changes) at the end of the third quarter of 2019 increased compared to both the end of June and the end of the previous year.** Analyzing growth factors, the growth of foreign reserves in the third quarter reflects the National Bank's purchase of foreign currency on the foreign exchange market, while the regular servicing of government external liabilities acted in the opposite direction. The analysis of the adequacy indicators shows that they are still within the safe zone. Regarding the available external sector data for the third quarter of the year, the currency exchange market data as of September point to higher private transfers than forecasted for the third quarter. Furthermore, foreign trade data as of July and August point to larger trade deficit than expected in the April forecast.

As for the monetary sector developments, final data as of August show a monthly increase in **total deposits** of 1.4%. The monthly increase primarily results from the increase in corporate deposits, i.e. from deposits in domestic currency. On an annual basis, total deposits in August grew by 10.1%, which is above the forecasted annual growth of 9.7% for the third quarter of 2019. Analyzing the credit market, according to the changes in the regulatory treatment of doubtful and contested claims of banks, **total private sector loans** in August registered a small monthly fall of 0.2%. Observed by sector, the fall in loans is a result of the reduction of corporate loans, with a positive contribution of household loans. On an annual basis, total loans in August increased by 6.4%. If we exclude the effect of regulatory changes, the growth in total loans is in line with the forecasted annual growth for the third quarter of 2019 (of 8%), according to the April forecast.

In the period January-August, the Budget of the Republic of North Macedonia registered a deficit of Denar 9,028 million. The budget deficit was mostly financed by using government deposits with the National Bank and by government borrowing on the domestic financial market. The budget deficit constitutes 51% of that planned with the Budget for 2019.

**The latest macroeconomic indicators and assessments indicate certain deviations in terms of the forecasted dynamics, but the perceptions about the environment for conducting the monetary policy remained mainly unchanged compared to the previous forecasts.** Foreign exchange market developments remain favorable, and foreign reserves are still in the safe zone. Regarding the economic activity, the growth registered in the first half of 2019 of 3.6% is more moderate than forecasted for this time of year, and the signals from the available high frequency indicators for July-August are currently favorable and indicate further economic growth. Regarding the inflation, the current risks are assessed as predominantly downward, amid lower performances as of September 2019 relative to the forecast and revisions mainly in a downward

direction in the external input assumptions for the period ahead. Observing the monetary sector, the performances in deposits are moderately better than forecasted, while the growth of loans is currently slightly lower than forecasted. If we exclude the effect of regulatory changes, the growth of loans is in line with that forecasted for the third quarter of the year.

## Favorable signals for the economic activity in the third quarter of 2019

Data for the first two months of the third quarter of 2019 in terms of supply, point to favorable developments in the domestic economy. **Industrial output** grew rapidly, driven by the favorable performances in the energy sector and the manufacturing industry. A moderate acceleration in the annual growth is observed in the **turnover in the total trade**, amid positive developments in all three types of trade (wholesale trade, retail trade and trade in motor vehicles). After the decline in construction in the second quarter, in July the **value of completed construction works** registered double-digit growth rate on an annual basis, which reflects the favorable performances of building construction. At the same time, in July the total turnover in **catering** grew at a faster pace.

Selected economic indicators <sup>1</sup>			2018					2019											
	2016	2017	Q1	Q2	Q3	Q4	2018	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep.	Q3
<b>I. Real sector indicators</b>																			
<b>Gross domestic product (real growth rate, y-o-y)<sup>2</sup></b>	<b>2.8</b>	<b>1.1</b>	<b>0.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.7</b>	<b>2.7</b>				<b>4.1</b>			<b>3.1</b>					
<b>Industrial production<sup>3</sup></b>																			
y-o-y	3.4	0.2	5.2	4.9	5.1	6.4	5.4	12.0	7.3	7.5	8.8	5.5	1.2	-2.7	1.1	5.8	9.8		
cumulative average	3.4	0.2	5.2	5.0	5.0	5.4	5.4	12.0	9.6	8.8	8.8	7.9	6.5	4.8	4.8	4.9	5.5		
<b>Inflation<sup>4</sup></b>																			
CPI Inflation (y-o-y) <sup>5</sup>	-0.2	2.4	1.5	1.5	1.6	1.2	0.9	1.2	1.1	1.4	1.2	1.9	1.4	0.3	1.2	0.8	0.8	0.3	0.6
CPI Inflation (cumulative average)	-0.2	1.4	1.5	1.5	1.5	1.5	1.5	1.2	1.1	1.2	1.2	1.4	1.4	1.2	1.2	1.2	1.1	1.0	1.0
Core inflation (cumulative average)	1.3	2.3	1.6	1.6	1.6	1.5	1.5	1.3	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8
Core inflation (y-o-y)	1.3	2.3	1.6	1.5	1.7	1.3	1.5	1.3	0.7	0.6	0.9	1.1	0.9	0.9	1.0	1.0	0.5	0.2	0.6
<b>Labor force</b>																			
Unemployment rate	23.7	22.4	21.6	21.1	20.8	19.4	20.7				17.8				17.5				
<b>II. Fiscal Indicators<sup>6</sup></b>																			
(Central Budget and Budgets of Funds)																			
Total budget revenues	169,356	179,673	43,369	47,275	45,992	51,869	188,505	14,913	15,125	16,007	46,045	17,791	16,738	15,548	50,077	17,682	16,519		
Total budget expenditures	185,407	196,561	46,502	48,680	48,462	56,427	200,071	15,622	17,108	16,511	49,241	18,819	17,508	17,587	53,914	20,032	16,164		
Overall balance (cash)	-16,051	-16,888	-3,133	-1,405	-2,470	-4,558	-11,566	-709	-1,983	-504	-3,196	-1,028	-770	-2,039	-3,837	-2,350	355		
Overall balance (in % of GDP) <sup>1</sup>	-2.7	-2.7	-0.5	-0.2	-0.4	-0.7	-1.8	-0.1	-0.3	-0.1	-0.5	-0.1	-0.1	-0.3	-0.6	-0.3	0.1		
<b>III. Financial indicators<sup>6</sup></b>																			
<b>Broad money (M4), y-o-y growth rate</b>	<b>6.2</b>	<b>5.1</b>	<b>7.5</b>	<b>10.1</b>	<b>11.7</b>	<b>11.8</b>	<b>11.8</b>	<b>12.0</b>	<b>11.2</b>	<b>11.7</b>	<b>11.7</b>	<b>13.3</b>	<b>10.6</b>	<b>10.5</b>	<b>10.5</b>	<b>10.1</b>	<b>10.1</b>		
<b>Total credits, y-o-y growth rate</b>	<b>-0.1</b>	<b>5.4</b>	<b>5.7</b>	<b>6.2</b>	<b>7.9</b>	<b>7.3</b>	<b>7.3</b>	<b>7.8</b>	<b>8.2</b>	<b>9.0</b>	<b>9.0</b>	<b>8.9</b>	<b>8.3</b>	<b>8.1</b>	<b>8.1</b>	<b>6.8</b>	<b>6.4</b>		
Total credits - households	7.0	9.2	9.4	9.7	10.1	10.3	10.3	9.9	9.6	9.7	9.7	9.3	9.6	9.9	9.9	9.4	9.4		
Total credits - enterprises	-5.3	2.3	2.3	2.9	5.7	4.5	4.5	5.7	6.9	8.2	8.2	8.5	7.0	6.4	6.4	4.3	3.4		
<b>Total deposits (incl. demand deposits), y-o-y growth rate<sup>7</sup></b>	<b>6.1</b>	<b>5.0</b>	<b>7.6</b>	<b>10.6</b>	<b>12.3</b>	<b>12.1</b>	<b>12.1</b>	<b>12.2</b>	<b>11.3</b>	<b>11.9</b>	<b>11.9</b>	<b>13.4</b>	<b>10.7</b>	<b>10.6</b>	<b>10.6</b>	<b>10.1</b>	<b>10.1</b>		
Total deposits - households	2.5	6.1	7.3	7.9	8.4	9.5	9.5	9.3	8.8	8.7	8.7	9.6	8.8	9.0	9.0	9.1	9.1		
Total deposits - enterprises	13.4	2.1	4.1	11.6	16.8	9.5	9.5	10.6	9.5	12.1	12.1	16.9	11.3	10.1	10.1	9.1	10.1		
<b>Interest rates<sup>8</sup></b>																			
Interest rates of CBBills	3.75	3.25	3.0	3.0	2.75	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Lending rates																			
denar rates	7.0	6.6	6.3	6.2	6.0	5.9	6.1	5.8	5.8	5.7	5.8	5.7	5.7	5.6	5.7	5.6	5.6		
f/x rates (aggregated, incl. f/x and denar with f/x clause)	5.7	5.3	5.0	4.9	4.8	4.8	4.9	4.7	4.7	4.7	4.7	4.7	4.6	4.6	4.7	4.6	4.6		
Deposit rates																			
denar rates	2.5	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9		
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8		
<b>IV. External sector indicators</b>																			
<b>Current account balance (millions of EUR)</b>	<b>-275.5</b>	<b>-102.9</b>	<b>-144.5</b>	<b>23.9</b>	<b>195.8</b>	<b>-107.1</b>	<b>-31.9</b>	<b>-59.9</b>	<b>-63.3</b>	<b>-39.3</b>	<b>-162.5</b>	<b>-92.8</b>	<b>-9.8</b>	<b>63.2</b>	<b>-39.4</b>				
Current account balance (% of GDP)	-2.9	-1.0	-1.3	0.2	1.8	-1.00	-0.3	-0.5	-0.6	-0.3	-1.4	-0.8	-0.1	0.6	-0.3				
<b>Trade balance (millions of EUR)<sup>9</sup></b>	<b>-1,786.2</b>	<b>-1,816.2</b>	<b>-474.2</b>	<b>-431.6</b>	<b>-382.3</b>	<b>-523.1</b>	<b>-1,811.1</b>	<b>-154.8</b>	<b>-149.7</b>	<b>-151.8</b>	<b>-456.2</b>	<b>-228.9</b>	<b>-157.7</b>	<b>-85.4</b>	<b>-471.9</b>	<b>-183.4</b>	<b>-163.7</b>		
Trade balance (% of GDP)	-18.0	-18.1	-4.4	-4.0	-3.6	-4.9	-16.9	-1.4	-1.3	-1.3	-4.0	-2.0	-1.4	-0.8	-4.2	-1.6	-1.4		
import (millions of EUR)	-6,176.5	-6,834.9	-1,783.6	-1,889.8	-1,845.4	-2153.1	-7,671.9	-570.1	-679.5	-740.7	-1,990.3	-760.8	-716.4	-618.1	-2,095.3	-747.8	-664.4		
export (millions of EUR)	4,390.3	5,018.7	1,309.5	1,458.3	1,463.1	1,630.0	5,860.8	415.3	529.8	588.9	1,534.0	531.9	558.8	532.7	1,623.4	564.4	500.7		
rate of growth of import (y-o-y)	6.5	10.7	12.3	9.6	11.8	15.0	12.2	1.5	17.8	14.9	11.6	12.1	14.6	-3.7	10.9	16.7	11.1		
rate of growth of export (y-o-y)	7.4	14.3	13.3	14.4	15.8	23.0	16.8	-1.9	15.2	38.2	17.1	23.2	10.5	10.3	11.3	17.4	10.7		
<b>Foreign Direct Investment (millions of EUR)</b>	<b>316.9</b>	<b>180.0</b>	<b>235.4</b>	<b>74.1</b>	<b>-1.5</b>	<b>313.8</b>	<b>621.9</b>	<b>-34.8</b>	<b>-6.2</b>	<b>-0.2</b>	<b>-41.2</b>	<b>-20.6</b>			<b>-7.6</b>				
<b>External debt</b>																			
Gross external debt (in millions of EUR)	7,216.6	7,372.5	8,251.3	8,420.0	8,396.6	7,843.7	7,843.7				8249.7				8324.1				
public sector	3,445.3	3,461.8	4,053.1	4,077.9	3,986.3	3,756.2	3,756.2				4095.2				4035.1				
public sector/GDP (in %)	35.7	34.6	37.8	38.0	37.1	35.0	35.0				36.3				35.7				
private sector	3,771.2	3,910.7	4,198.2	4,342.2	4,410.3	4,151.3	4,151.3				4154.5				4289.0				
Gross external debt/GDP (in %)	74.7	73.6	76.9	78.4	78.2	73.1	73.1				73.0				73.7				
<b>Gross official reserves (millions of EUR)<sup>10</sup></b>	<b>2,613.4</b>	<b>2,336.3</b>	<b>2,577.1</b>	<b>2,642.2</b>	<b>2,709.1</b>	<b>2,867.3</b>	<b>2,867.3</b>	<b>2,877.4</b>	<b>2,864.3</b>	<b>2,866.4</b>	<b>2,866.4</b>	<b>2,874.4</b>	<b>2,901.4</b>	<b>2,928.2</b>	<b>2,928.2</b>	<b>2,927.1</b>	<b>3,031.7</b>	<b>3,110.2</b>	<b>3,110.2</b>

<sup>1</sup> In calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2019, the projected level from NBRNM's last forecasting round is used.

