

National Bank of the Republic of North Macedonia



Quarterly Report May 2019



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Introduction

In the first quarter of 2019, the National Bank continued to relax its monetary policy, whereby in March it reduced its policy rate by 0.25 percentage points, i.e. from 2.50% to 2.25%. The decision to reduce the policy rate of the National Bank, was made in the absence of pressures on the foreign exchange market from the external sector and stable expectations of domestic entities, amid further growth of total deposits and low and stable inflation rate. Additional room for monetary easing was also created with the ECB's latest announcement for keeping the policy rates at the current level longer than previously expected as well as for further monetary easing in the euro area through other monetary instruments. In this period, the National Bank continued to intervene by purchasing foreign currency on the foreign exchange market, whereby the foreign reserves remained at an adequate level and all adequacy indicators show that they are maintained in the safe zone. The National Bank will continue to carefully monitor the trends and potential risks of the domestic and external environment, in order to adequately adjust the monetary policy setup.

The latest cycle of macroeconomic forecasts for the current and the next two years does not indicate major changes in the macroeconomic environment, compared to the October forecast. In the period between the two forecasts, there were certain changes in relation to the assumptions for the global economic environment. Namely, the global economic performances are slightly weaker than expected, and the expectations for the coming period have also been revised downwards. However, it is estimated that positive impulses can still be expected on the growth of the domestic economy through this channel, although they would be weaker compared to October. On the other hand, the macroeconomic environment in the domestic economy is assessed as more favorable, which to a certain extent offsets the weaker prospects for the global growth. **Taking all this into account, the macroeconomic scenario in the new cycle of forecasts is maintained similar to the October cycle.** The comparison of the performances in the macroeconomic indicators of the domestic economy with their forecasted dynamics within the October forecasting round points to some deviations in certain segments of the economy, but still without major effects on the assessments for the macroeconomic prospects in the period of forecasts. Thus, generally speaking, the April macroeconomic scenario for the current and the next two years (2019-2021) preserves the forecasts for relatively solid economic and credit growth, absence of significant price pressures and balance of payments position that provides growth of foreign reserves. Such assessments imply a stable domestic political environment and a continuation of the policy of supporting the overall investment activity in the economy. Positive risk, which is not directly incorporated into the macroeconomic framework, includes the NATO membership and the possibility of accelerating the EU integration process, which can have further favorable effects on the economy.

Certain changes occurred in the expected movements of the key indicators of the external economic environment in the period between the two projections. Thus, the forecasts for the growth of **foreign effective demand** have been revised downwards in relation to the October expectations, especially for 2019, largely as a result of the expectations for lower economic growth of Germany. From the viewpoint of the dynamics, in the period 2019 - 2020 the growth of foreign demand is expected to moderately accelerate, so that it will average 1.5%. Also, **foreign effective inflation** has been revised downwards in 2019 and 2020. Moreover, it is expected to moderately accelerate in the period of forecasts, but it would continue to range below 2%. The forecasts for the annual changes of the **prices of primary products** in world markets for 2019 have been revised in different directions compared to October assessments, but generally point to slightly more favorable terms of trade for our economy and lower pressures from import prices. For 2020, most prices registered an upward revision, with the exception of corn prices. In terms of the dynamics of growth of the prices of primary products in the next period, after the growth registered in 2018, most of the price categories are expected to register either relatively stable movements or downward adjustments in 2019 and 2020.

Same as in the October cycle, the latest forecasts show a further acceleration in the growth of the domestic economy in the next period. Namely, the real growth in 2018 of 2.7% was slightly faster than the expected growth of 2.3%. The improved **initial conditions, together with the more favorable domestic environment, amid less favorable external environment and increased risks from the external environment, confirm the October expectations for economic growth of 3.5% in 2019 and further growth acceleration to 3.8% in 2020.** As in the previous round of forecasts, the growth is mainly due to the activities of the export-oriented



facilities, the estimates for further solid inflow of new foreign investments in the tradable goods sector, the public investments in road infrastructure, as well as the growth of disposable income and the stable expectations of households. Also, the growth structure remains similar, i.e. the export of goods and services is expected to be the component with the highest positive contribution to growth in 2019 and 2020. Such assessments are based on the expectations for further growth of the activity of the facilities with foreign capital, inflow of new foreign investments, recovery of part of the traditional export sectors, as well as on relatively favorable global environment (with present downward risks). In addition to exports, growth in the next two years will also be supported through investment activity, amid stable domestic environment, further growth of foreign investments and continuation of the cycle of public investments in road infrastructure. The favorable economic environment is expected to stimulate further growth of private consumption by increasing wages and employment in the private sector, and additional impact is expected from the credit support of the banks. The growth of domestic demand and export components will increase imports, but it is estimated that the increase in imports will be moderate and will not disturb external balance. For 2021, the estimate that the Macedonian economy will grow at a rate of about 4%, has been maintained.

Credit activity of the banking sector would still be a major supportive factor for the economic growth. Amid assessments for intensification of the economic growth and recovery of the investment cycle, it is expected that the credit growth in 2019 and in the next two years (2020 - 2021) will equal 8.0% (minor downward adjustment compared to the October forecast of 8.5%, given the weaker performances at the end of 2018). The forecasted credit growth reflects the factors on both the demand and supply side. Amid solid solvency and liquidity of the banks, with a stable environment and sufficiently available assets for financing, banks are expected to provide appropriate credit support. The credit growth estimates rely on the assumptions for stable expectations, increased deposit base and favorable capital and liquidity position of banks. In line with the estimates for a stable environment and intensification of the economic activity, and having in mind the higher performance in 2018, total financial system deposits for 2019 and the following two years are expected on average to increase by 8.4%, (8.3% on average according to the October forecast).

Regarding the future price trajectory in the domestic economy, the latest forecasts mainly point to environment of stable prices, without major inflationary pressures. The inflation forecast was subject to a downward adjustment for 2019, i.e. the inflation rate has been revised at 1.5% (versus 2% in the October forecasts), due to the currently lower performances and the expectations for lower pressures from the prices of primary products and foreign effective inflation, which represent input assumptions in the forecasts. Same as in the previous forecast vintage, the growth rate of domestic prices for 2020 and 2021 is expected to be 2%. These estimates reflect the lower price pressures in the previous period, as well as the expected movement of import prices of food, energy and foreign effective inflation. Moderate pressures on inflation are also expected from the domestic demand, in circumstances when the output gap is estimated as moderately positive during the entire forecast horizon.

April's assessments of the balance of payments position point to a favorable external position and absence of imbalances in the economy. **It is expected that the current account deficit in the period 2019-2021 would average about 1.3% of GDP, i.e. a slightly lower level compared to the expected 1.6% of GDP according to the October forecast.** The more favorable expectations mainly reflect the estimates for a smaller deficit in the balance of goods and services, amid simultaneously lower expected surplus in secondary income. Also, the downward revision of the expected deficit for the period under observation is in line with the improved performances of the current account in 2018 (deficit of 0.3%, versus the expected 0.5% of GDP). **In terms of the annual dynamics, the current account deficit in 2019 is expected to be higher by 0.8 percentage points of GDP and to amount to 1.1% of GDP.** In the next two-year period (2020-2021), the current account deficit is expected to slightly widen by 0.2 percentage points of GDP, on an annual basis, whereby the deficit would amount to 1.3% and 1.5% of GDP, respectively. During the entire period of forecasts, the balance of goods and services will continue to improve on an annual basis, as a reflection of the increased activity of part of the industrial facilities with foreign capital, narrowing of the energy deficit with expectations for a more favorable global conjuncture of the growing surplus in services. On the other hand, a moderate reduction in the secondary income surplus is forecast, assuming the absence of major shocks that may affect its dynamics. In addition, a certain deepening of the primary income deficit is forecast, in accordance with the expected further growth of the income of foreign investors in the economy. **Analyzing the financial account, current transactions in**



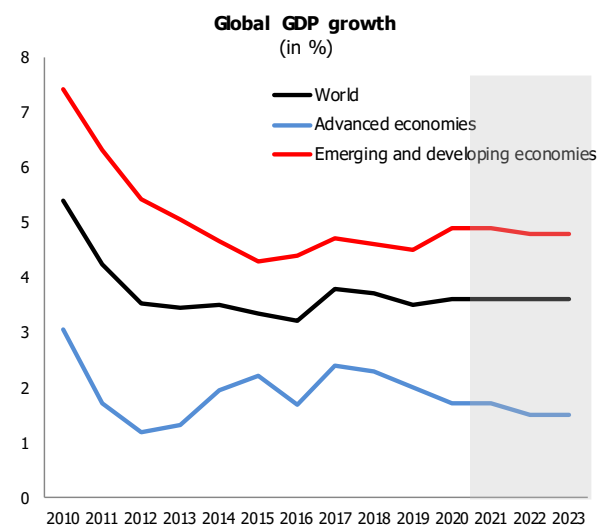
the period 2019-2021 are expected to be funded through non-debt and debt financial flows i.e. foreign direct investment and borrowing of the public and private sector abroad. In the analyzed three-year period, the current account deficit is expected to be fully covered by financial flows, which will further increase the foreign reserves. Foreign reserves adequacy indicators show that they have been in the safe zone throughout the forecast horizon.

Overall, the latest macroeconomic forecasts point to safe and sound fundamentals of the domestic economy, with potential for solid growth supported by the banks' lending activity, amid absence of inflationary pressures and maintenance of favorable external position. This scenario assumes stable and predictable domestic environment, further inflow of foreign investments, enhanced public infrastructure cycle, and relatively favorable external environment, slightly more favorable though, compared to the October forecast. Any lack of materialization of the embedded assumptions or risks may cause deviations from the forecast path of the key indicators. In the period ahead, the National Bank will closely monitor the current trends and changes in the domestic and external environment, in light of the monetary policy conduct.

I. Macroeconomic developments

1.1. International economic surrounding¹

Global economic activity continued to grow at a slower pace in the last quarter of 2018. Namely, in most of the major developed economies, but also in the developing countries, there is a gradual slowdown in growth in this period. Thus, the economy of the euro area registered an annual growth of 1.1%, which is the lowest growth rate in the last five years, largely as a result of the lower growth in Germany and Italy. Slowdown in the economic activity was registered in the UK, while the growth in the US and Japan remained at a level similar to the third quarter (3.1% and 0.3%, respectively). Expectations indicate that the global economic activity will slow down in 2019, and in the next year the growth will moderately accelerate. Namely, according to the latest IMF perceptions from April 2019, it is estimated that the global growth will slow down to 3.3% in 2019 (3.6% in 2018), and in 2020 it is expected to reach 3.6%. Compared to October 2018, the forecasts for growth of the global economy in 2019 and 2020 have been revised downwards, by 0.4 and 0.1 percentage points, respectively. In the short term, the risks to the global growth remain predominantly downward and are mainly associated with the possibility for re-escalation of the trade tensions between the US and the other countries, the increased uncertainty about the Brexit, the effects of the possibly tighter global financial conditions, the possible slower economic growth in China than expected, the uncertainty associated with the unfavorable political and economic situation of some euro area countries, as well as the geopolitical risks.



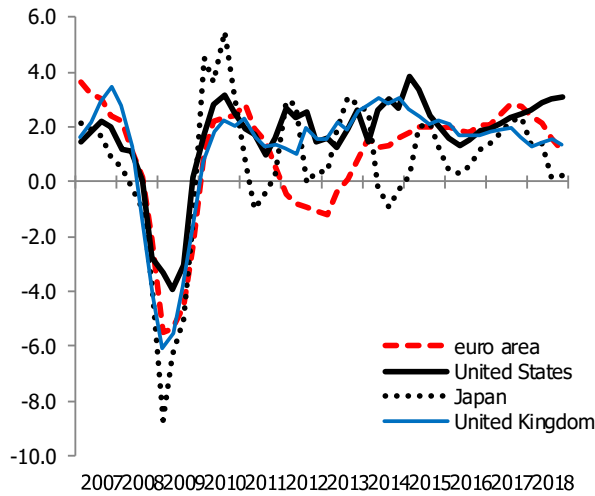
Source: IMF, WEO October 2018.

Global economic activity continued to grow in the last quarter of 2018, but at a slower pace. Observed by country, in most of the major developed economies, but also in the developing countries, there is a gradual slowdown in growth. Thus, with the exception of the US and Japan where the growth remained at a level similar to the third quarter, in the euro area and in the UK, there was a slowdown in the annual growth rates. Namely, the growth of the euro area in the fourth quarter amounted to 1.1% (1.6% in the third quarter), a shift which is largely explained by the lower growth in Germany and Italy. The UK's economy in the fourth quarter increased by 1.3% (1.6% in the third quarter), while the lower growth is mainly associated with the slowdown in investments amid increased uncertainty about the Brexit deal. Regarding the developing countries, Brazil, China and India in the fourth quarter registered a growth of 1.1%, 6.4% and 6.8%, respectively (compared to 1.3%, 6.5% and 7.2% in the third quarter), which is also a slowdown in growth. Moreover, such dynamics is mainly associated with the factors on the side of domestic demand (fall in investments in Brazil, smaller growth of private consumption in India and smaller growth of investments in China).

¹ The analysis is based on the IMF's *World Economic Outlook* of April 2018; the ECB's *Economic Bulletin*, the announcements of *Markit Economics*, the World Bank's *Global Economic Prospects*, the reports of *Bloomberg*, *Roubini Global Economics*, *Capital Economics*, *Reuters* and *Trading Economics*, the monthly reports of the International Energy Agency and the weekly reports of the Bank of Greece.

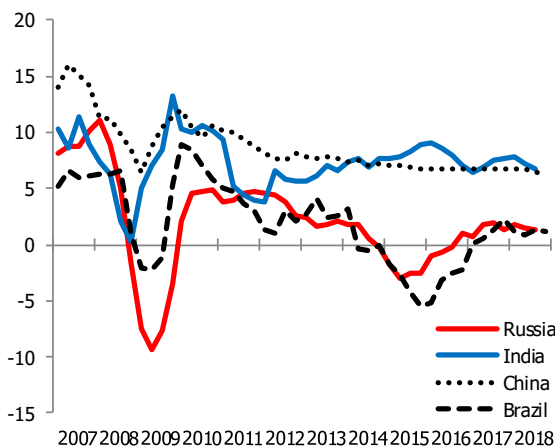


Real GDP growth in advanced economies (year-on-year percentage changes; quarterly data)



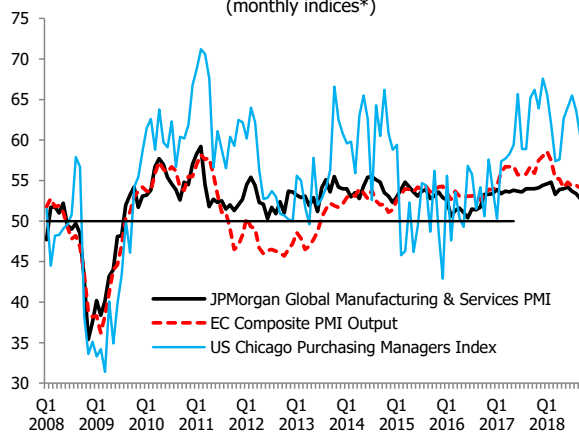
Source: OECD.

Real GDP growth in emerging economies (year-on-year percentage changes; quarterly data)



Source: OECD and IMF.

Global economic activity indicators (monthly indices*)



*The PMI index reflects the percentage of respondents that reported better business conditions compared to the previous month and it can take values between 0 and 100. PMI=50 is considered as a reference value, indicating unchanged economic conditions. A PMI value over 50 is taken to indicate that the economy is expanding, while a PMI value below 50 suggests that the economy is contracting.

Source: Markit, ISM-Chicago.

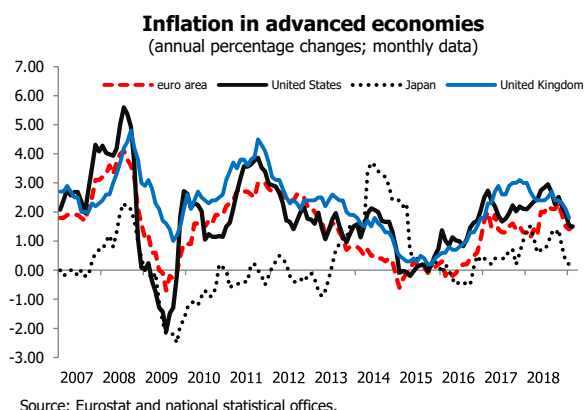
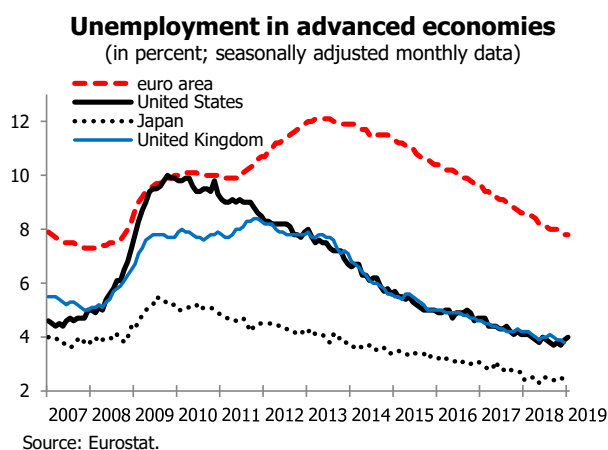
According to the latest IMF estimates, it is expected that the global economic activity will slow down in 2019 to 3.3%, and a moderate acceleration is expected in 2020 (3.6%). Compared to the October forecasts, the IMF carried out a downward revision of the estimates for the global growth by 0.4 and 0.1 percentage points for 2019 and 2020, respectively. The downward revision for 2019 partly reflects the lower performances in 2018, compared to the October forecast, but also the deteriorated conditions in the global economy which are expected to have an adverse impact on the global growth in the first half of 2019. These unfavorable factors are associated with the trade tensions between the US and China, the weaker economic performances of the euro area, the macroeconomic problems of Argentina and Turkey, the tighter credit policies in China and the financial and monetary tightening in some major developed countries. In support of the lower expected global growth for 2019 are the high-frequency indicators of the global economic conditions for the first quarter of 2019. Namely, the average of the PMI indices in the period January-February 2019 equals 50.7 (compared to 53 in the fourth quarter), which points to potential further deceleration of the global economic activity in this period.

The risks to the forecasted global economic growth remain downward and are mainly associated with the uncertainty about the further development of trade tensions, the tighter global financial conditions, the uncertainty about the Brexit, the possible deepening of the recession in Italy, which would potentially spill over on other euro area countries, the possible slower economic growth in China than expected, as well as the geopolitical risks.

Regarding the movement of prices globally, amid significant downward adjustment of the prices of primary products, primarily the oil price, there are no significant price pressures. Thus, in the fourth quarter of 2018 and the beginning of 2019, the inflation in developed countries is relatively low, with core inflation usually below the target level. In the emerging economies, the

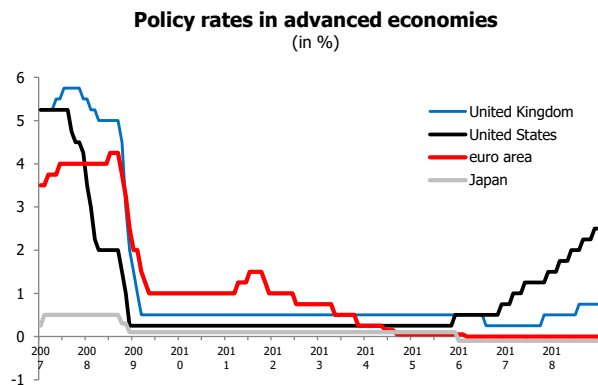


inflation rate slowed down and stabilized at a lower level. In addition to the lower prices of primary products, the lower core inflation and the slowdown in food inflation in some of the countries in this group are also cited as the reasons for this shift.

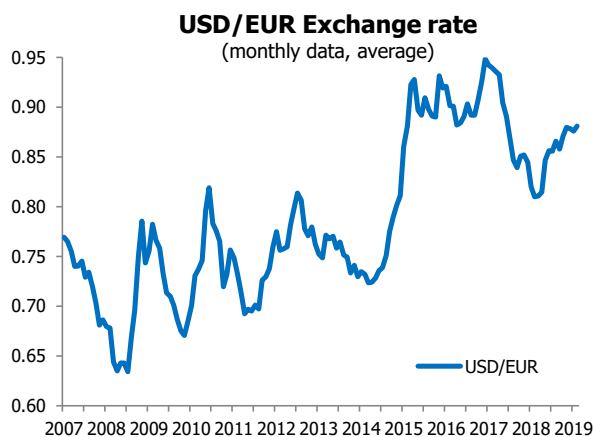


The slowdown in the economic activity of the euro area continued in the fourth quarter of 2018. Thus, in this period, the euro area registered an annual growth of 1.1%, which is a deceleration compared to the increase of 1.6% in the third quarter. In terms of components, the growth in the fourth quarter is largely associated with the private consumption and the improved results of net exports. The unemployment rate in the euro area in the fourth quarter amounted to 7.9% and it decreased minimally in January (7.8%). Weaker economic performances in some of the major member states, coupled with the less favorable risks associated mainly with the uncertainty about the Brexit and the potential increase in protectionism globally, conditioned a downward revision of the growth in the euro area for 2019 (to 1.1%, compared to 1.7% in the December forecasts). In the medium run, these risks are expected to stabilize, and consequently no significant changes were made in the expected growth for 2020 which would equal around 1.6% (compared to 1.7% in the December forecasts), while for 2021 the economy of the euro area is expected to grow at a rate of 1.5%.

The annual inflation rate in the euro area slowed down in the first quarter of 2019, compared to the fourth quarter of 2018. Namely, in the first quarter of 2019, the average annual inflation rate was 1.5% (1.9% in the fourth quarter of 2018). The lower price growth is largely associated with the lower growth of the energy component in the euro area, amid reduction of the prices of crude oil on the world market. In the medium run, according to the latest ECB forecasts, the inflation rate was revised downwards for the entire period of forecasts (1.2%, 1.5% and 1.6% in 2019, 2020 and 2021, respectively, compared to 1.6%, 1.7% and 1.8%, respectively, in the December forecasts). This change reflects the expectations for lower growth of oil prices (especially in 2019 and 2020), amid smaller growth rates of core inflation in the entire period of forecasts.



Source: Central banks.



Source: Bundesbank

In the first quarter of 2019, the monetary policy in most of the developed countries remained unchanged, whereby the monetary policy of the ECB according to the latest announcements, is expected to be more accommodative by the end of the year. Thus, at its regular meeting in March, the ECB announced maintenance of the interest rate at an unchanged level at least until the end of 2019, as well as introduction of a new measure for long-term refinancing from September 2019 to March 2021², which would aim to support the lending terms and strengthen the transmission of monetary policy. Amid more pronounced adverse global risks and lower inflation rate, and amid more moderate employment growth, in the first quarter of 2019, the Fed made a decision to maintain the current interest rate. The Bank of England and the Bank of Japan also did not make changes in the monetary policy setup.

The first quarter of 2019 saw a slight appreciation of the US currency against the euro of 0.5%, on average, compared to the fourth quarter of 2018. Annually, in the first quarter, the US dollar against the euro appreciated by 8.3%, and in March 2019, one US dollar was exchanged for 0.885 euros on average. The growth of the value is mostly a result of the political tensions and the weaker economic performances in the euro area.

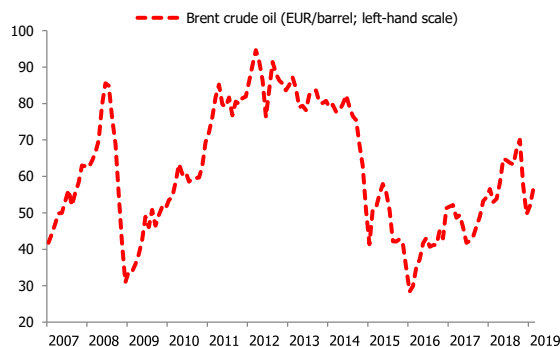
The decline in oil price continued in the first quarter of 2019. Thus, in the first quarter of 2019, the oil price in euros equaled Euro 55.7 per barrel, which is a decrease of 5.6% compared to the fourth quarter of 2018. The fall in oil price largely reflects the expectations for lower oil demand at global level. On annual basis, the oil price in euro currency increased by 2.3%.

In the first quarter of 2019, the prices of non-energy primary products registered a quarterly growth of 3.3% (denominated in euros). Analyzed by product groups, the growth reflects the higher prices of metals and food, which amounted to 5.7% and 1.8%, respectively, compared to the fourth quarter of 2018. The growth of metal prices is

² Under TLTRO III, the counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 28 February 2019 at a rate indexed to the interest rate of the main refinancing operations over the life of each operation.

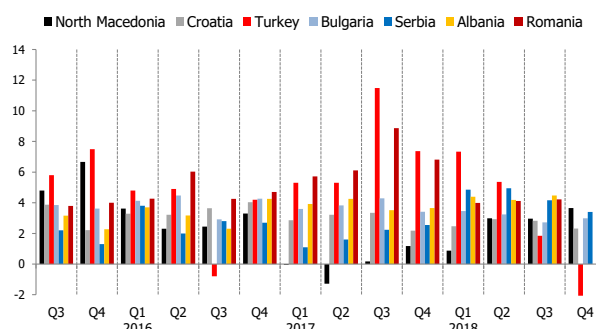


Prices of crude oil
(monthly data)



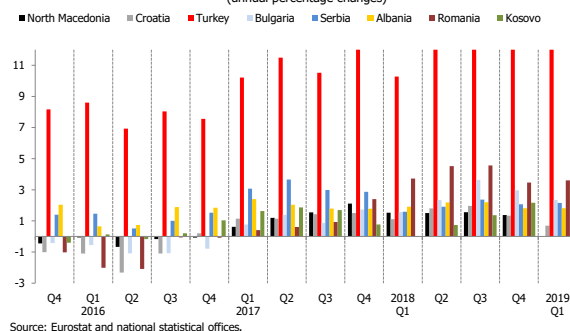
Source: WB monthly database.

Real GDP growth in countries from the region
(annual percentage changes, quarterly data)



Source: Eurostat and national statistical offices.
* According to ESA 2010 methodology, except for Turkey and Albania.

Inflation in countries from the region
(annual percentage changes)



Source: Eurostat and national statistical offices.

largely due to the positive signals from the trade negotiations between the US and China. On an annual basis, the euro prices of primary non-energy products increased by 3.9%.

In the fourth quarter of 2018, most countries of the region registered a slowdown in the economic activity. Thus, the weakest economic performances were registered in Turkey, where there was a decrease in the economic activity of 3%, amid a decline in domestic demand conditioned by the restrictive macroeconomic policies. In most of the other countries of the region, the growth of the economic activity continued, but at a slower pace. The lower growth in Romania (4.1% compared to 4.2% in the third quarter) and in Croatia (2.3% compared to 2.8% in the third quarter) is mainly explained by the less favorable net exports, while in Serbia (3.4% compared to 4.2% in the third quarter) by the smaller growth of investments. On the other hand, Bulgaria recorded growth acceleration (3% compared to 2.7% in the third quarter), largely driven by the improved net exports.

In the first quarter of 2019, the countries of the region witnessed divergent movements of the inflation rate. Thus, in Croatia, Bulgaria and Turkey, the price growth slowed down in the first quarter of 2019. The slowdown in the price growth in Croatia and Bulgaria is largely a result of the smaller growth of core inflation, while in Turkey, the reduction of the inflation rate is a result of the macroeconomic policies carried out to deal with the current economic and financial crisis. On the other hand, in Romania and Kosovo, there was an acceleration in the inflation rate, which is mainly a reflection of the higher food prices, while in Serbia and Albania, the inflation rate remained at a similar level as in the previous quarter.

1.2. Domestic supply

The favorable developments in the domestic economy continued with stronger intensity in the fourth quarter of 2018. Thus, according to the estimated SSO data, the domestic economy in the fourth quarter registered a real growth of 3.7% on an annual basis, which is an acceleration compared to the growth of the previous quarter. In terms of the structure, in the fourth quarter, similarly as throughout the year, the largest contribution to the economic growth was made by the activities "trade, transport and catering". Construction, after several consecutive quarters accompanied by unfavorable developments, in the fourth



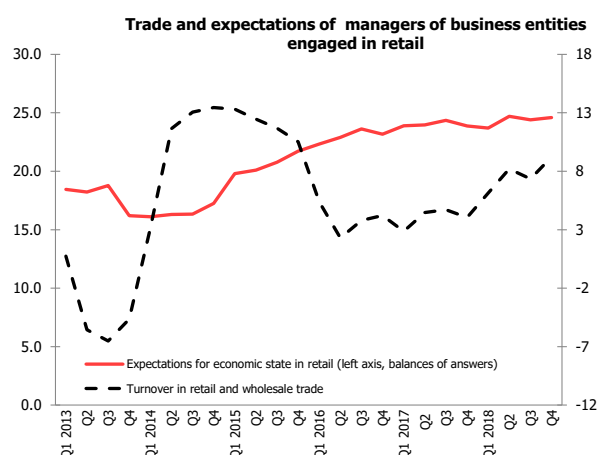
quarter registered a solid growth rate and was one of the main drivers of the total economic growth, together with industry. Most of the available data for the period January-February 2019 indicate further favorable economic performances. In line with the current positive developments in the economy, the expectations of the managers of companies from retail trade, construction and manufacturing industry for the forthcoming period are favorable.

