National Bank of the Republic of North Macedonia

Quarterly Report
August 2019

Contents

Introduction

After easing the monetary policy at the end of the first quarter, the National Bank kept the policy rate at 2.25% in the second quarter of 2019. The current monetary setup was assessed as appropriate to the existing economic and financial conditions, given the sound economic fundamentals and the absence of imbalances in the economy. During the second quarter of the year, the movements in the foreign exchange market were favorable, with the National Bank continuing to intervene with purchase of foreign currency. Foreign reserves grew in the second quarter of the year and according to all adequacy indicators, they are still maintained in the safe zone. Favorable shifts were also registered in the deposit and credit flows, which do not show major deviations compared to the expectations with the April forecast. At the same time, the unfavorable risks from the external environment were more pronounced, creating greater uncertainty.

Regarding the sources of risks, no major changes compared to the April perceptions were registered. Namely, the downward risks in the balance of risks from the external environment continue to prevail, which are somewhat less favorable compared to the April assessments. Such perceptions reflect current developments in global trade and the growth of trade protectionism, the slowdown in China's growth, the uncertainty about the Brexit, and the presence of political/geopolitical tensions in several regions of the world. At the same time, the uncertainty about potential changes in the current monetary policy setup of the key central banks is more pronounced. In relation to this factor, the probability of further monetary easing is increasing, which may have a favorable effect on the access and conditions of the domestic economy for financing on the international financial markets. Regarding the **risks related to the domestic environment, they are still present**.

The comparison of the latest macroeconomic indicators for the domestic economy with their forecasted dynamics within the April forecast vintage does not indicate major deviations. Namely, in the first quarter of 2019, the initial data on GDP for economic growth of 4.1% are within the expectations, amid slower growth of domestic consumption components, but also less negative effect of the net export. In this respect, exports of goods and services remain the component with the highest individual positive contribution to growth, driven mainly by the activity of the industrial facilities with foreign capital. The data available for the second quarter currently indicate further growth of economic activity. On an annual basis, the April forecast foresees economic growth of 3.5% in 2019 and 3.8% in 2020. In addition to the growth of export and private consumption, one of the key assumptions on which the forecast is based is a solid positive contribution of investments, in conditions of further growth of foreign investments and the continuation of the cycle of public infrastructure projects.

In the second quarter, the **annual inflation rate** averaged 1.2%, mostly due to the food inflation, but with a positive contribution of the core component, amid a simultaneous insignificant negative contribution of the energy component. Inflation in this period is slightly below the expectations for the quarter, and the deviation from the April forecast is mostly associated with the lower growth of the food component, while the performance of the energy component and core inflation generally correspond to the expectations. In conditions of lower than expected performances and simultaneous revisions in different directions of the expectations for the import prices, the risks around the inflation forecast for 2019 of 1.5% are assessed as balanced. However, the uncertainty about the future path of movement of world prices of primary products, and primarily of oil prices, remains highlighted.

The data from the **external sector**, seen through the balance of payments, continue to point to a generally favorable external position of the economy. In the first quarter of 2019, the current account deficit was 1.4% of GDP, slightly lower than the April forecast, as a result of the smaller foreign trade deficit. At the same time, the financial account registered net inflows of 1.4% of GDP, which is a slightly more favorable performance compared to the forecast, amid higher performances in the short-term net inflows. The analysis of the balance of payments on an annual basis shows a slight deepening of the current account deficit, driven by slightly poorer performance in secondary income and the balance of services. In the financial account, the net inflows in the first quarter of 2019 are lower compared to the same period of the previous year, due to the base effect in portfolio investments, i.e. the high net inflows that were realized in the first quarter of 2018 from the issuance of the sixth Eurobond of the government, as well as due to the lower performance in direct investments. The data on the **gross foreign reserves**

for the second quarter indicate growth compared to the previous quarter, amid further purchase of foreign currency by the National Bank and favorable movements on the foreign exchange market.

The lending activity of the banking sector increased during the second quarter of the year, which was largely a result of the increased lending to the households sector, with a smaller positive contribution of the corporate lending. On annual basis, credit growth at the end of the second quarter reached 8.1%, which is close to the forecasted annual growth with the April forecast (8.4%). The performances on the credit market in the second quarter of the year are in line with the results of the July Bank Lending Survey, which indicate further growth in credit demand in both sectors (enterprises and households) and further easing of the credit conditions. Increased competition in the banking sector, as well as the sound solvency and liquidity position of the banks are factors that have a favorable impact on the lending conditions, with the same impact of the expectations for more favorable developments in economic activity in the second quarter. Regarding the sources of financing, the second quarter registered an **accelerated growth of the deposit base**, amid growth of deposits in both sectors (enterprises and households). The annual growth of total deposits at the end of June was 10.7%, which is a solid growth, which is slightly higher than expected with the April forecast (10.2%). The positive trends in the banks' deposit base are expected to continue in the forthcoming period as well, providing stable sources for financing of the credit growth, which according to the April forecast, would be 8.5% in the next two years.

In general, the latest macroeconomic indicators and assessments do not deviate much from the forecasts. The environment for conducting monetary policy remains stable, with sound economic bases and absence of imbalances in the economy. The banks' credit activity is expected to further support the domestic economy, in the absence of inflationary pressures and favorable external position, which will enable maintenance of foreign reserves in the safe zone. The achieved growth of the economy in the first quarter of the year is solid and close to the expectations, which in combination with the performance in the high-frequency data for the second quarter of the year, gives prospects for achieving the forecasted economic growth for the whole of 2019. In the period head, the National Bank will continue to carefully monitor the trends and potential risks from the domestic and external surrounding in the context of the monetary policy setup.