<sup>2</sup> The quarterly data for 2017 are preliminary, while for 2018 and 2019 are estimated (Press release for quarterly data on GDP as of 06.09.2019). The annual data for 2017 is final, and for 2018 is preliminary data (Announcement for annual data for GDP from 30.09.2019).

<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 2018=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).

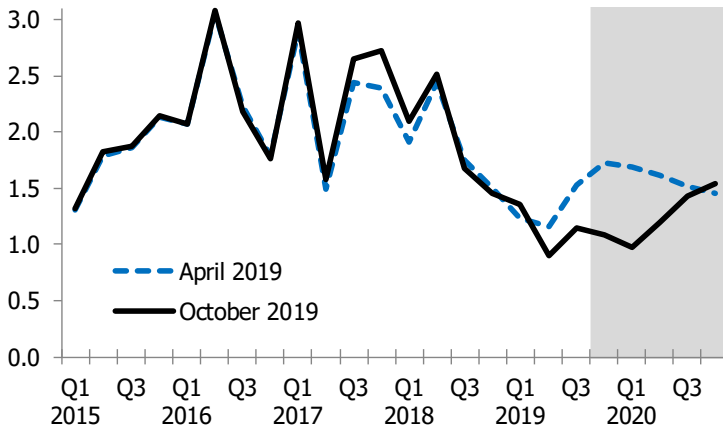
<sup>7</sup> It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.

<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.

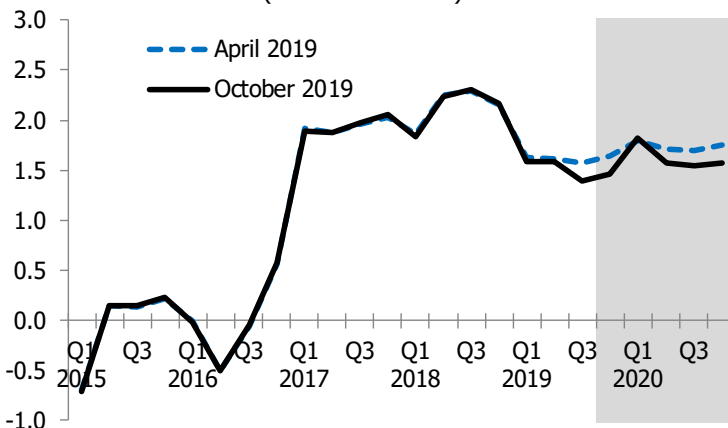
**Foreign effective demand**  
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the **foreign effective demand is expected to register growth of 1.1% for 2019 and 1.3% for 2020**. Compared to the April forecasts, a downward revision was made (1.4% and 1.6%, respectively), largely due to the expectations for a lower economic growth in Germany (from 0.8% and 1.1% in 2019 and 2020, respectively in April, to 0.4% and 0.8%, respectively in October).

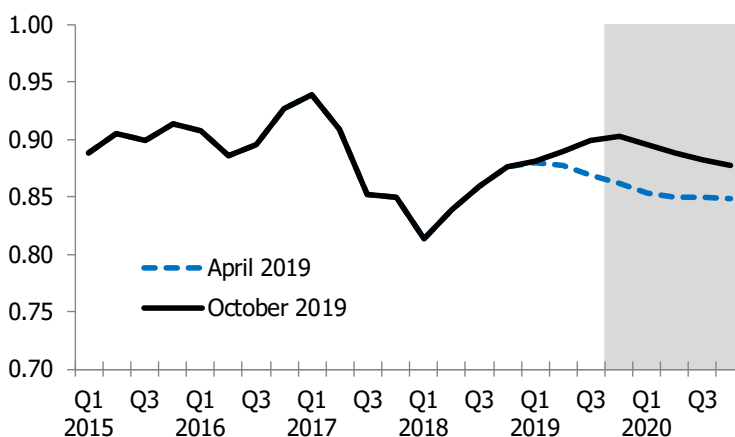
**Foreign effective inflation**  
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

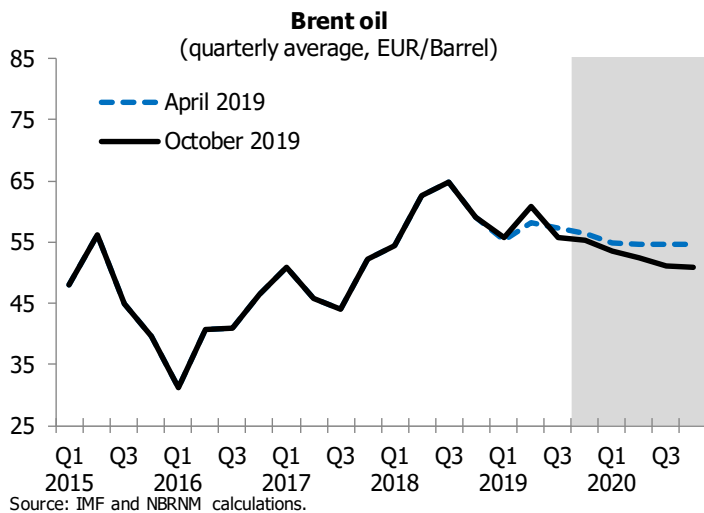
Regarding the **foreign effective inflation, estimates for 2019 and 2020 are 1.5% and 1.6%**, respectively and are minimally corrected downwards compared to the April forecasts (1.6% and 1.8%, respectively). The downward correction for 2019 mainly reflects the lower expected growth of prices in Croatia, Greece and Italy, while for 2020 the inflation is revised downwards in almost all countries.

**EUR/USD exchange rate**



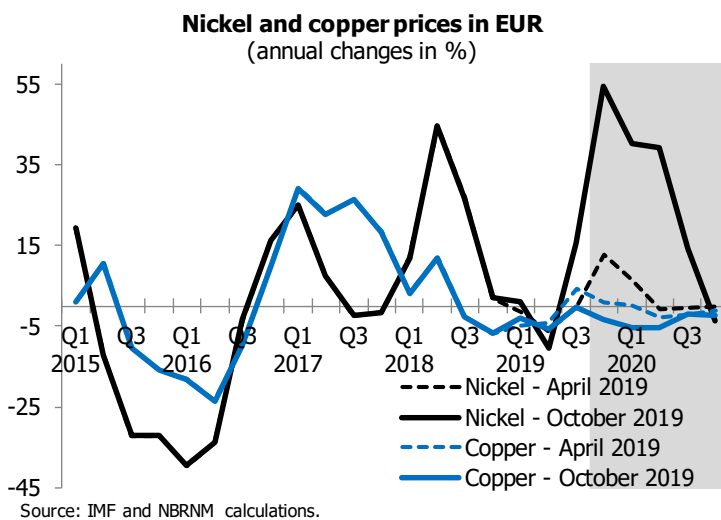
Source: Consensus forecasts and NBRNM calculations.

**The latest euro/US dollar exchange rate estimates resulted in an upward revision relative to the April forecasts.** Thus, for 2019, it is now expected a greater appreciation of the US dollar against the euro, while for 2020, a somewhat smaller depreciation compared to April. This shift mostly reflects the uncertainty arising from the further trade tensions between the United States and China, the favorable economic performances in the USA, the weaker economic performances and expectations in the euro area, as well as the perceptions for a more moderate monetary expansion by the Fed.



According to the latest estimates, **in the oil price<sup>2</sup> for 2019, a downward revision of the prices denominated in US dollars was made, while the prices denominated in euros are the same, compared to the April forecasts**, as a result of the effect of the exchange rate, i.e. the expectations for appreciation of the US dollar against the euro.

For 2020, prices have been revised downwards, now expecting sharper decline in prices than forecasted in April. The downward revision largely reflects the expectations for a slowdown in the global growth, the uncertainty in trade relations between the United States and China, the faster recovery of the production in Saudi Arabia<sup>3</sup> than expected, as well as the announcement on increasing the inventories in the USA.



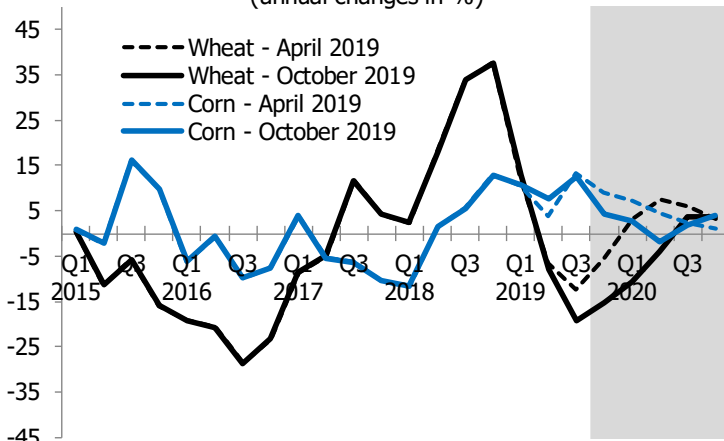
**The nickel prices for 2019 and 2020 have been revised upwards**, so that it is now expected a significantly faster growth than previously expected in April. The upward revision of prices is a result of the solid demand and the expectations for reduced supply<sup>4</sup>, as well as the reduced inventories. **On the other hand, the copper prices for 2019 and 2020 have been revised downwards**, expecting sharper decline in the copper price than expected in April, largely due to the expectations for a slowdown in the global economic activity, and especially of China, the further trade tensions between the USA and China and the increased geopolitical risks.

<sup>2</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>3</sup> On 14 September 2019, two oil facilities of Saudi Arabia were attacked, estimating that more than half of the daily production of Saudi Arabia is hit, which is more than 5% of the world oil supply. Although the recovery of the production was expected to last for weeks, and even months, yet by the end of September the lost production has been fully recovered and the production facilities are at a level of before the attacks.

<sup>4</sup> On 2 September 2019, it was officially announced that from the beginning of 2020 Indonesia will introduce a complete ban on the export of nickel ore. Also, since mid-September 2019, the work of several nickel mines in the southern part of the Philippines has been stopped indefinitely by the regional government, which currently revises the mining policy in order to adopt a law on responsibility in mining.

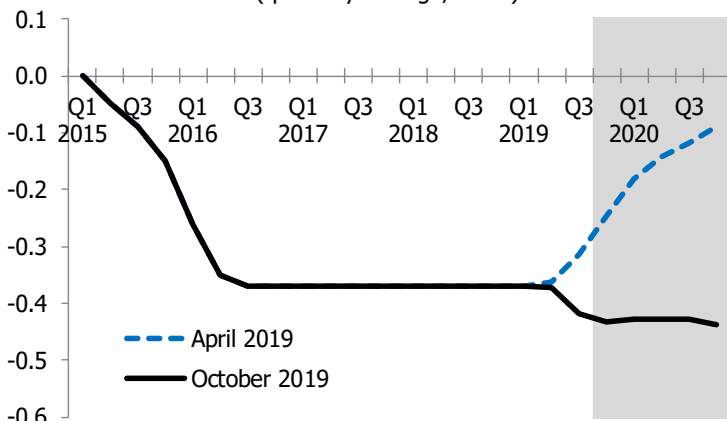
**Wheat and corn prices in EUR**  
(annual changes in %)



Source: IMF and NBRNM calculations.

**The prices of wheat and corn for 2019 and 2020 have been revised downwards.** Thus, compared to the April forecasts, the **wheat price** is now expected to register larger decline in 2019 and fall, instead of growth in 2020, due to the high global supply, as well as to the strong export competition. Regarding the **corn price**, a slower growth than forecasted in April is expected, largely due to the favorable prospects for yield in the USA and Brazil and the expectations for higher inventories.

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

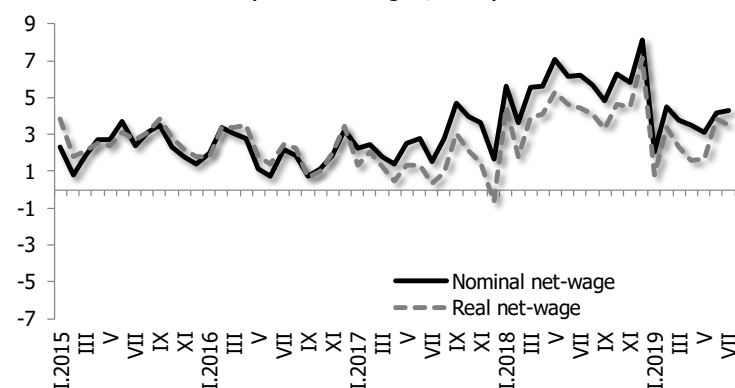


Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the **one-month EURIBOR expected** for 2019 was minimally revised downwards (-0.4% versus -0.32% in April forecasts), with a major downward revision made for 2020 (-0.43% versus -0.13% according to the April forecasts). The downward revision results from the decision of the ECB of the meeting on 12 September 2019 to reduce the deposit interest rate by 10 basis points, to -0.5%, expecting the interest rates to be maintained at the current or lower level until the inflation rate approaches the level close to, but below 2% for the forecasted period. Among other measures, the quantitative easing program, within which securities in the amount of Euro 20 billion will be purchased on a monthly basis, will also be relaunched from 1 November.