The domestic economy registered a real growth rate of 3.7% on an annual basis, i.e. 1.8% on a quarterly basis (seasonally adjusted), in the fourth quarter of 2018. The most significant contribution to the positive economic performances was made by the activities "trade, transport and catering", followed by the construction sector which registered a significant growth of the activity, after six quarters of continuous negative contribution to the growth. In addition, industry also made a positive contribution to the total growth, and after several consecutive quarters accompanied by a decline in the activity, in the fourth quarter there was also a small growth in agriculture³. On the other hand, stronger decline in the activity and negative contribution to the total growth was registered in information and communications⁴.

	annual growth rates, in %										contribution in GDP growth, in p.p.									
	2013	2014	2015	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2013	2014	2015	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Agriculture	8.6	3.1	1.9	-0.4	-13.5	-5.0	-4.7	-12.4	-4.8	0.3	0.8	0.3	0.2	0.0	-1.2	-0.4	-0.3	-0.9	-0.4	0.0
Industry	3.7	11.5	4.9	-3.0	1.8	3.7	0.0	5.6	3.6	5.4	0.6	1.7	0.8	-0.5	0.3	0.7	0.0	1.0	0.6	1.0
Manufacturing	9.6	21.5	5.0	-1.5	1.5	5.6	6.4	5.8	4.1	6.3	1.0	2.1	0.5	-0.2	0.2	0.7	0.7	0.8	0.5	0.8
Construction	12.8	5.1	8.0	-2.8	-4.4	0.2	-19.3	-2.0	-2.6	19.6	0.7	0.4	0.6	-0.2	-0.3	0.0	-1.1	-0.1	-0.2	1.3
Trade and transport	11.1	3.1	1.4	8.7	4.9	9.2	7.9	11.6	9.4	7.9	1.9	0.6	0.3	1.6	0.9	1.8	1.5	2.3	2.0	1.6
Information and communication	4.8	3.4	13.4	7.2	13.9	-6.6	-9.1	-3.0	-1.7	-12.6	0.2	0.1	0.4	0.2	0.4	-0.2	-0.3	-0.1	-0.1	-0.4
Financial and insurance activities	-1.4	13.5	8.7	1.5	-1.3	1.7	1.8	0.8	2.3	1.7	0.0	0.4	0.3	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Real estate activities	-1.3	0.0	2.7	-3.2	-0.7	0.1	1.7	2.1	0.4	-3.8	-0.2	0.0	0.3	-0.4	-0.1	0.0	0.2	0.2	0.0	-0.3
Professional, scientific and technical activities	9.6	6.3	5.9	11.5	5.7	10.7	19.2	10.8	7.7	5.2	0.3	0.2	0.2	0.4	0.2	0.4	0.7	0.4	0.3	0.2
Public administration	-7.5	3.2	6.5	3.5	-2.1	-3.6	-5.0	-5.5	-1.8	-2.3	-1.1	0.4	0.8	0.4	-0.3	-0.4	-0.7	-0.7	-0.2	-0.3
Other service activities	12.7	11.5	4.5	7.2	3.5	18.7	23.0	21.1	17.0	14.0	0.3	0.3	0.1	0.2	0.1	0.5	0.7	0.6	0.5	0.4
Gross Domestic Product	2.9	3.6	3.9	2.8	0.2	2.7	0.9	3.0	3.0	3.7	2.9	3.6	3.9	2.8	0.2	2.7	0.9	3.0	3.0	3.7

*From the release for GDP of 08.03.2018

Source: State Statistical Office and NBRNM calculations.

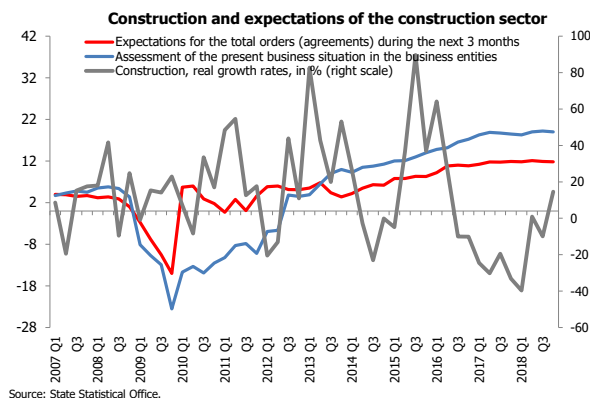
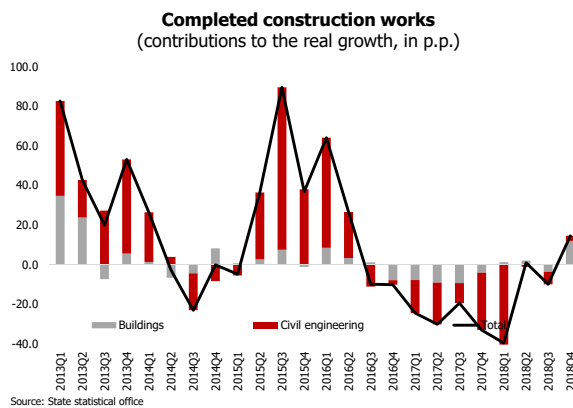
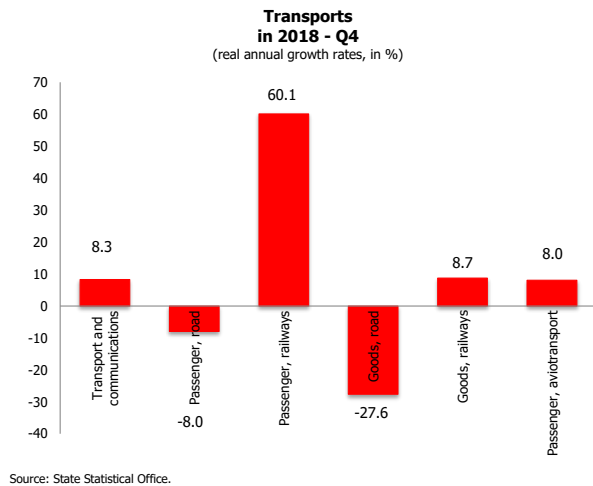


Source: State Statistical Office and NBRNM.

In the fourth quarter of 2018, similarly as throughout the year, the group of activities "trade, transport and catering" was the supporting pillar of the economic growth. Based on the data for the turnover in the domestic trade, the fourth quarter registered an acceleration in the total trade, as a result of the acceleration in the growth in both the retail trade and in the wholesale trade. Furthermore, improvement of the situation was also observed in the trade in motor vehicles, where in the fourth quarter an increase was registered, unlike the previous quarter when there was a decline in the activity. Data for the period January-February 2019 indicate a moderate acceleration in the annual growth of total trade turnover, amid favorable

³ Positive contributions were registered in arts and "professional, scientific and technical activities; administrative and ancillary services".

⁴ Negative contributions were registered in "activities related to real estate" and "public administration and defense, compulsory social security, education and health and social care".



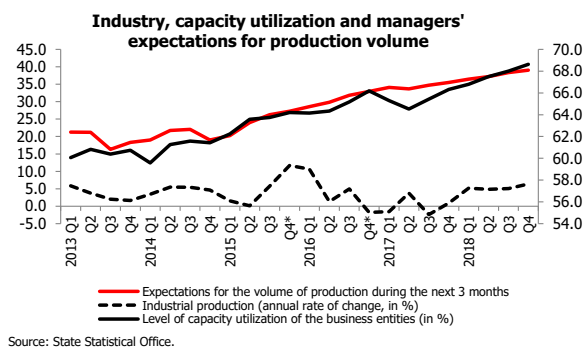
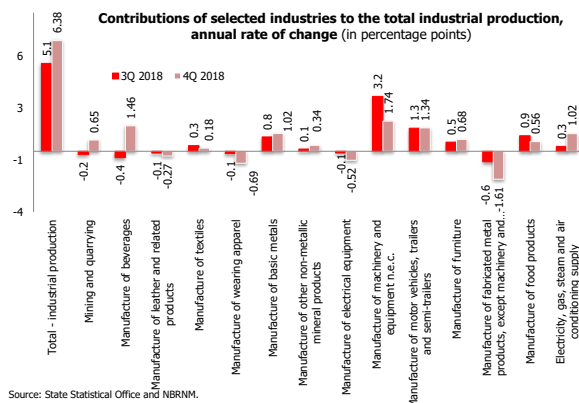
performances in the three types of trade (wholesale trade, retail trade and trade in motor vehicles). In support of this are the generally favorable expectations of the managers of companies in the sector "retail trade" regarding the orders, the selling prices, the number of employees and the business situation for the first quarter of 2019⁵.

In transport, the movements in the fourth quarter of 2018 are mainly favorable. Intensification of the activity compared to the previous quarter was registered in the road traffic, and growth, although slower compared to the previous quarter, was also registered in air traffic. Such shifts in these types of traffic, primarily in terms of transported goods, can be related to the favorable performances in industry. On the other hand, in the fourth quarter, a decline in the activity was registered in rail traffic.

Construction returned to the zone of positive performances and represents one of the main drivers of the growth in the domestic economy in the fourth quarter, after six quarters of continuous negative contribution to the growth. Thus, the fourth quarter of 2018 registered a solid growth rate in this sector of 19.6%. The positive developments in construction are predominantly due to the growth of the activity in building construction, but favorable performances and positive contribution to the total growth were also registered in civil engineering. In January this year, completed construction works registered a high annual growth rate, amid favorable performances in both building construction and civil engineering. The managers in this sector generally have favorable expectations in terms of selling prices, total orders and number of employees for the first quarter of 2019.

Industry is characterized by an accelerated activity and a significant contribution to the real GDP growth in the fourth quarter of 2018. Besides trade and construction, in the fourth quarter, industry also represents an important driver of the total growth in the domestic economy, largely due to the favorable performances in the manufacturing industry. A more moderate positive contribution to the total industrial output was made by the energy and the mining sectors, after a period of five quarters of steady decline. In terms of the

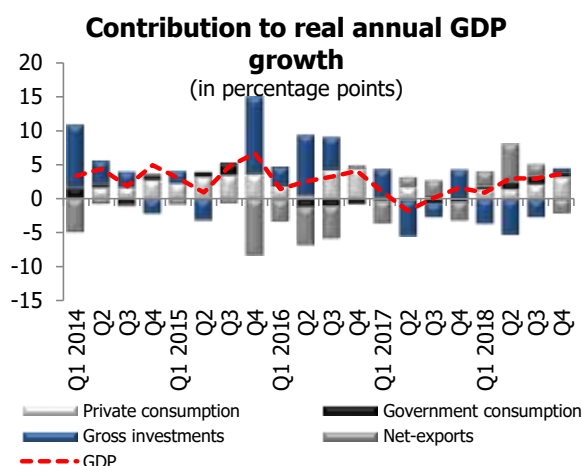
⁵ The expectations of the managers of construction enterprises, in retail sale and manufacturing industry for the first quarter of 2019 are taken from the Business Tendencies Survey for the respective sector conducted in the fourth quarter of 2018.



manufacturing industry, drivers of the growth are mainly the activities where the major export facilities with foreign capital are active, so that the most significant contributions to the growth were registered in the production of machines and devices and motor vehicles. Furthermore, an additional positive contribution was registered in the production of beverages, metals and furniture. On the other hand, in "production of fabricated metal products, other than machinery and equipment", the production of clothing and electrical equipment registered negative contributions to the total growth rate of industrial output. In the period January-February this year, there were favorable developments and acceleration in the annual growth in industrial output, with the main drivers of the growth being the manufacturing industry and the energy sector. The expectations of the managers in industry point to generally favorable developments in this sector in the first quarter of 2019 in terms of production, prices and number of employees.

1.3. Aggregate demand

In terms of demand, the annual real GDP growth of 3.7% in the last quarter of 2018 is a result of the higher domestic demand, with small negative contribution of net exports. Generator of the growth of domestic demand is private consumption, with a positive contribution from public consumption, as well as from gross investments which registered a growth for the first time, after three quarters of continuous decline. The growth of investments reflects the favorable developments in the construction sector, in part related to the commencement of the implementation of temporarily halted public infrastructure projects, as well as the increase in FDIs. Although exports registered the highest real growth rate within the individual expenditure categories, however amid simultaneous intensification of import growth, net exports made a negative contribution to the GDP growth.



Source: State Statistical Office and NBRNM calculations.

Structural analysis of the GDP components⁶ in terms of demand shows that the growth in the last quarter of the year is driven by domestic demand where the main driver is private consumption, with a positive contribution from the other two components - public consumption and gross investments. The growth of investments is in line with the favorable developments in the construction sector, in part related to the commencement of temporarily halted public infrastructure projects. On the other hand, despite the fact that within the individual components exports registered the highest rate of real growth, however, net exports in the fourth quarter of the year, unlike the previous three quarters, made a negative contribution to the economic growth, due to the faster growth of imports compared to exports in absolute terms.

	Real annual growth rates (%)														Contributions to real annual growth (in p.p.)													
	2013	2014	2015	2016	2017	2018	2017-Q1	2017-Q2	2017-Q3	2017-Q4	2018-Q1	2018-Q2	2018-Q3	2018-Q4	2013	2014	2015	2016	2017	2018	2017-Q1	2017-Q2	2017-Q3	2017-Q4	2018-Q1	2018-Q2	2018-Q3	2018-Q4
Private consumption	1.9	2.2	4.4	3.9	0.7	2.9	0.2	2.3	0.2	0.0	2.0	1.9	3.0	4.6	1.4	1.6	3.1	2.7	0.5	1.9	0.2	1.5	0.2	0.1	1.3	1.2	2.0	3.0
Government consumption	0.5	3.0	3.9	-4.9	-2.5	6.2	-1.8	-0.8	-4.6	-2.8	3.0	7.7	9.6	4.7	0.1	0.5	0.7	-0.8	-0.4	0.9	-0.3	-0.1	-0.7	-0.4	0.5	1.2	1.3	0.7
Exports of goods and services	6.1	16.5	8.5	9.1	8.1	15.3	6.3	8.1	6.8	11.0	12.8	14.1	12.0	21.7	2.8	7.2	4.0	4.4	4.1	8.5	3.1	4.1	3.6	5.6	6.5	7.8	7.1	12.1
Imports of goods and services	2.2	14.1	9.9	11.1	6.4	9.0	9.0	3.7	1.9	11.2	6.2	3.4	7.5	17.5	-1.4	-8.7	-6.5	-7.2	-4.2	-6.2	-5.8	-2.4	-1.3	-7.4	-4.2	-2.4	-5.0	-12.8
Gross capital formation	0.5	10.7	8.3	12.5	0.8	-7.2	12.2	-14.6	-6.1	11.0	-9.3	-16.4	-8.5	1.6	0.1	3.1	2.5	3.8	0.3	-2.4	3.9	-4.9	-1.7	3.8	-3.3	-4.8	-2.5	0.7
Domestic demand	1.3	4.4	5.4	5.1	0.4	0.3	3.4	-3.0	-2.1	3.2	-1.4	-2.2	0.6	3.6	1.6	5.2	6.3	5.6	0.3	0.4	3.7	-3.5	-2.2	3.4	-1.5	-2.4	0.8	4.3
Net exports*	-7.0	8.0	14.1	16.7	2.1	-7.8	15.4	-6.1	-15.1	11.5	-8.8	-23.5	-11.9	8.0	1.3	-1.5	-2.4	-2.8	-0.1	2.2	-2.7	1.7	2.3	-1.8	2.3	5.4	2.1	-0.7
Statistical discrepancy															0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	2.9	3.6	3.9	2.8	0.2	2.7	1.0	-1.8	0.1	1.6	0.9	3.0	3.0	3.7	2.9	3.6	3.9	2.8	0.2	2.7	1.0	-1.8	0.1	1.6	0.9	3.0	3.0	3.7

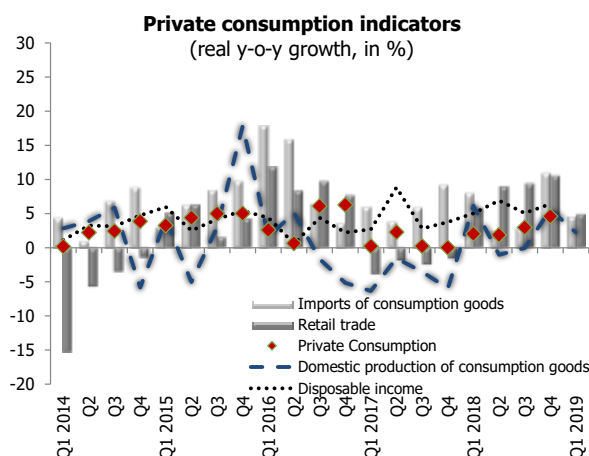
*decrease represents lower deficit

Source: SSO and NBRNM calculations.

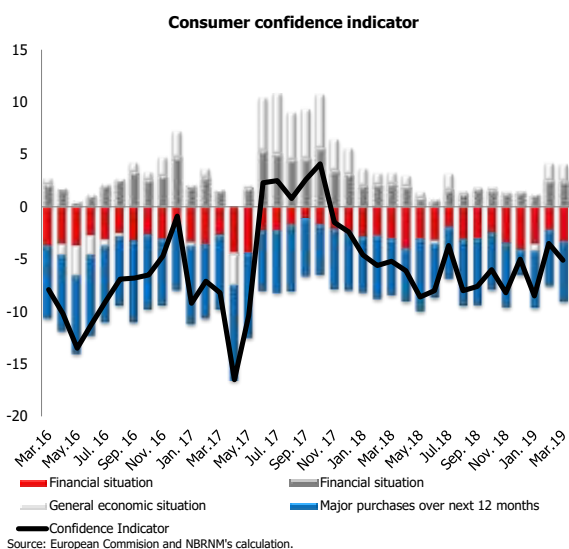
⁶ The quarterly changes of the GDP and its components are calculated using seasonally adjusted data.



1.3.1. Private consumption



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



Source: European Commission and NBRNM's calculation.

In the last quarter of 2018, household consumption recorded a strong annual growth of 4.6% and a quarterly increase of 1.8%. Such positive contribution was supported by all components of disposable income⁷, while the increase in the banks' lending to households also had positive contribution. The perceptions from the consumer confidence surveys⁸ in the fourth quarter point to a gradual return of consumer optimism, mainly as a result of the more favorable expectations for the future financial situation and the expectations for higher consumption in the future.

The signals from the available high-frequency data have indicated further growth⁹ of private consumption in the first quarter of 2019. Thus, in the period January-February, growth was registered in retail trade, real wages and pension bill, with solid growth in lending to households, which partially corresponds to the results of the Bank Lending Survey, which point to easing of the overall credit conditions, but also to a net reduction of the demand for household loans in this period. In this period, an increase was registered in domestic production of consumer goods, VAT revenues and import of consumer goods. The signals from the consumer confidence surveys conducted in the first quarter indicate a gradual return of consumer optimism amid more favorable expectations for the future general economic situation and the financial standing of households.

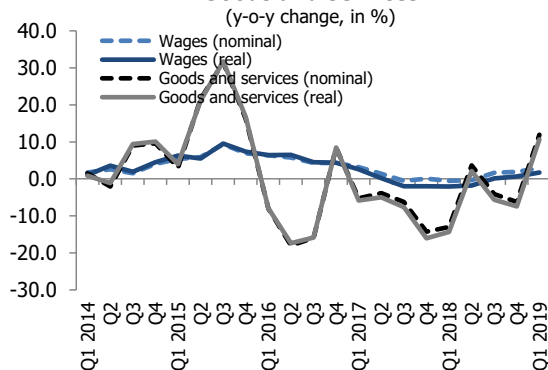
⁷ From the disposable income components, in the fourth quarter of 2018 only private transfers registered a slowdown in growth, while wages and pensions registered faster growth.

⁸ European Commission's Consumer Survey as of March 2019. The chart shows the consumer confidence index as a net percentage of responses. This index is an integral component of the total index of economic confidence. 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/revise-consumer-confidence-indicator_en

⁹ According to the private consumption indicators, only private transfers registered a decrease in January 2019.



Expenditures for Wages and salaries and Goods and services



Source: Ministry of Finance and NBRNM calculations.
The calculations include expenditures of Consolidated Budget of Central Government and Funds, deflated by CPI.

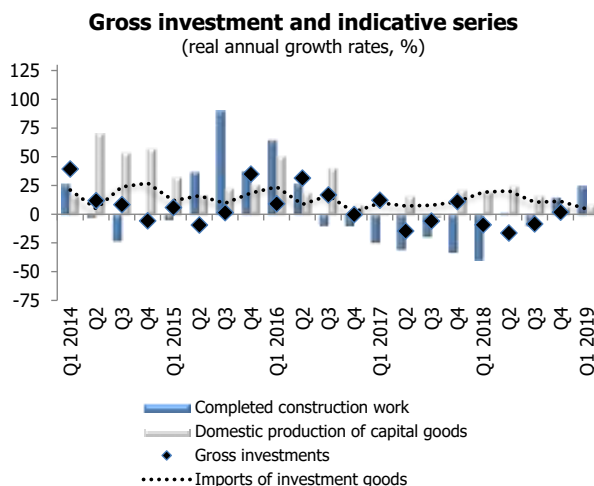
1.3.2. Public consumption

The annual growth of public consumption slowed down in the fourth quarter to 4.7%, amid a decline of 2.1% on a quarterly basis. Moreover, the growth of public consumption is mainly due to the higher transfers to the local authorities, the employment service agency, as well as the higher expenditures on salaries.

The data for January and February 2019 indicate an annual growth of public consumption in the first quarter, amid growth in almost all categories¹⁰ of public consumption, with the most significant growth in expenditures on goods and services and health care transfers.

1.3.3. Investment consumption

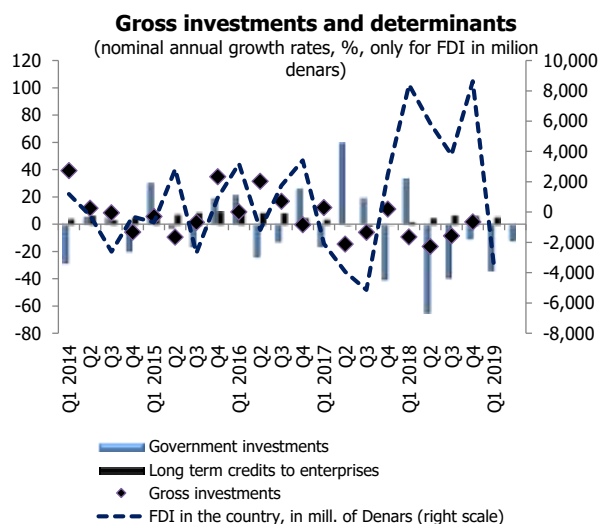
The adverse movements in gross investments registered in the past three quarters of the year were interrupted in the last quarter, when gross investments registered an annual and quarterly growth of 1.6% and 15.6%, respectively. The improved dynamics of gross investments could be related to the favorable developments in the construction sector, as well as to the growth of foreign direct investment. At the same time, also in the fourth quarter, banks continued to support companies through long-term lending, with higher domestic production of capital goods. Growth was also registered in the imports of investment goods. On the other hand, government capital investments continue to decline.



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

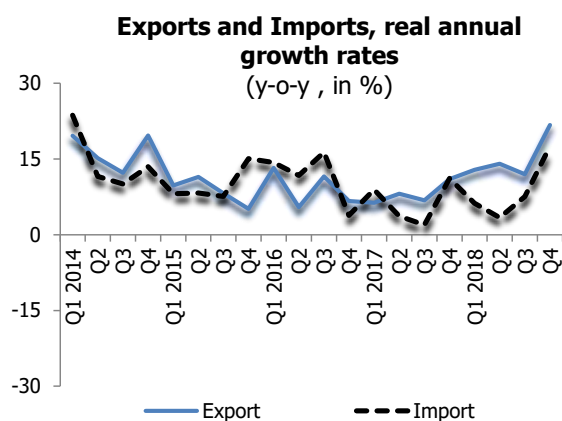
In terms of the movement of investments in the first quarter of 2019, most of the high-frequency data indicate favorable movements. Namely, an annual growth in the short-term investment indicators was registered in the domestic production of capital goods and the imports of investment goods, and also, in January, there was a strong acceleration in the annual growth of the activity in the construction sector. The growth of completed construction works corresponds to the favorable expectations of the managers in construction for the total orders in the first quarter. At the same time, corporate lending for the period January-February continues to grow, amid moderately increased demand for loans and net easing of the

¹⁰ In the period January - February 2019, only the transfers to the PDIF registered a decline.

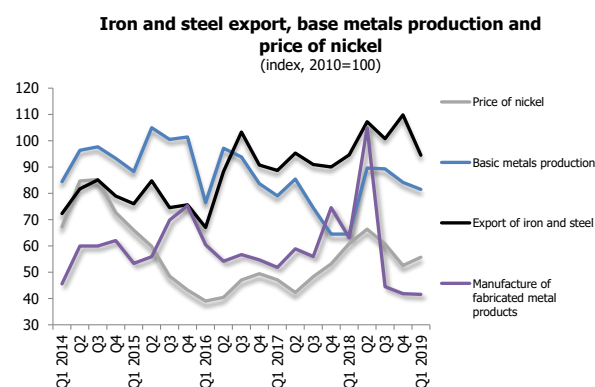


Source: State Statistical Office, Ministry of Finance and NBRNM calculations.

credit conditions in this period, according to the results of the banks' surveys. On the other hand, the available data on government capital investments and foreign direct investments point to unfavorable trends in the first quarter of 2019.



Извор: Државен завод за статистика.



Source: State Statistical Office, IMF monthly database and NBRNM calculations.

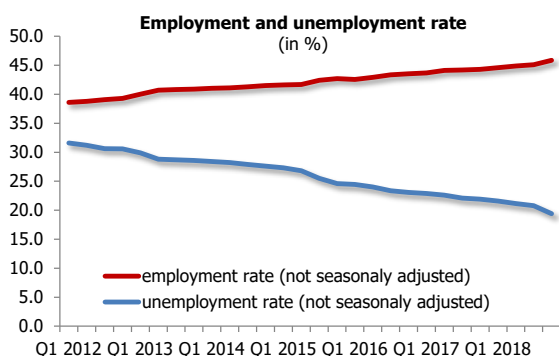
1.3.4. Net external demand

Unlike the previous three quarters of the year when net export made a positive contribution to the growth of the domestic economy, in the last quarter its contribution was negative. In the last quarter, real export grew rapidly, and registered an annual and quarterly growth of 21.7% and 11.2%, respectively, whereby it remains the component with the highest positive contribution to the GDP growth. Analyzed according to the high frequency foreign trade statistics, the growth of the nominal export was mostly supported by the solid performances of the new export-oriented industrial facilities, with a more moderate positive contribution of the export of iron and steel. Strong annual and quarterly growth was also registered on the imports side of 17.5% and 11.7%, respectively.

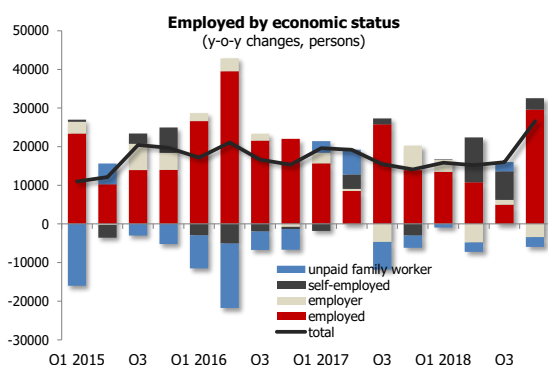
In the first quarter of 2019, the trade deficit on the annual basis is expected to widen, as indicated by the nominal data on foreign trade for the period January - February 2019, in conditions of higher import growth than the export of goods.

1.4. Employment and wages

In the fourth quarter of 2018, labor market indicators show maintenance of the trend of growth of the number of employees, with slightly stronger intensity compared to the growth in the previous quarter. At the same time, the unemployment rate reduced to 19.4%, which is a new historical minimum. The business tendency surveys generally point to increased optimism about employment for the next three months. On the supply side, the annual growth of the active population, which began in the last quarter of 2016, continued. Regarding the competitiveness indicators, despite the small positive shifts on an annual basis in labor productivity in the last three quarters, unit labor costs further increased.



Source: State Statistical Office, Labour Force Survey.



The employment growth continued in the fourth quarter of 2018, with stronger intensity compared to the previous quarter. Thus, the number of employees increased by 3.6%, on an annual basis and by 2.1%¹¹, on a quarterly basis. Observed by activity, the largest contribution to the growth was made by the manufacturing industry, "transport and storage", "health and social care" and "professional, scientific and technical activities". On the other hand, a decrease in employment was observed in a small number of activities, most pronounced in the category "agriculture, forestry and fishing". In terms of the economic status¹², the category of employed recorded the largest growth of the number of employees.