I. Macroeconomic developments
1.1. International economic surrounding[1]

Global economic activity continued to grow in the first quarter of 2019, amid solid performance in developed countries and slowing economic activity in most of the emerging economies. Acceleration of the economic activity was registered in the USA, Great Britain and Japan, while in the Euro area the solid growth rate from the previous quarter was maintained. Expectations indicate that in 2019 there will be a slowdown in the global economic activity, and the growth will accelerate moderately in next year. Namely, according to the latest perceptions of the World Bank from June 2019, it is estimated that the global growth will slow down to 2.6% in 2019 (3.0% in 2018), and it is expected to accelerate and reach 2.7% in 2020. In the medium run, the risks to the global growth are predominantly downward and mainly reflect the possibility of further escalation of trade tensions between large economies, new financial turmoil in emerging economies and a more pronounced slowdown in the growth of economic activity in the most important global economies, than expected.
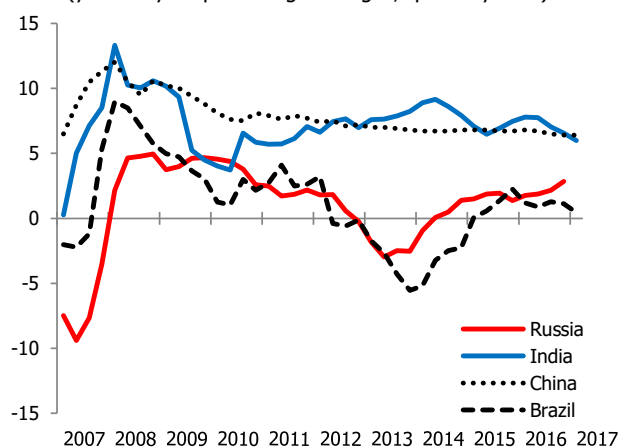
Real GDP growth in advanced economies
(year-on-year percentage changes; quarterly data)

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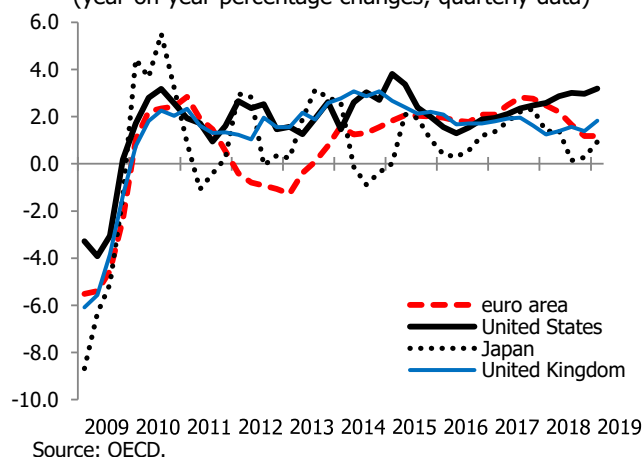
Real GDP growth in emerging economies
(year-on-year percentage changes; quarterly data)
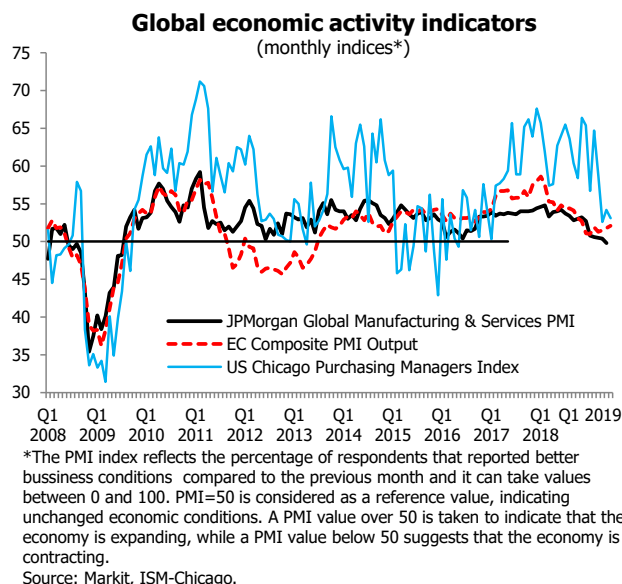

Source: OECD and IMF.

Global economic activity continued to grow in the first quarter of 2019, amid favorable shifts in the developed countries. Namely, faster growth of the economic activity was registered in the USA, Great Britain and Japan, while in the Euro area the solid growth rate of 1.2% from the previous quarter was maintained. In the first quarter of 2019, the annual growth rate of the US economy reached 3.2% (3% in the fourth quarter of 2018), driven by the investments and the improved net export. Great Britain registered growth of 1.8% (1.4% in the fourth quarter), mostly due to investments and private consumption, with solid labor market performance. In conditions of improved net export and amid positive fiscal stimulus, the growth of the Japanese economy also accelerated and reached 0.9% (0.3% in the fourth quarter). **The group of emerging economies predominantly registered a deceleration of the growth.** Namely, in the first quarter, Brazil, China and India registered growth of 0.4%, 6.4% and 6%, respectively (compared to 1.1%, 6.4% and 6.6% in the fourth quarter). The slower growth in Brazil is due to the decline in investments, while in India and China it is due to factors related to the unfavorable external environment.

In the second quarter of 2019, the high-frequency survey indicators - PMI are slightly lower than the average value of the first quarter of 2019. The average of the PMI index in the period April-May was 50.1 (50.6 in the fourth quarter), which could indicate a slight slowdown in the global economic activity in this period.

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

Global economic activity indicators
(monthly indices*)

Legend:
— JPMorgan Global Manufacturing & Services PMI
- - - EC Composite PMI Output
— US Chicago Purchasing Managers Index

Q1 2008 Q1 2009 Q1 2010 Q1 2011 Q1 2012 Q1 2013 Q1 2014 Q1 2015 Q1 2016 Q1 2017 Q1 2018 Q1 2019

*The PMI index reflects the percentage of respondents that reported better bussiness 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.