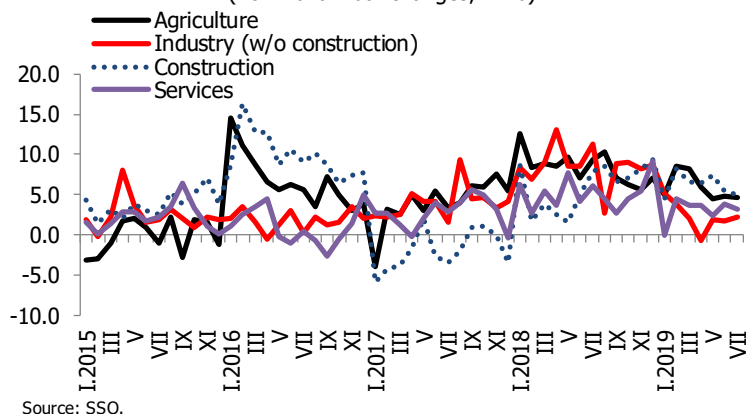
**Average net-wage**  
(annual changes, in %)



**In July, the average net wage registered nominal annual growth of 4.3%** (slight acceleration compared to June when the growth was 4.1%) which, as before, is partly attributable to the annual adjustment of the growth of the legally determined minimum net wage in April<sup>5</sup>, as well as to the increase in wages in certain segments of the public sector<sup>6</sup>.

Analyzing structure, wage growth was registered in almost all activities<sup>7</sup>, with the most prominent one being registered in the health and social care activities, "accommodation facilities and catering services", "transport and storage", as well as in trade and the manufacturing industry.

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



Amid small increase in the consumer prices on an annual level, **in July, the net wage registered real annual growth of 3.5%**.

In July, wages were higher than expected for the third quarter of 2019, according to the April forecast.

**High-frequency data on the supply and demand side available for the period July-August 2019 are generally favorable and currently indicate positive developments in the domestic economy.** Regarding the economic agents' perceptions for the economic situation<sup>8</sup>, the surveys for

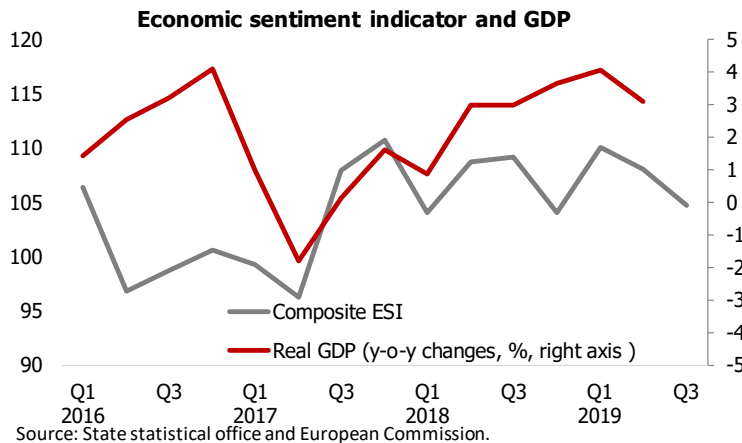
<sup>5</sup> The amount of minimum wage according to the Law on Minimum Wage (Official Gazette of the Republic of North Macedonia No. 59/19) which is paid for the period from April 2019 to March 2020 is Denar 17,943 in gross amount, i.e. Denar 12,507 net wage (before this period, the minimum wage was Denar 17,370 gross and Denar 12,165 net) in accordance with the adjustment with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth (with one third of the growth of each indicator, respectively).

<sup>6</sup> There was an increase in the wages of 5% for the employees in health, education and in kindergartens starting with the September wage in 2018. The RNM Budget for 2019 increased the wages of specialists by 10% from January and increased the wages by 5% of other medical personnel in the public health institutions with the payment of the January wage in 2019 (an additional increase in the wages of specialists of 5% is planned, starting with the payment of the September wage in 2019). Also, the Decision of the Government of the Republic of North Macedonia adopted in May 2019, leveled the wages of around 2,900 employees in the field of culture, national and local institutions, starting from the April wage for 2019. In addition, the amendments to the Law on Protection of Children, starting with the June wage, increase the wages of educators, carers/nurses, professional workers and associates by 16%, and the Labor Agreement increases the wages of ancillary-technical staff. The wages of social workers were also increased by 22% with the payment of the June wage, and an additional increase of 5% is planned from September.

<sup>7</sup> Decrease of wages in July 2019 was registered in the activities "financial and insurance activities" and "activities related to real estate".

<sup>8</sup> It refers to the surveys conducted by the European Commission to measure the economic confidence of agents in an economy. The composite indicator of economic confidence is 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](https://ec.europa.eu/info/files/revised-consumer-confidence-indicator_en)

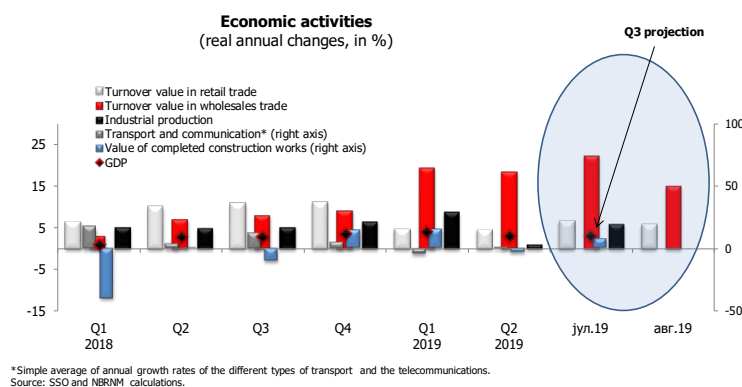




the third quarter of the year are more moderate, but are still in the positive zone.

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

In the period July-August 2019, the growth of the turnover in the **total trade** continued and moderately accelerated on an annual basis, amid growth in all three categories (wholesale trade, retail trade and trade in motor vehicles).



Favorable movements and acceleration in the annual growth in the period July-August were registered in the **industrial output**, which is mainly associated with the growth of the energy sector and the manufacturing industry, and a positive contribution was also made by mining sector. Analyzing the manufacturing industry, the highest positive contribution in the period July-August was made by the activities in which the foreign export facilities are active (manufacture of motor vehicles, trailers and semi-trailers, production of electrical equipment and production of machines and devices), and a positive contribution was also made by the production of beverages, tobacco products and production of basic pharmaceutical products and preparations. On the other hand, some of the traditional sectors registered a decrease in production, whereby a more significant negative contribution was made by the production of food products, clothing, leather, as well as the production of metals.

After the fall registered in the second quarter of 2019, in July 2019 the activity in the **construction sector** increased on an annual basis. The favorable movements in the total completed construction works are due to the growth in building construction, while civil engineering made a negative contribution.

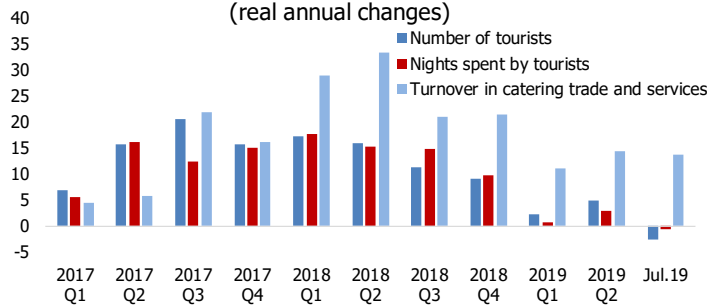
On the other hand, **catering** registered a moderate reduction of the number of tourists and overnight stays in July, but the turnover in catering increased on an annual basis.

Also, the available **aggregate demand** indicators suggest a continuation of the

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES												
	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug
<i>real annual changes in %</i>												
Gross domestic product	1.0	-1.8	0.1	1.6	0.9	3.0	3.0	3.7	4.1	3.1	-	-
Industrial output*	-1.5	3.7	-2.4	0.9	5.2	4.9	5.1	6.4	8.8	1.1	5.8	9.8
Construction	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	15.1	-3.3	7.9	-
Building	-21.7	-27.7	-26.5	-12.5	3.2	6.1	-11.4	28.1	-9.3	5.1	36.9	-
Civil Engineerings	-26.1	-31.5	-15.6	-43.1	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.6	-
Retail and wholesale trade	3.0	4.4	4.7	3.9	4.9	8.8	8.6	10.0	13.5	12.6	15.5	11.1
Retail trade	-3.9	-1.9	-2.5	-1.6	6.4	9.9	10.8	10.9	4.7	4.6	6.7	5.9
Wholesale trade	8.9	10.4	11.2	8.4	3.2	7.1	8.2	9.3	19.4	18.5	22.3	15.1

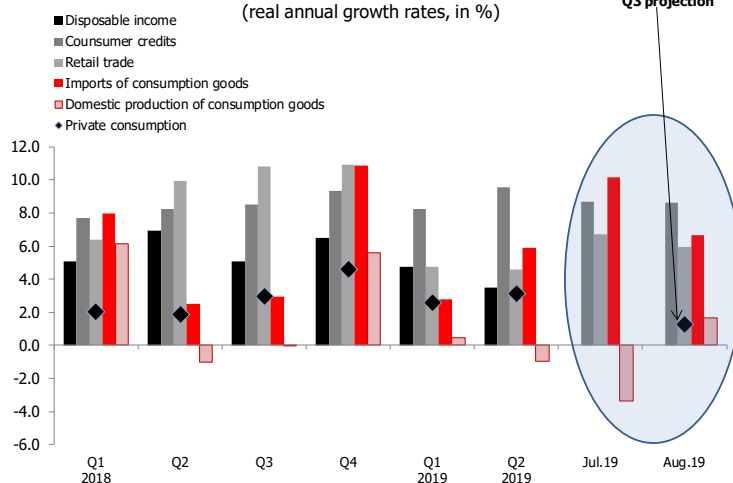
\* real growth rates are calculated by the NBRNM, by dividing nominal growth rates with annual inflation, measured by CPI. Source: SSO and NBRNM staff calculations.

## Tourism indicators (real annual changes)



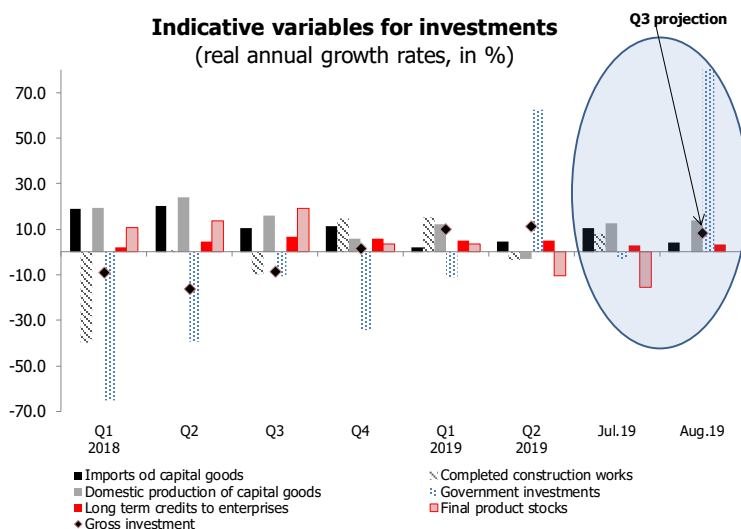
Source: SSO and NBRNM calculations.

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



Source: SSO and NBRNM calculations.

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



Source: SSO and NBRNM calculations.

favorable developments also in the third quarter of the year.

Within the indicators of the movements in **private consumption**<sup>9</sup>, growth was recorded in almost all sources of financing of consumption. Thus, from the main categories of disposable income, growth acceleration was registered in wages and pensions, and the stable increase of household loans continued. The short-term indicators of private consumption dynamics are also favorable, amid an acceleration of the growth of retail trade, import of consumer goods, with growth also being observed in gross revenues from VAT. On the other hand, domestic production of consumer goods registered a slight decline.

The high frequency data on the **gross investments**<sup>10</sup> in the period July-August 2019 are also favorable. Thus, growth was observed in the construction sector, the domestic production of capital goods, the import of investment products, as well as in government capital investments. Also, long-term corporate loans, as well as industrial output, continue to grow. On the other hand, the only decline in the short-term indicators of investment dynamics was registered in corporate tax.

**Foreign trade** data in July-August 2019 indicate potential deficit expansion in the third quarter, on an annual basis, amid higher nominal growth of the import than the export of goods.

Budget performances in the period July-August 2019 point to annual growth of **public consumption** in the third quarter, amid growth in the main categories<sup>11</sup> of public consumption.