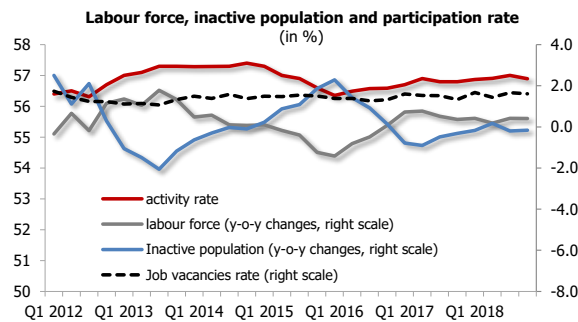
In the fourth quarter of 2018, the employment rate amounted to 45.9%, which is an annual growth of 1.6 percentage points. Simultaneously, the aggregated signals from business tendency surveys¹³ mainly suggest increased optimism among managers of business entities regarding the employment for the next three months. In the fourth quarter, the rate of vacancies¹⁴ amounted to 1.6% (1.3% in the same quarter of 2017). Analyzed on a longer-term basis, the job vacancy rate is relatively stable, which, in conditions of decrease in the unemployment rate, points to possible improvement of the process of connecting the supply with the demand for skills in the labor

¹¹ The analysis of quarterly dynamics of employment, unemployment and total economically active population was made using seasonally adjusted data.

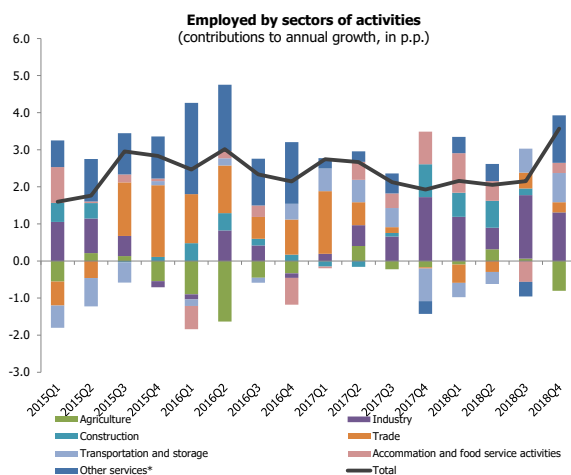
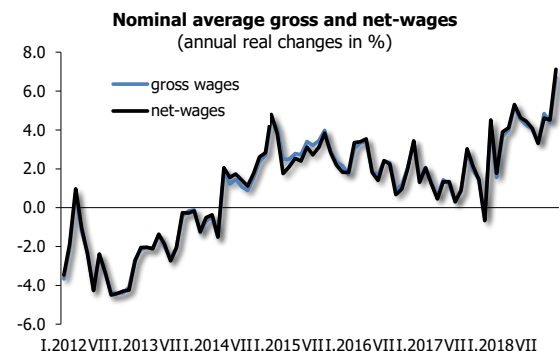
¹² The classification by economic status applies to the following groups: **employers** - persons who operate their own business entity or engages independently in their own shop, or farm owners who hire other employees; **employees** - persons who work in government institutions, business entities in public, mixed, cooperative and undefined ownership or for private employer; **own-account workers** - persons who operate their own business entity, company, engage independently in their own business and work on a farm in order to generate income, while not hiring other employees; **unpaid family workers** - persons who work without pay in a business entity, shop or farm (owned by a family member).

¹³ Source: State Statistical Office, business tendency surveys in manufacturing industry (January and February 2019), construction (fourth quarter of 2018) and trade (fourth quarter of 2018).

¹⁴ The job vacancy rate is defined as the ratio between the number of job vacancies and the total number of jobs. Usually, the job vacancy rate is considered along with the unemployment rate (a relationship known as the Beveridge Curve). The value of these two indicators provides labor market information about any skill mismatch. In particular, if both indicators are moving simultaneously, they are temporary, cyclical fluctuations, while in the case of the unemployment rate decreasing, with a stable vacancy rate, these are structural changes, that is, improving the efficiency of the labor market.



Source: State Statistical Office,.

* In other services are included the activities from J+K+L+M+N+O+P+Q+R+S
Source: State Statistical Office

Source: State Statistical Office.

market. Observed by activities, the highest job vacancy rate was registered in the manufacturing industry (2.3%), "information and communications" (2.1%), as well as in administrative and ancillary services (2.1%).

As for the movements on the side of labor supply, the growth trend observed since the last quarter of 2016, continued in the fourth quarter, as well. Thus in the fourth quarter, the total labor force increased by 0.4% annually, while the activity rate equaled 56.9%.

The stronger rise in the demand relative to supply of labor force in the fourth quarter of 2018 resulted in further fall in unemployment. The number of unemployed in the fourth quarter decreased by 10.9% annually, while the unemployment rate reduced to 19.4% (annual and quarterly fall of 2.5 and 1.4 percentage points, respectively).

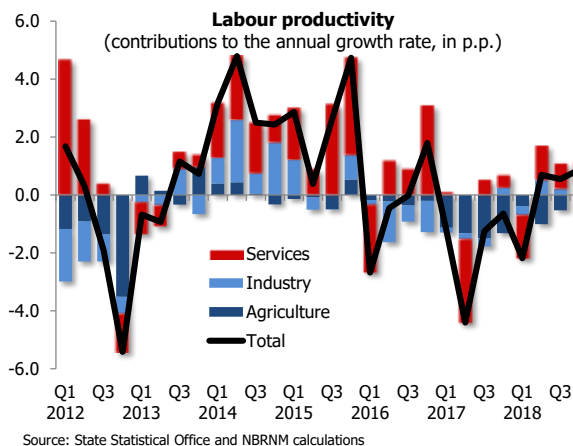
The average net and gross wages paid in the fourth quarter registered an annual growth of 6.7% and 6.6%, respectively, in part reflecting the growth of the minimum wage of 1.4% in July 2018¹⁵, as well as the wage increase in some public sector segments¹⁶. Moreover, the highest growth was registered in the activities: "information and communications", "mining", "trade", "health and social care" and "real estate services". On a quarterly basis, the nominal net wages increased by 3.5%, while the real net wages rose by 3.3%, despite the slight decline in the previous three months. In the fourth quarter, given the growth of consumer prices of 1.2%, **the real annual growth of net and gross wages was 5.4% and 5.3%, respectively.**

The favorable trend in labor productivity started in the second quarter of 2018, at a similar pace, continued in the fourth quarter of the year, as well. Amid stronger growth of value added than the employment growth, labor productivity¹⁷ increased by 0.9%, slightly higher growth compared to the third quarter, when there was an increase of 0.6%. Observed by sector, this is largely explained by the productivity growth in the services sector and the

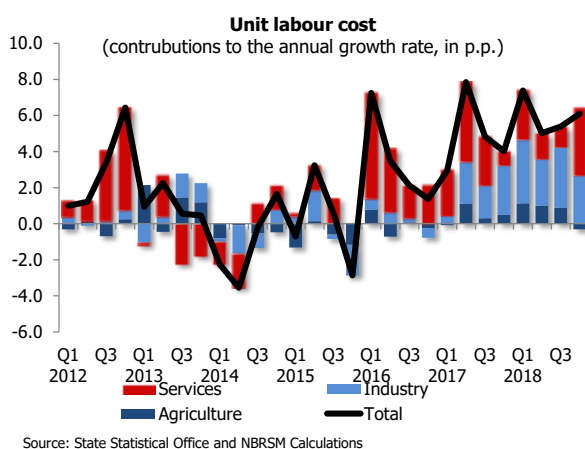
¹⁵ The amount of minimum wage according to the Law on Minimum Wage (Official Gazette of the Republic of Macedonia No. 126/18) which is paid for the period from July 2018 to March 2019 is Denar 17,370 in gross amount, i.e. Denar 12,165 net wage (before this period, the minimum wage was Denar 17,130 gross and Denar 12,000 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).

¹⁶ During 2018, there was an increase in wages of 10% for the employees in ARM starting with the January wage, as well as an increase in wages in health, education and in kindergartens by 5% starting with the September wage.

¹⁷ Total labor productivity is a weighted sum of productivity of each sector. Sector productivity is the ratio of the sector's value added to the number of employees.



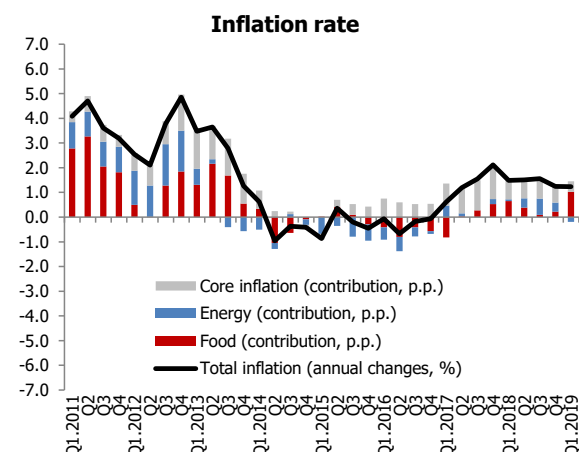
industry, amid further deceleration in the productivity fall in the agriculture sector. However, the more pronounced **wage growth compared to the productivity growth, led to further growth of unit labor costs of 6.1%** (5.4% in the third quarter of 2018). Most of the growth is explained by the higher unit labor costs in the services sector and industry, amid minimal decline in the costs in the agriculture sector.



1.5. Inflation

In the first quarter of 2019, domestic prices grew at the same annual pace as in the previous quarter, whereby the annual inflation rate remained at 1.2%. Regarding the structure of the key components, in this quarter there was an acceleration in the annual growth of the food component, amid simultaneous deceleration of the annual growth of core inflation and fall in energy prices. Regarding the future short-term dynamics of consumer prices, the current movements in imported inflation and the producer prices of domestic producers mainly do not point to significant upward pressures on the price level, while labor costs continued to grow at an accelerated pace in the fourth quarter of last year. In terms of the expectations for the inflation rate in the next two-year period, according to the National Bank's Survey, economic analysts expect that it will amount to 1.8% in 2019 and that it will minimally accelerate to 1.9% in 2020, which is similar to the NBRM forecast and the forecasts of international institutions.

1.5.1. Current inflation



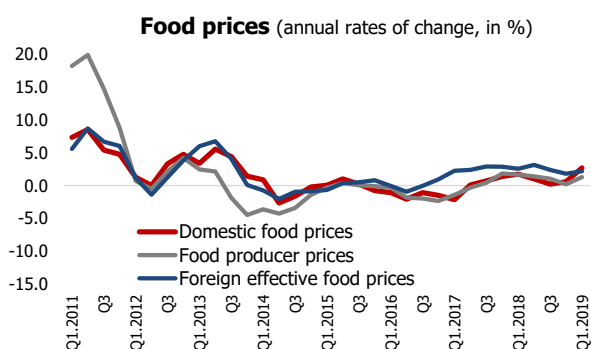
Source: State statistical office and NBRNM calculations.

	(annual changes, in %)					(contribution to annual changes, in p.p.)									
	2017	2018	2018	2018	2018	2017	2018	2018	2018	2018	2018	2018	2018	2018	2018
Consumer price index - all items	1.4	1.5	1.5	1.6	1.2	1.5	1.2	1.4	1.5	1.5	1.6	1.2	1.5	1.5	1.2
Food	0.0	1.7	1.0	0.2	0.6	0.9	2.7	0.0	0.7	0.4	0.1	0.2	0.3	1.0	1.0
Energy	1.4	0.5	2.7	4.8	2.6	2.6	-1.4	0.2	0.1	0.4	0.7	0.4	0.4	-0.2	-0.2
Electricity	-0.2	-0.2	-0.2	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Heat energy	-7.6	-2.5	-2.5	-2.8	-2.9	-2.7	-2.9	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fuels and lubricants	6.7	2.0	11.1	19.6	10.7	10.7	-4.5	0.2	0.1	0.4	0.6	0.4	0.4	-0.2	-0.2
Food and energy (volatile prices)	0.4	1.4	1.5	1.5	1.1	1.4	1.6	0.2	0.7	0.8	0.8	0.6	0.7	0.8	0.8
Core inflation calculated by the NBRNM (total index - food and energy (categories 01.1, 04.5, 07.2.2))	2.3	1.6	1.5	1.7	1.3	1.5	0.9	1.1	0.8	0.7	0.8	0.6	0.7	0.7	0.4
Overall index excluding energy, liquid fuels and lubricants and unprocessed food (SSO)	1.5	1.3	1.1	1.1	0.6	1.0	0.6								
Overall index excluding energy, liquid fuels and lubricants, unprocessed food, tobacco and alcoholic beverages (SSO)	1.2	1.0	0.7	0.9	0.3	0.7	0.3								

Source: State Statistical Office and NBRNM calculations.

In the first quarter of 2019, domestic consumer prices increased at the same pace as in the previous quarter (annual inflation rate of 1.2%)¹⁸. In this period, there was a slowdown in the annual growth of core inflation and an annual fall in energy prices, and an acceleration in the annual growth of food prices.

The core inflation rate in the first quarter amounted to 0.9% (compared to 1.3% in the previous quarter), whereby the slowdown is largely due to the annual fall in the prices of air traffic. Analyzing structure, the highest positive contribution to the annual growth of core inflation was made by the prices of tobacco¹⁹, the prices of hotel and restaurant services, as well as the prices of medical and hospital services. An increase was also registered in the other sub-indices of inflation, which exclude the most volatile prices, at the same annual growth rates as in the previous quarter. Thus, the total index, excluding energy²⁰, liquid fuels and lubricants (for transport) and unprocessed food, has an annual growth of 0.6%, while the total index excluding energy, liquid fuels and lubricants (for transport), unprocessed food, tobacco and alcoholic beverages, indicates annual growth of 0.3%.



* 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.

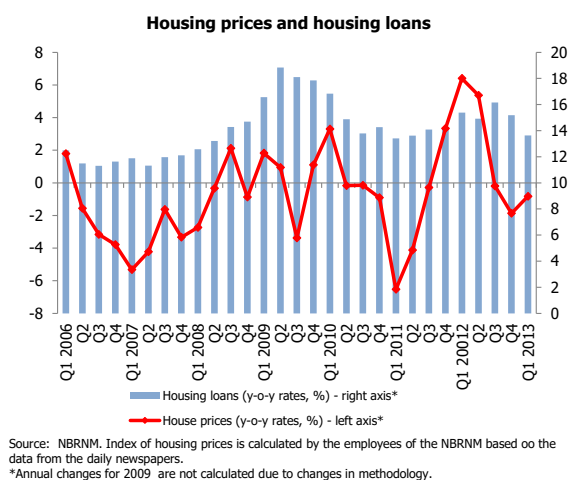
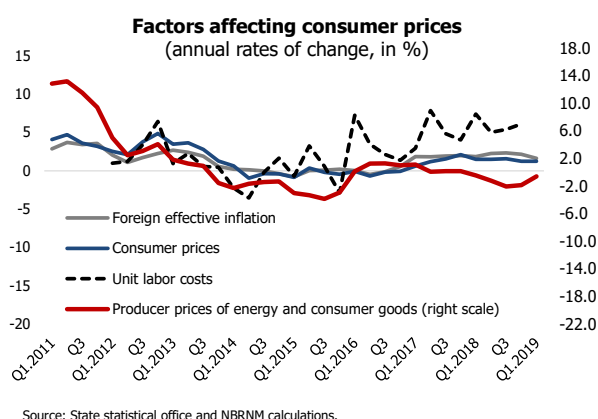
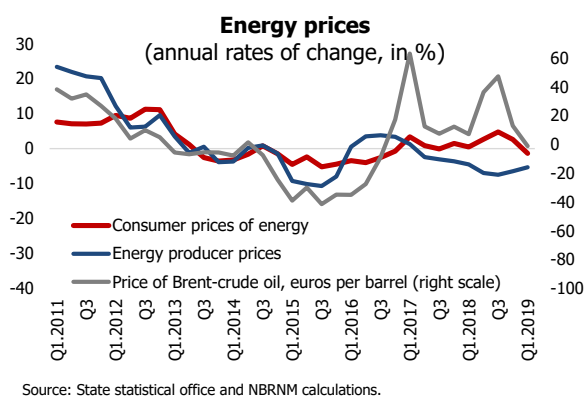
In the first quarter of the year, food prices grew at an accelerated pace (annual growth of 2.7%, compared to 0.6% in the previous quarter), mainly reflecting the increase in the prices of vegetables and to a lesser extent, the increase in the prices of bread. The annual growth of food prices is in line with the movements in the prices of domestic producers of food products, as well as with the continued growth in foreign effective food prices. On the other hand, energy prices in the first quarter of the year recorded an annual decline, which is mainly explained by the movement of domestic prices of oil derivatives. This shift in domestic energy prices is in line with the downward movement in the price of crude oil and oil derivatives on the world market.

The prices of producers of industrial products on the domestic market, as one of

¹⁸ On a quarterly basis, consumer prices decreased by 0.2%, while on a seasonally adjusted basis they remained unchanged.

¹⁹ The annual growth of tobacco price in the first quarter reflects the base effect of the increase in the prices of cigarettes in April, May and July 2018, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2018. Also, there was an increase in the prices of a certain type of cigarettes in March 2019.

²⁰ The category "energy" refers to electricity, gas, liquid and solid fuels for heating and central heating.



the factors that influence the dynamics of consumer prices, register a small annual decline in the first quarter of this year, but with more moderate intensity (0.5%²¹, compared to 1.0% in the previous quarter). Moreover, producer prices of energy and consumer goods are lower by 0.6% (decrease of 1.9% in the previous quarter).

Foreign effective inflation²², as an indicator of imported inflation, in the first quarter of the year grows at a slower pace compared to the previous quarter (annual growth of 1.6%, compared to 2.2% in the fourth quarter of last year). Despite the absence of potential pressures on domestic prices through the foreign prices and producer prices channel, the **unit labor costs** continue to increase in the last quarter of 2018, at an accelerated pace (6.1%, compared to 5.4% in the third quarter). Given the estimates for small positive output gap²³, the continuous increase in labor costs could contribute to possible upward pressures on the prices of final products in the upcoming period.

In the first quarter of the year, apartment prices, as measured by the Hedonic index²⁴, registered an annual decline of 0.8% (after the fall of 1.9% in the previous quarter). In terms of supply, the value of constructed residential buildings registered an annual growth in the fourth quarter of 2018 (although at a slower pace). At the same time, the value of the issued permits for the construction of residential buildings continued to grow in the first quarter of 2019, at an accelerated pace²⁵. Moreover, also in the first²⁶ quarter of 2019, the demand for apartments was supported by the solid rise in the housing loans.

²¹ The analysis refers to the first two months of the quarter.

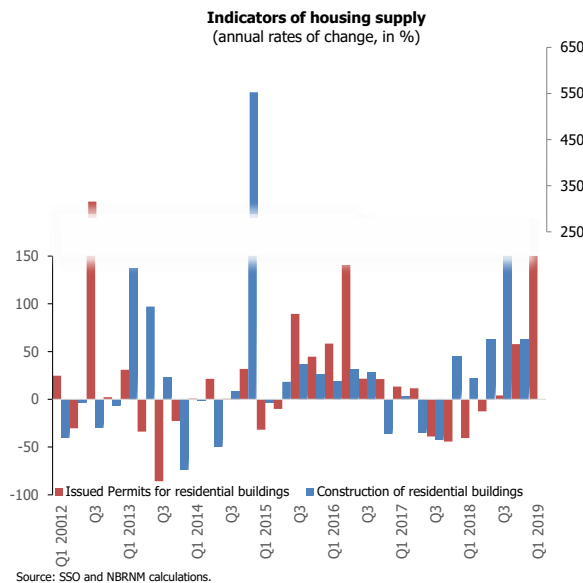
²² The calculation of foreign effective inflation derives from the weighted sum of consumer price indices of the countries that are major partners of the Republic of Macedonia in the field of import of consumer goods. The weight structure is based on the normalized shares of nominal imports from each country in the total nominal imports in the period 2010-2012. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia and Serbia. The analysis refers to the first two months of the quarter.

²³ The National Bank assessments show that domestic production is above the potential level (positive output gap) throughout the period of forecast (until 2020). However, it is estimated that the positive output gap throughout the period is relatively small and stable.

²⁴ Hedonic index of housing prices, prepared by the NBRM on the basis of the notices of sale in the capital city, and published by the agencies dealing with trade in real estate. The apartment price is a function arising from the size of the apartment, the location, the floor, whether the apartment has central heating and whether the apartment is new.

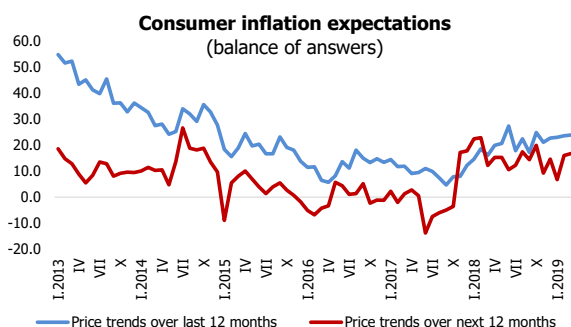
²⁵ The analysis refers to the first two months of the quarter.

²⁶ Available data for the first two months of the quarter.

**Forecasts and expectations for the inflation rate**

	2019	2020	2021
Economic analysts	1.8	1.9	2.0
IMF	1.8	2.0	2.2
Consensus Forecast	1.9	2.1	/
Ministry of Finance of the RNM	2.0	2.0	2.2
National Bank of the RNM	1.5	2.0	2.0

Source: Inflation and real GDP growth expectations survey, March 2019; IMF World Economic Outlook, April 2019; Consensus Forecast, March 2019; Ministry of Finance of the Republic of North Macedonia, Fiscal strategy 2019-2021, December 2018; National Bank of the Republic of North Macedonia, April 2019.

**1.5.2. Inflation expectations**

In the following period, no significant changes in the dynamics and the path of movement of the inflation rate are expected.

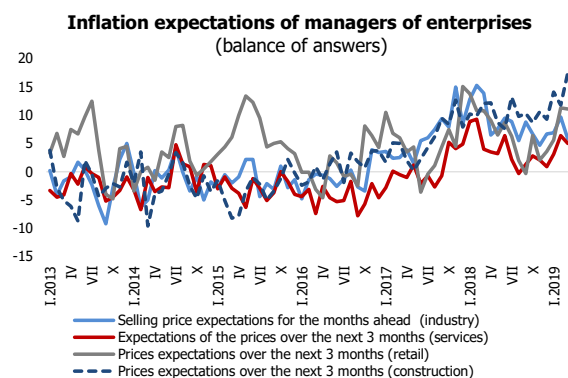
Economic analysts expect a gradual acceleration in the inflation rate in the next two-year period. According to the **Survey on Inflation Expectations and Expectations for the Movement of the Real GDP**²⁷ conducted in March, in 2019 inflation will equal 1.8%. During the next two years, according to economic analysts, the inflation rate will minimally accelerate to 1.9% in 2020 and 2.0% in 2021. Other institutions also predict similar dynamics of the prices in the domestic economy.

When it comes to the short-term expectations of consumers and corporate managers (period up to 12 months), in terms of the price movement, the surveys are predominated by expectations for price growth.

In the first quarter of 2019, the indicator **“consumers’ expectations for the price changes in the next 12 months”**²⁸ suggests retention of the expectations for price growth, i.e. a larger number of persons still believe that prices will rise in the next 12-month period, relative to the

²⁷ Starting from October 2017, the NBRM changed the current Inflation Expectations Survey. The new Inflation and Real GDP Expectations Survey is conducted on a sample of economic analysts, extending the Survey subject in line with the practice of the European Central Bank (ECB).

²⁸ European Commission's Consumer Survey as of March 2019.



number of respondents who expect unchanged or reduced prices.

As for the short-term expectations of the corporate sector²⁹, in the managers of companies in industry, construction, retail trade and services sector, the expectations for growth of their prices in the next few months, prevail. At the same time, their expectations for price growth are more pronounced compared to the expectations from December 2018, with the exception of the expectations among the managers of companies in industry.

1.6. Balance of payments

In the fourth quarter of 2018, the current account deficit increased on an annual basis, almost entirely due to the negative balance in services. These developments were partially offset by the trade deficit, which has been decreasing on an annual basis for the third consecutive quarter, mainly as a result of the stronger export activity of the new industrial facilities. In the same period, the financial account recorded high inflows on a net basis, mainly based on foreign direct investments. Cumulatively for 2018, the current account deficit reduced to its historically lowest level of 0.3% of GDP, fully reflecting the improved performances in the balance in the trade in goods, unlike the balances in the other categories that registered a moderate deterioration on an annual basis. The financial account in 2018 registered significant net inflows of 5.2% of GDP, mainly in the form of foreign direct investments, as well as due to the government borrowing on the international financial markets. Such performances were partially offset by the net outflows in the category currency and deposits, and to a lesser extent by the corporate sector deleveraging based on trade credits. The financial flows in 2018 enabled full financing of the current account deficit, as well as significant accumulation of foreign reserves during the year.

	2017		2018					2017					2018				
	Q1	I-XII	Q1	Q2	Q3	Q4	I-XII	Q1	Q2	Q3	Q4	I-XII	Q1	Q2	Q3	Q4	I-XII
	in EUR mil.							% of GDP									
I. Current account	-135.4	-102.9	-144.5	23.9	195.8	-107.1	-31.9	-1.4	-0.9	1.9	-0.7	-1.0	-1.3	0.2	1.8	-1.0	-0.3
Goods and services	-364.1	-1410.9	-360.2	-289.8	-209.7	-519.2	-1378.8	-3.6	-3.7	-2.2	-4.5	-14.1	-3.4	-2.7	-2.0	-4.8	-12.8
Credit	1250.7	5512.8	1406.4	1562.0	1689.4	1788.5	6446.3	12.5	13.5	14.6	14.5	55.1	13.1	14.6	15.7	16.7	60.1
Debit	1614.8	6923.8	1766.6	1851.7	1899.1	2307.7	7825.1	16.1	17.2	16.8	19.0	69.1	16.5	17.2	17.7	21.5	72.9
Goods	-462.0	-1787.9	-463.0	-406.6	-395.6	-471.4	-1736.6	-4.6	-4.2	-4.0	-5.0	-17.9	-4.3	-3.8	-3.7	-4.4	-16.2
Services	97.9	377.0	102.8	116.8	185.9	-47.8	357.8	1.0	0.4	1.8	0.5	3.8	1.0	1.1	1.7	-0.4	3.3
Primary income	-98.5	-397.5	-113.5	-111.2	-117.5	-108.2	-450.5	-1.0	-1.0	-1.0	-1.0	-4.0	-1.1	-1.0	-1.1	-1.0	-4.2
Secondary income	327.1	1705.5	329.2	424.8	523.1	520.2	1797.3	3.3	3.9	5.1	4.8	17.0	3.1	4.0	4.9	4.8	16.7
II. Capital account	4.0	18.0	0.3	0.2	0.0	6.3	6.9	0.0	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.1	0.1
Net lending (+) / net borrowing (-) (balance from current and capital account)	-131.4	-84.9	-144.1	24.1	195.8	-100.8	-25.1	-1.3	-0.9	1.9	-0.6	-0.8	-1.3	0.2	1.8	-0.9	-0.2
III. Financial account	-55.0	51.5	-416.5	-23.6	108.8	-226.5	-557.8	-0.5	-0.4	2.9	-1.5	0.5	-3.9	-0.2	1.0	-2.1	-5.2
Direct investment	-96.5	-180.0	-235.4	-74.1	1.5	-313.8	-621.9	-1.0	0.2	0.6	-1.7	-1.8	-2.2	-0.7	0.0	-2.9	-5.8
Portfolio investment	-20.3	18.5	-368.6	1.5	35.0	11.9	-320.3	-0.2	0.1	0.4	-0.1	0.2	-3.4	0.0	0.3	0.1	-3.0
Currency and deposits	34.4	248.5	80.2	72.8	72.9	60.1	286.0	0.3	0.2	1.6	0.4	2.5	0.7	0.7	0.7	0.6	2.7
Loans	29.1	36.8	47.5	-57.1	-36.2	35.1	-10.8	0.3	-0.2	0.4	-0.1	0.4	0.4	-0.5	-0.3	0.3	-0.1
Trade credit and advances	-1.8	-72.2	59.9	33.9	35.8	-19.7	109.9	0.0	-0.6	-0.1	0.1	-0.7	0.6	0.3	0.3	-0.2	1.0
Other accounts receivable/payable	0.0	0.3	0.0	0.0	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special drawing rights (Net incurrence of liabilities)	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV. Net errors and omissions	9.9	-9.6	-15.7	13.2	4.6	15.5	17.6	0.1	-0.1	0.0	0.0	-0.1	-0.1	0.1	0.0	0.1	0.2
V. Reserve assets	-66.5	-146.0	256.6	60.9	91.6	141.1	550.3	-0.7	-0.6	-1.0	0.8	-1.5	2.4	0.6	0.9	1.3	5.1

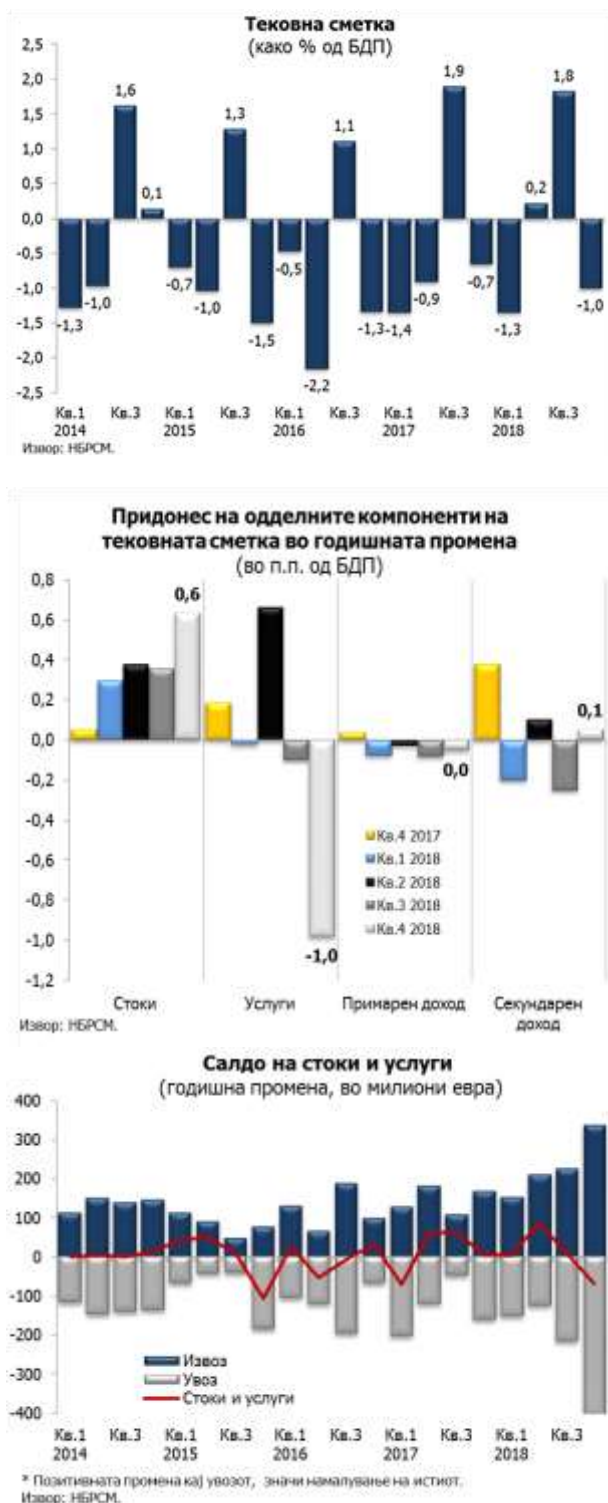
Source: NBRNM.