Unemployment in advanced economies
(in percent; seasonally adjusted monthly data)

Legend:
- - - euro area
— United States
..... Japan
— United Kingdom

2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

Source: Eurostat.

According to the World Bank's latest assessments, the growth of the global economic activity is expected to slow down to 2.6% in 2019 (from 3.0% in 2018), while a minimum acceleration is forecasted for 2020, whereby the growth rate would amount to 2.7%. Compare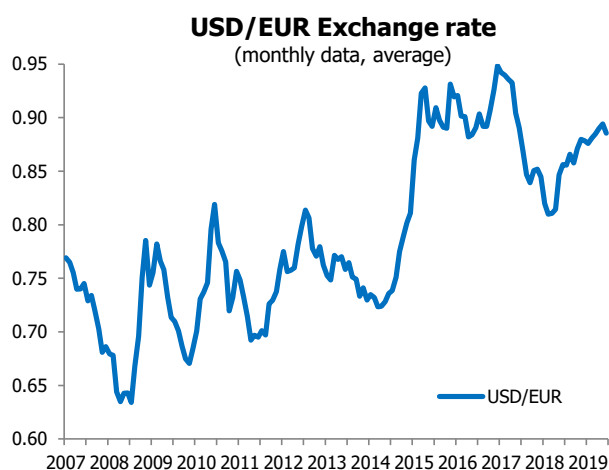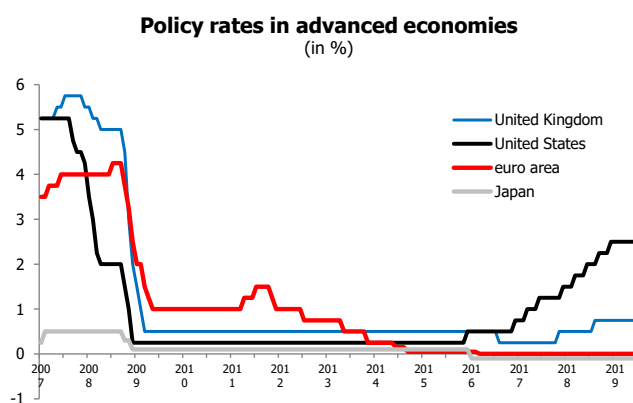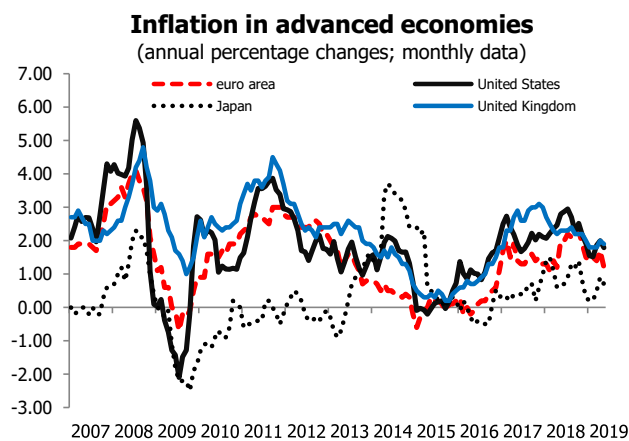d to the January forecasts, the downward revision of the global growth in 2019 is associated with the weaker economic performance in the first half of the year (further decline in investments and lower trade activity). The stabilization of the financial market conditions, as well as the cyclical recovery of the group of emerging economies and developing countries that in the previous period suffered negative effects from the pressures on the financial markets, are among the main assumptions that explain the moderate acceleration of the global growth in the forthcoming period.

The risks to the forecasted global economic growth are still downward and mainly reflect the possibility of unfavorable change in the current policy setup, especially related to further escalation of trade tensions, new financial turmoil in emerging economies, and greater slowdown in economic activity in large economies than previously expected.
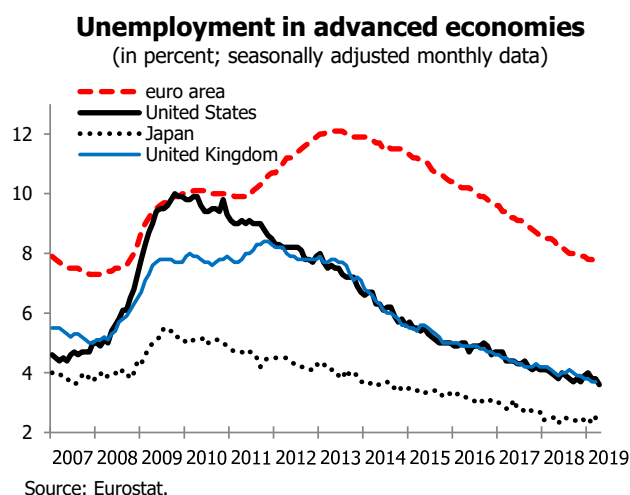
In terms of price movements globally, no significant price pressures are expected in 2019. Observed by groups of countries, inflation in developed economies remains low, and often below the target level. Stable inflation rates have also been observed in larger emerging economies.

The Euro area registered solid economic performance in the first quarter of 2019. Namely, in conditions of growth acceleration to 0.4% on a quarterly basis (0.2% in the previous quarter), the annual growth rate remained at the level of 1.2%. The growth reflects the positive contribution of the net export, investments and private consumption, amid favorable labor market shifts and the ECB's stimulating monetary policy. Namely, in the first quarter of 2019, the average unemployment rate in the Euro area was 7.8%, which is also the lowest unemployment rate in the Euro area after October 2008. In line with the improved performance of real GDP in the first quarter of the year compared to the expectations, in June the ECB made a minor upward revision of the total growth for 2019, while for 2020 and 2021 the forecasts were revised downwards. Thus, it is currently expected that the growth rate for the Euro area will be 1.2% in 2019 and it will then

Inflation in advanced economies
(annual percentage changes; monthly data)

Source: Eurostat and national statistical offices.