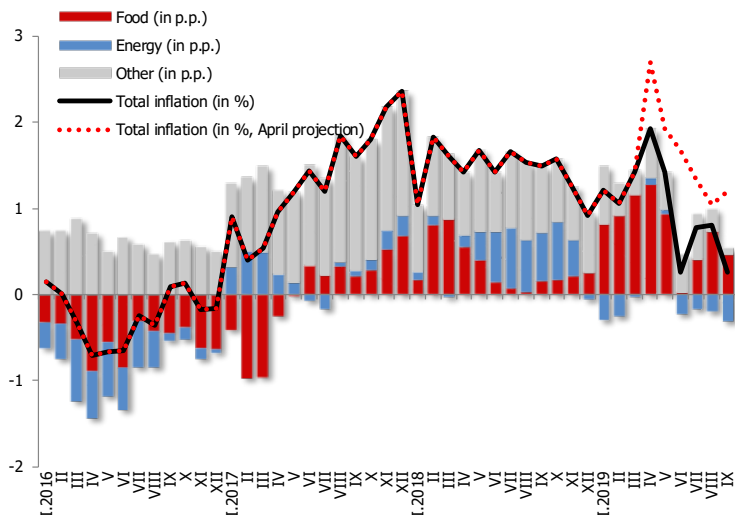
<sup>9</sup> Data on wages are as of July 2019, while data on household loans, pensions, retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT refer to the period July-August 2019.

<sup>10</sup> Data on completed construction works are as of July 2019, while data on long-term corporate loans, government capital investments, industrial production, imports of investment goods and domestic production of capital goods refer to the period July-August 2019.

<sup>11</sup> In the period July-August 2019, only the transfers to the PDIF registered a decline.

**Inflation rate**

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



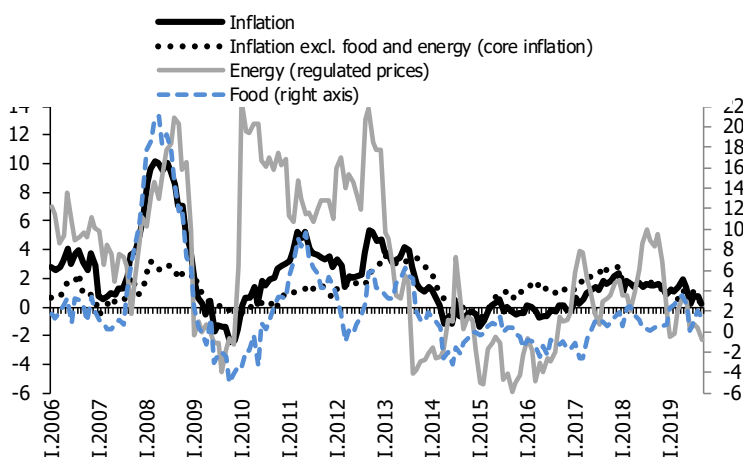
Source: SSO and NBRNM.

In September 2019, **domestic consumer prices** decreased by 0.6%<sup>12</sup> (versus the monthly growth of 0.3% in the previous month)...

...mostly due to the monthly decrease registered in core inflation, and a small negative contribution was also made by the prices of the food component and the prices of the energy component of inflation.

**Inflation and volatility of food and energy**

(annual growth rates, in %)

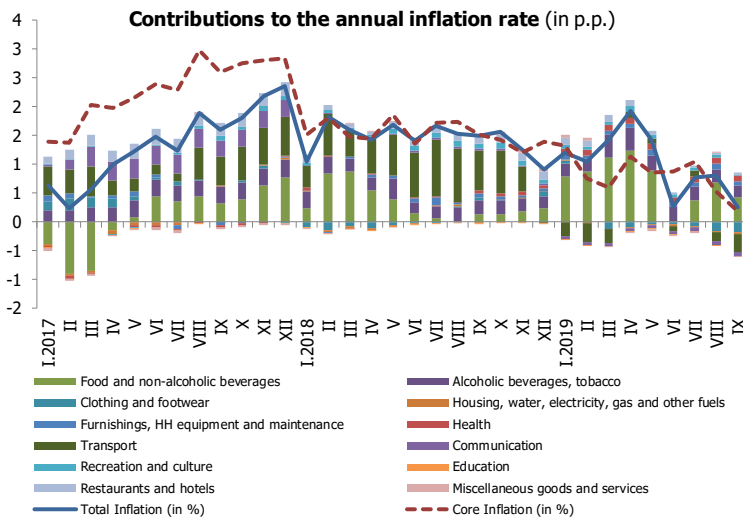


Source: State statistical office and NBRNM calculations.

**The annual inflation rate was 0.3% in September** (compared to 0.8% in August), which is a downward deviation from the April forecast.

Structurally observed, all three main price components registered downward deviation from the forecast. The deviation is larger in food prices and in energy prices, compared to the deviation in core inflation.

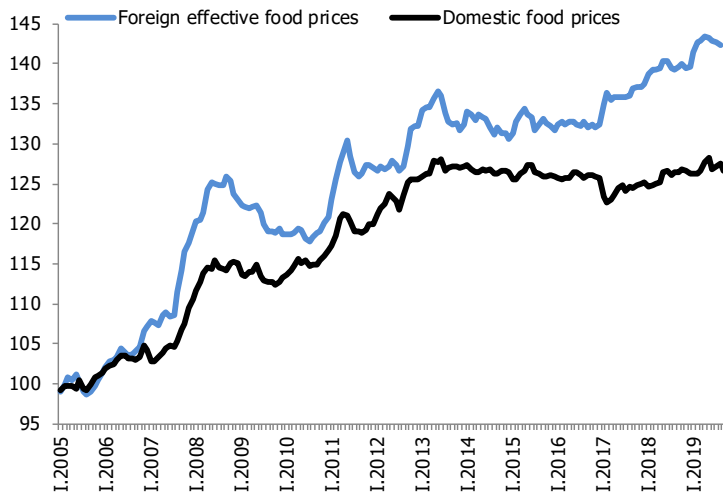
<sup>12</sup> Observed by group of products, the greatest contribution to the monthly decrease in prices in September was made by the reduction in the prices of air traffic, the prices of fruit and vegetables, as well as the lower prices of package tours and accommodation services.



Source: SSO and NBRNM.

The **core inflation rate** in September decreased by 0.9% on a monthly basis, while the annual growth reduced to 0.2% (from 0.5% in August). The highest positive contribution to the annual growth of core inflation in September was made by the prices of tobacco<sup>13</sup>, with a smaller contribution of the prices of cars, catering services, but also the prices of health and hospital services. On the other hand, the greatest negative contribution was made by the prices of clothing and footwear and the prices of transport services.

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

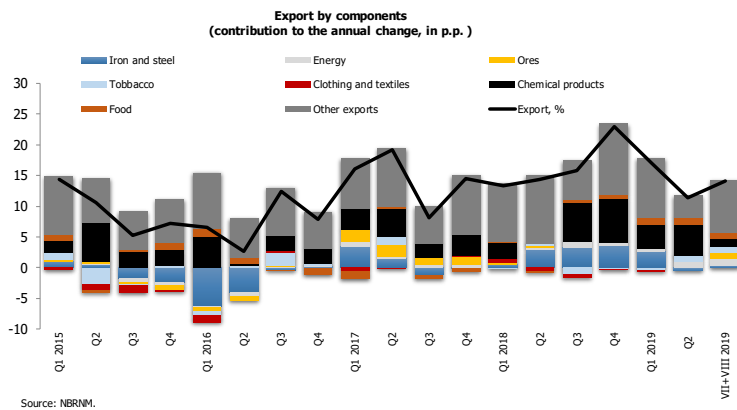


\* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.  
Source: State statistical office, Eurostat and NBRNM calculations.

The **expected price movements of the external input assumptions in the inflation forecast for 2019 were mainly revised downwards.**

Amid lower current inflation than forecasted in April, as well as mainly downward revisions in the external input assumptions, the current risks to the inflation forecast for 2019 are assessed as predominantly downward. Yet, the movement of global primary commodities prices remains uncertain.

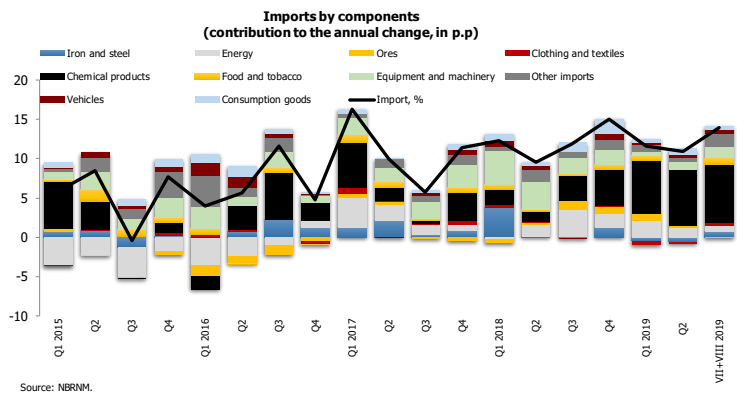
<sup>13</sup> The annual growth of tobacco price in August reflects the increase in the prices of cigarettes in April and May 2019, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023.



In July and August 2019, **foreign trade deficit widened by 13.5% annually**, amid almost equal growth rate of the export and the import of goods (in absolute terms, the import of goods registered faster growth than the export of goods).

During July and August, the **export component** registered an annual growth of 14.1%, mostly due to the higher exports of the new production facilities in the economy, and a slower growth was also registered in most of the traditional export sectors and energy exports.

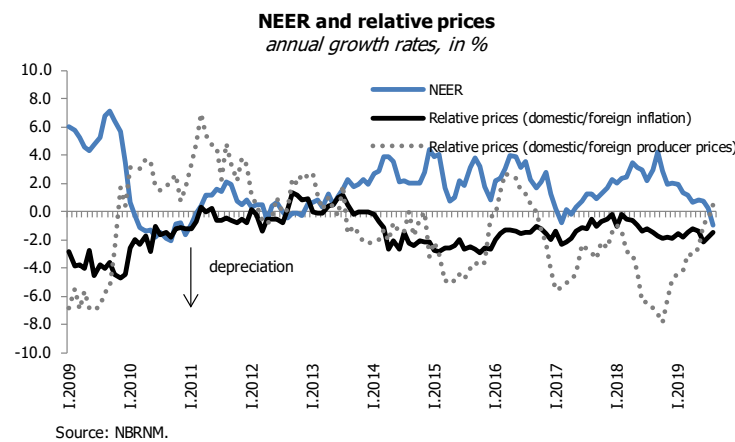
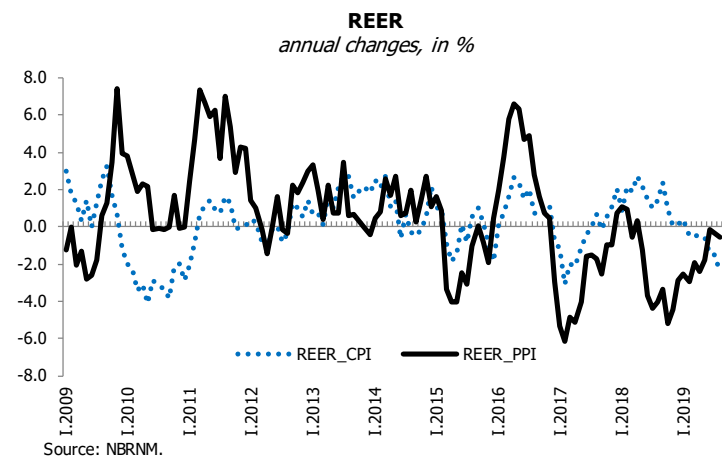
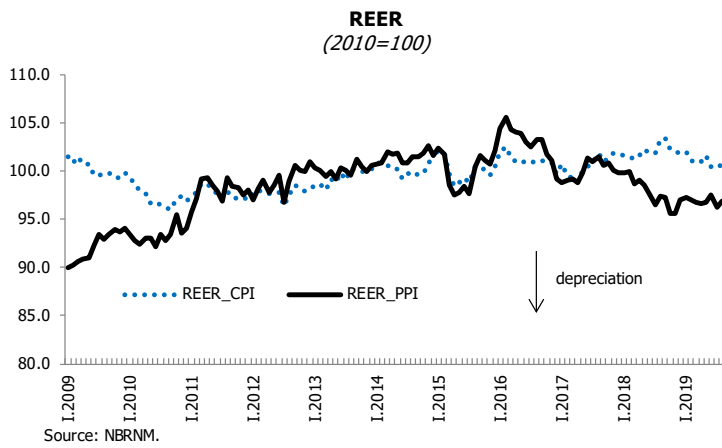
*Compared to the April forecast, the performances in July and August 2019 are higher than the export expected for this period.* Significant upward deviations were registered in the export of part of the new production facilities, as well as in the export of energy, ores and food.



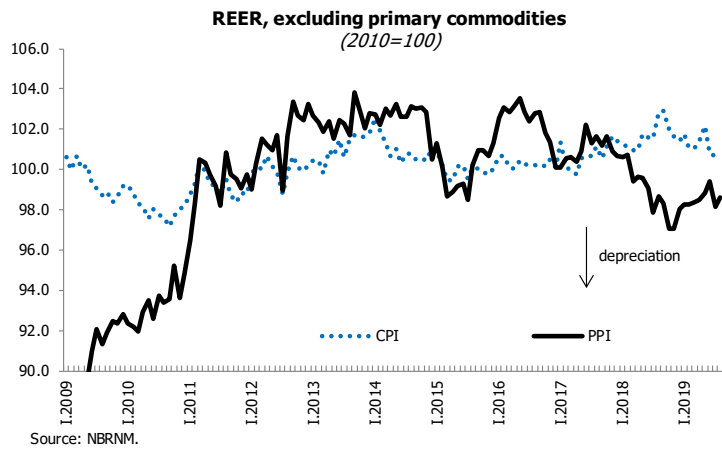
In July and August 2019, the **import of goods** grew by 14.0% annually, reflecting the growth in most import categories, primarily the higher import of raw materials for the new industrial facilities and the higher import of food, energy and iron and steel.