²⁹ European Commission's business tendency surveys in industry, retail trade, construction and services sector as of March 2019.

1.6.1. Current account

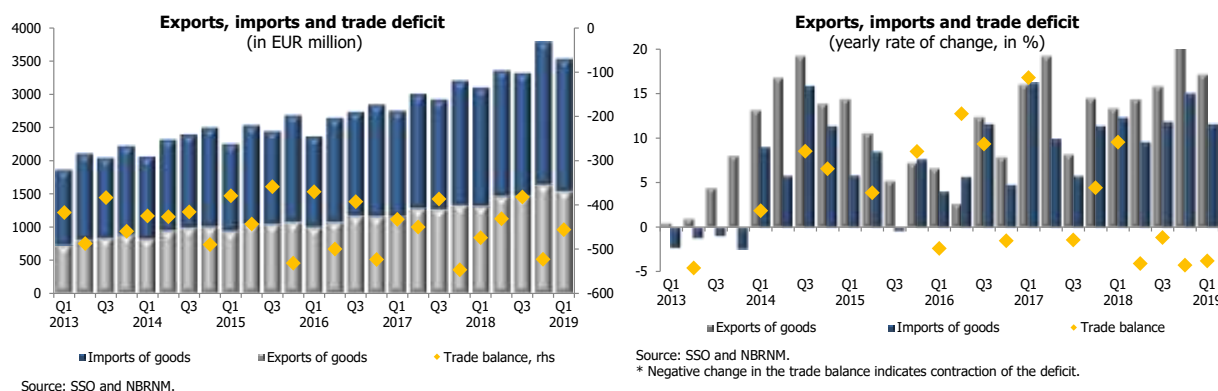
In the fourth quarter of 2018, the current account deficit totaled Euro 107.1 million or 1% of GDP, which is an annual deterioration of 0.3 percentage points of GDP. This change almost entirely results from the deteriorated balance in services, where a deficit was registered as a result of the high outflow of funds in the category "compensation for the use of intellectual property". These performances were partially offset by the higher net inflows in the category of telecommunication, computer and information services, the lower net outflows in construction, and higher net inflows in other business services. The balance of goods continues to show annual improvement, for the third consecutive quarter, mainly as a result of the stronger export activity of the new industrial facilities with foreign capital. The movements in the other categories of the current account are more stable, with the secondary income recording an improvement of the total balance, mainly due to the higher net inflows from the official government transfers and to a lesser extent, from the higher private transfers. Primary income remained almost unchanged on an annual basis.

For the entire 2018, the current account deficit decreased by 0.7 percentage points of GDP, reducing to its historically lowest level of 0.3% of GDP. This change is entirely due to the improvement of the balance in the trade in goods, while the other categories registered a moderate deterioration on an annual basis.



Box 1: Foreign trade in goods and movement of the Nominal and the Real Effective Exchange Rate (NEER and REER)³⁰

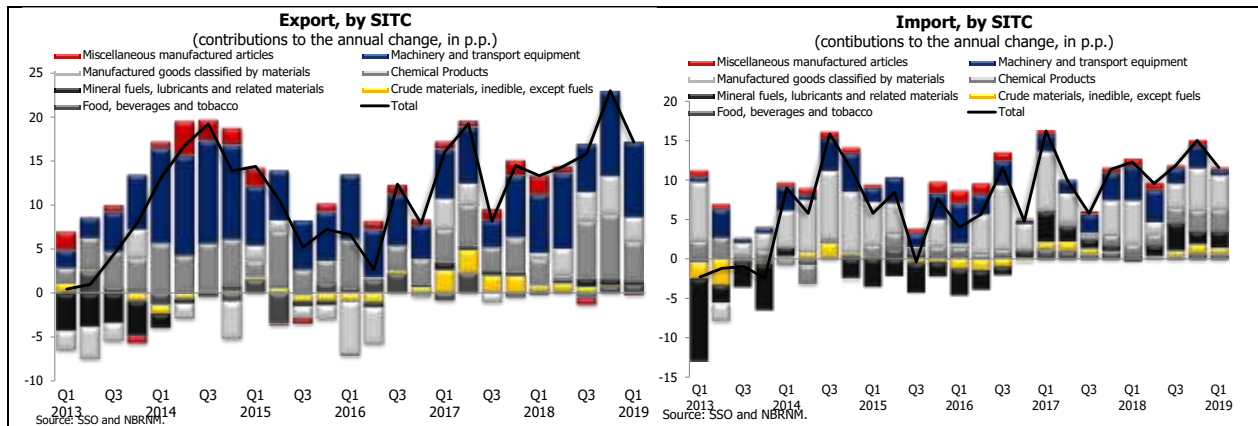
In the last quarter of 2018, the total foreign trade of goods reached Euro 3,783.1 million, i.e. 35.2% of GDP, which is an annual growth of 18.3% (or 3.3 percentage points of GDP). The higher foreign trade stems from the solid growth of its two components.



In the last quarter of 2018, the export of goods registered a high annual growth rate of **23.1%** (15.8% in the previous quarter), which is again dominated by the favorable developments of the new export-oriented facilities with foreign capital, which is mostly reflected through the increased placement of chemical products and machinery and transport equipment. In addition, a significant contribution to the annual growth was also made by some of the traditional export sectors, i.e. the increased export of iron and steel, which has been growing for the third consecutive quarter. The growth of the export of the metal industry, stems from the increased volumes exported, but also from the higher export prices. At the same time, smaller growth was registered in the export of energy, food and beverages. *Export performances were also reflected on the import side, whereby the raw materials necessary for operation of the new facilities with foreign capital and the metal industry are the most significant factor for import growth. Thus, the import of goods in the fourth quarter increased annually by 15%, compared with the growth of*

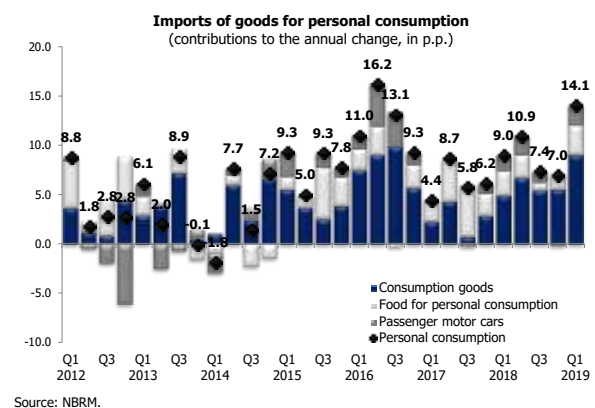
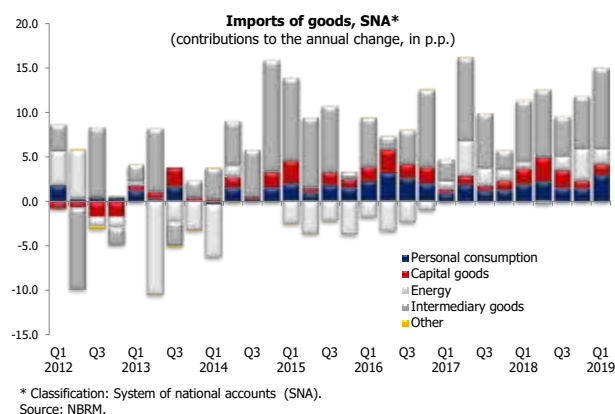
11.8% in the previous quarter. Structurally observed, the higher import is mostly due to the increased import of raw materials for the new industrial facilities, expressed through increased import in the category machinery and transport equipment and chemical products, amid additional impulse from the higher imports of non-metal minerals and non-ferrous metals, as well as from the higher imports of iron and steel. The total import growth is also due to the higher energy imports, dominantly reflecting the more significant increase in the import of oil derivatives, as a combined effect of the growth of oil price in world markets and the higher imported quantities. **Such trends of the foreign trade components in the fourth quarter of 2018 slightly narrowed the trade deficit by 4.3% on an annual basis.** In terms of the individual balances, such change is due to the lower deficit in the non-energy component, amid worsening of the energy deficit.

³⁰ According to the Foreign Trade Methodology, data on export of goods are published on an f.o.b. basis, and on import of goods, on a c.i.f. basis.



The analysis of the import of goods under the System of National Accounts (SNA) indicates that most (about 60%) of the increase in total imports in the fourth quarter arises from the higher imports of the intermediate products, with a significantly more moderate positive contribution of the other components. In terms of imports for private consumption, the annual growth of this component reflects the higher imports of consumer goods, coupled with the higher imports of food and passenger vehicles. Analyzed dynamically, the growth of imports for personal consumption in the fourth quarter of 2018 moderately accelerated, but currently does not indicate significant pressures on the imports from the growth of this category.

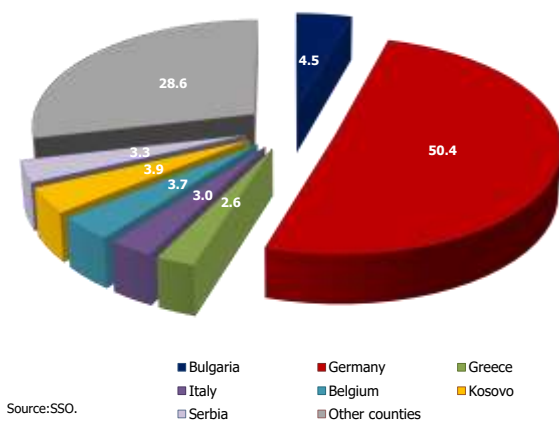
The latest available data on foreign trade during January and February 2019 indicate annual growth of both the exports and the imports of goods. Export of goods increased by 6.9% on an annual basis, mostly due to the favorable performances of the new export-oriented facilities, amid additional impulse from the higher exports of metal industry and the exports of food. Import of goods registered an annual growth of 9.4%, reflecting the growth of the import of raw materials for some of the new industrial capacities, as well as the energy imports. At the same time, import of iron and steel decreased.



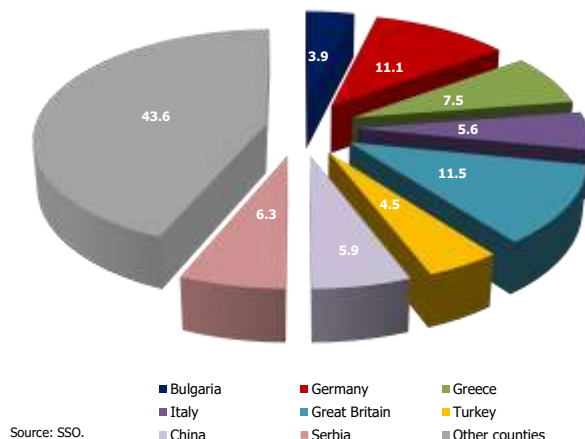
The foreign trade analysis by trading partners shows that in the fourth quarter of 2018 the European Union was still the major trading partner of the domestic economy, making up 69.8% of total trade. In terms of individual countries on the export side, the most significant factor of the growth is the exports of chemical products and equipment and machinery to Germany, as a market to which the export activity of the new facilities in the economy is largely targeted. In addition, a positive contribution to the growth was also made by the increased exports of equipment and machinery to Austria and Hungary, as well as the higher export of iron and steel to China. On the import side, the analysis shows that from the European Union, the largest contribution to the total increase was made by the import of precious metals from the UK, the import of energy from Greece, the higher import of raw materials for the needs of new industrial facilities from Germany, and the increased import of iron and steel from Romania. In addition, a positive contribution to the import growth was also made by the

import of equipment and machinery from China, the import of energy and iron and steel from Russia, as well as the import of ores from Indonesia and pharmaceutical products from the US. *Analyzing balances*, the small narrowing of the trade deficit in the fourth quarter largely reflects the favorable performances in the trade with the countries of the European Union (the fourth quarter registered an almost balanced trade with the European Union), mainly through the higher surplus in the trade with Germany, Austria³¹ and Belgium, amid simultaneously lower deficit with Hungary. On the other hand, the higher negative balance with Russia, the US, Romania, the UK and Turkey, expanded the total trade balance compared to the same period last year.

Export of goods, by countries in the first quarter of 2019
(share, in %)

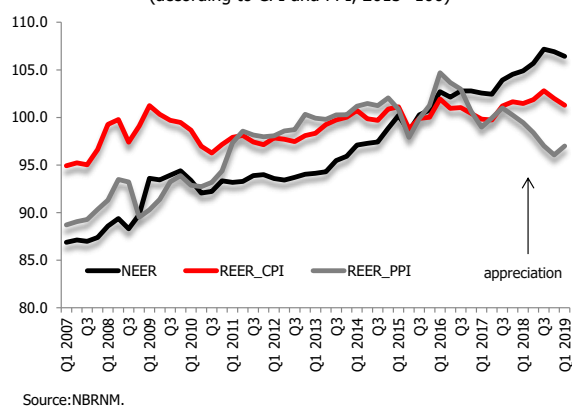


Import of goods, by countries in the first quarter of 2019
(share, in %)

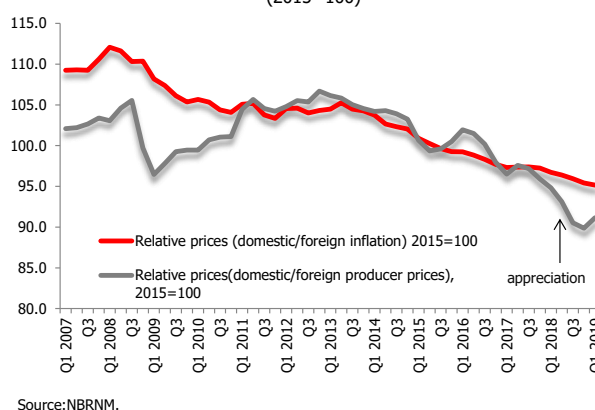


In the fourth quarter of 2018, price competitiveness indicators of the Macedonian economy registered divergent movements compared to the same period last year. Namely, the REER deflated by consumer prices slightly appreciated by 0.3%, while the REER deflated by producer prices depreciated by 4.2%. The downward pressures, as before, result from the relative prices, i.e. the relative consumer prices declined by 1.9% on an annual basis, while the decline in the relative producer prices was sharper and amounted to 6.3%. On the other hand, the upward pressures result from the NEER, which registered an annual appreciation of 2.3%, mostly caused by the appreciation of the Denar against the Turkish lira and the Russian ruble.

NEER and REER
(according to CPI and PPI, 2015=100)



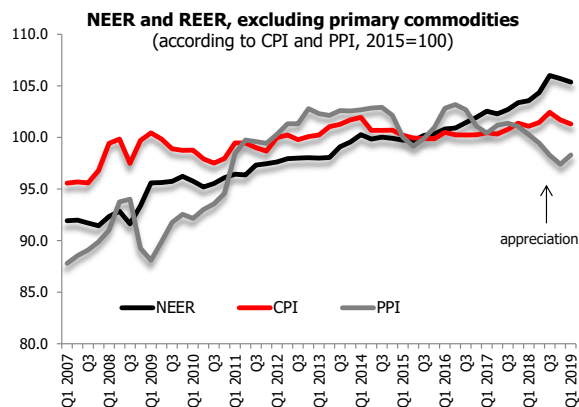
Relative prices
(2015=100)



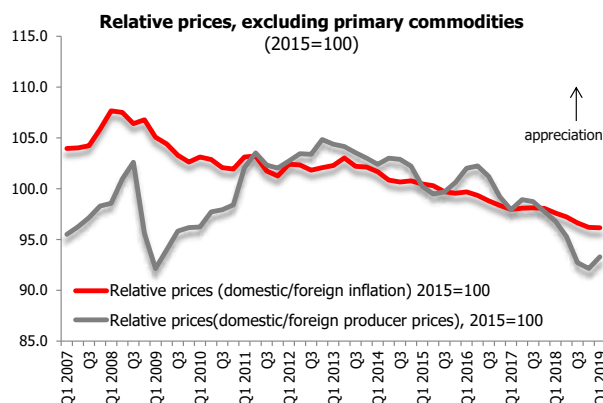
³¹ In the second quarter of 2018, historically, the trade with Austria registered a small surplus for the first time.



The analysis of REER indices, as measured using weights based on the foreign trade without primary commodities³², also indicates divergent changes. Namely, the REER deflated by consumer prices appreciated by 0.2%, while the REER deflated by producer prices depreciated by 3.6% on an annual basis. The NEER index appreciated by 2.3% on an annual basis, unlike the decline in the relative consumer prices and the relative producer prices (of 1.9% and 5.7%, respectively).



Source: NBRNM.



Source: NBRNM.

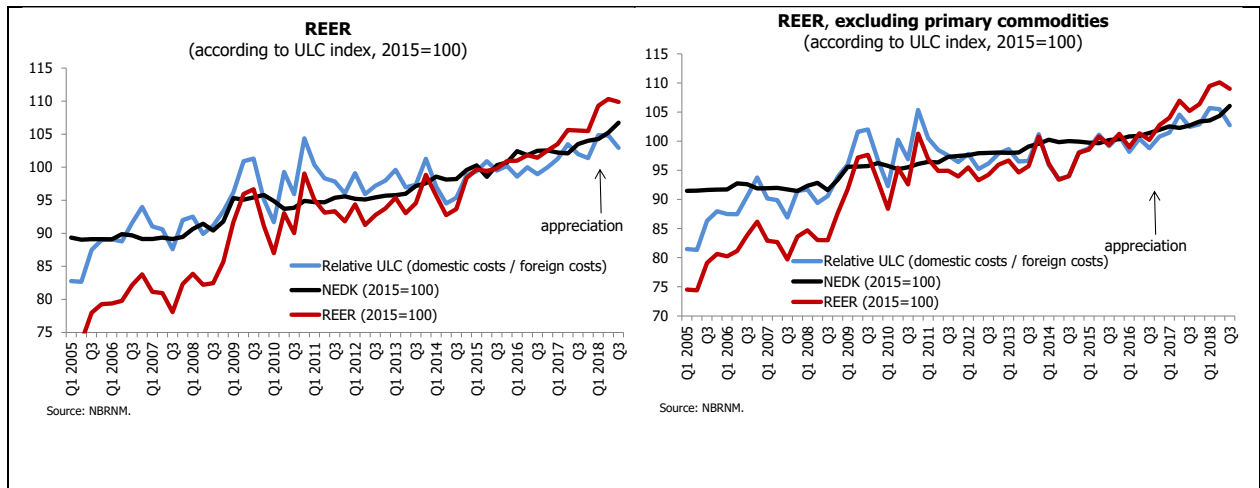
The latest data on price competitiveness for the period January-February 2019 indicate positive movements of the REER as measured using weights of the total trade of goods. In circumstances of appreciation of the NEER (by 1.6%), the REER deflated by consumer prices slightly depreciated by 0.1%, while the REER deflated by producer prices registered a higher depreciation of 2.6%. From the viewpoint of REER calculated by using weights based on foreign trade without primary products, the REER deflated by consumer prices appreciated by 0.2%, and the REER deflated by producer prices depreciated by 2.4%.

In the fourth quarter of 2018, the analysis of REER³³ indices calculated using unit labor costs indicates deterioration of price competitiveness of the domestic economy. The REER index calculated by weights based on total foreign trade appreciated by 2.6%. The relative labor costs registered an annual growth of 0.3%, while the NEER appreciated by 2.3%. Annual appreciation was registered in the REER index calculated by using weights based on the foreign trade without primary products (by 1.4%), determined by the appreciation of the NEER (by 2.3%), and amid fall of the relative labor costs (by 0.8%).

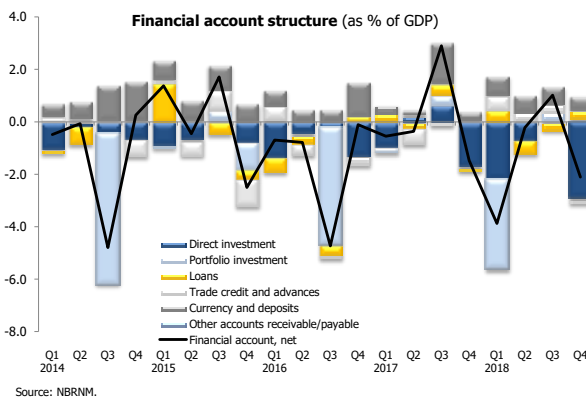
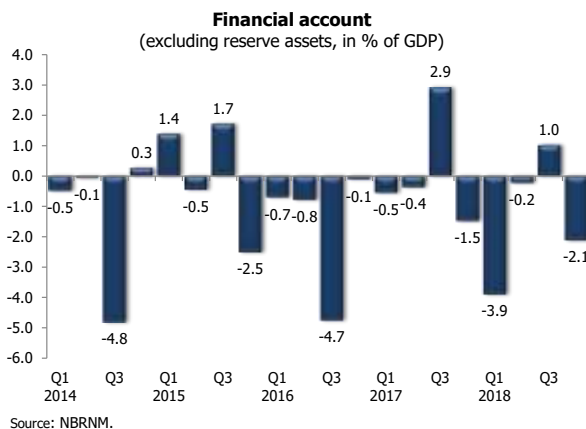
³² Primary products not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities. For more detailed information on the methodology for calculating the real effective exchange rate visit:

http://nbrm.mk/WBStorage/Files/Statistika_REDK_Informacija_za_promenite_na_metodologijata_za_presmetuvanje_na_realnot_efektiven_devizen_kurs_na_denarot_mak.pdf

³³ The REER indices based on the unit labor costs indices are NBRM internal calculations and do not represent a formal statistical survey. The calculation uses data on the unit labor costs indices for the entire economy, published by the ECB and the Bureau of Labor Statistics for the United States. Data based on internal calculations are exceptions, such as the data for Switzerland, as well as for Turkey and Serbia, whereby the calculated indices refer only to the industrial sector.



1.6.2. Financial account



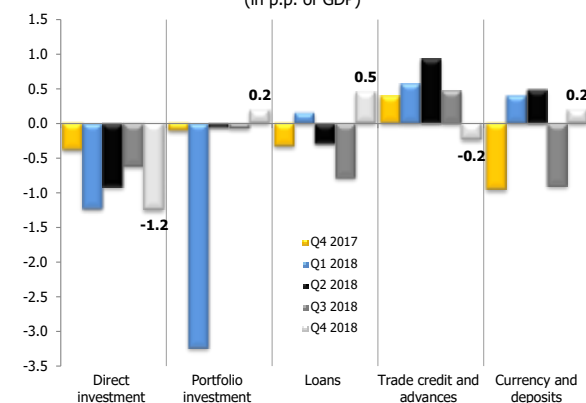
In the last quarter of 2018, the financial account in the balance of payments registered net inflows of Euro 226.5 million or 2.1% of GDP. The main source of financing in this period were foreign direct investments, which recorded the highest quarterly amount (2.9% of GDP) in the period after the global financial crisis. Moreover, more than half of the flows result from the non-debt component (equity capital and reinvested earnings), but the inflows based on intercompany debt are also significant. A small portion of the financing stems from the borrowing through trade credits, versus the continuous deleveraging registered in the previous four quarters. On the other hand, the category currency and deposits is still the most important outflow category, as a reflection of the outflows in the other sectors. Negative flows were also registered in loans (mostly from the short-term component, as a result of the deleveraging of depository institutions) and portfolio investments.

In the last quarter of 2018, the net inflows in the financial account were higher compared to the performances in the same period of the previous year. The favorable developments in this period are mostly a result of the higher net inflows from foreign direct investments, and to a lesser extent from the net inflows based on trade credits (versus the small net outflows registered in the last quarter of 2017). On the other hand, the performances in the other categories of the financial account, observed an annual deterioration, primarily in loans that registered net outflows versus the positive flows last year.

For the entire 2018, the financial account registered high net inflows of 5.2% of GDP, compared to the moderate net outflows in the

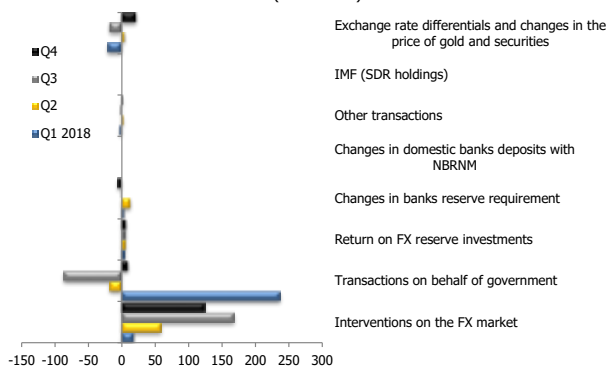


Contributions to the annual change in the financial account
(in p.p. of GDP)



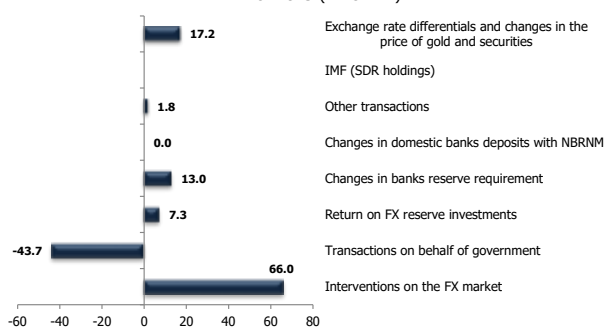
Source: NBRNM.

Factors of change of the foreign reserves, in quarters
(in EUR mil.)



Source: NBRNM.

Factors of change of the foreign reserves in the first quarter of 2019 (in EUR mil)



Source: NBRNM.

International investment position
(% of GDP)



Source: NBRNM.