Policy rates in advanced economies
(in %)

Source: Central banks.

USD/EUR Exchange rate
(monthly data, average)

Source: Bundesbank

accelerate to 1.4% in 2020 and 2021[2].

The annual inflation rate in the Euro area in the second quarter of 2019 remained at 1.4%. According to the latest forecasts of the ECB, inflation is still expected to slow down this year and to gradually increase in the following period. Compared to March, the forecasts are revised upwards for 2019, and downwards for 2020, mostly as a result of the expectations for higher energy prices in 2019 and lower in 2020. Currently, the inflation rate in 2019, 2020 and 2021 is expected to be 1.3%, 1.4% and 1.6%, respectively[3].

In the second quarter of 2019, the monetary policy has mainly remained unchanged in most of the developed countries. Thus, with favorable conditions and solid performance on the labor market, and simultaneous moderate economic growth, in the second quarter of 2019, the Fed made a decision to maintain the interest rate at the current interval. Despite maintaining the current policy setup, an interest rate cut could be expected in 2020 given the Fed's forecasts and financial market expectations. Neither the Bank of England, nor the Bank of Japan made any changes to the monetary policy setup. On the other hand, the ECB's monetary policy according to the latest announcements is expected to be more accommodative during this and the beginning of next year. Thus, at its regular meeting in June, the ECB announced that the key interest rates would remain at the current low/negative levels at least until the end of the first half of 2020, as opposed to the previous announcements that they would remain unchanged at least until the end of 2019. Additionally, the details were announced regarding the new measure for long-term refinancing, which will start in September 2019 and will last until March 2021[4], whose aim is to support the lending conditions and strengthen the transmission of the monetary policy.

In the second quarter of 2019, there was a slight appreciation of the US dollar against the Euro of 1%, on average, compared to the first quarter of 2019. Annually, in the second quarter, the US dollar against the euro appreciated by 6%, and one US dollar was exchanged for 0.89 euros on average. The growth in value is largely a

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[2] In June, the ECB revised its March forecasts, according to which real GDP growth in the Euro area was forecasted to be 1.1% in 2019, 1.6% in 2020 and 1.5% in 2021.

[3] In June, the ECB revised its March forecasts, according to which growth in the Euro area inflation rate was forecasted to be 1.2% in 2019, 1.5% in 2020 and 1.6% in 2021.

[4] 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 and non-energy commodities
(monthly data)
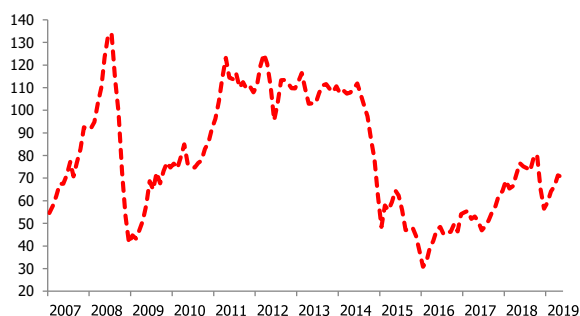
Source: IMF monthly database.

Prices of food and metals
(monthly data)

- - - metals (USD; index: 2016=100)
——— food (USD; index: 2016=100)

Source: IMF monthly database.

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

■North Macedonia ■Croatia ■Turkey ■Bulgaria ■Serbia ■Albania ■Romania

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

result of the political uncertainty in the Euro area and the expectations for additional monetary stimulus by the ECB in the coming period.
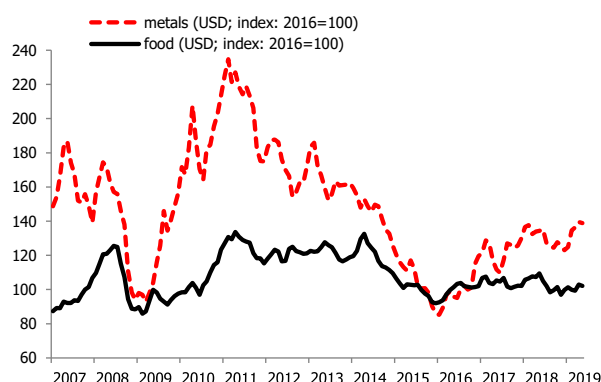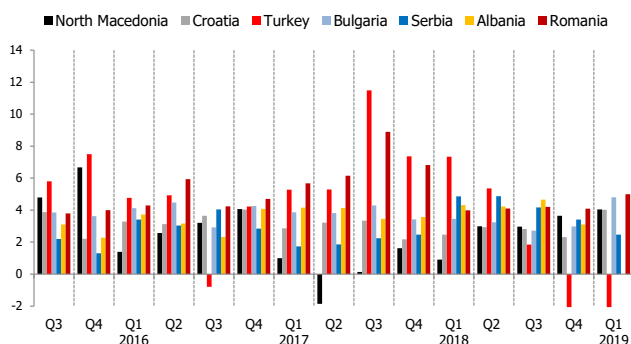
In the second quarter of 2019, the price of oil increased significantly compared to the price in the first quarter of 2019. Thus, in this period, the price of oil (expressed in euros) was Euro 60.8 per barrel, which is an increase of 9.1% compared to the first quarter of 2019. This upward movement reflects the geopolitical tensions between the United States and Iran, the reduced level of US oil supplies and the decision of the OPEC+ countries to further extend the agreement to reduce oil production[5]. On the other hand, on annual basis, the price of oil expressed in euros decreased by 2.8%.

Prices of non-energy primary products[6] (expressed in euros) in the period April-May increased by 3.5% compared to the first quarter. Analyzed by product groups, the growth reflects the higher prices of metals[7] and food[8], by 6.8% and 3.7%, respectively. The increase in metal prices (particularly pronounced in iron) is largely due to the positive signals from the US and China trade negotiations during the G20 summit, while the increase in food prices is due to the expectations of reduced production due to bad weather conditions in the USA and Russia. On an annual basis, the prices of primary non-energy products, expressed in euros, increased by 4.5% in the analyzed period.