*Import of goods in July and August is higher than expected according to the April forecast, as a result of the upward deviations in the import of raw materials of part of the new export facilities, as well as the higher energy imports.*

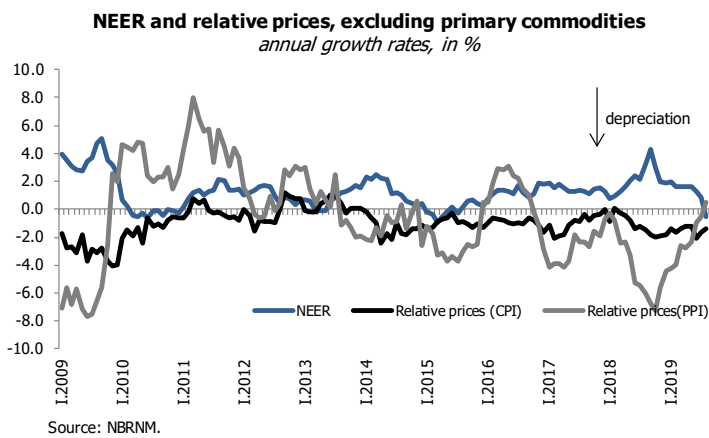
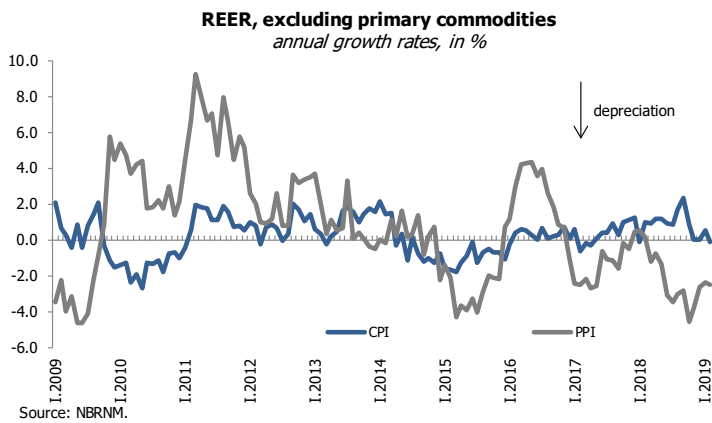
The performance of foreign trade components during July and August 2019 currently indicates higher trade deficit than expected in the April forecast.



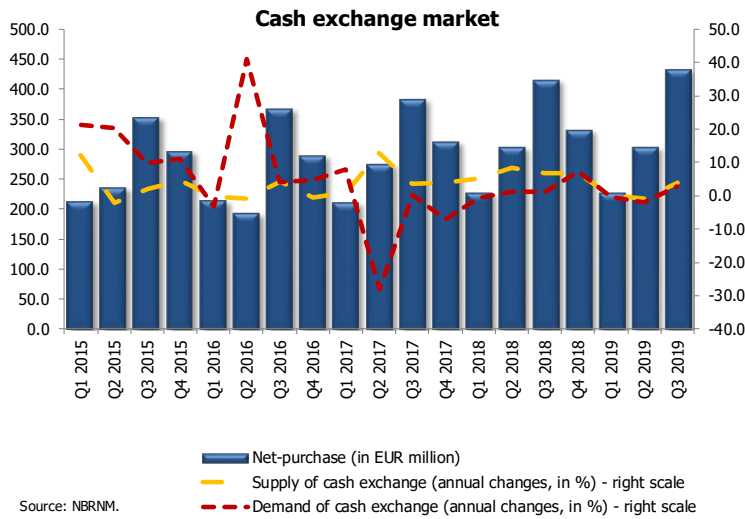
In August 2019, price competitiveness indicators of the domestic economy improved on an annual basis. The REER index deflated by consumer prices depreciated by 2.5%, while the REER index deflated by producer prices registered a smaller depreciation of 0.5%. Such movements of the REER deflated by consumer prices are due to the favorable changes in relative prices (the relative consumer prices are lower by 1.5%), while the relative producer prices are higher by 0.4%. At the same time, the NEER depreciated by 1.0%, which is largely due to the appreciation of the Turkish lira and the Russian ruble against the denar.



REER indices, as measured using weights based on the foreign trade without primary commodities, in August 2019, registered divergent movements. Thus, the REER index deflated by consumer prices depreciated by 2.0%, while the REER deflated by producer prices did not notice a major change. The relative consumer prices are lower by 1.4%, while the relative producer prices are higher by 0.5%, given the annual depreciation of the NEER of 0.6%.





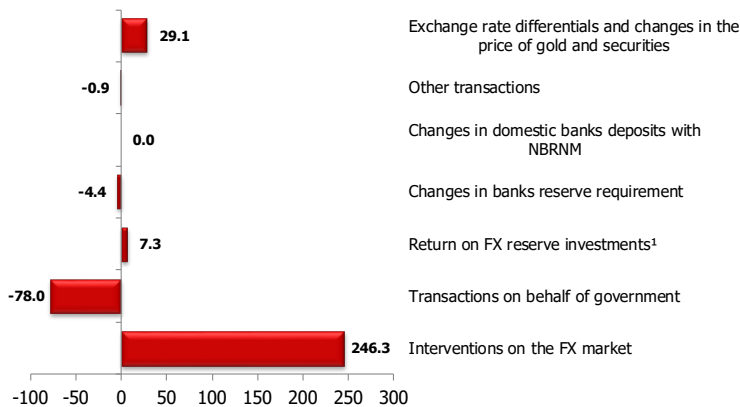


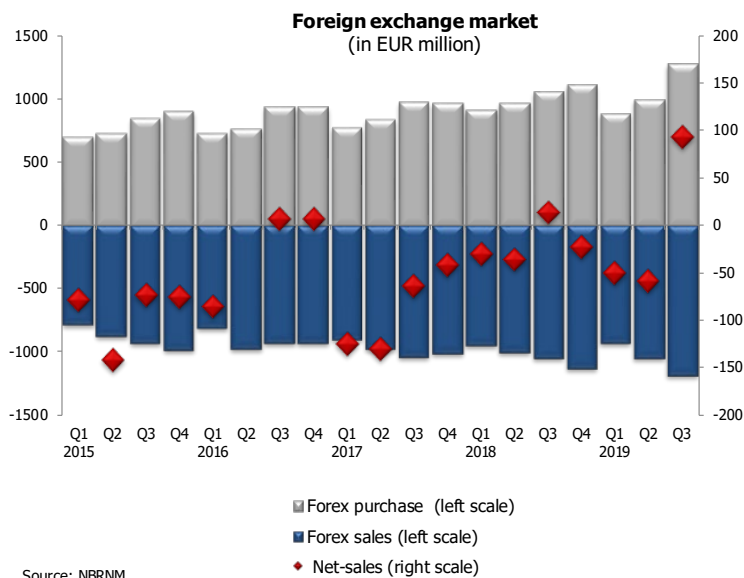
**Euro 433.7 million was purchased on the currency exchange market in the third quarter of 2019, which is an annual increase of 13.4%.** Such performances result from the growth of supply of and demand for foreign currency (13.5 and 14.3%, respectively).



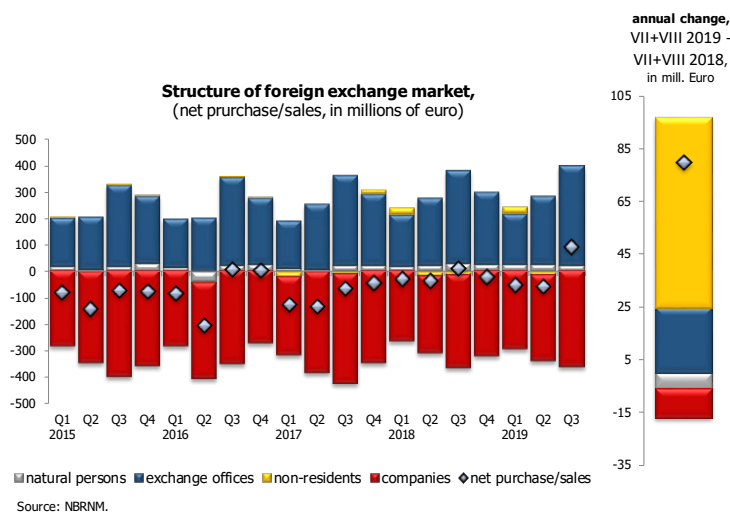
**As of 30 September 2019, gross foreign reserves stood at Euro 3,127.4 million,** which is an increase of Euro 199.3 million compared to the end of the second quarter. The National Bank interventions on the foreign exchange market with purchase of foreign currency and price and exchange rate differentials and securities price changes had a positive impact on the level of foreign reserves, while the transactions on behalf of the government acted in the opposite direction. The remaining flows had no significant impact on the shifts in foreign reserves in the analyzed period.

**Factors of change of the foreign reserves in Q3 2019**  
(in EUR million)

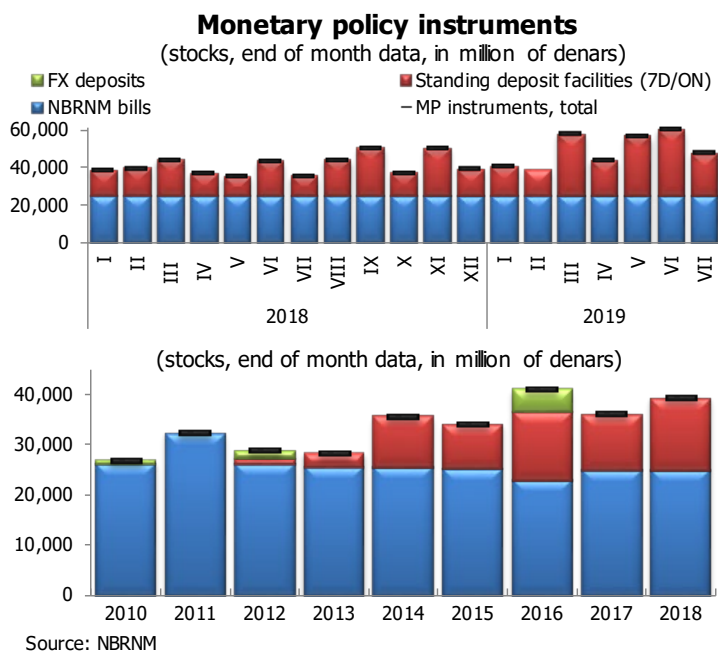




In the third quarter of 2019, the banks' foreign exchange market reported a net purchase of foreign currency of Euro 93.7 million, which is by Euro 79.9 million more than the same period last year. This annual change is a result of the faster growth of the supply of than the demand for foreign currency.



Sector-by-sector analysis shows that such movements mostly result from the higher net purchase by non-residents.



**In August, the monetary instruments increased, amid a larger amount of banks' assets placed in deposits with the National Bank.** In August, the stock of CB bills<sup>14</sup> remained unchanged. Thus, the stock of monetary instruments at the end of August was around the forecast for the end of the third quarter of 2019<sup>15</sup>.

The net foreign assets of the National Bank at the end of August are slightly lower than forecasted for the end of the third quarter of 2019.

The total government deposits with the National Bank registered a monthly decrease, whereby their stock at the end of August is lower than forecasted for the end of the third quarter of 2019.

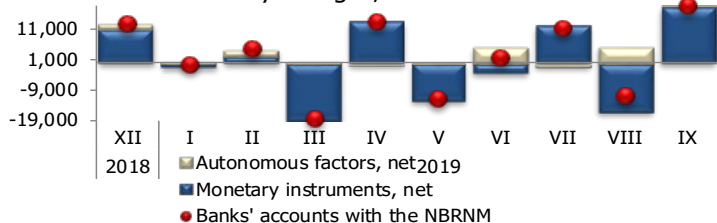
Amid decrease in banks' total reserves with the National Bank and almost unchanged currency in circulation, the reserve money decreased compared with the previous month. As a result of the higher performance in the previous months, the reserve money at the end of August was slightly higher compared to the forecast for the end of the third quarter of 2019.

<sup>14</sup> At the CB bills auction of the National Bank held on 14 August 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.25% and maturity of 28 days.

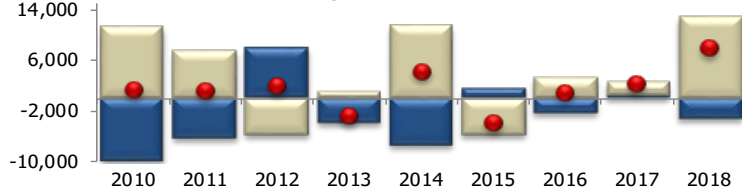
<sup>15</sup> The performance comparisons are against the April forecasts of the National Bank.