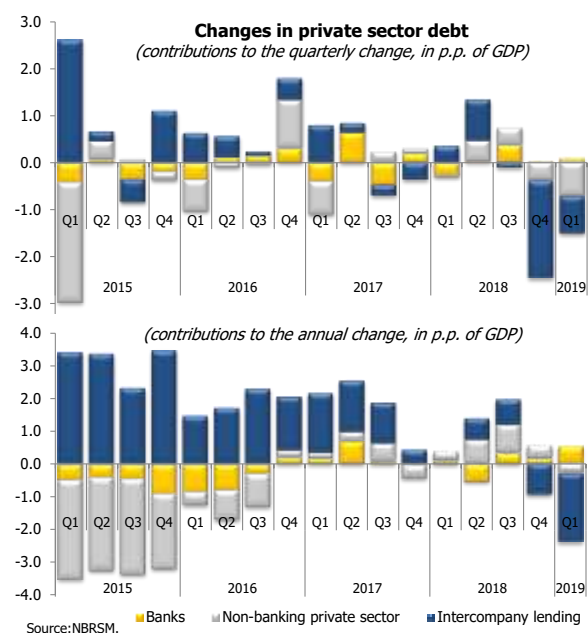
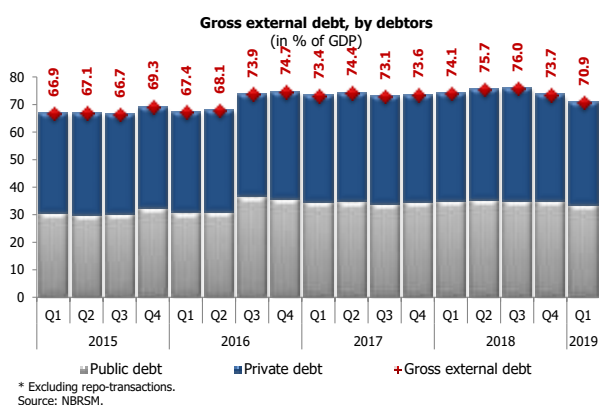
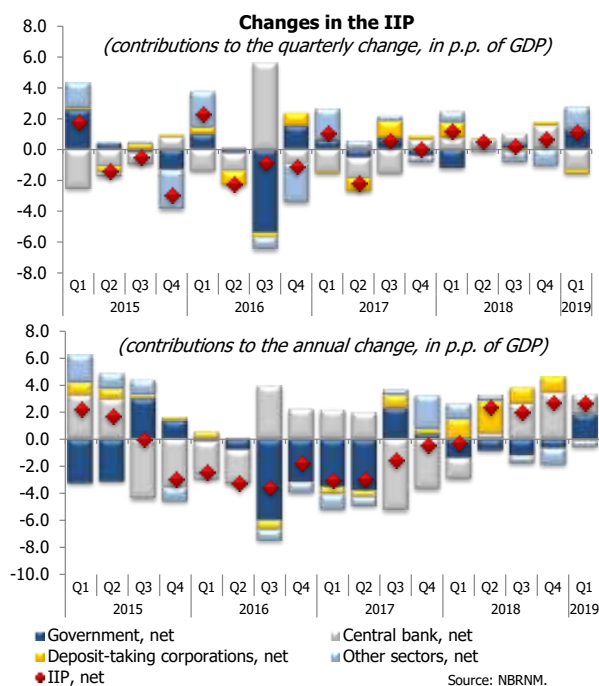
previous year. A major contribution to the favorable flows in the financial account was made by foreign direct investments and portfolio investments, while the increase in the net assets in the category currency and deposits and the deleveraging of the corporate sector based on trade credits acted in the opposite direction.

At the end of 2018, the gross foreign reserves amounted to Euro 2,867.1 million, which is a quarterly growth of Euro 158.1 million. The increase in the foreign reserves mostly results from the interventions of the National Bank on the foreign exchange market aimed towards significant purchase of foreign currency, while the other flows had a more moderate effect on the changes in the foreign reserves in the analyzed period.

According to the latest available data, as of 31.03.2019, the gross foreign reserves stood at Euro 2,866.4 million, which is almost unchanged level compared to the end of 2018 (a decline of Euro 0.7 million). Moreover, the NBRNM interventions on the foreign exchange market were still aimed at purchase of foreign currency, with positive developments in most of the other sectors. On the other hand, transactions for the account of the government decreased foreign reserves.

1.6.3. International investment position and gross external debt

At the end of 2018, the negative international investment position (IIP) of the Macedonian economy amounted to Euro 5,945.6 million, or 55.4% of GDP. On a quarterly basis, the IIP has improved by 0.7 percentage points of GDP, amid sharper decline in international liabilities compared to the fall in international assets. Sector-by-sector analysis of



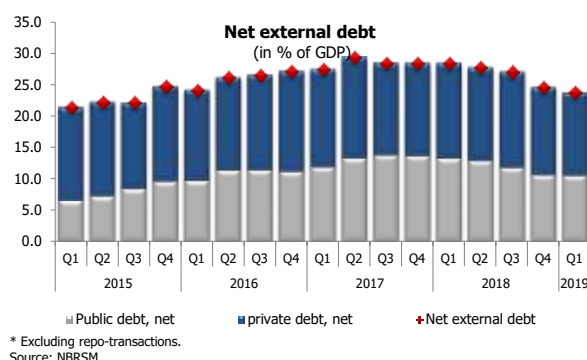
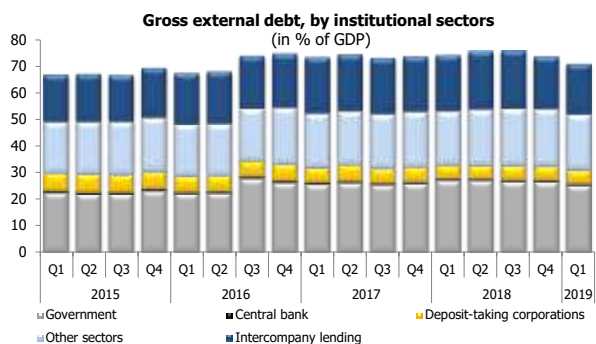
IIP shows that the quarterly growth mostly results from the higher net assets of the central bank (growth of foreign reserves). More moderate favorable developments have also been observed in the net position of depository institutions and the government. The increase in the net liabilities of the other sectors acted in the opposite direction, predominantly in the form of intercompany lending.

On an annual basis, the negative IIP narrowed by 2.8 percentage points of GDP, amid faster growth of international assets compared to the growth of international liabilities (by 3.9 and 1.1 percentage points of GDP, respectively). Sector-by-sector analysis shows that this change is mainly due to the annual growth of the net assets of the central bank (higher foreign reserves), as well as to the lower net liabilities of depository institutions. Changes in the other sectors acted in the opposite direction, reflecting the higher net liabilities in the form of direct investments and long-term loans. An annual increase in the net liabilities was also registered in the government, due to higher net liabilities based on debt securities (due to the Eurobond issued in the first quarter of the year). Analysis of IIP expressed in absolute terms shows a slight expansion of 2.1% on an annual basis, amid growth of international assets and international liabilities.

At the end of 2018, the gross external debt stood at Euro 7,907.5 million, or 73.7% of GDP, which is a quarterly decrease of 4.6 percentage points. By excluding the effect of the repo transactions of the National Bank³⁴, the gross external debt registers a more moderate quarterly fall of 2.3 percentage points of GDP. The lower level of the gross external debt is mainly due to the reduction of the private sector debt, amid simultaneously small growth of the public debt. The quarterly decline in the private debt results from the reduction of intercompany debt and the liabilities of non-banking private sector in the form of long-term loans. Regarding the public debt, the change was mostly due to the higher liabilities of public enterprises for financing infrastructure projects.

Gross external debt remained almost unchanged on an annual basis, with the public debt growth (of 0.4 percentage points) being offset by

³⁴ The overall analysis below relates to gross external debt without the central bank liabilities based on repo transactions.



almost equal fall in private debt. The annual decrease in private debt is due to the more moderate intercompany borrowing. The public sector debt increased due to the higher government liabilities on debt securities, as well as higher liabilities of public enterprises in the form of long-term loans.

At the end of 2018, the net external debt stood at Euro 2,647.1 million, or 24.7% of GDP, which is a quarterly decrease of 2.5 percentage points of GDP. The lower net external debt is due to the fall in both private and public net debt.

The analysis of external debt ratios of the national economy show that the external debt is still in the safe zone. The only indicator that includes the economy in the group of highly indebted countries is the gross external debt to GDP ratio. Moreover, the dynamic analysis indicates favorable annual shifts in the indicators for the share of gross debt and the repayment of interest in the export of goods and services and other inflows, while the other two solvency ratios registered a moderate annual deterioration. Regarding the liquidity ratios, less favorable annual changes were registered in the short-term debt to total debt ratio, while the other two indicators registered slight improvement.



Indicators for external indebtedness	Solvency				Liquidity		
	Interest payments/ Export of goods and services and other inflows	Gross debt/ of goods and services and other inflows	Gross debt/ GDP	Debt servicing/ of goods and services and other inflows	Foreign reserves/ Short- term debt	Foreign reserves/ Short-term debt, with residual maturity**	Short-term debt/ Overall debt
	in %				ratio	ratio	in %
31.12.2004	2.41	129.3	47.3	12.4	1.14	0.89	30.3
31.12.2005	2.66	147.0	54.2	11.1	1.67	1.04	26.7
31.12.2006	3.44	131.3	49.8	21.7	1.95	1.34	29.0
31.12.2007	2.78	119.3	51.3	19.4	1.35	1.08	39.8
31.12.2008	2.66	116.9	54.1	10.2	1.29	0.95	35.2
31.12.2009	2.43	131.0	57.8	11.8	1.29	0.94	32.9
31.12.2010	3.22	140.4	59.7	13.9	1.49	0.99	27.9
31.12.2011	3.12	148.4	64.6	16.8	1.78	1.18	25.2
31.12.2012	2.92	142.1	67.6	13.1	1.64	1.03	26.7
31.12.2013	2.51	137.3	67.3	15.8	1.64	1.08	23.3
31.12.2014	3.01	149.1	74.0	17.2	1.82	1.13	22.3
31.12.2015	2.69	143.9	73.2	20.0	1.69	1.13	21.3
31.12.2016	2.37	149.39	79.33	14.89	1.65	1.16	21.93
31.03.2017	2.69	138.64	76.36	12.72	1.47	1.00	23.53
30.06.2017	2.69	140.65	77.47	12.72	1.33	0.88	24.19
30.09.2017	2.69	138.20	76.12	12.72	1.26	0.86	24.57
31.12.2017	2.69	139.14	76.95	12.72	1.32	0.89	23.94
31.03.2018	2.20	133.31	78.53	15.68	1.30	0.93	24.98
30.06.2018	2.20	136.12	80.19	15.68	1.27	0.96	25.53
30.09.2018	2.20	136.59	80.47	15.68	1.30	0.98	25.52
31.12.2018	2.20	132.44	78.02	15.68	1.40	1.03	25.82
31.03.2019	2.20	132.44	78.02	15.68	1.40	1.03	25.82
Moderate indebtedness criterion*	12 - 20%	165 - 275%	30 - 50%	18 - 30%	1.00		

*The moderate indebtedness criterion is according to the World bank's methodology of calculating indebtedness indicators, which implies 3-year moving averages of GDP and exports of goods and services in the calculation of the indicators.

In compliance with "External debt statistics: Guide for compilers and users," published by the IMF.

*According

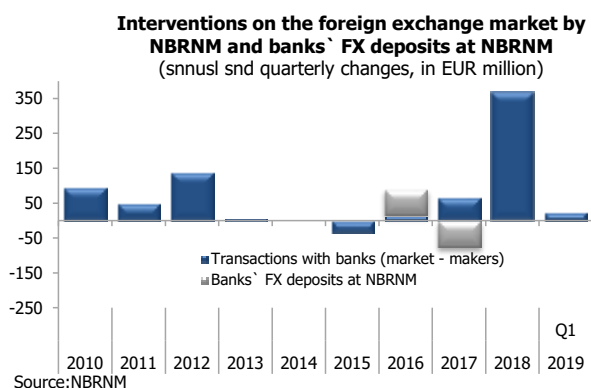
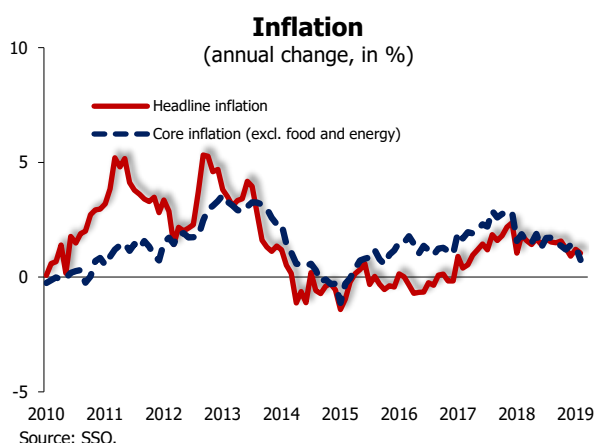
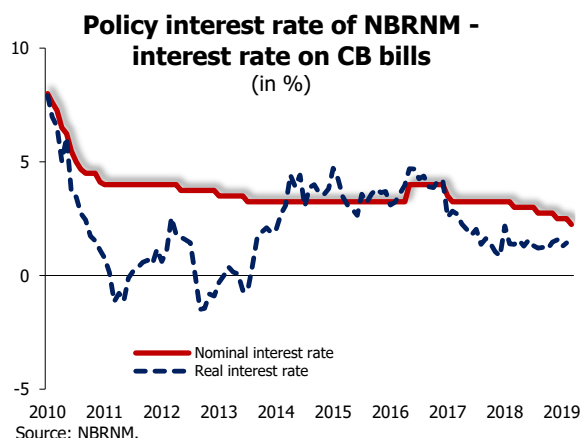
to the "Greenspan-Guidotti rule", a country should maintain full coverage of short-term debt at remaining maturity with gross foreign reserves.

Short-term debt at remaining maturity is calculated by addition of the long-term external debt (original maturity), with final contractually scheduled payment of less than a year, to the short-term debt (original maturity).

Source: NBRNM.

II. Monetary policy

In the first quarter of 2019, the National Bank continued to relax the monetary policy, whereby in March it reduced its policy rate by 0.25 percentage points, i.e. from 2.50% to 2.25%. The National Bank's decision to reduce its policy rate, was made in conditions of favorable developments on the foreign exchange market and stable expectations of domestic entities, amid solid growth of total deposits and low and stable inflation rate. The ECB's latest announcement for keeping the interest rates at the current level longer than previously anticipated made additional room for monetary easing, as well as for further relaxation of the monetary conditions in the euro area through other monetary instruments. In this period, the National Bank continued to intervene by purchasing foreign currency on the foreign exchange market, whereby all adequacy indicators show that the foreign reserves are maintained in the safe zone. The National Bank will continue to carefully monitor the trends and potential risks of the domestic and external environment, in order to adequately adjust the monetary policy setup.

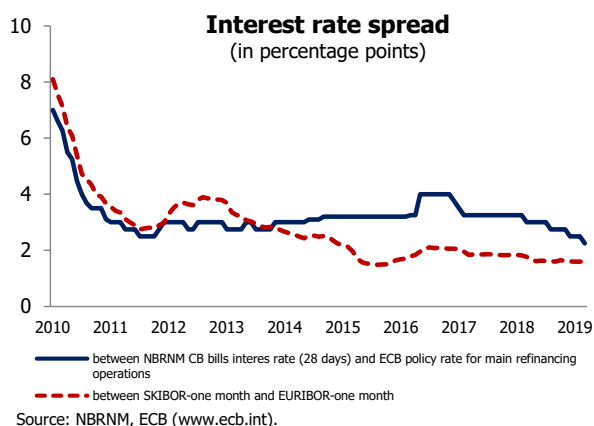


In the first quarter³⁵ of 2019, the National Bank continued easing the monetary policy. The decision to reduce the policy rate from 2.50% to 2.25% i.e. by 0.25 percentage points, was made at the OMPC's monthly meeting held on 12 March, at which it was assessed that the perceptions for the environment for conducting the monetary policy are slightly more favorable than previously. This primarily refers to the further favorable movements on the foreign exchange market, indicating a solid external position and stable expectations of economic agents. Additional favorable signals were also observed through the solid growth in total deposits and the absence of price pressures. Also in the following period, the National Bank will continue to carefully monitor the trends and potential risks of the domestic and external environment, for the purpose of timely and adequate adjustment of the monetary policy setup.

The performances of the main macroeconomic indicators are mainly within their forecasted dynamics with the October forecasting round. In the period January - February, the inflation growth was moderate and averaged 1.1%, on an annual basis, which is a lower performance compared to the October forecast. Given the lower performance and the downward adjustment in the future path of import prices, the estimates for the risks clouding the inflation forecast of 2% for 2019 were unchanged in a downward direction. According to the estimated GDP data for the fourth quarter, the economy registered solid growth of 3.7%, which is higher than expected in the October forecast. In the first quarter, foreign reserves registered a slight decrease, mostly due to transactions on behalf of the government, amid further National Bank interventions on the foreign exchange market aimed at purchase of foreign currency. Foreign reserves adequacy ratios have shown that their level is appropriate and maintained in the safe zone. The solid growth of the deposit base continued in the first quarter³⁶, signaling stable expectations and increased confidence. In terms of credit flows, there was a slight decrease in total loans, as a result of the usual fall in corporate loans in this period, amid solid growth of household loans. Credit market developments partially matched the results of the Lending Survey in the fourth quarter, where the banks expressed their expectations for further easing of the overall credit standards and growth in the demand for loans by both sectors for

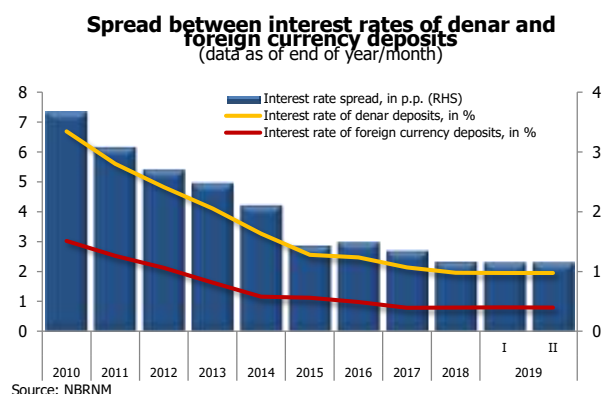
³⁵ It refers to the decisions of the OMPC passed in the period January-March.

³⁶ As of February

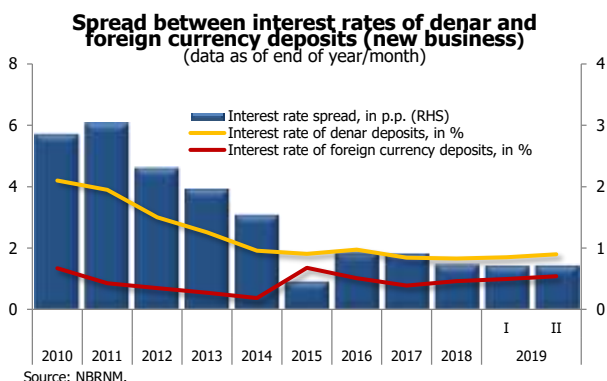


the first quarter of the year. Due to better performances at the end of 2018, the annual deposit growth continues to exceed the forecasted one for the end of the first quarter of this year. Regarding the lending activity, the weaker performances at the end of last year contribute to maintain lending lower than expected, and thus its slightly lower annual growth compared to the projected one.

At the meeting in March, the European Central Bank announced that it will preserve the same policy rates at least by the end of the year. At the same time, in conditions of perceived slower economic growth and low price pressures in the next two years, the ECB announced a new series of longer-term refinancing operations, starting from September 2019 to March 2021. Under such setup, i.e. reduction of the policy rate of the National Bank and unchanged interest rate of the ECB³⁷ in the first quarter of 2019, the spread between these interest rates moderately narrowed. Regarding the interbank offered rates, there was a minimal increase in the one-month SKIBOR by 0.1 percentage points, amid unchanged one-month EURIBOR, whereby their interest rate spread slightly expanded.



In the domestic economy, the total received deposits in February did not show a change in the interest rates on the denar and foreign currency deposits compared to December, thus keeping the interest rate at 1.2 percentage points. The newly received deposits registered a moderate increase in the interest rate on denar and foreign currency deposits by 0.1 and 0.2 percentage points, whereby the interest rate spread remained stable at 0.7 percentage points.



³⁷ Main refinancing operations rate.



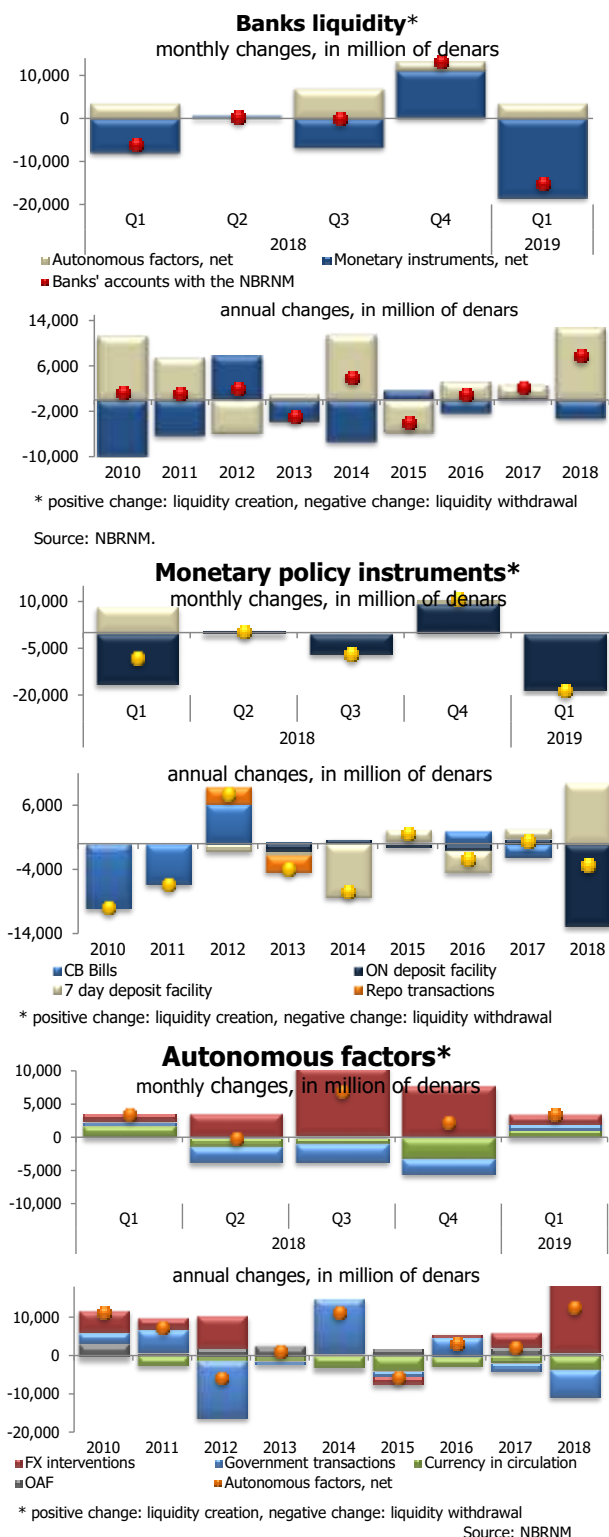
2.1. Banks' liquidity

In the first quarter of 2019, the banks' liquid assets³⁸ on the accounts with the National Bank recorded a significant decline, amid growth of the banks' placements in deposits with the National Bank.

The stock of monetary instruments increased by Denar 18,399 million, which is entirely due to the increase in the stock of banks' short-term deposits (mostly with overnight deposits), while the stock of CB bills remained at Denar 25,000 million³⁹.

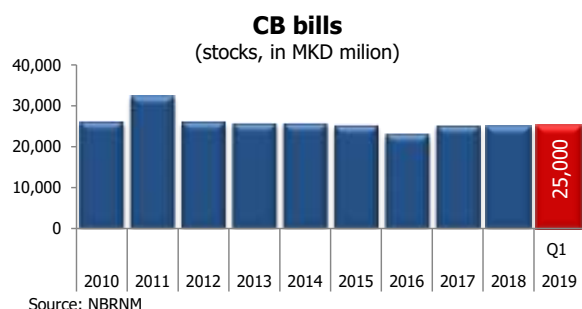
Autonomous factors acted towards creating liquidity, in the amount of Denar 3,574 million, on a net basis. The analysis of the individual autonomous factors shows that the foreign currency interventions of the National Bank (purchase of foreign currency in the foreign exchange market) were the dominant factor for creating liquid assets in the banking system, with the government transactions and currency in circulation acting in the same direction, but to a lesser extent.

In the first quarter of 2019, the banks' accounts with the National Bank maintained a higher level of liquid assets than reserve requirement. The balance of banks' denar liquid assets on the accounts with the National Bank in the first quarter was by 12% higher than the denar reserve requirement calculated as an average of the three reserve maintenance periods in the first quarter of the year.

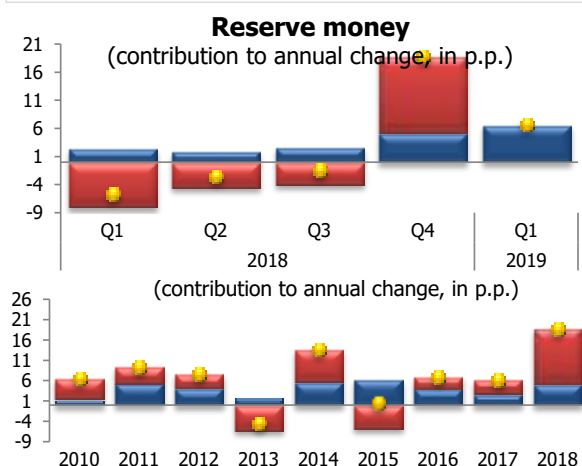
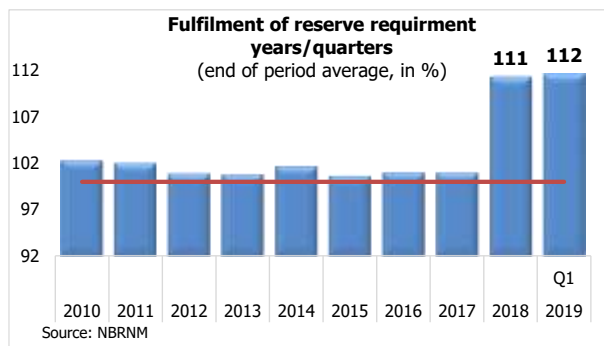


³⁸ Refers to changes in banks' account balances with the NBRNM.

³⁹ Three CB bill auctions were held in the first quarter of 2019, at which CB bills in the amount of Denar 25,000 million were offered and sold.



In the first quarter of the year, reserve money⁴⁰ registered a slowdown in the annual growth relative to the previous quarter, from 18.9% to 6.8%.



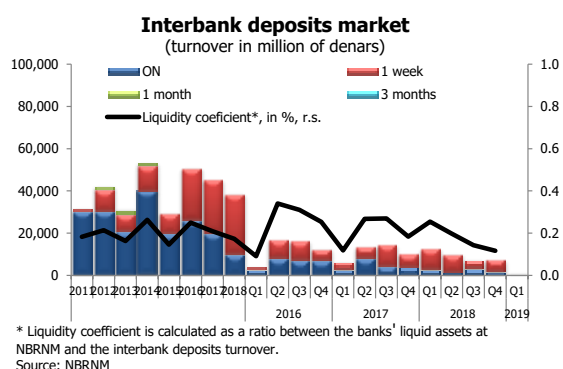
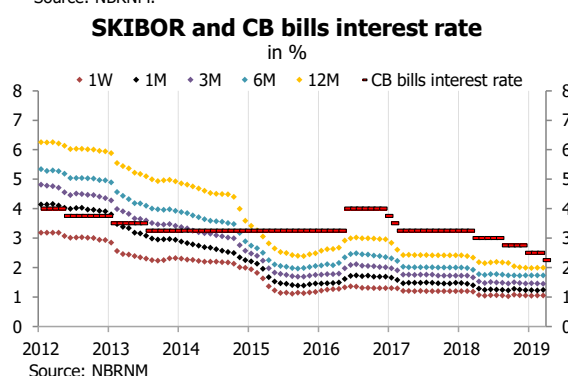
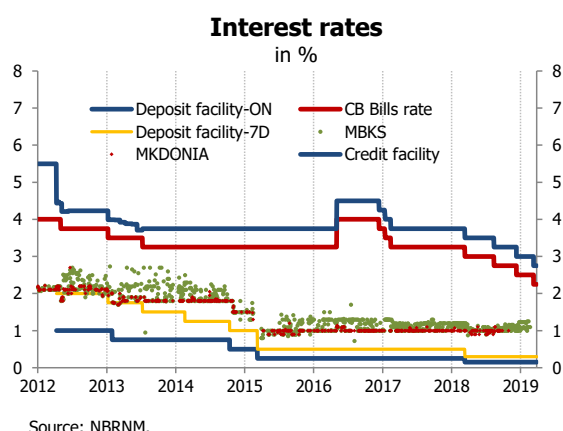
III. Financial market developments

During the first quarter of 2019, the interbank interest rate on the deposit market remained at a low and stable level, with small trading volume, whereby there were also no changes in the indicative interest rates for interbank trading in deposits (SKIBOR). On the primary government securities market, the new securities were mostly issued in longer terms, in domestic currency and with lower interest rates. The secondary market registered trade in government bonds, mostly government bonds with residual maturity from 10-15 years and from 15-30 years. On the Macedonian Stock Exchange, MBI-10 registered a growth, same as most stock markets in the region. On the international financial markets, the financial conditions indexes moved in a downward

⁴⁰ Includes reserve requirement in foreign currency.



direction, pointing to a moderate decrease in uncertainty. The yields on the Eurobonds issued by the government decreased, thus narrowing the spread compared to the yields on the German government bonds.



3.1. Unsecured interbank deposit market

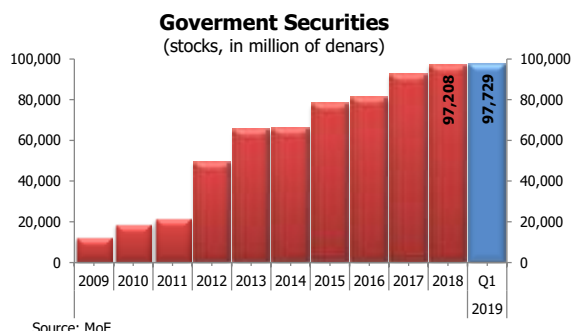
On the interbank deposit market, in the first quarter of the year, the interbank interest rate remained at a low and stable level, whereby there were also no changes in the SKIBOR quotations⁴¹. The total turnover on the interbank unsecured deposit market in the first quarter of the year amounted to Denar 1,610 million, being lower compared to the previous quarter (by 79%). Most of the transactions (82%) were with maturity up to 7 days. The interbank interest rate of all transactions (MBKS) averaged 1.1% for the quarter, and remained at a stable level compared to the previous quarter, whereby there were also no changes in the SKIBOR quotations.