Acceleration of economic activity was registered in most of the countries of the region in the first quarter of 2019. Thus, the highest growth in the region for this quarter was registered in Romania, of 5%, largely influenced by the growth of private consumption. The economies of Bulgaria and Croatia also registered accelerated growth, of 4.8% and 4%, respectively. Accelerated growth in Croatia is driven by the domestic demand, while in Bulgaria by the improved net export. On the other hand, Serbia registered a moderate slowdown in the economic activity, to 2.5%, which is associated with the weaker performance in net export. The weakest performance this quarter was registered in Turkey, which registered a decline of 2.6% in the economic

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[5] At their last meeting in June, the OPEC+ countries agreed to continue the measure for reduction of the production of oil by 1.2 millions of barrels of oil per day by the end of the first quarter of 2020 (additional 9 months).

[6] This aggregate index includes the Precious Metals Index, the Food and Beverage Index, the Agricultural Raw Materials Index and the Basic Metals Index.

[7] This index includes the following metals: aluminum, cobalt, copper, iron, lead, molybdenum, nickel, tin, uranium and zinc.

[8] This index includes the following primary food products: cereals, vegetable oil, meat, seafood, sugar and other food.

activity, mostly due to the decline in the domestic demand.

Inflation in countries from the region
(annual percentage changes)

Source: Eurostat and national statistical offices.
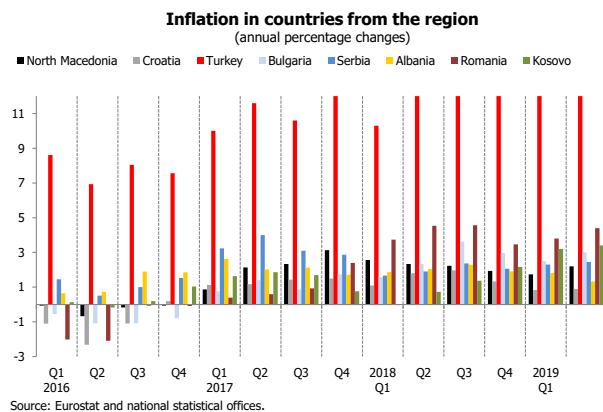
In the period April-May 2019, in the countries of the region different movements in the inflation rate were observed. Thus, in Romania, Kosovo, Bulgaria and Serbia, price growth accelerated, mainly due to rising food prices. On the other hand, in Turkey and Albania a slowdown in the inflation rate was registered, which in Turkey was mainly a reflection of the macroeconomic policies undertaken to deal with the current economic and financial crisis, while in Albania it was largely due to the slower growth of food prices. In Croatia, the inflation rate remained at a similar level as in the previous quarter.

1.2. Domestic supply

In the first quarter of 2019, the domestic economy grew by 4.1%, which represents an acceleration compared to the growth registered last year. In terms of structure, the highest positive contribution to the annual GDP growth is made by the activities of trade, transport and catering, and a solid contribution was also made by the growth in the activity in agriculture, industry and construction. Most of the available data for the period April-May generally point to favorable performances of the domestic economy, and predominantly favorable are also th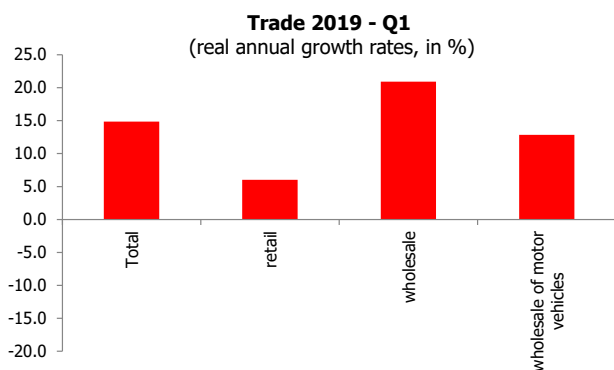e expectations for the upcoming period given by the corporate managers from retail trade, construction and manufacturing industry.

	annual growth rates, in %									contribution in GDP growth, in p.p.								
	2015	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	2015	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Agriculture	1.9	-0.4	-13.5	-5.0	-4.7	-12.4	-4.8	0.3	13.6	0.2	0.0	-1.2	-0.4	-0.3	-0.9	-0.4	0.0	0.8
Industry	4.9	-3.0	1.8	3.7	0.0	5.6	3.6	5.4	3.4	0.8	-0.5	0.3	0.7	0.0	1.0	0.6	1.0	0.6
Manufacturing	5.0	-1.5	1.5	5.6	6.4	5.8	4.1	6.3	3.5	0.5	-0.2	0.2	0.7	0.7	0.8	0.5	0.8	0.4
Construction	8.0	-2.8	-4.4	0.2	-19.3	-2.0	-2.6	19.6	7.0	0.6	-0.2	-0.3	0.0	-1.1	-0.1	-0.2	1.3	0.4
Trade and transport	1.4	8.7	4.9	9.2	7.9	11.6	9.4	7.9	6.6	0.3	1.6	0.9	1.8	1.5	2.3	2.0	1.6	1.4
Information and communication	13.4	7.2	13.9	-6.6	-9.1	-3.0	-1.7	-12.6	-0.7	0.4	0.2	0.4	-0.2	-0.3	-0.1	-0.1	-0.4	0.0
Financial and insurance activities	8.7	1.5	-1.3	1.7	1.8	0.8	2.3	1.7	-1.1	0.3	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Real estate activities	2.7	-3.2	-0.7	0.1	1.7	2.1	0.4	-3.8	1.3	0.3	-0.4	-0.1	0.0	0.2	0.2	0.0	-0.3	0.1
Professional, scientific and technical activitiess	5.9	11.5	5.7	10.7	19.2	10.8	7.7	5.2	0.7	0.2	0.4	0.2	0.4	0.7	0.4	0.3	0.2	0.0
Public administration	6.5	3.5	-2.1	-3.6	-5.0	-5.5	-1.8	-2.3	2.8	0.8	0.4	-0.3	-0.4	-0.7	-0.7	-0.2	-0.3	0.4
Other service activities	4.5	7.2	3.5	18.7	23.0	21.1	17.0	14.0	0.0	0.1	0.2	0.1	0.5	0.7	0.6	0.5	0.4	0.0
Gross Domestic Product	3.9	2.8	0.2	2.7	0.9	3.0	3.0	3.7	4.1	3.9	2.8	0.2	2.7	0.9	3.0	3.0	3.7	4.1