**Banks liquidity\***

monthly changes, in million of denars



annual changes, in million of denars

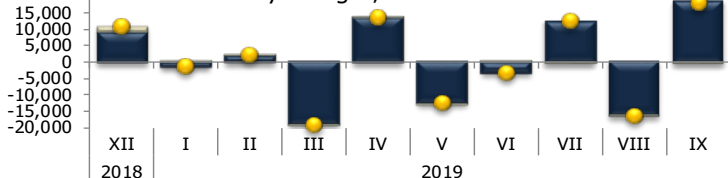


Source: NBRNM.

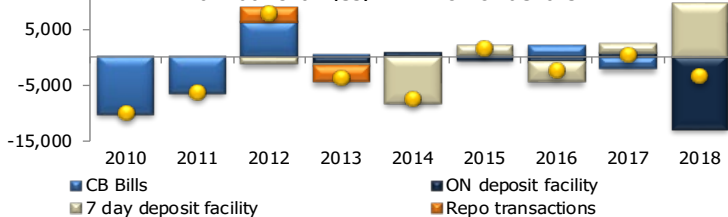
According to the operational data on liquidity flows, the **liquidity of the banking system increased in September**, as a result of the lower stock of monetary instruments (overnight deposits), amid unchanged stock of CB bills<sup>16</sup>. The autonomous factors, net, slightly increased the banks' liquidity.

**Monetary policy instruments\***

monthly changes, in million of denars



annual changes, in million of denars

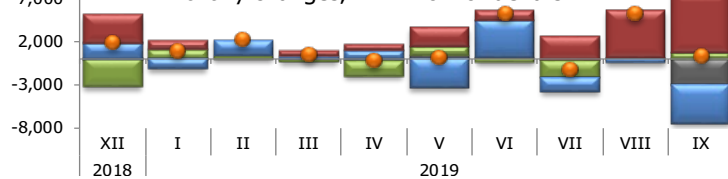


Source: NBRNM.

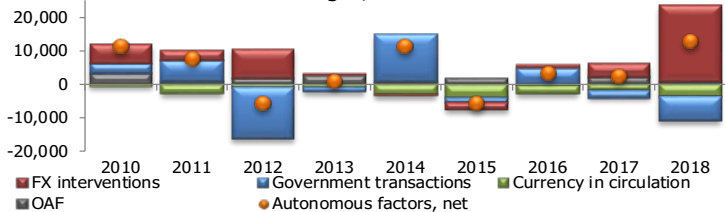
\* positive change: liquidity creation, negative change: liquidity withdrawal

**Autonomous factors\***

monthly changes, in million of denars



annual changes, in million of denars

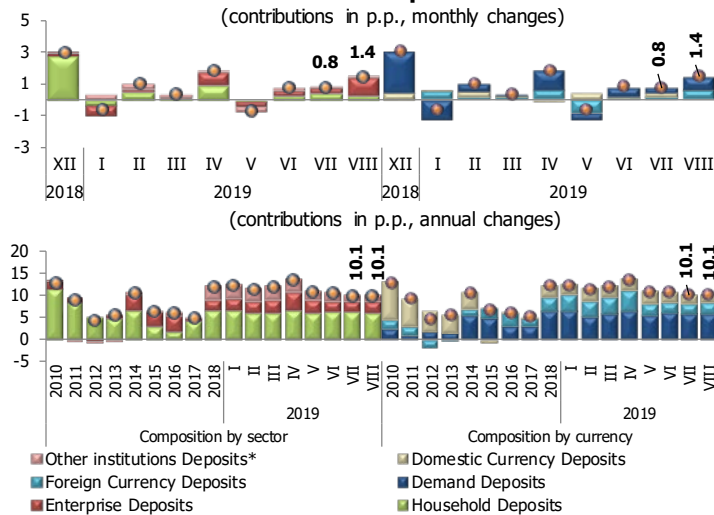


Source: NBRNM.

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

<sup>16</sup> At the CB bills auction of the National Bank held on 11 September 2019, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.25% and maturity of 28 days.

**Total Deposits**

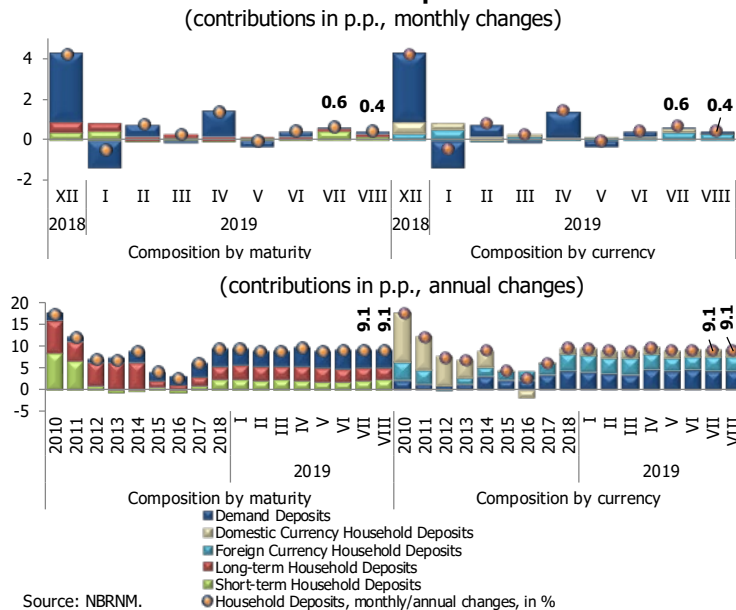


\* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the National bank.  
Source: NBRNM.

**In August, total deposits<sup>17</sup> registered a monthly growth of 1.4%**, which primarily stems from the increase in corporate deposits. Analyzing the currency, the greatest contribution to the monthly growth was made by deposits in domestic currency (including demand deposits). In the period July-August, total deposits registered an increase, which is currently higher compared with the growth forecasted for the third quarter of the year.

**In August, the annual growth rate of total deposits was 10.1%, which is above the annual growth forecasted for the third quarter of 2019 (of 9.7%).** Observed by sector, the growth mostly results from the household deposits. Observed by currency, most of the growth is due to deposits in domestic currency (including demand deposits).

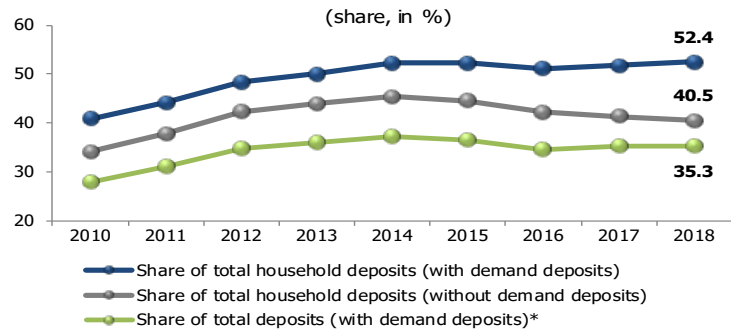
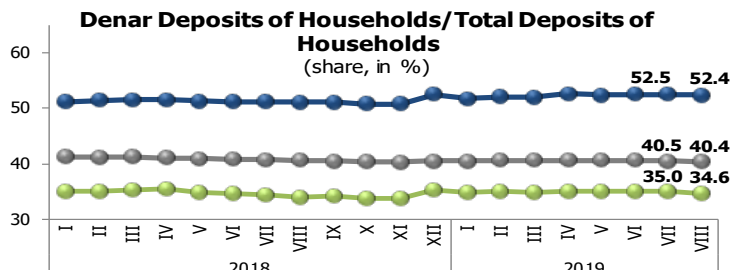
**Household Deposits**



Source: NBRNM.

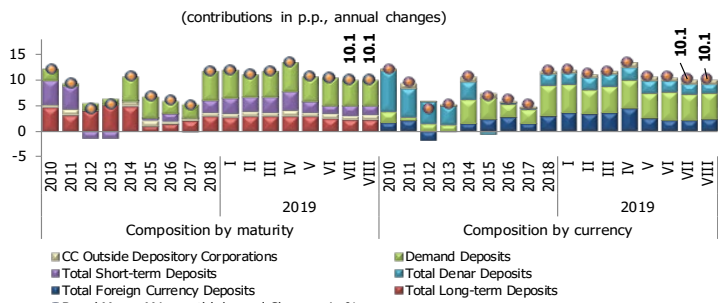
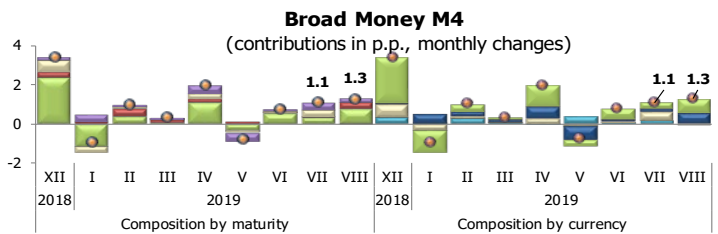
**In August, household deposits registered a monthly growth of 0.4%**, which mostly stems from foreign currency deposits, amid moderate growth of denar deposits (including demand deposits). The share of denar deposits (including demand deposits) in total household deposits at the end of August was 52.4%, whereby it was stable also this month. **The annual increase in household deposits in August was 9.1%.**

<sup>17</sup> 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.nspj](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspj).

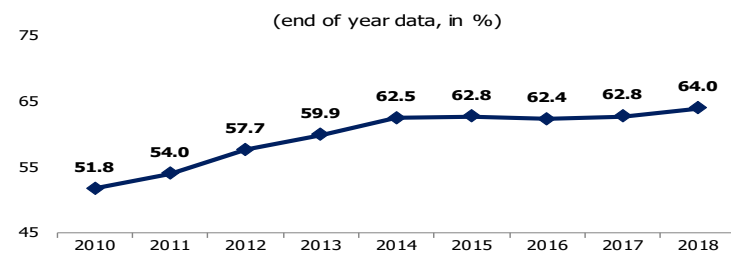
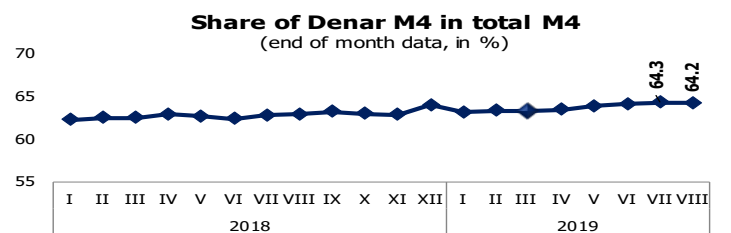


\* Includes deposits at Banks and Saving Houses  
Source: NBRNM.

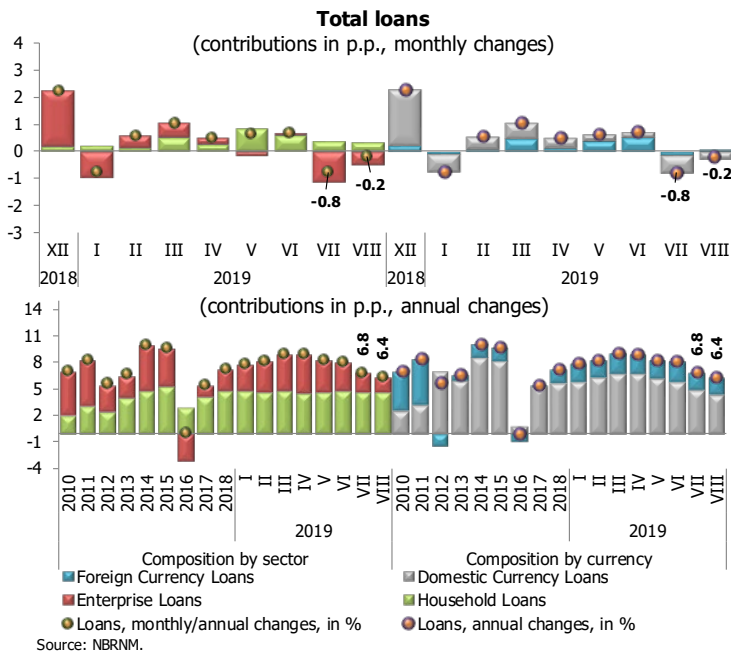
**In August, broad money, measured through M4, registered a monthly increase of 1.3%.** The growth mostly results from the increase in demand deposits and long-term deposits. Observing by currency, the growth mainly results from the increase in the Denar component. At the end of August, the denar share of money supply in total broad money M4 was 64.2% (64.3% in the previous month). **In August, broad money increased by 10.1% annually, exceeding the annual growth of 9.5% forecasted for the third quarter of 2019.**



Source: NBRNM.