3.2. Government securities market

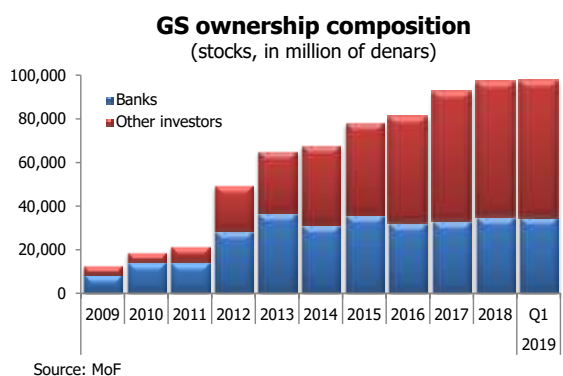
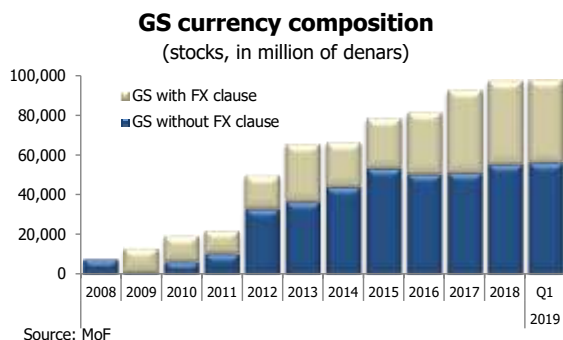
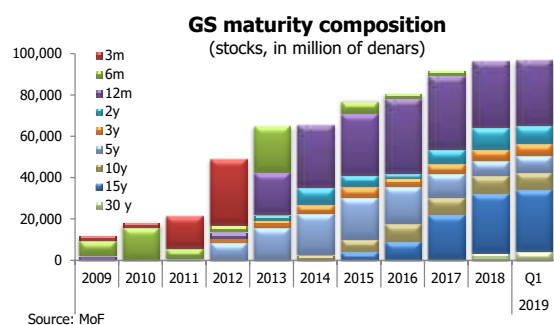
On the primary government securities market, the due securities continued to be redirected to longer maturities. In the first quarter of the year, the stock of government securities increased solely due to the increase in government bonds. Regarding the individual maturity categories, growth was registered in the stock of the 5-year, the 15-year and the 30-year government bonds, while a decrease was registered in the shorter maturities of the securities (the 2-year government bonds and the 12-month treasury bills). At the end of the first quarter of 2019, the most common in the total amount of government securities are still the 15-year government bonds and the 12-month treasury bills, with a share of 31% and 33%, respectively.

The new issues of government securities had a combined currency structure (denar and with currency clause). In the first quarter of the year, no changes were registered in the shares of securities with and without foreign currency clause in the total stock of government securities, i.e. at the end of the first quarter of the year they amounted to 43% and 57%, respectively.

⁴¹ Interbank offered rates calculated using quotations of reference banks with maturities: 1 week, 1, 3, 6, and 12.



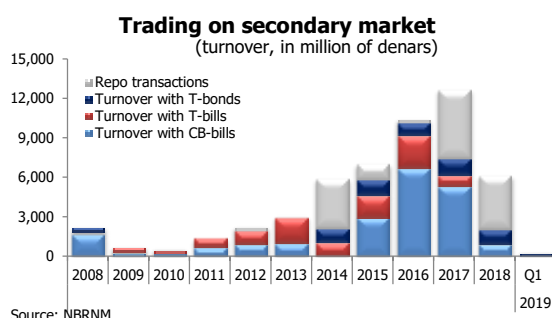
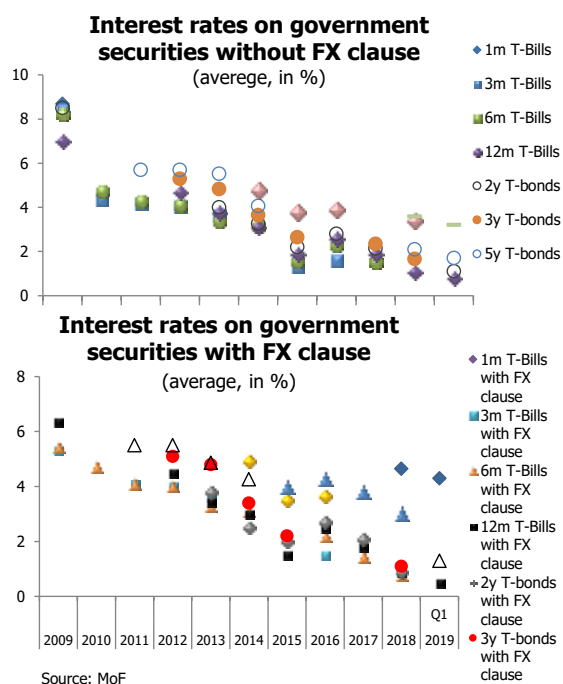
The growth in the total amount of government securities largely stems from the growth of the portfolio of the "other investors" group. The majority of the total issued government securities at the end of the first quarter of the year remained in the ownership of other investors (64%), primarily pension funds, while 36% are securities in bank ownership.



The interest rates on the primary securities market continued to decrease. During the first quarter of the year, the Ministry of Finance cut the interest rates on securities of all maturities that were offered for sale (12-month treasury bills with and without currency clause, 2-year government bonds without currency clause, 5-year government bonds with and without currency clause, 15-year government bonds without currency clause and 30-year government bonds with currency clause).

The secondary securities market registered trade in government bonds. The trade in securities on the secondary market, primarily in government bonds, was lower (Denar 345 million) in the first quarter of the year compared to the previous quarter (Denar 951 million). In terms of the maturity segments on which trading was conducted, transactions with government bonds were with residual maturity from 10 to 15 years and with residual maturity from 15 to 30 years. **The yields on the transactions with securities on the secondary market were lower compared to the previous quarter.**

On the Macedonian Stock Exchange, MBI-10 increased on a quarterly basis. The total turnover on the Macedonian Stock Exchange in the first quarter of the year amounted to Denar 1,784 million and was slightly higher compared to the previous quarter (Denar 1,720 million). Besides the regular stock exchange transactions with shares and block transactions, this quarter also registered a transaction with a public offering of



securities⁴², and there was also trading with new financial instruments - perpetual bonds⁴³. MBI-10 had an upward movement during the first quarter, amounting to 3,665 at the end of the first quarter of the year, which is by 6% higher compared to the end of 2018. Within the MBI-10, the value of majority index-constituting shares increased. In the first quarter, the bond index (OMB) registered slight growth (of 1%) reaching 132.2 at the end of the quarter (131.3 at the end of the fourth quarter).

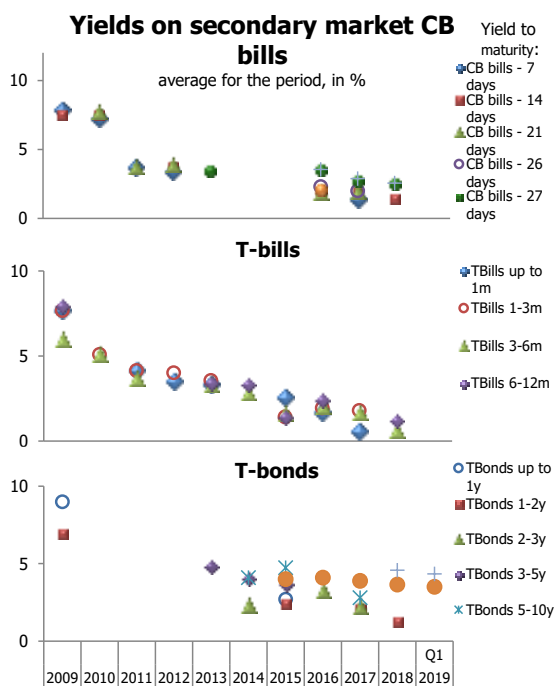
On regional markets, stock exchange indices mainly registered a growth. From the stock markets in the region, a significant upward movement was registered with the Bosnian Stock Exchange Index, which increased and registered a quarterly growth of 22%. Growth was also registered in the indices of other stock exchanges of the region, Bucharest (9%), Budapest (7%), Ljubljana (8%), Zagreb (3%), Warsaw (2%), while the Serbian and Bulgarian stock exchanges recorded a slight decline (4% and 2%, respectively).

Volatility indices in bond and equity markets during the first quarter indicated a moderate decrease in the financial markets uncertainty. The MOVE and VIX indexes⁴⁴, despite the volatile movement during the quarter, remained at a lower level on average compared to the previous quarter, indicating a moderate decrease in uncertainty.

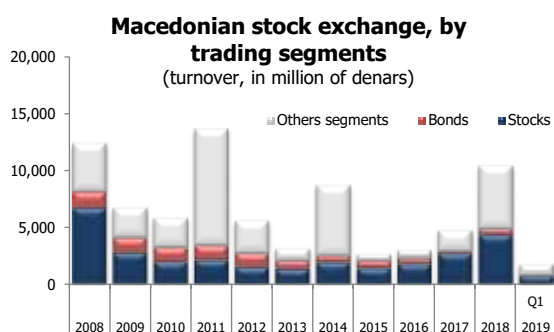
⁴² On 22 March, Central Cooperative Bank AD Skopje successfully realized a public offering of 5,000 convertible bonds in the amount of Denar 307.5 million.

⁴³ The perpetual bonds issued by UNI Bank AD Skopje are a new hybrid financial instrument with specific characteristics. For more information please visit: <https://www.mse.mk/mk/news/27/2/2019/listing-of-perpetual-bonds-issued-by-uni-bank-ad-skopje>

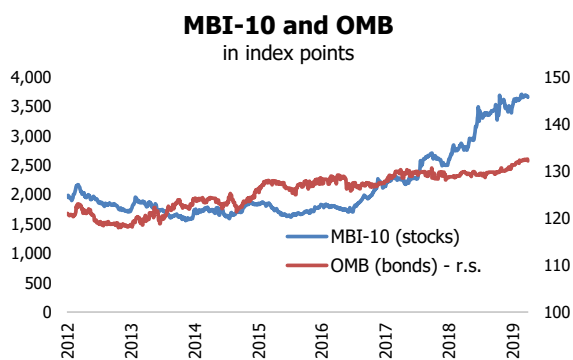
⁴⁴ The MOVE index (Merrill Lynch Option Volatility Estimate) shows the volatility of the US government bond markets. The VIX index (Volatility Index) is constructed based on the implied volatility of S&P500 index options. Investors use both indices as indicators of the conditions and expectations for the financial markets volatility. Downward path in indices indicates a decrease in volatility.



Source: NBRNM and Ministry of finance.



Source: Macedonian Stock Exchange



Source: Macedonian Stock Exchange

The yields on long-term government bonds in the United States and the euro area continued to decrease. During the first quarter, the yields on the US 10-year government bonds⁴⁵ continued to decrease and averaged 2.7% (3.0% in the fourth quarter), and a downward movement was also registered in the yields on the 10-year government securities in the euro area (from 0.6% on average for the fourth quarter of 2018 to 0.3% on average for the first quarter of 2019)⁴⁶. The reduction of the yields on the 10-year government securities is associated with the investors' concern about the slowdown in the global economic growth, whereby in the euro area, a factor that has an additional impact includes the reduced expectations of market participants for the dynamics of tightening of the monetary policy.

The Eurobond yields⁴⁷ decreased, thus narrowing the spread relative to the German government bonds. The spread between the yields on the issued Eurobonds and the yields on the German government bonds narrowed and averaged 2.1 percentage points, 1.4 percentage points, 2.7 percentage points, and 2.8 percentage points, respectively in the first quarter. (2.4 percentage points, 1.7 percentage points, 3.1 percentage points and 3.3 percentage points in the fourth quarter), respectively.

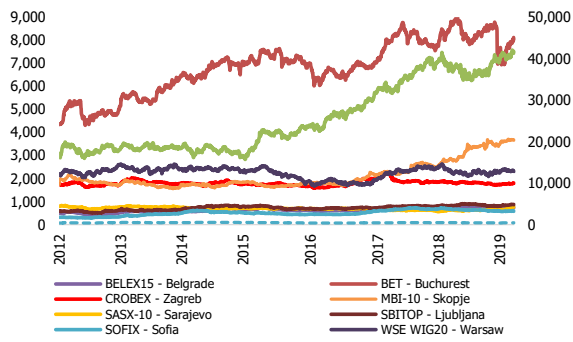
⁴⁵ Those are generic yields derived from the yield curve of government bonds of the United States.

⁴⁶ Those are generic government bonds derived from the yield curves of government bonds of Germany and France.

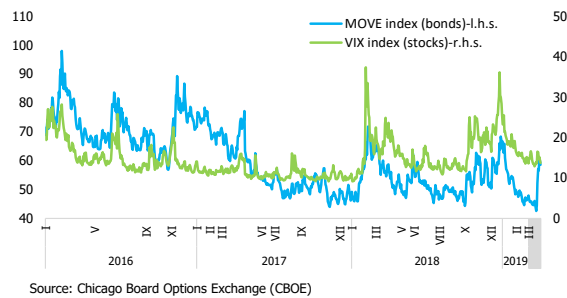
⁴⁷ It refers to the Eurobonds issued in July 2014, December 2015, July 2016 and in January 2018. The Eurobonds were issued in the nominal amount of Euro 500 million, Euro 270 million, Euro 450 million, and Euro 500 million, respectively, with a maturity of 7, 5, 7 and 7 years, respectively, and annual interest rates of 3.975%, 4.875%, 5.625% and 2.75%, respectively.



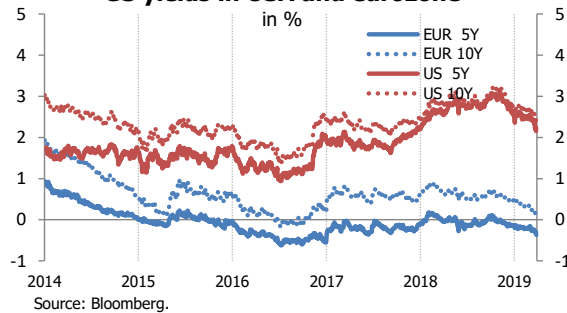
Regional stock exchange indices



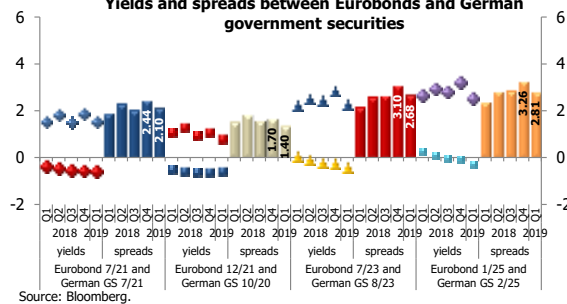
Volatility indexes on stocks and bond markets



GS yields in USA and eurozone



Yields and spreads between Eurobonds and German government securities

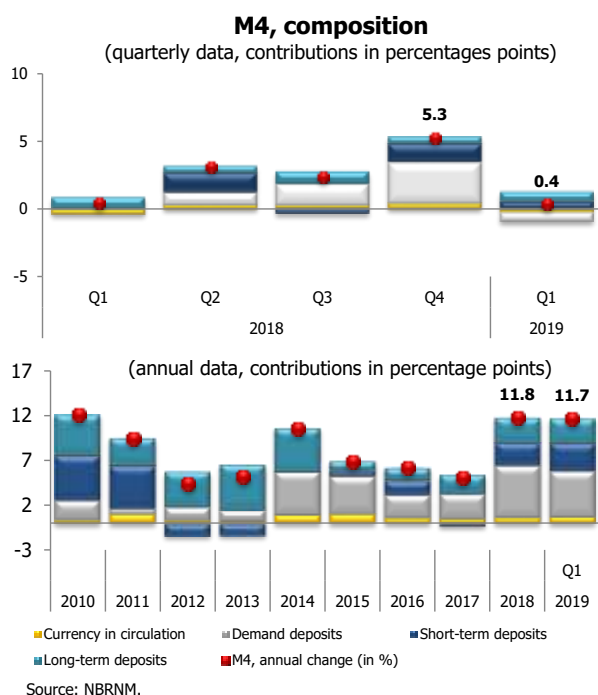




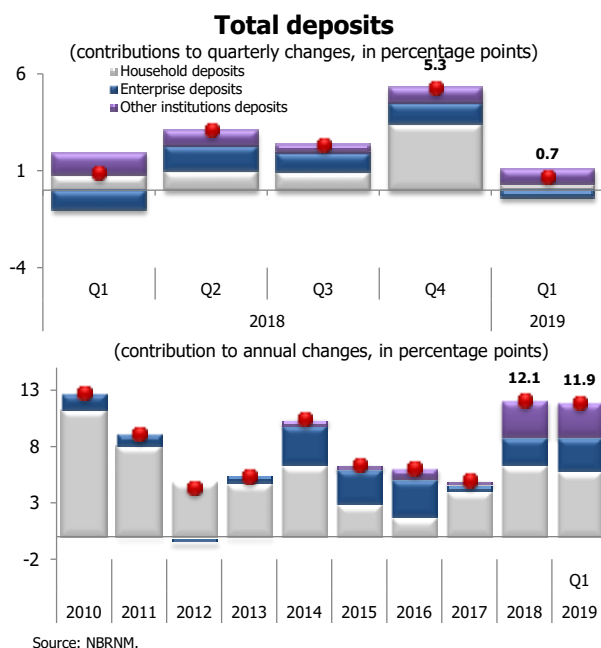
IV. Monetary and credit aggregates

After the strong growth in the fourth quarter of 2018, in the first quarter of 2019, the broad money M4 almost stagnated on a quarterly basis. From structural point of view, this change in the dynamics is almost entirely due to the most liquid component (currency in circulation and transaction deposits), which, after the strong growth in the last quarter of the previous year, declined in the first quarter of this year, influenced by seasonal factors. On the other hand, short- and long-term savings continued to increase. Financial system deposits grew at a more moderate pace, which observed by sector, results from household deposits, which continue to increase, but at a slower pace, as well as from the reduction of corporate deposits, with stable positive contribution of other sectors deposits. Lending activity in the first quarter of the year registered a growth, compared to the decrease registered in the same period in the previous two years. Analyzed by sector, the growth of lending activity is fully driven by household loans, while corporate lending stagnated. The results of the Bank Lending Survey for the first quarter show growth of the demand for corporate loans and reduction of the demand for household loans on a net basis, amid further easing of the overall credit conditions.

4.1.1. Monetary aggregates



During the first quarter of 2019, the broad money M4 almost stagnated compared to the previous quarter (small quarterly growth of 0.4%, compared to 5.3% in the previous quarter). This change in the dynamics of the money supply in the first quarter of the year is usual and is mostly associated with certain seasonal factors. Analyzing the structure, the slowdown of growth stems from the most liquid component - (currency in circulation and demand deposits), which, after the strong growth in the previous quarter, declined in the first quarter of the year. On the other hand, short- and long-term savings continued to increase. Observed by currency, the minimal growth of broad money is due to foreign currency deposits, with a positive contribution of 0.9 percentage points, while the contribution of denar deposits (including demand deposits) is negative (0.3 percentage points). At the end of the first quarter, the share of foreign currency deposits in M4 equals 36.7%, and is slightly higher compared to the end of the previous quarter (36.0%). **On an annual basis, the growth of broad money was 11.7% at the end of the first quarter (11.8% at the end of the previous year).**



Total deposits	2018				2019
	Q1	Q2	Q3	Q4	Q1
quarterly change, in %					
Total deposits	0.9	3.1	2.4	5.3	0.7
contributions to quarterly growth, p.p.					
Deposit money	-0.1	1.0	1.7	3.3	-0.7
Denar deposits	0.5	0.7	0.6	0.8	0.4
FX deposits	0.5	1.4	0.1	1.2	0.9
Short-term deposits	0.1	1.5	-0.4	1.5	0.6
Long-term deposits	0.9	0.6	1.0	0.6	0.8
Households	0.8	1.0	0.9	3.4	0.3
Enterprises	-1.0	1.3	1.0	1.1	-0.4
Other institutions deposits	1.1	0.8	0.4	0.8	0.8

Source: NBRNM.

Household deposits	2018				2019
	Q1	Q2	Q3	Q4	Q1
quarterly change, in %					
Total household deposits	1.2	1.4	1.4	5.2	0.5
contribution to quarterly change of total deposits, in p.p.					
Deposit money	-0.1	0.3	0.4	3.4	-0.8
Denar deposits	0.5	0.1	0.2	0.7	0.6
FX deposits	0.8	1.1	0.8	1.1	0.7
Short-term deposits	0.5	0.7	0.2	0.8	0.5
Long-term deposits	0.8	0.5	0.8	0.9	0.8

Source: NBRNM.

Total financial system deposits⁴⁸ in the first quarter of the year increased by 0.7% on a quarterly basis (compared to the quarterly growth of 5.3% in the previous quarter). According to the sectoral structure, the slowdown in the growth of total deposits is the result of household deposits, which continue to grow, but at a slower pace, given the reduction of corporate deposits, with stable positive contribution of other sectors deposits. The analysis of the currency structure indicates further positive contribution of the foreign currency deposits to the total quarterly performance, amid negative contribution of denar deposits (including demand deposits). Analyzing the maturity structure, the growth was mostly due to the higher long-term deposits, amid positive contribution of short-term deposits. **Total household deposits in the first quarter of 2019 increased by 0.5%, which is a slowdown compared to the performances in the previous quarter (quarterly growth of 5.2%).** The quarterly slowdown can be partly explained by the high seasonal performances during the previous quarter⁴⁹. Analyzing the currency structure, the quarterly increase is entirely a result of the higher foreign currency deposits, with simultaneous decline in deposits in domestic currency (including demand deposits). Analyzing the maturity structure, the first quarter registered positive developments in savings, with positive contribution of both short- and long-term deposits (contribution of 0.5 and 0.8 percentage points, respectively). **On an annual basis,** the growth of total household deposits equaled 8.7% at the end of March, compared to 9.5% at the end of the previous year.

Total corporate deposits in the first quarter decreased by 1.6% relative to the previous quarter, compared to the growth registered in the fourth quarter (of 4.2%). Seasonal effects are the most important factors that contribute to reducing corporate deposits. Analyzing the currency structure, the quarterly decline entirely results from denar deposits (including demand deposits), amid growth of foreign currency deposits. In terms of

⁴⁸ 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.nspix.

⁴⁹ The higher household deposits in the last quarter of 2018 are associated with the early pension payments and part of the wages in the private sector, the bonus payments typical for the year-end, as well as the payments of subsidies by the government in this period.

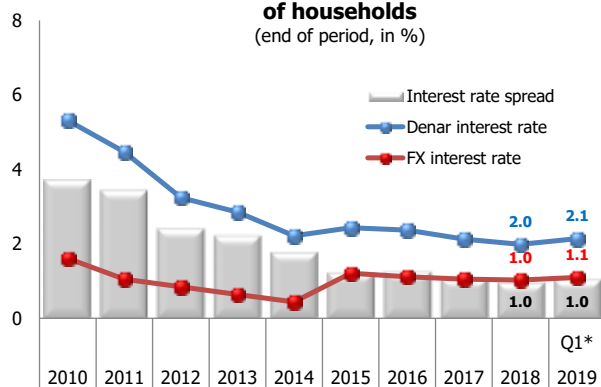


Enterprise deposits

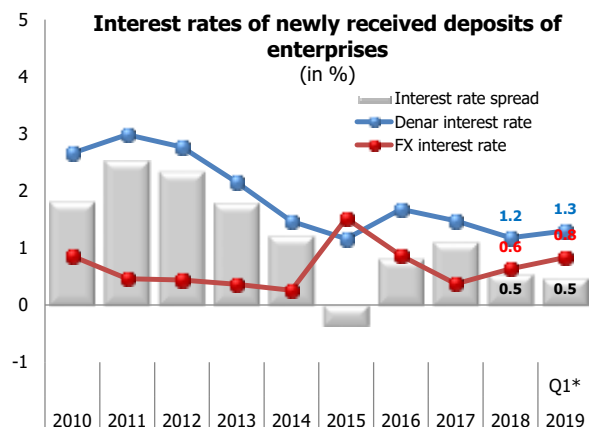
	2018				2019
	Q1	Q2	Q3	Q4	Q1
quarterly change, in %					
Total household deposits	-3.9	5.3	3.9	4.2	-1.6
contribution to quarterly change of total deposits, in p.p.					
Deposit money	-2.7	1.7	5.6	0.6	-2.1
Denar deposits	-1.2	1.2	0.0	1.4	-0.8
FX deposits	0.0	2.3	-1.7	2.2	1.3
Short-term deposits	-1.4	3.7	-2.0	3.8	-0.1
Long-term deposits	0.2	-0.1	0.2	-0.2	0.6

Source: NBRNM.

Interest rates of newly received deposits of households (end of period, in %)



*end of February
Source: NBRNM.



*end of February
Source: NBRNM.

the maturity structure, short-term deposits made a minimal negative contribution, while long-term deposits increased. **On an annual basis**, corporate deposits increased by 12.1% at the end of March, which is a faster increase compared to the annual growth from the end of the previous year (9.5%).

According to the analysis of the yields⁵⁰ of new savings, in February the interest rates on the newly received⁵¹ Denar and foreign currency deposits of households registered minimal growth of 0.1 percentage points compared to December and equaled 2.1% and 1.1%, respectively. In such circumstances, the interest rate spread between the new denar and foreign currency savings of households in February remained unchanged compared to the previous quarter. Interest rates on newly accepted denar and foreign currency corporate deposits increased by 0.1 and 0.2 percentage points, respectively, compared to December, and amounted to 1.3% and 0.8%, respectively, whereby the interest rate spread in February remained unchanged compared to December. **As for the total accepted deposits**, the interest rates on (denar and foreign currency) corporate and household deposits in February registered no changes compared to December (1.7% and 1.4%, respectively).

⁵⁰ 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.nspix>.

⁵¹ One should have in mind that the interest rates on the newly accepted deposits are volatile. 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.

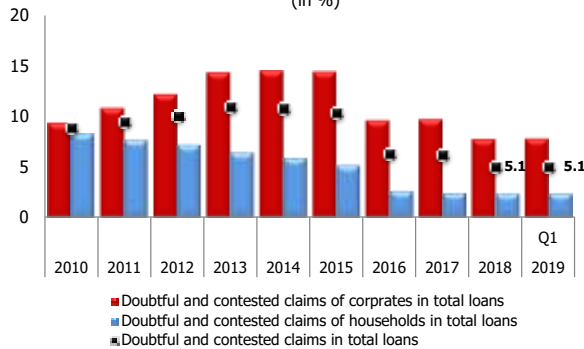


Total credits of private sector

	2018				2019
	Q1	Q2	Q3	Q4	Q1
quarterly change, in %					
Total credits of private sector	-0.7	2.7	1.8	3.4	0.8
Contribution in quarterly change of total credits (in p.p.)					
Denar credits	-0.6	1.6	1.1	3.4	0.4
Foreign currency credits	-0.2	1.1	0.7	0.0	0.5
Short-term credits	-0.8	0.6	0.0	1.5	-0.1
Long-term credits	1.3	2.0	1.7	1.6	0.8
Households	1.1	1.6	1.2	0.9	0.9
Corporations	-1.8	1.1	0.6	2.4	0.0

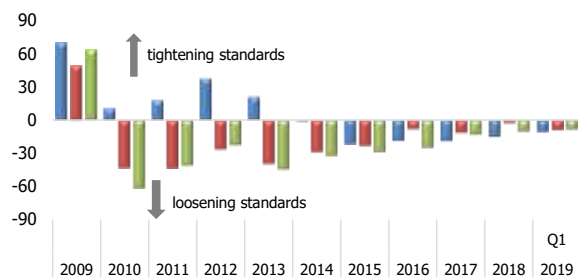
Source: NBRNM.

Share of doubtful and contested claims in total loans (in %)

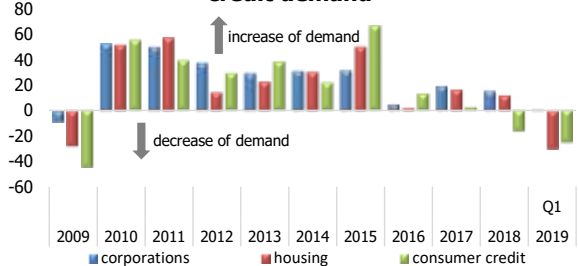


Source: NBRNM.

credit conditions



credit demand



Source: Bank lending Survey, NBRNM.