*From the release for GDP of 08.03.2018
Source: State Statistical Office and NBRNM calculations.

In the first quarter of 2019, the domestic economy registered a real annual growth rate of 4.1%, i.e. 0.3% on a quarterly basis (seasonally adjusted). The most significant positive contribution to the growth of economic activity is that of the activities of trade, transport and catering collectively. They are followed by the contribution of agriculture, where there is a significant acceleration of growth. Namely, this sector, after the decline present for a longer period of time, has recorded positive performance for the second consecutive quarter. Industry and construction[9] also made an additional positive contribution to the total growth.

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[9] Positive contributions are also made by the groups of public administration and defense; education; health and social care and real estate activities.
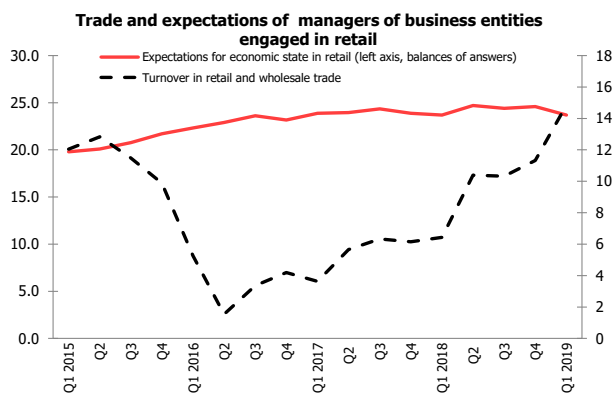
Trade 2019 - Q1
(real annual growth rates, in %)

Source: State Statistical Office and NBRNM.

Trade and expectations of managers of business entities engaged in retail

- Expectations for economic state in retail (left axis, balances of answers)
- Turnover in retail and wholesale trade

Source: State Statistical Office and NBRNM.

Transport in 2019 - Q1
(real annual growth rates, in %)

Source: State Statistical Office.

Completed construction works
(contributions to the real growth, in p.p.)

Buildings Civil engineering Total

Source: State statistical office

In the first quarter of 2019, according to the data on the turnover in the domestic trade, there is an acceleration in the total trade activity, a shift that is mainly related to the stronger growth in the wholesale trade. Retail trade also grows, but at a 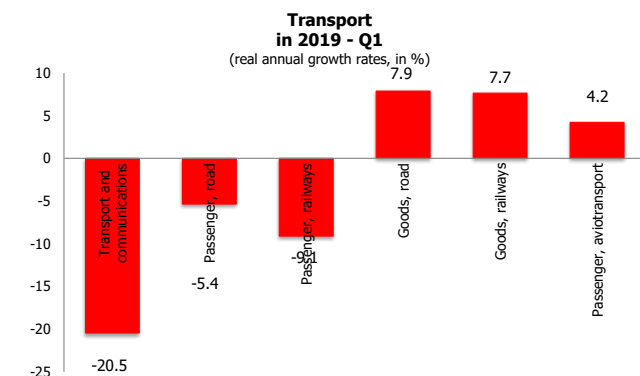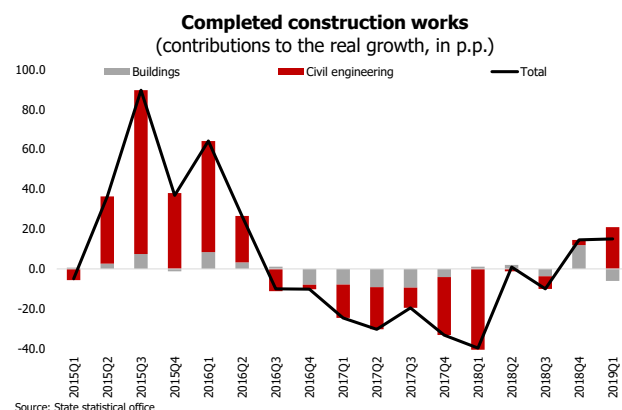slower pace compared to the previous quarter. At the same time, the increase in the total turnover in the trade with motor vehicles that was observed in the last quarter, continued in the first quarter of 2019 as well. The data in the period April-May point to acceleration in the annual growth of the total trade turnover in the second quarter, in conditions of faster growth of the turnover in the wholesale trade and the turnover in the retail trade[10]. This is also supported by the generally favorable expectations of the corporate managers in the retail sector in terms of selling prices, orders and number of employees[11].

In terms of the shifts in the activity related to transport, in the first quarter of 2019, growth was registered in the air traffic (passenger and cargo), as well as in the rail freight traffic. On the other hand, the railway passenger traffic and the road traffic (passenger and freight) registered a decrease in the activity in this period of the year.