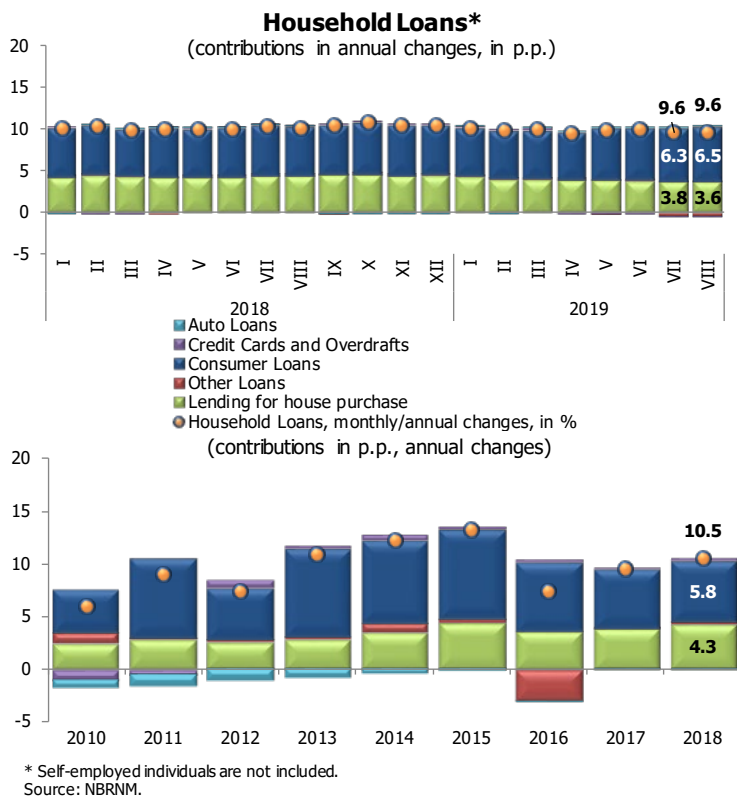


Source: NBRNM.



Following the growth in the previous month, total loans in August registered a monthly fall of 0.2%. Also this month, the decrease is a result of the effect of regulatory changes<sup>18</sup>. Observed by sector, the fall in loans is entirely due to the reduction of corporate loans, with a positive contribution of household loans. Analyzing the currency structure, the fall of total loans entirely results from loans in domestic currency, amid small increase in foreign currency loans. In the period July-August, total loans declined, amid forecasted quarterly growth of total loans in the third quarter of the year. If we exclude the effect of write-offs, total loans in the period July-August increase.

The annual growth rate of total loans in August was 6.4%. Observed by sector, the growth largely results from the household loans, with a positive contribution of corporate loans. Analyzing the currency structure, the growth of loans in domestic currency still contributes the most, amid minor positive contribution of foreign currency loans. If we exclude the effect of regulatory changes, the annual growth in total loans in August is in line with the forecasted annual growth for the third quarter of 2019 (of 8%).



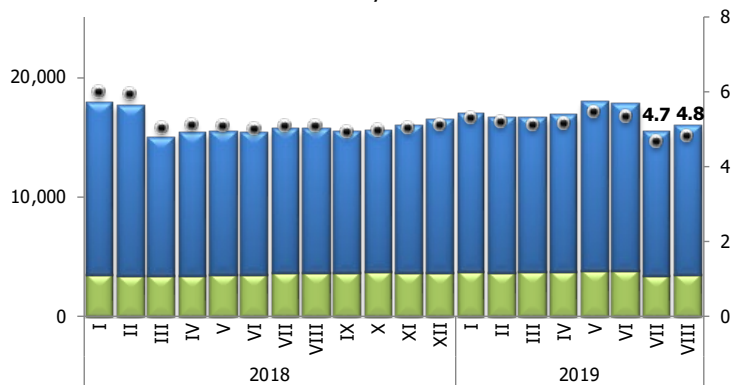
The annual growth of household loans<sup>19</sup> in August amounted to 9.6%, same as in the previous month, and was still largely driven by consumer loans that contributed with 6.5 percentage points.

<sup>18</sup> On 9 August 2018, the National Bank Council adopted the Decision on the methodology for credit risk management that requires from banks to transfer from the on-balance sheet to the off-balance sheet records (and to continue to transfer) all claims that have been fully booked for more than one year. The implementation of the Decision started from July 2019. Despite the transfer of these claims to the off-balance sheet record, the banks reserve the right for their collection.

<sup>19</sup> Excluding loans of self-employed individuals.

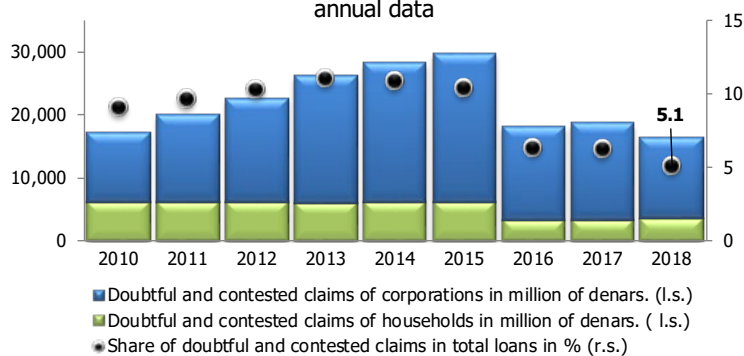


**Doubtful and contested claims**  
(composition by sector and share in total loans)  
monthly data



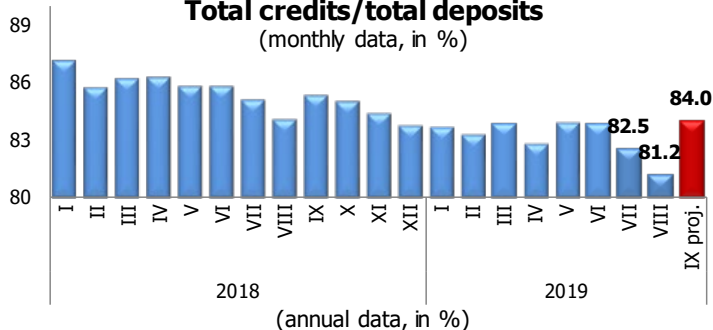
In August, the share of doubtful and contested claims in total loans marginally increased (from 4.7% to 4.8%), whereby the non-performing loans of the corporate sector still predominate, with significantly lower share of the non-performing loans of the household sector.

annual data

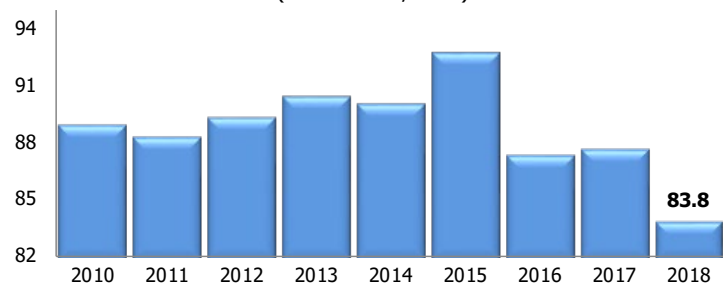


Source: NBRNM.

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



(annual data, in %)

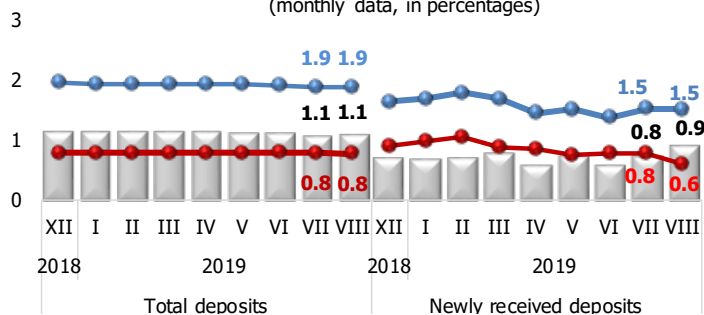


Source: NBRNM.

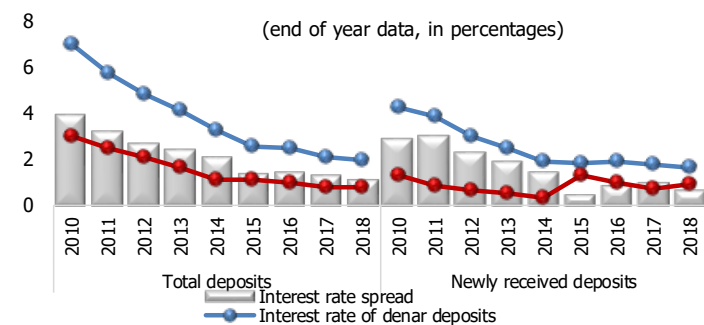
The indicator for the utilization of banks' deposit potential for lending to the private sector decreased (from 82.5% to 81.2%) in August. If we exclude the effect on loans of regulatory changes, the utilization of the deposit potential would be 82.3% (83.4% in July), amid a significantly faster growth of deposits compared to the growth in loans. For the third quarter of 2019, the forecast for this indicator is 84%.

**Total deposits interest rates**

(monthly data, in percentages)



(end of year data, in percentages)



Source: NBRNM.

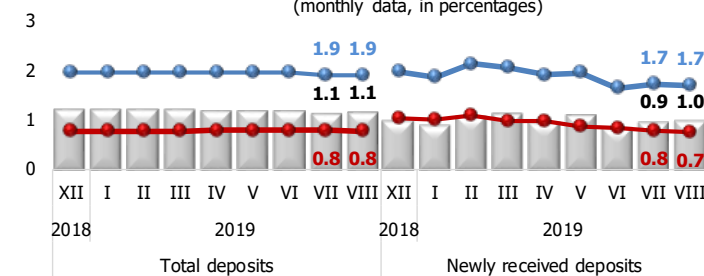
In August, interest rates on total deposits (denar and foreign currency)<sup>20</sup> registered no changes compared to the previous month. For total newly accepted deposits, the interest rate spread expanded marginally compared to the previous month (from 0.8 to 0.9 percentage points), amid reduction of the interest rate on newly accepted foreign currency deposits (from 0.8% in July to 0.6% in August) and unchanged interest rate on denar deposits<sup>21</sup>.

The interest rates on total household deposits also registered no changes compared to the previous month. For the newly accepted household deposits, the interest rate on foreign currency deposits decreased by 0.1 percentage point, while the interest rate on denar deposits remained the same, so that the interest rate spread slightly expanded (from 0.9 to 1.0 percentage points).

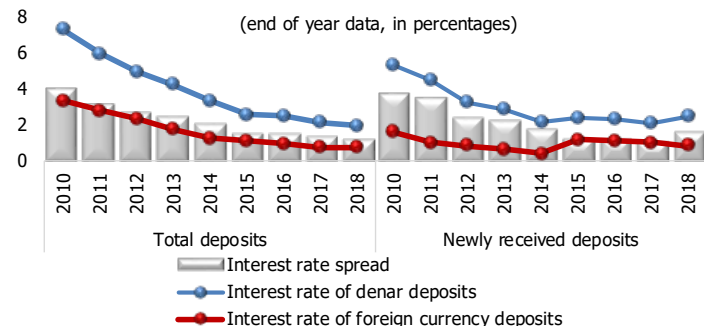
The interest rate on total loans to households in August equaled 5.8% and decreased marginally compared to the previous month (5.9%). In August, the interest rate on total corporate loans was 4.4%, same as in the previous month. For the newly approved loans<sup>22</sup> in August, the interest rate on household loans decreased by 0.1 percentage point and equaled 5.2%, while the interest rate on corporate loans remained at 4.2%.

**Households' deposits interest rates**

(monthly data, in percentages)



(end of year data, in percentages)



Source: NBRNM.

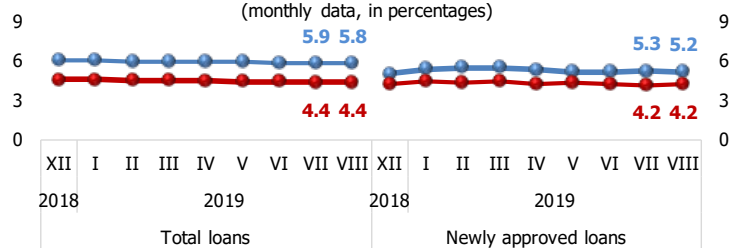
<sup>20</sup> Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: [http://www.nbrm.mk/monetarna\\_statistika\\_i\\_statistika\\_na\\_kamatni\\_stapki.nsp](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp).

<sup>21</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 determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.