Total credits of households

	2018				2019
	Q1	Q2	Q3	Q4	Q1
quarterly change, in %					
Total credits of households	2.308	3.3	2.5	1.8	1.8
Contribution in quarterly change of household credits (in p.p.)					
Denar credits	1.38	2.4	1.7	1.1	1.6
Foreign currency credits	0.9	0.9	0.8	0.7	0.2
Short-term credits	0.3	0.3	0.2	-0.3	0.4
Long-term credits	2.0	2.9	2.3	2.1	1.4

Source: NBRNM.

4.1.2. Lending activity

During the first quarter of 2019, banks increased the credit support to the private sector. Loans registered a quarterly growth of 0.9%, versus the decline in this period registered in the previous two years. The growth of lending activity partially corresponds to the results of the Bank Lending Survey⁵² for the first quarter, which indicate further growth of the demand for corporate loans and reduction of the demand for household loans on a net basis, amid further easing of the overall credit conditions. For the second quarter of 2019, banks expected a net increase in total demand for loans by both sectors, amid further easing of the overall credit conditions.

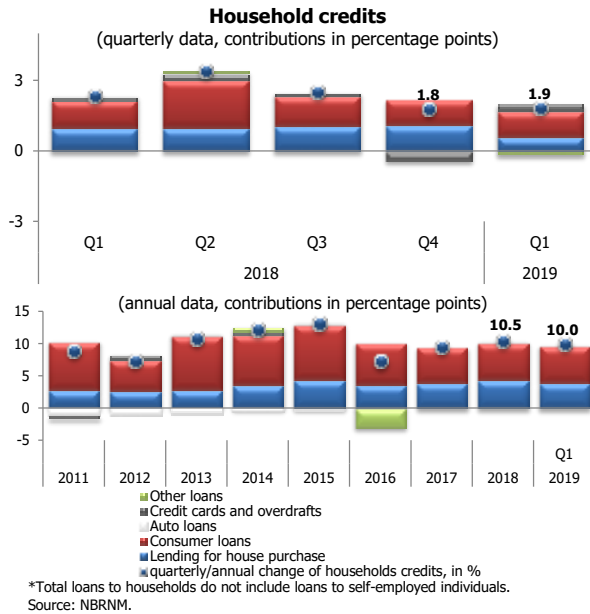
Observed by sector, the quarterly growth of private sector loans is entirely explained by the increased lending to households, with a neutral contribution of lending to companies. In terms of currency structure, the growth almost equally results from denar and foreign currency loans⁵³. Analyzing the maturity structure, the quarterly growth of total loans is entirely due to long-term loans. The share of doubtful and contested claims in total loans remained unchanged at the end of March compared to the previous quarter and amounted to 5.1%.

Annually, in March, total loans registered an increase of 9.0%, which is faster compared to December (7.3%). At the end of March, loan/deposit ratio amounted to 83.9% (83.8% at the end of the previous quarter).

In the first quarter of 2019, lending to household sector continued to grow at the same pace as in the fourth quarter of the previous year (1.8%). The quarterly growth is largely driven by the increase in consumer loans, amid a further positive contribution of housing loans and credit cards and overdrafts, while other loans registered a slight decline. The results of the latest Bank Lending Survey for the first quarter of the year, suggest a net decrease in the demand for housing and consumer loans. Analyzing the currency structure, the growth of household loans in this period predominantly resulted from denar loans, amid slight increase in foreign currency loans. Analyzing the maturity structure, the quarterly growth is mostly due to the growth of long-term loans, amid small positive contribution of short-term loans. Annually, at the end of March,

⁵² For more information, also see Bank Lending Survey at <http://nbrm.mk/?ItemID=F7AC78DEE498764FBAF39049F726CE3C>.

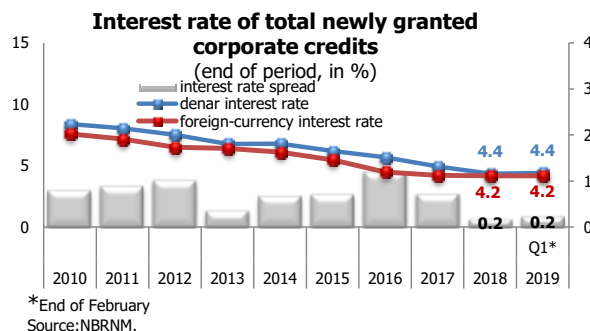
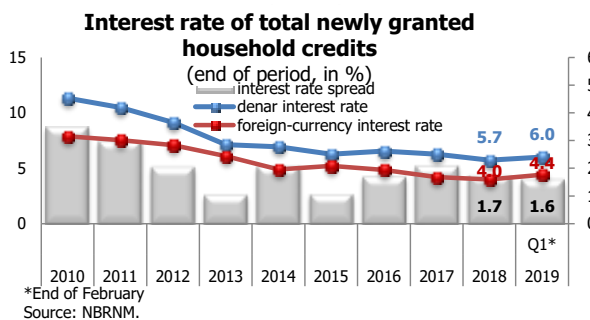
⁵³ Foreign currency loan data also include denar loans with currency clause.



Total credits of corporations

	2018				2019
	Q1	Q2	Q3	Q4	Q1
quarterly change, in %					
Total credits of corporations	-3.5	2.1	1.1	4.8	0.0
Contribution in quarterly change of corporation credits (in p.p.)					
Denar credits	-2.4	0.9	0.5	5.5	-0.8
Foreign currency credits	-1.1	1.2	0.6	-0.7	0.7
Short-term credits	-1.8	0.8	-0.1	3.3	-0.5
Long-term credits	0.7	1.1	1.2	1.0	0.4

Source: NBRNM.



total loans to households increased by 9.7% (10.3% at the end of December).

During the first quarter of 2019, total loans extended to the corporate sector stagnated, after the growth of 4.8% in the previous quarter. Such performance generally corresponds to the results of the Bank Lending Survey for the first quarter, which indicate an insignificant net increase in the demand for corporate loans. Data on the currency structure of total corporate loans indicate a positive contribution of foreign currency loans, with an identical negative contribution of denar loans. Observing by maturity, the negative contribution of short-term loans is offset by the positive contribution of long-term loans. **On an annual basis,** total corporate loans increased by 8.3% at the end of March, which is higher compared with the end of the previous year (4.5%).

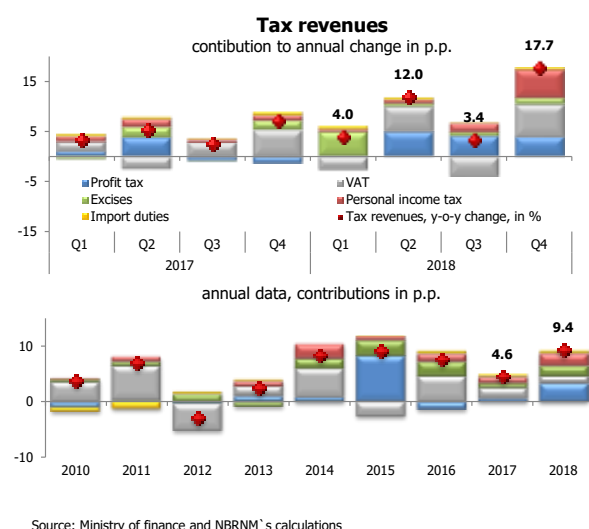
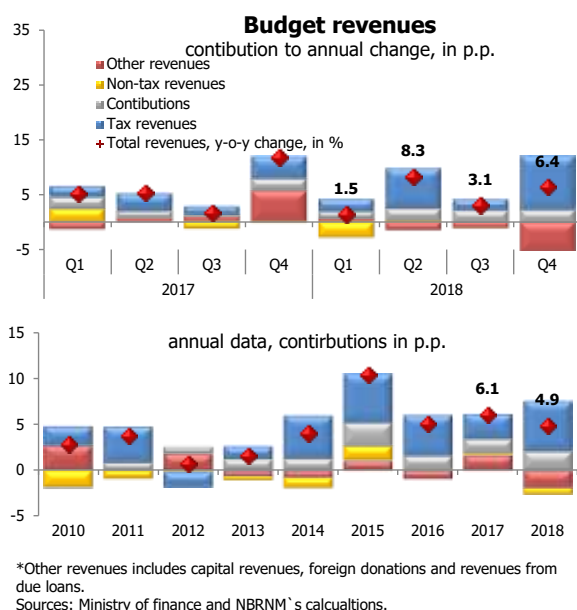
According to the data on the interest rates⁵⁴ on newly approved loans⁵⁵ in February, the interest rates on denar and foreign currency loans to households increased compared to December and amounted to 6.0% and 4.4%, respectively (previous level of 5.7% and 4.0%, respectively), which narrowed the interest rate spread (1.6 percentage points). In February, the interest rates on newly approved denar and foreign currency corporate loans, remained at 4.4% and 4.2%, respectively. Regarding the total approved loans, at the end of February, the interest rate on household loans decreased to 6.0% (6.1% in December), while the total interest rate on corporate loans remained unchanged and amounted to 4.6%.

⁵⁴ 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.nspix.

⁵⁵ One should have in mind that the interest rates on newly approved loans are volatile. 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.

V. Public finance

In the fourth quarter of 2018, budget revenues and expenditures increased on an annual basis. The largest contribution to the growth of budget revenues was made by taxes, while the growth of budget expenditures entirely derived from the higher current expenditures. The budget deficit in the fourth quarter of 2018 (0.7% of GDP) was financed from the government deposit account with the National Bank, and less through the new issue of government securities on the domestic financial market. For the entire 2018, the budget deficit amounted to 1.8% of GDP, which represents 64.3% of the deficit planned in the 2018 Budget (after the revision made). In 2018, the budget deficit was mostly financed through the issue of a Eurobond on the international financial markets, and to a lesser extent from domestic sources, with a new issue of government securities. At the end of 2018, the total public debt equaled 48.5% of GDP and registered a slight increase compared to the previous year (47.8% of GDP), mostly as a result of the increased government debt, due to the higher external debt of the central government.



In the last quarter of 2018, the total revenues in the Budget of the Republic of North Macedonia⁵⁶ were by 6.4% higher on an annual basis. The growth of budget revenues is mostly a result of the better performance of taxes (with a contribution of 9.8 percentage points). Contributions also made positive yet lower contribution (of 2.3 percentage points), while the contribution of other revenues⁵⁷ and non-tax revenues was negative (5.4 and 0.2 percentage points, respectively). In 2018, budget revenues went up by 4.9% on an annual basis, which entirely results from the higher revenues from taxes and contributions (of 5.5 and 2.0 percentage points, respectively), while other revenues and non-tax revenues made a negative contribution (of 2.0 and 0.6 percentage points, respectively).

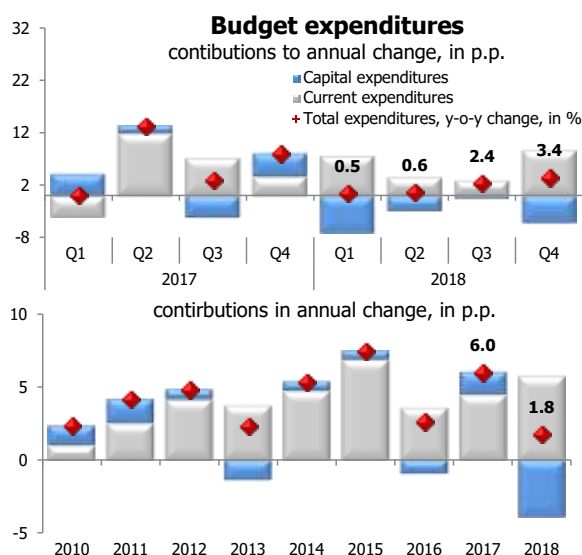
In the fourth quarter of 2018, total tax revenues⁵⁸ rose by 17.7% on an annual basis. The quarterly growth of tax revenues results from the larger amount of net revenues from VAT (with a contribution of 6.4 percentage points)⁵⁹, as well as from the better performance of personal income tax (contribution of 5.7 percentage points) and in income tax (with a contribution of 3.9 percentage points). A positive, but smaller contribution was also made by the revenues from excises and import duties (from 1.3 and 0.5 percentage points, respectively). In 2018, budget revenues from taxes grew by 9.4% on an annual basis, with the largest contribution of income tax and personal income tax (of 3.2 and 2.2 percentage points, respectively), while a small positive contribution was also registered in indirect taxes.

⁵⁶ Central budget and budgets of funds.

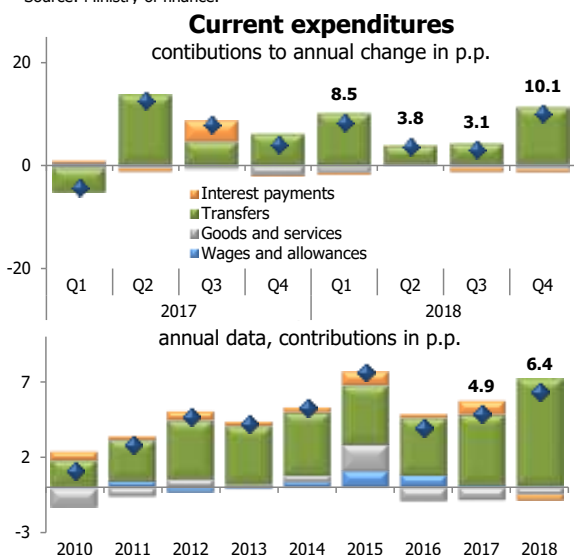
⁵⁷ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

⁵⁸ It also includes own revenue accounts (SSP).

⁵⁹ Higher net VAT revenues in the fourth quarter of 2018 are mostly explained by the smaller payment of VAT refunds, by 3.5% on an annual basis, amid growth of gross VAT revenues of 8.3%.



Source: Ministry of finance.



Source: Ministry of finance and NBRNM's calculations.

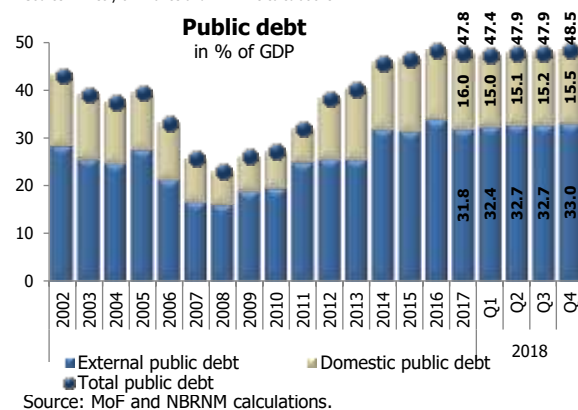
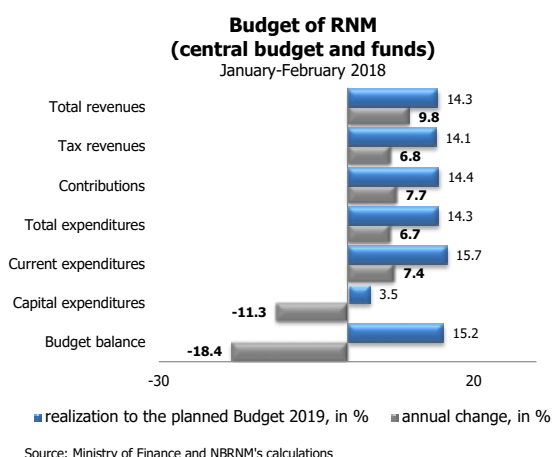
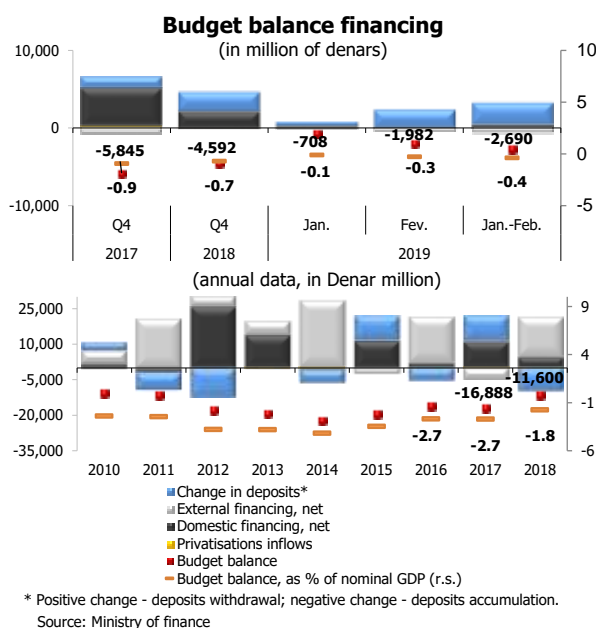
In the last quarter of 2018, the total expenditures in the Budget of the Republic of North Macedonia were by 3.4% higher on an annual basis. The budget expenditures were higher solely due to the higher current expenditures with contribution of 8.6 percentage points, with negative contribution of capital expenses (5.1 percentage points).

In the same period, total current expenditures increased by 6.4% on an annual basis. The growth of current expenditures almost entirely results from the higher transfers (with a contribution of 11.0 percentage points). Of the other budget expenditures, the category of wages and allowances made small positive contribution of 0.3 percentage points, while the categories of goods and services and interest payments made small negative contribution to the annual growth of current expenditures (of 0.6 percentage points and 0.5 percentage points, respectively). In 2018, budget expenditures grew by 1.8% on an annual basis, which is completely a result of the growth of current expenditures (with a contribution of 5.7 percentage points), while the contribution of capital expenditures is negative (of 3.9 percentage points).

During the last quarter of 2018, there was a budget deficit of Denar 4,592 million, or 0.7% of GDP, which is lower compared to last year (0.9% of GDP). The deficit in this period was funded through government borrowing on the domestic financial market and by withdrawing funds from the government deposit account with the National Bank. In 2018, the budget deficit equaled Denar 11,600 million, or 1.8% of GDP, which is lower compared with 2017 (16,888 or 2.7% of GDP).

In the period January - February 2019, total budget revenues increased by 9.8% compared to the same period last year. The growth is mostly a result of the better performance of taxes, non-tax revenues and contributions, with a contribution of 3.9 percentage points, 3.9 percentage points and 2.4 percentage points, respectively⁶⁰. In the same period, **budget expenditures increased by 6.7% on an annual basis,** which mostly results from the

⁶⁰ Higher non-tax revenues were mostly due to inflows to the Pension and Disability Insurance Fund's account in the RNM Budget. These inflows are a result of the transfer of funds of the private pension funds in accordance with the Law Amending the Law on Mandatory Fully Funded Pension Insurance and the Law Amending the Law on Pension and Disability Insurance (Official Gazette of RM No. 245 of 28.12.2018). With these amendments, the membership of some insuree categories in the second pillar of the pension system ceased on 1 January 2019.



growth of current expenditures, with a contribution of 7.1 percentage points, with a negative contribution of capital expenditures (0.4 percentage points). **In the first two months of the year, the budget deficit amounted to Denar 2,690 million**, or 0.4% of GDP⁶¹, constituting 15.2% of the budget deficit forecast for 2019. Most of the deficit was financed through the withdrawal of government deposits from the government deposit account with the National Bank, and less with new issuance of government securities on the domestic financial markets.

At the end of 2018, total public debt⁶² was 48.5% of GDP⁶³, which is an insignificant quarterly increase of 0.54 percentage points. Analyzing the structure, this increase is due to the growth of the external debt from 32.7% to 33.0% of GDP, amid growth of the domestic debt from 15.2% to 15.5% of GDP. In terms of debt structure, the total government debt⁶⁴ and the debt of public enterprises⁶⁵ (for which the Government has issued a state guarantee) at the end of 2018 equaled 40.5% and 8.0% of GDP, respectively and registered minimal quarterly growth, of 0.39 and 0.15 percentage points, respectively. Compared to the end of 2017, the total public debt increased by 0.7 percentage points of GDP, which entirely results from the increase in external public debt (by 1.1 percentage points), amid a slight decline in domestic public debt (by 0.5 percentage points). The debt of public enterprises, for which the Government has issued a state guarantee in 2018 registered a slight annual decline (by 0.3 percentage points of GDP).

⁶¹ The analysis uses the National Bank October forecast for the nominal GDP for 2019.

⁶² The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14) according to which it is the sum of the government debt and the debt of public enterprises established by the state or municipalities, municipalities within the city of Skopje and the city of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the city of Skopje and the city of Skopje, for which the Government has issued a state guarantee.

⁶³ At the end of the fourth quarter, the total public debt equaled Euro 5,202 million.

⁶⁴ Government debt is defined as a sum of debts of the central and the local government.

⁶⁵ Refers to guaranteed debt of public enterprises and joint stock companies owned by the state, according to the public debt definition under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14).



BUDGET OF REPUBLIC OF NORTH MACEDONIA (Central budget and budgets of funds)

	Q1 2018	Q2 2018	Q3 2018	Jan.-Nov.	Annual changes, period in 2018 over the same period in the previous year, in %	Contributions in annual changes, period in 2017 over the same period in the previous year, in %	Annual changes, period in 2018 over the same period in the previous year, in %	Contributions in annual changes, period in 2018 over the same period in the previous year, in %
	Realization, in mil. denars				Q1 2018	Q2 2018	Q3 2018	Jan.-Nov.
TOTAL REVENUES	192,484	43,369	47,279	46,006	169,434	1.5	8.4	3.2
Tax revenues and contributions	170,781	38,916	43,534	41,454	153,747	4.2	10.4	4.2
Taxes	112,638	25,529	29,146	26,858	101,330	3.8	11.9	2.9
Contributions	56,215	13,058	13,930	14,045	50,843	4.7	7.2	7.7
Non-tax revenues	14,929	3,197	2,743	3,035	11,046	-27.3	6.8	0.2
Capital revenues	1,881	456	355	927	2,034	276.9	49.2	25.1
Foreign donations	4,793	788	632	574	2,552	-7.9	-51.6	-52.3
Revenues from repayments of loans	100	12	15	16	55	0.0	-84.8	-71.4
TOTAL EXPENDITURES	210,536	46,502	48,684	48,476	178,936	0.5	0.6	2.4
Current expenditures	192,017	44,708	46,457	45,900	170,253	8.5	3.8	3.1
Capital expenditures	18,519	1,794	2,227	2,576	8,683	-64.5	-38.6	-9.4
BUDGET DEFICIT/ SURPLUS	-18,052	-3,133	-1,405	-2,470	-9,502	-11.6	-70.4	-10.2
Financing	18,052	3,133	1,405	2,470	9,502			
Inflow	46,487	21,709	4,859	4,187	36,211			
Privatisation receipts	152	0	107	172	279			
Foreign loans	32,956	30,462	628	169	31,825			
Deposits	-4,297	-15,032	774	2,184	-11,389			
Treasury bills	17,671	6,279	3,345	1,662	15,479			
Sale of shares	5	0	5	0	17			
Outflow	28,435	18,576	3,454	1,717	26,709			
Repayment of principal	28,435	18,576	3,454	1,717	26,709			
External debt	16,218	12,793	1,113	708	15,556			
Domestic debt	12,217	5,783	2,341	1,009	11,153			

Source: Ministry of Finance and NBRM calculations.

VI. Macroeconomic forecasts and risks

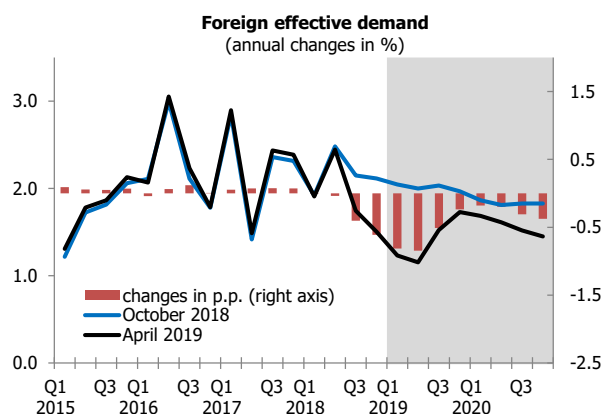
The growth of the domestic economic activity in 2018 amounted to 2.7%, and was slightly higher than expected within the October forecasts (2.3%). In the period between the two forecasts, there were certain changes in relation to the assumptions for the global economic environment. Namely, the global economic performances are slightly weaker than expected, and the expectations for the coming period have also been revised downwards. However, despite the lower performances, in terms of the domestic economy, it is estimated that positive impulses can still be expected on the growth through this channel, although they would be weaker compared to October. On the other hand, the estimates for the movements in the first quarter of 2019 are favorable, and the domestic economic environment is also more favorable. In summary, all these assumptions and changes point to a pace of the economic growth that does not deviate from the October expectations. **Hence, estimates for economic growth in the next two-year period have not changed compared to the previous forecast and point to its acceleration to 3.5% in 2019 and 3.8% in 2020.** From the viewpoint of the structure, it is still expected that the growth will be driven by the export and investment demand, amid further, but more moderate growth of foreign demand, positive effects of the new industrial facilities with foreign capital, strong impulse from public investments in infrastructure and from foreign direct investments. A positive contribution to the growth is also expected from private consumption, amid further growth of real disposable income and credit support by banks. **Longer-term expectations also remained unchanged, so that in 2021, it is expected that the Macedonian economy will increase, at a rate of around 4%. The inflation forecast for 2019 was corrected downwards, i.e. the inflation rate was revised to 1.5% (as opposed to 2% in the October forecasts), mainly due to the currently lower performances and lower input assumptions for imported prices.** The forecast for price growth of 2% has been maintained for 2020, and it is expected to move around this level also in 2021, in the absence of major shocks on the supply and demand side. **The estimates for the movement of balance of payment components in the forecasting round 2019-2021 still point to moderate current account deficit (of around 1.3% of GDP on average for the period).** For this period, the current account deficit is expected to be fully financed by the flows in the financial account, through foreign direct investments and external borrowing, which will enable further growth in the foreign reserves and their maintenance at the appropriate level.

6.1. Underlying assumptions in the external environment forecast⁶⁶

The latest estimates relating to the foreign effective demand⁶⁷ were revised downwards in the entire forecast horizon. Thus, the growth of the foreign effective demand is currently expected to amount to 1.4% and 1.6% in 2019 and 2020, respectively, versus 2% and 1.8%, respectively, forecasted in October. The downward

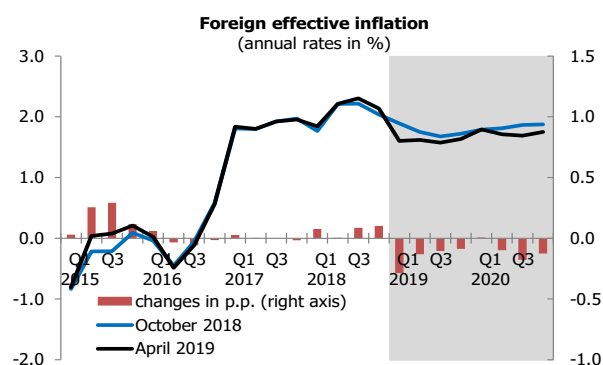
⁶⁶ Historical data on foreign demand, foreign inflation, exchange rate of the US dollar/euro and EURIBOR are sourced from Eurostat, while the World Bank statistics is a source of the data on prices of oil, food and metals. The forecasts of the foreign demand, foreign inflation, foreign exchange rate of the US dollar and EURIBOR are based on the Consensus Forecast, while the forecasts of the prices of oil, food and metals are based on the forecasts of market analysts. The analysis uses various reports of the IMF, the World Bank, ECB, FAO, OPEC and specialized economic portals.

⁶⁷ Foreign effective demand is calculated as the weighted sum of GDP indices of the major trading partners of the Republic of North Macedonia. The calculation of this index includes Germany, Greece, Italy, the Netherlands, Belgium, Spain, Serbia, Croatia, Slovenia and Bulgaria.

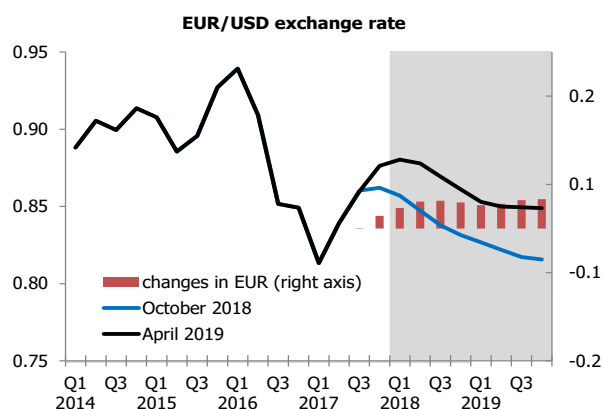


adjustment is largely due to the expectations for a slower growth of the German economy.

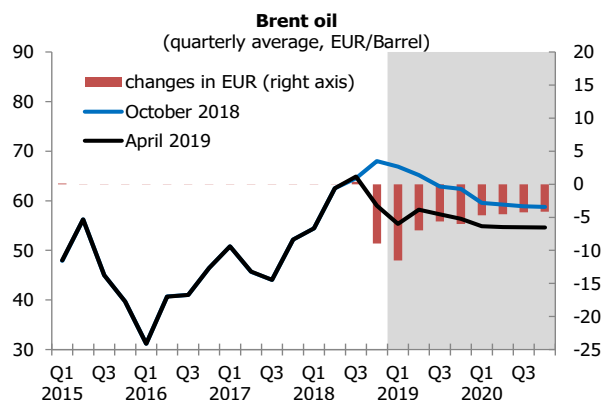
Compared to October, small downward changes were also made in the foreign effective inflation⁶⁸, so that it is expected to amount to 1.6% and 1.8% in 2019 and 2020, respectively, as opposed to the forecast of 1.8% and 1.9% in October. The change is mainly a result of the expectations for a slower price growth in Germany and Italy.