The positive contribution of the construction sector to the real GDP growth registered in the past quarter, continued in the first quarter of 2019 as well. The total completed construction works continued to grow in the first quarter, with a slight acceleration of the growth dynamics compared to the previous quarter. Unlike the last quarter of 2018 when the growth was driven by favorable performance of both the building construction and the civil engineering, in this quarter the growth is due to the high positive contribution of the civil engineering, while the building construction registers a decline. In April this year, the completed construction works registered a decline, which is largely a reflection of the lower performances in civil engineering[12], but the performances in building construction also make a negative contribution. In terms of the assessments of managers in this sector, they generally have favorable expectations for selling prices, total orders and the number of employees for the second quarter of 2019.

Favorable shifts in the industry made a solid positive contribution to the growth of the

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[10] In the motor vehicle trade, there is a slowdown in the annual growth in the period April-May compared to the first quarter.

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

[12] The performance in civil engineering is related to the high base effect that arises from the then started implementation of public infrastructure projects which are currently temporarily suspended.

Construction and expectations of the construction sector

- Expectations for the total orders (agreements) during the next 3 months
- Assessment of the present business situation in the business entities
- Construction, real growth rates, in % (right scale)

Source: State Statistical Office.

Contributions of selected industries to the total industrial production, annual rate of change
(in percentage points)

■ 1Q 2019   ■ 4Q 2018

Source: State Statistical Office and NBRNM.

Industry, capacity utilization and managers' expectations for production volume


— Expectations for the volume of production during the next 3 months
- - - Industrial production (annual rate of change, in %)
— Level of capacity utilization of the business entities (in %)

Source: State Statistical Office.

real economic activity in the first quarter of 2019. In terms of structure, the positive shifts in the industrial production are largely due to the growth of the manufacturing industry, and the energy and the mining sectors also make a more moderate contribution. Drivers of growth within the manufacturing industry are mainly the activities in which the larger foreign export facilities are active, with the most significant contributions to the growth made by the production of machinery and devices, motor vehicles and electrical equipment. An additional positive contribution is also made by part of the traditional production, specifically by the production of metals and beverages. On the other hand, in some of the activities unfavorable movements are observed, and a more pronounced negative contribution is made by the production of fabricated metal products, except machinery and equipment and the production of clothing. In the period April-May, industrial production continued to grow, but at a slower pace compared to the first quarter. Such change is mainly due to the slowdown in growth in the manufacturing industry, amid a slight acceleration of growth in the energy and the mining sectors. The expectations of industry managers point to generally favorable developments in this sector in the second quarter of 2019 in terms of production, selling prices and the number of employees.

1.3. Aggregate demand

Observing demand, the GDP growth of 4.1% on annual basis registered in the first quarter of 2019 is due to the positive contribution of the domestic demand, while the net export makes a negative contribution for the second consecutive quarter. Observed by individual categories, the driver of the growth in the domestic demand are the gross investments, and a positive contribution is also observed by private consumption. The growth of investments reflects the favorable developments in the construction sector. Despite the fact that exports register the highest real growth rate within the individual expenditure categories, still amid a simultaneous strengthening of the growth of imports, net exports make a negative contribution to the change in GDP.

The structural analysis of the components of GDP[13] in terms of demand shows that the growth in the

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[13] Quarterly changes in GDP and its components are calculated from seasonally adjusted data.

Contribution to real annual GDP growth
(in percentage points)
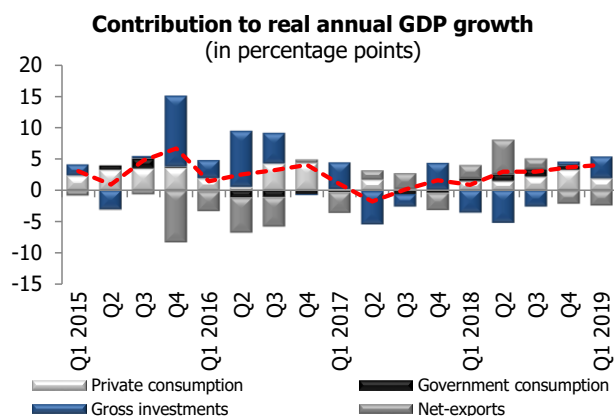
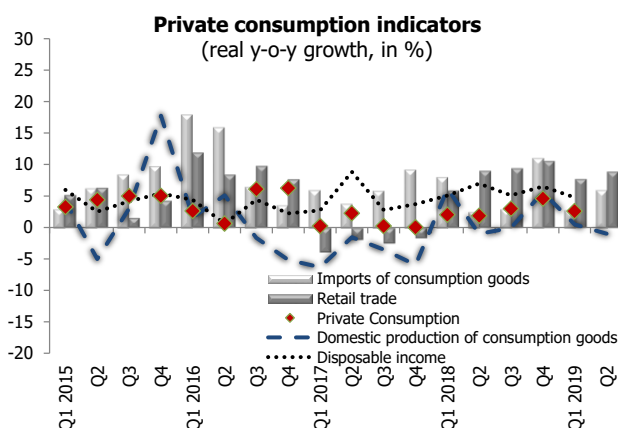Source: State Statistical Office and NBRNM calculations.

first quarter of the year is driven by the domestic demand where the main driver are the gross investments, and a positive contribution is also observed by private consumption. The growth of investments is in accordance with the favorable shifts in the construction sector, related in part to the commencement with the implementation of the temporarily suspended public infrastructure projects. On the other hand, despite the fact that within its individual components the export registered the highest real growth rate, however amid a simultaneous growth of imports, net exports in the first quarter of the year, similarly to the last quarter of 2018, made a negative contribution to the economic growth.