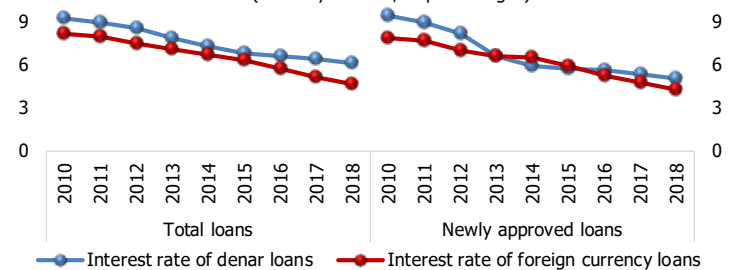
<sup>22</sup> Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from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

## Total loans interest rates

(monthly data, in percentages)

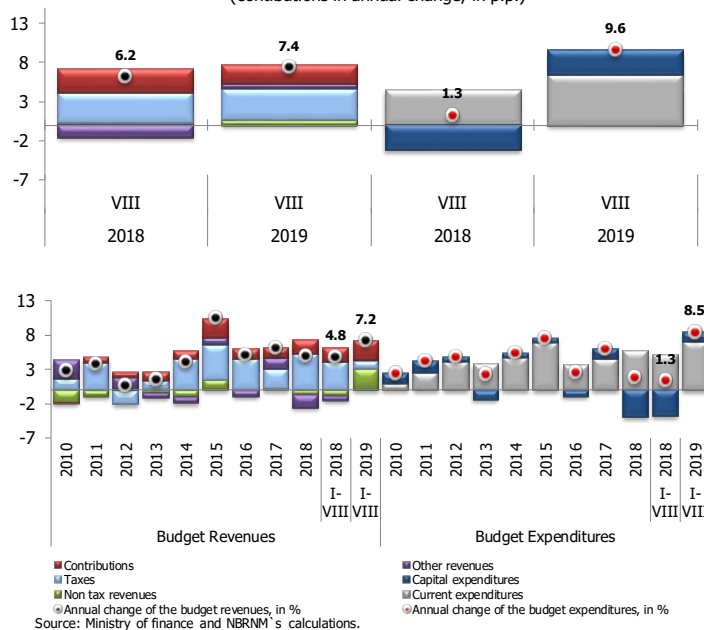


(end of year data, in percentages)



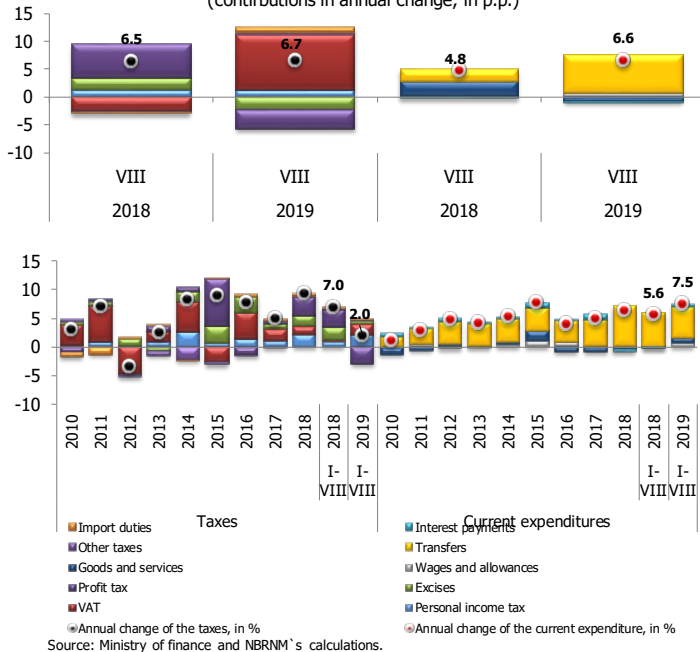
Source: NBRNM.

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



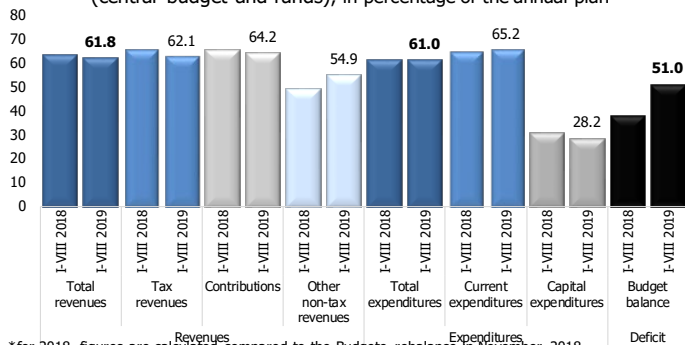
In the Budget of the Republic of North Macedonia (central budget and budgets of funds), total budget revenues and expenditures increased in August, on an annual basis. The growth of budget revenues of 7.4% is entirely due to the higher inflows in all categories of budget revenues, with the greatest contribution of tax revenues (of 4.0 percentage points). In August, tax revenues increased by 6.7% on an annual basis, whereby higher inflows are recorded in VAT, personal income tax and import duties, with a contribution of 10.0 percentage points, 1.2 percentage points and 0.9 percentage points, respectively, while the contribution of the inflows of corporate tax and excises is negative (3.4 and 2.3 percentage points, respectively). The growth of **budget expenditures** of 9.6%, on an annual basis is a result of the higher current and capital expenditures, with a contribution of 6.4 and 3.2 percentage points, respectively.

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



In the period January-August 2019, total budget revenues and expenditures increased cumulatively compared to the same period last year. The growth of **budget revenues** (of 7.2%) is a result of the higher non-tax revenues, contributions, tax revenues and other revenues, with a contribution of 3.1 percentage points, 2.8 percentage points, 1.2 percentage points and 0.2 percentage points, respectively. **The growth of budget expenditures** (8.5%) results from the higher current expenditures with a contribution of 7.1 percentage points, amid a positive contribution of capital expenditures (of 1.3 percentage points).

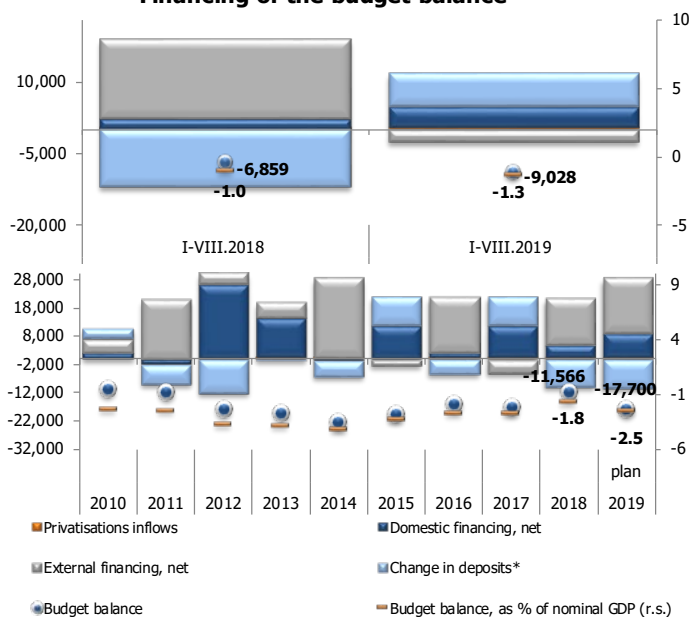
**Budget implementation, per categories**  
(central budget and funds), in percentage of the annual plan\*



\*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 plan of the Budget for 2019, the budget revenues in the period January - August amounted to 61.8% (63.2% in 2018), while the budget expenditures amounted to 61%, same as in the previous year. The budget deficit was 51% of the annual plan for 2019 (38% in 2018).

**Financing of the budget balance**



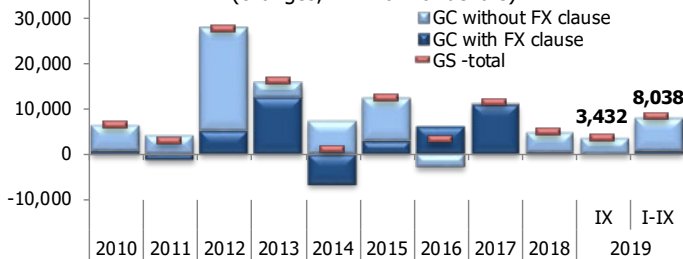
\* Positive change: deposits withdrawal; negative change: deposits accumulation.  
Source: MoF.

The budget deficit in the period January - August of the year amounted to Denar 9,028 million (1.3% of the nominal GDP<sup>23</sup>) and was financed by using government deposits with the National Bank and by government borrowing on the domestic financial market.

<sup>23</sup> The analysis uses the National Bank's April forecasts for the nominal GDP for 2019.

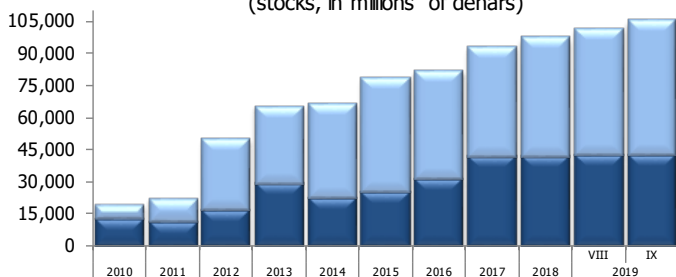
**Government securities**

(changes, in million of denars)



**In the primary government securities market in September 2019, the stock of issued securities increased on a monthly basis and at the end of the month reached Denar 105,246 million.** The monthly increase (of Denar 3,432 million<sup>24</sup>) completely derives from the increase in government securities without currency clause. Compared to the end of 2018, the stock of government securities at the end of September increased by Denar 8,038 million.

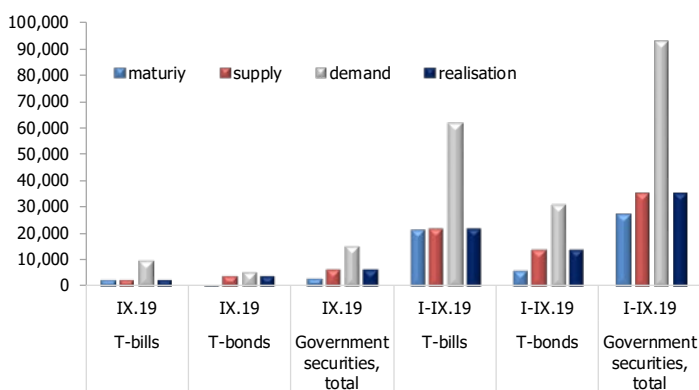
(stocks, in millions of denars)



Source: MoF.

**Government securities auctions**

in million of denars



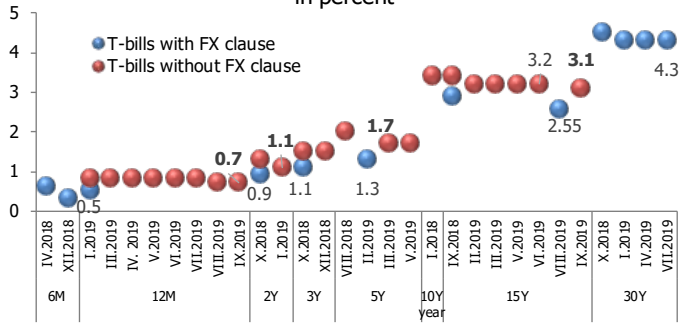
Source: Ministry of finance.

The new issues of government securities in September were with twelve-month and fifteen-year maturity<sup>25</sup>, whereby the market participants' interest this month was higher than the offered amount. Amid issue of government securities in a higher amount than the amount due, their stock in September increased compared to the previous month.

<sup>24</sup> The Budget plans a domestic government borrowing of Denar 9,225 million for 2019, i.e. increase in the stock of government securities to Denar 106,433 million.

<sup>25</sup> In September 2019, the twelve-month treasury bills and the two-year government bonds fell due.

**Interest rates of T-Securities**  
in percent



Source: Ministry of Finance

In September, the Ministry of Finance did not change the interest rates on the newly issued twelve-month government securities without currency clause (0.7%), while the interest rates on the fifteen-year government securities without currency clause were cut to 3.1% (from 3.2%).



## 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	Q1	Q2	June	July	August
	<i>real annual growth rates in %</i>												
Retail trade*	-3.9	-1.9	-2.5	-1.6	6.4	9.9	10.8	10.9	4.7	4.6	4.6	6.7	5.9
VAT revenues*	6.3	6.9	7.2	7.5	3.9	6.5	7.5	7.0	3.5	1.4	-5.5	4.5	1.7
Imports of consumption goods*	6.0	3.8	5.9	9.2	8.0	2.5	3.0	10.9	2.8	5.9	-1.7	10.2	6.6
Domestic production of consumption goods	-6.3	-1.6	-3.5	-5.9	6.1	-1.0	-0.1	5.6	0.5	-1.0	-9.2	-3.4	1.6
Consumer credits*	7.1	8.0	8.1	6.7	7.7	8.2	8.5	9.3	8.2	9.6	9.6	8.7	8.6
Average net wage*	1.5	1.0	1.4	1.0	3.4	4.7	3.9	5.4	2.2	2.4	3.9	3.5	-
Private net transfers*	-3.4	22.9	0.2	4.9	5.6	9.1	4.3	2.0	-2.3	-4.7	-11.4	-	-
Pensions*	6.1	7.0	6.0	4.7	2.1	3.4	2.6	4.4	4.1	2.2	3.8	3.2	4.0

\* 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	Q1	Q2	Jun	Jul	Aug
	<i>real annual growth rates in %, except for FDI in million denars</i>												
Imports of capital goods*	9.8	7.2	7.7	10.8	19.1	20.2	10.5	11.2	1.9	4.8	-0.9	10.4	4.1
Completed construction works**	-24.5	-30.2	-19.5	-33.1	-39.6	0.9	-10.0	14.6	15.1	-3.3	28.4	7.9	-
Domestic production of capital goods	-0.9	15.6	-2.6	20.9	19.3	24.2	16.0	5.7	12.3	-2.9	-3.1	12.5	14.0
Government investments*	59.9	19.6	-40.8	33.7	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	149.5	-2.9	98.0
Direct Investments***	-2118.7	-3997.0	-5202.8	2481.3	8406.2	5667.8	3688.4	8175.6	-11978.5	-3835.0	725.7	-	-
Long term credits to enterprises*	3.6	-0.4	-0.8	0.0	2.0	4.7	6.6	5.9	4.8	4.8	4.8	3.0	3.4

\* 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.