Regarding the movements in the euro/US dollar exchange rate, the value of the US dollar is currently expected to moderately appreciate by 2.9% in 2019 (instead of the unchanged value in October). In circumstances of increased political risks in the euro area, such assessments largely reflect the expectations for a lower growth of the euro area in the period ahead, as well as the announcement that the ECB will keep interest rates low for a period longer than initially announced. For 2020, the US dollar is still expected to register a similar depreciation rate (2.5% currently, instead of 2.7% in October).



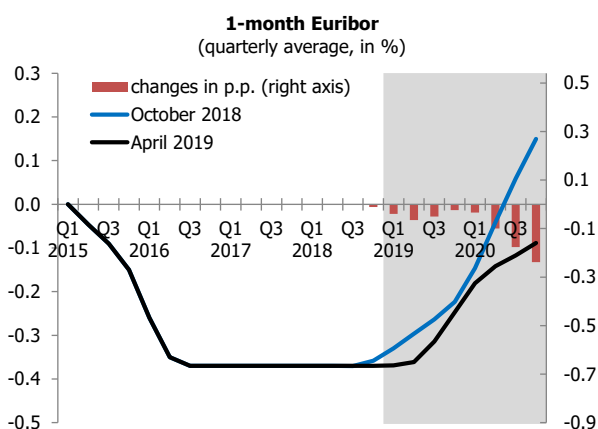
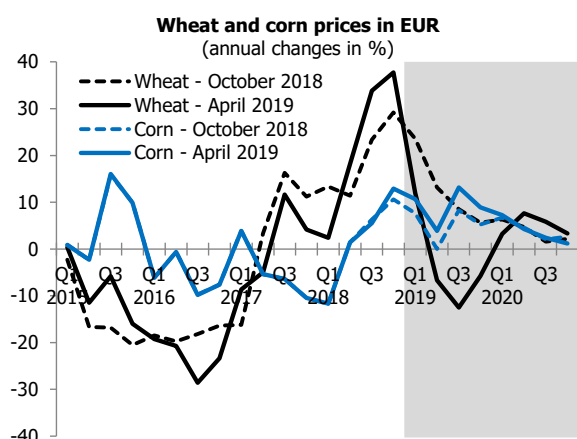
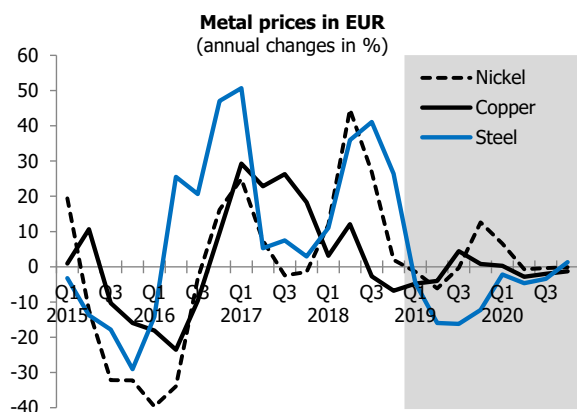
Major downward revision relative to October was made in the price of oil⁶⁹, amid expected slower economic growth and consequently, lower demand for oil globally. Namely, according to the latest forecasts, the price is currently expected to register decline in 2019 (instead of growth in October). For 2020, a smaller price fall is expected, compared to the October forecasts.



In the latest cycle of macroeconomic forecasts, metal prices have been revised in different directions. Thus, the prices of nickel and copper, expressed in euros, were slightly revised upwards for 2019 and 2020 (small growth in the nickel, instead of the expected fall in October and smaller fall in the copper). On the other hand, the prices of steel (expressed in euros) were revised downwards, now expecting a rough decline in the prices of steel related to the expectations for

⁶⁸ The foreign effective inflation is calculated as the weighted sum of consumer price indices of the countries that are major partners of the Republic of Macedonia in the field of import of consumer goods. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia and Serbia. Inflation in Croatia and Serbia has been adjusted for the changes in the exchange rate.

⁶⁹ The analysis of prices of oil, metals and food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.



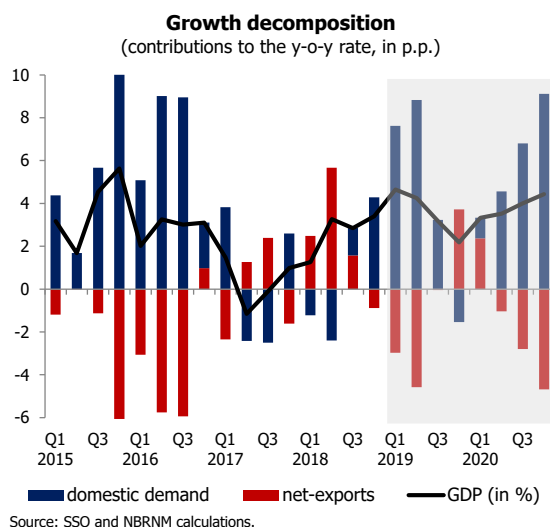
a lower global demand for steel, amid slower global economic activity.

In the period of forecasts, revisions in different directions have also been made in the prices of food products. Namely, according to the latest estimates for 2019, the wheat price was significantly revised downwards, i.e. the price is currently expected to register decline compared to the expected growth in October. This change is associated with the good weather and the expectations for a larger world production of wheat. On the other hand, the corn prices in 2019 are expected to be slightly higher compared to the October expectations, which is largely due to the reduced level of world inventories. For 2020, smaller changes were made, i.e. a slight upward revision of the wheat price and a slight downward revision of the corn price.

In the latest estimates for the expectations for the movement **of the interest rate on the one-month Euribor** for 2019 no major changes were made, now expecting a similar average level of -0.32% (-0.28% in October). For 2020, a major downward revision has been made, whereby the one-month Euribor would be positioned at the level of -0.13%, instead of 0.01% according to the October forecasting round. The continuation of the trend of movement of the Euribor in the negative zone is mainly a reflection of the expectations that the ECB will keep the interest rates low for a period longer than initially announced.

6.2. Forecast and effects on monetary policy

The baseline April scenario for the Macedonian economy is similar to the October forecast. However, in the period between the two forecasts, in part of the indicators significant for the monetary policy setup, there were more favorable movements than previously expected, which created a more favorable environment and



room for relaxation of the monetary policy on two occasions. Moreover, as in October, the external sector estimates still point to a favorable external position of the economy which will enable growth of foreign reserves and their maintenance at an appropriate level also in the following period. Although the strengthening of the domestic economy is expected to be accompanied by appropriate shifts on the import side, however they are not expected to cause major external imbalances. In the next period, the current account deficit is expected to be fully financed by the inflows from foreign direct investments and the borrowing of the public and private sector, which will further increase the foreign reserves. **In light of the foreign interest rate, in this forecast, downward revisions compared to October were made, especially for 2020, which, amid unchanged other assumptions, should create certain room for the domestic monetary policy.** Namely, with expectations for downward deviation of inflation from the target and relatively weak economic growth in the next two years, the ECB announced maintenance of the key interest rates at the current levels at least by the end of 2019. Consequently, the interest rate on the one-month EURIBOR is expected to be negative in the entire period of forecasts (compared to October when there were expectations for a gradual upward trajectory during 2020). **In terms of the total risks for the materialization of the baseline macroeconomic scenario, it is estimated that the domestic risks are more favorable** than the October forecasts and they mainly refer to the expected positive effects of the NATO integration process, as well as to the positive signals for the possible commencement of the accession negotiations with the EU, which would accelerate the process of structural and institutional reforms, with favorable implications in the direction of stimulating faster economic growth and reducing the risk premium of the domestic economy. On the other hand, the **risks in the area of the external environment are downward and less favorable** compared to the October forecasting round⁷⁰, and their possible materialization can also mean lower global growth than expected, and thus lower foreign demand for our exports. They still mainly refer to the possibility for re-escalation of the trade tensions between the US and the other major trading partners. The other risks are related to the developments in systemically important economies, and include the risk of weaker economic growth in the euro area and China than expected, the increased uncertainty

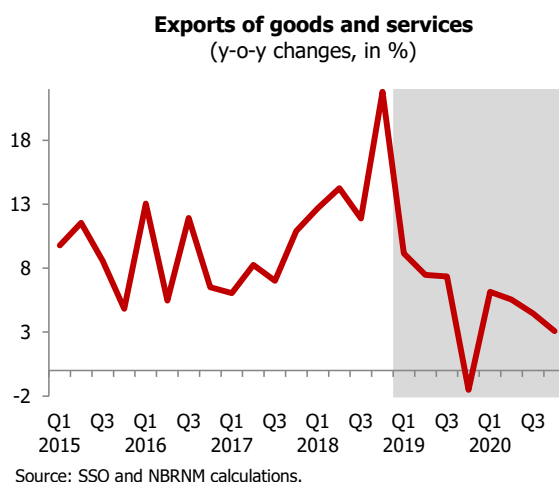
⁷⁰ World Economic Outlook, IMF, April 2019.



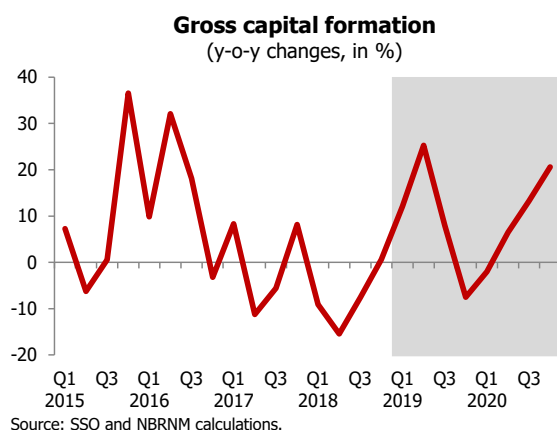
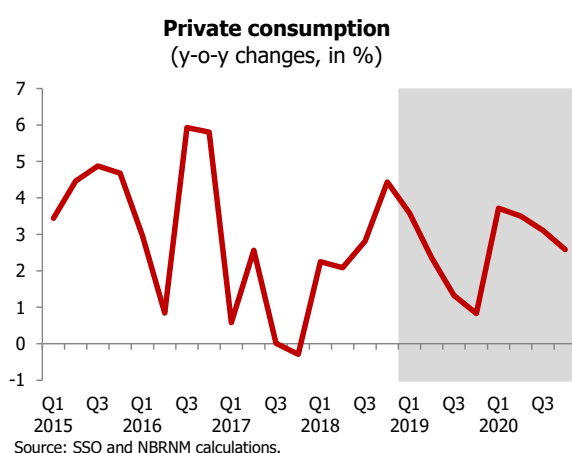
about the Brexit, the uncertainty associated with the unfavorable political and economic situation of some of the euro area countries, the effects of the possibly tighter global financial conditions and the accumulation of financial vulnerabilities, as well as the geopolitical risks.

In 2018, the domestic economy registered a real growth of 2.7%. On an aggregate basis, the main driver of the domestic economy was the net export, which for the first time in the last four years made a significant positive contribution to the growth. This shift is associated with the strong growth of real exports, amid favorable external environment and increased export activity of the facilities with foreign capital, but also of part of the traditional manufacturing facilities. Thus, export remains the component with the largest individual contribution to the GDP growth. A small positive contribution, similar to that of the previous year, was also made by domestic demand, amid growth of private and public consumption. However, their positive contribution is almost entirely offset by the negative contribution of gross investments which in 2018 registered a significant decline, which is largely due to the weak realization of investments in public infrastructure.

The available high-frequency data and the current estimates for the first quarter of 2019 point to further, strong growth of the economic activity, amid recovery of the investment activity and further growth of private consumption and exports. In addition, the surveys also suggest increased optimism among economic agents. Under such initial conditions, the **GDP growth is expected to reach 3.5% on average in 2019 (after the rate of 2.7% in 2018), and to accelerate to 3.8% and 4% in 2020 and 2021, respectively.** Regarding the growth structure, in the period of forecasts, certain changes are expected compared to 2018, i.e. domestic demand is again expected to be the main generator of the growth, as a result of the estimates for intensification of the investment activity and for further stimulus from private consumption, while the net exports component would make a negative contribution to the growth.



Taking into consideration the structural changes and the diversification in the export sector, the real export of goods and services is expected to continue to be the main component-driver of the growth in the entire period of forecasts. Moreover, the activity of the export-oriented industrial facilities with foreign capital is still expected to make a major



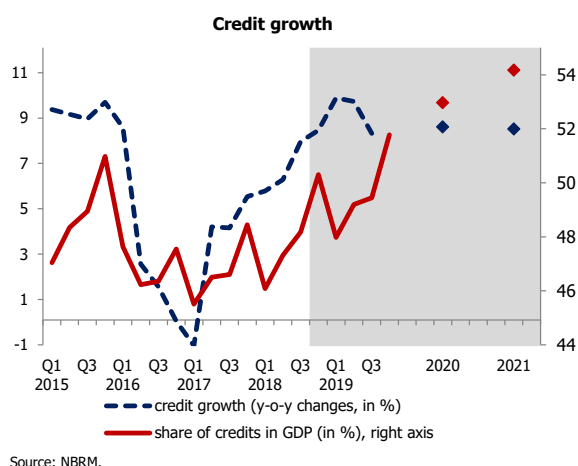
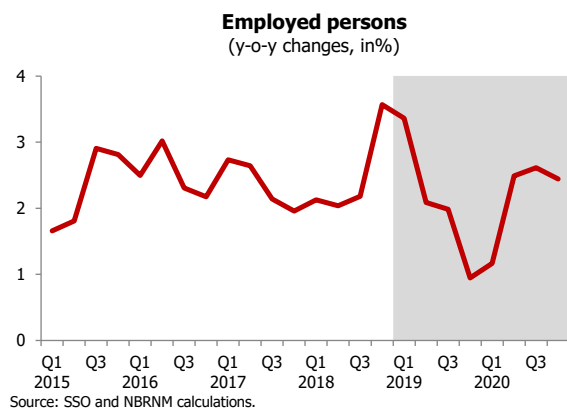
contribution to the growth of real exports, with an additional contribution of traditional sectors. From the viewpoint of the dynamics, after the high double-digit growth in 2018, the growth rate of the real export of goods and services is expected to slow down in this and the next year, amid assessments for gradual stabilization of the utilization of production facilities and thus smaller contribution from the new export-oriented companies, as well as from the expectations for a more moderate growth of foreign effective demand. Regarding the factors of the traditional export sector, in the period of forecasts, there are expectations for certain increase in the demand on foreign markets and more favorable conjuncture in the export metal prices, especially in 2020.

Private consumption and investments would make a positive contribution to the growth in 2019 and 2020. In circumstances of growth in the disposable income, favorable developments on the labor market and further credit support by the domestic banks for the household sector, during the forecast horizon, further growth of private consumption is expected, which would be slightly more moderate in 2019 and then would accelerate in 2020⁷¹. Also, the pension growth is expected to slow down, with changes in the statutory regulations for indexation of pensions⁷². Regarding the investment activity, after the fall in 2018, investments are expected to grow in 2019 and 2020, whereby they will be the component with the highest positive contribution to the expected growth of domestic demand. Such assessment is mainly based on the expectations for continuation and intensification of construction works related to government investments in road infrastructure, after the temporary halt in the past period. At the same time, the assumed stable political situation in the domestic economy is expected to positively affect the confidence and propensity to invest of domestic private entities, as well as the foreign investors' perceptions. Additional support to the expected investment cycle includes the legal framework for financial support of investments⁷³ and the expected growth of bank lending. Regarding the **public**

⁷¹ Public administration wages are expected to increase in the last quarter of 2019, which would have transmission effects on the average wage in 2020.

⁷² According to the Law Amending the Law on Pension and Disability Insurance (245/18), starting from January 2019 the alignment of pensions takes into account only the semi-annual increase in the consumer price index, instead of the current alignment which took into account the semi-annual increase in the consumer price index and the increase in the average wage paid.

⁷³ Law on Financial Support of Investments, Official Gazette of the Republic of Macedonia No. 83 of 8.5.2018. In addition, the Law Amending the Law on Financial Support of Investments, which provides for greater scope of companies that can apply for government assistance, is also in legal proceedings.



consumption⁷⁴, its effect on the economic activity is expected to be neutral on a cumulative basis during the forecast horizon.

The latest estimates for the credit market during the forecast horizon indicate solid growth of lending activity. Namely, amid sound solvency and liquidity position of banks, with stable environment, enhanced competitiveness and sufficient level of available funding, it is expected that banks will provide sufficient credit support for both the households and the corporate sector. Thus, in 2019 total loans will grow at a rate of 8%, which is expected to be maintained in the period 2020-2021. In line with the estimates for stable environment and intensification of the economic activity, in 2019 a growth in total deposits of 8.3% is expected. The expectations for solid economic performances will enable further deposit base growth, with forecasted rates of 8.5% in 2020-2021.

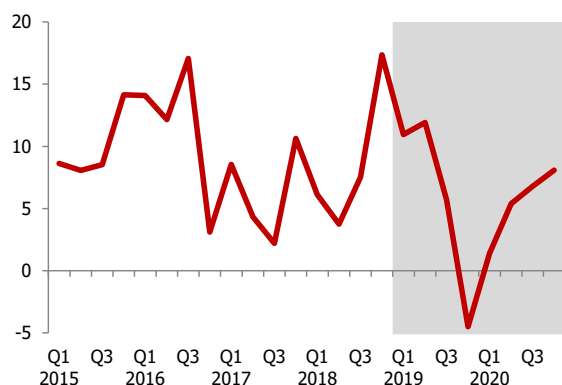
In 2019 and 2020, it is expected that the import demand will continue to increase, but the growth will be more moderate, in accordance with the expected exports trajectory. On a net basis, the import growth will exceed the expected export growth, and such discrepancy between the two categories is mostly associated with the expected growth of the import of investment and consumer goods supported by the stronger investment activity, the growth of foreign direct investments, as well as by the further growth of private consumption. Hence, the net export is expected to make a negative contribution to the total growth in 2019 and 2020.

In 2019, the current account deficit is expected to deepen by 0.8 percentage points of GDP, on an annual basis, whereby the deficit would amount to 1.1% of GDP. The larger current account deficit, expressed as a relative share in GDP, mainly results from the lower surplus in the secondary income and the increased deficit in the primary income. On the other hand, the balance of goods and services is expected to continue to improve, a process that continuously lasts from 2013 onwards. Moreover, the favorable movements in the trade balance are due to the further narrowing of the non-energy balance, primarily due to the positive effect of the facilities with foreign capital, as well as to the improvement of the energy balance, amid lower expected energy prices in world markets. The financing of the current account deficit in 2019 is expected to rely

⁷⁴ Public spending forecasts are based on information from the 2019 Budget, as well as the fiscal strategy 2019-2021 of December 2018.



Imports of goods and services
(y-o-y changes, in %)



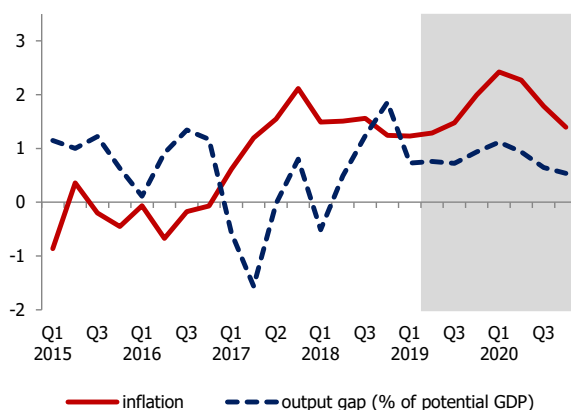
Source: SSO and NBRNM calculations.

Balance of Payment forecast (% of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
Current account	-1.6	-0.5	-2.0	-2.8	-1.0	-0.5	-1.5	-1.7
Balance of goods & services	-18.3	-17.2	-16.2	-15.1	-14.0	-13.0	-12.9	-12.9
Goods, net	-22.9	-21.7	-20.1	-18.6	-17.8	-17.7	-17.7	-17.6
Services, net	4.6	4.5	3.8	3.5	3.7	4.8	4.8	4.7
Primary income, net	-2.4	-1.9	-3.2	-3.9	-3.9	-4.0	-4.5	-4.7
Secondary income, net	19.0	18.6	17.4	16.3	16.9	16.5	16.0	15.9
Private sector, net	18.1	17.3	16.9	15.3	15.8	16.1	15.5	15.3
Capital account	0.2	0.0	0.1	0.1	0.2	0.0	0.0	0.0
Financial account	-0.8	-5.1	0.1	-6.3	0.5	-4.0	-5.4	-2.2
FDI, net	-2.8	-2.3	-2.2	-3.3	-1.8	-3.8	-3.0	-3.2
Portfolio Investment, net	2.0	-5.6	-0.7	-4.4	0.2	-2.7	0.5	1.9
Other Investment, net	0.1	2.8	3.1	1.4	2.1	2.5	-2.9	-0.8

Source: NBRNM.

Inflation
(y-o-y changes, in %)



Source: SSO and NBRNM calculations.

on net inflows from direct investments and long-term loans, amid expected net outflows in the categories currency and deposits and portfolio investments. **In the next two-year period (2020-2021), the current account deficit is expected to slightly widen by 0.2 percentage points of GDP, on an annual basis, whereby the deficit would amount to 1.3% and 1.5% of GDP in 2020 and 2021, respectively.** Moreover, the balance of goods and services is expected to further improve, driven by the trade balance, amid further narrowing of the energy balance, amid stable non-energy balance (combined effect of the increased net exports of the new production facilities and the expectations for better export performances in some of the traditional export sectors, amid rapid growth of foreign demand). At the same time, the deficit in primary income is expected to moderately increase also in the following period, as a result of the increase in the income of foreign investors in the economy. In the absence of shocks, the secondary income surplus is expected to stabilize during the forecast horizon, i.e. to slightly reduce. **Public sector debt, as well as inflows from foreign direct investment** are estimated as the main sources of financing the current account deficit, while their volume will enable additional growth of the foreign reserves and their maintenance at an adequate level.

The inflation rate, amid a downward adjustment of the expected trajectory of import prices and the absence of significant pressures through the domestic demand channel, is expected to be moderate and stable in the entire period of forecasts. The inflation for 2019 is assessed to be 1.5%, with positive contribution of the core inflation and the food component. On the other hand, amid expected fall in the price of crude oil, the energy component is expected to be maintained in the zone of negative changes during the year. Amid further growth of the domestic economy and stable movements in the world prices of primary products, inflation is expected to be around 2% in the period 2020-2021. The main risk to the inflation forecast remains associated with the uncertainty regarding the future dynamics of the stock market prices of primary commodities, primarily oil.

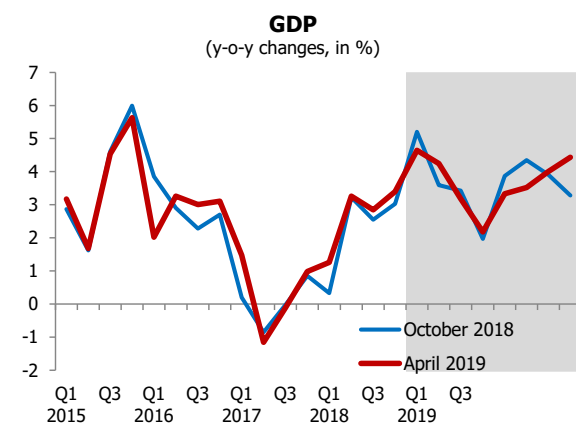
6.3. Comparison with the previous forecast

The latest April round of macroeconomic forecasts points to small changes in relation to the October forecast. The forecast for the economic growth in the period 2019-2021, together with the assumptions about the main factors, is the same as in October. Regarding the prices movements for 2019, a minor downward revision was made at the inflation rate and the correction is mainly related to lower performances and lower oil prices. Changes have also been made in the balance of payments forecast, namely, now a smaller average current account deficit is expected for 2019-2021, mainly due to the lower deficit in the balance of goods and services. The new forecasts expect slightly lower net inflows in the financial account from financial transactions, cumulatively for the three years.

Forecast of selected macroeconomic variables

	2019 forecast		2020 forecast	
	Oct.	Apr.	Oct.	Apr.
GDP, %	3.5	3.5	3.8	3.8
Private consumption	2.5	2.0	3.4	3.2
Gross capital formation	8.3	8.3	8.8	9.4
Public consumption	0.2	0.0	0.2	-0.3
Exports of goods and services	7.2	5.4	7.2	4.8
Imports of goods and services	6.5	5.6	7.2	5.4
Inflation	2.0	1.5	2.0	2.0
Current account deficit, % of GDP	-1.5	-1.1	-1.7	-1.3

Source: NBRNM.

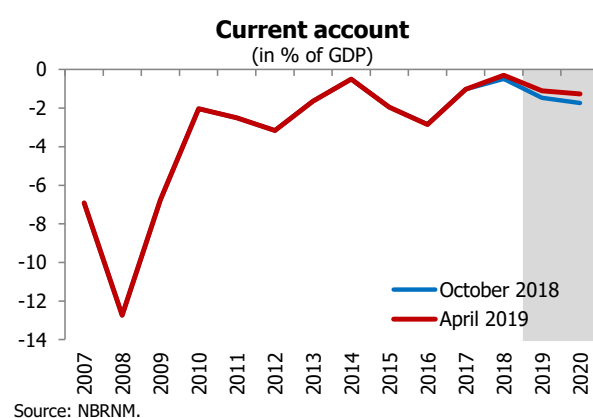
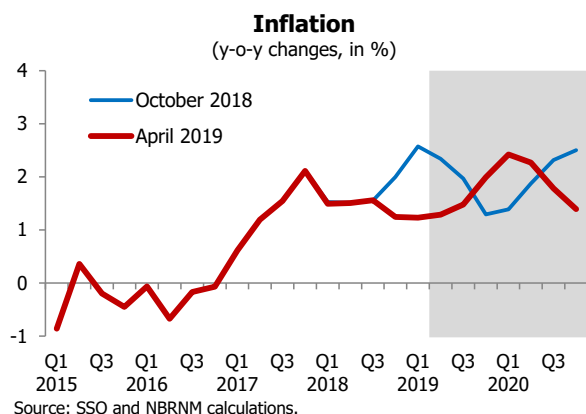


Source: SSO and NBRNM calculations.

Expectations for the overall economic growth in the period 2019-2021 remain unchanged compared with the October forecast. Moreover, the same growth structure has been maintained, i.e. in this and the next year it is expected that the growth will continue to be driven by exports and investments. Observed by components, minor corrections have been made in terms of the level of the growth rates. Thus, compared to the previous forecast, slower export growth is currently expected. Such change is mostly a reflection of the higher base effect, as well as of the change in the assumptions about the time period necessary to achieve the maximum utilization of the production facilities of the new export-oriented companies and the downward revision of foreign demand. In addition, amid a downward revision of the expected growth of part of the disposable income components, the April forecast assumes a slightly lower growth of private consumption, primarily in 2019. In accordance with these changes, the import growth was also revised downwards in the period of forecasts.

The expected inflation rate for 2019 was reduced to 1.5%, as opposed to the forecast of 2% in October. Moreover, the change is mostly explained by the lower performances in the beginning of the year and the downward adjustment of the energy component, amid significantly lower expected prices of crude oil.

According to the last April forecasts, **a lower average current account deficit is anticipated for the three-year forecast**



period unlike the October expectations (from 1.6% of GDP in the October to 1.3% of GDP in the current forecast). This change is mostly a result of the improved balance of goods and services compared to the October forecasts, reflecting the improved performances in the trade deficit, despite the expected lower surplus in the trade in services. Compared to the previous forecasts, these shifts largely result from the improved non-energy balance, amid simultaneously favorable movements in the average deficit in the energy component (in conditions of lower energy prices in world markets). Analyzing financial flows, slightly lower net inflows are expected for 2019-2021 cumulatively, compared to the October forecast. These expectations result from the lower net inflows than previously expected in the government borrowing, but also from the higher outflows in currency and deposits and in portfolio investments. On the other hand, partially as a result of the improved performances in 2018, but also the reduction of the risks from the domestic environment, moderately higher inflows on the basis of FDIs are planned.

Comparison of GDP and inflation forecasts for North Macedonia from various organisations

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2019	2020	2019	2020
IMF	April 2018	3.0	3.1	1.8	2.0
World Bank	April 2018	2.9	3.2	1.8	1.9
European Commission	May 2019	3.0	3.2	1.7	2.0
EBRD	May 2019	3.0	3.0	-	-
Consensus Forecast	April 2019	2.9	3.0	1.8	2.1
Ministry of Finance	December 2018	3.2	4.0	2.0	2.0
National Bank of the Republic of North Macedonia	April 2019	3.5	3.8	1.5	2.0

Source: IMF, World Economic Outlook, April 2019; World Bank, Western Balkans Regular Economic Report, Spring 2019; European Commission European Economic Forecast, Spring 2019; EBRD Regional Economic Prospects, May 2019; Consensus Forecast, April 2019; Ministry of Finance, Budget of the Republic of Macedonia for 2019 an Revised fiscal strategy 2019-2021, December 2018; and the National Bank of the Republic of North Macedonia.