	Real annual growth rates (%)									Contributions to real annual growth (in p.p.)								
	2015	2016	2017	2018	2018-Q1	2018-Q2	2018-Q3	2018-Q4	2019-Q1	2015	2016	2017	2018	2018-Q1	2018-Q2	2018-Q3	2018-Q4	2019-Q1
Private consumption	4.4	3.9	0.7	2.9	2.0	1.9	3.0	4.6	2.6	3.1	2.7	0.5	1.9	1.3	1.2	2.0	3.0	1.7
Government consumption	3.9	-4.9	-2.5	6.2	3.0	7.7	9.6	4.7	0.1	0.7	-0.8	-0.4	0.9	0.5	1.2	1.3	0.7	0.0
Exports of goods and services	8.5	9.1	8.1	15.3	12.8	14.1	12.0	21.7	15.6	4.0	4.4	4.1	8.5	6.5	7.8	7.1	12.1	8.8
Imports of goods and services	9.9	11.1	6.4	9.0	6.2	3.4	7.5	17.5	14.4	-6.5	-7.2	-4.2	-6.2	-4.2	-2.4	-5.0	-12.8	-10.1
Gross capital formation	8.3	12.5	0.8	-7.2	-9.3	-16.4	-8.5	1.6	9.9	2.5	3.8	0.3	-2.4	-3.3	-4.8	-2.5	0.7	3.7
Domestic demand	*5.4*	*5.1*	*0.4*	*0.3*	*-1.4*	*-2.2*	*0.6*	*3.6*	*4.4*	*6.3*	*5.6*	*0.3*	*0.4*	*-1.5*	*-2.4*	*0.8*	*4.3*	*5.4*
*Net exports**	*14.1*	*16.7*	*2.1*	*-7.8*	*-8.8*	*-23.5*	*-11.9*	*8.0*	*11.0*	*-2.4*	*-2.8*	*-0.1*	*2.2*	*2.3*	*5.4*	*2.1*	*-0.7*	*-1.3*
Statistical discrepancy										*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
GDP	**3.9**	**2.8**	**0.2**	**2.7**	**0.9**	**3.0**	**3.0**	**3.7**	**4.1**	**3.9**	**2.8**	**0.2**	**2.7**	**0.9**	**3.0**	**3.0**	**3.7**	**4.1**

*decrease represents lower deficit
Source: SSO and NBRNM calculations.

1.3.1.   Private consumption

In the first quarter of 2019, household consumption registered an annual growth of 2.6% and a quarterly decrease of 1.6%. This positive contribution was supported by almost all components of disposable income[14], and the growth in the lending to households by banks also made a positive contribution. However, the annual growth of private consumption is slower than in the previous quarters, which is in line with the slower growth of the components of disposable income and lending to households. In terms of perceptions

Private consumption indicators
(real y-o-y growth, in %)

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

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[14] From the components of disposable income in the first quarter of 2019, only private transfers registered growth deceleration, while wages and pensions increased.

Consumer confidence indicator

Financial situation
General economic situation
Confidence Indicator
Financial situation
Major purchases over next 12 months

Source: European Commision and NBRNM's calculation.
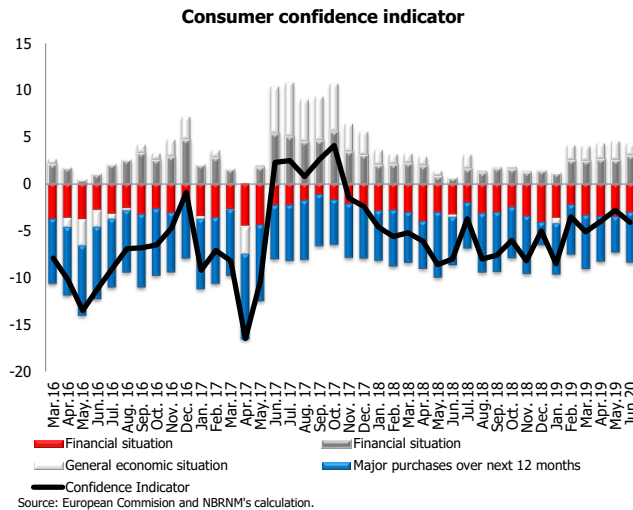
of consumer confidence surveys[15], in the first quarter they point to a gradual return of consumer optimism, mainly as a result of the more favorable expectations for the future economic and financial situation, as well as for the future consumption.

The signals from the available high-frequency data have indicate further growth[16] of private consumption in the second quarter of 2019. Thus, in the period April-May, growth was registered in the retail trade, real wages and the pension bill, and lending to households also grows solidly. This corresponds with the results of the Lending Survey, which indicate a moderate easing of the total lending conditions and a net increase in the households demand for loans in this period. Also, in this period, an increase was also registered in VAT revenues as a reflection of consumption, as well as the domestic production of consumer goods and the import of consumer goods. The results of the consumer confidence surveys conducted in the second quarter indicate a further gradual return of consumer optimism amid more favorable expectations for the future general economic situation and financial condition of households.

Expenditures for Wages and salaries and Goods and services
(y-o-y change, in %)

Wages (nominal)
Wages (real)
Goods and services (nominal)
Goods and services (real)

Source: Ministy of Finance and NBRNM calculations.
The calculations include expenditures of Consolidated Budget of Central Government and Funds, deflated by CPI.
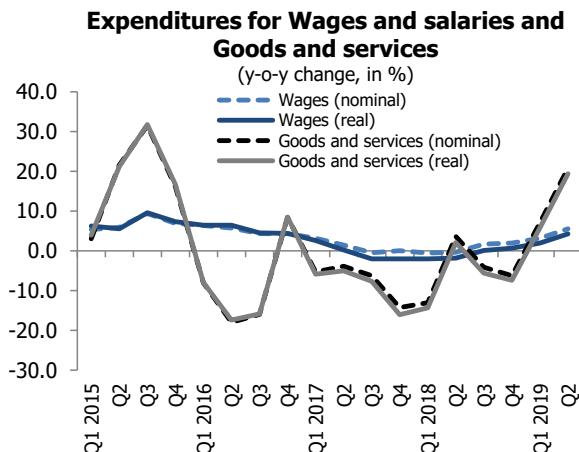
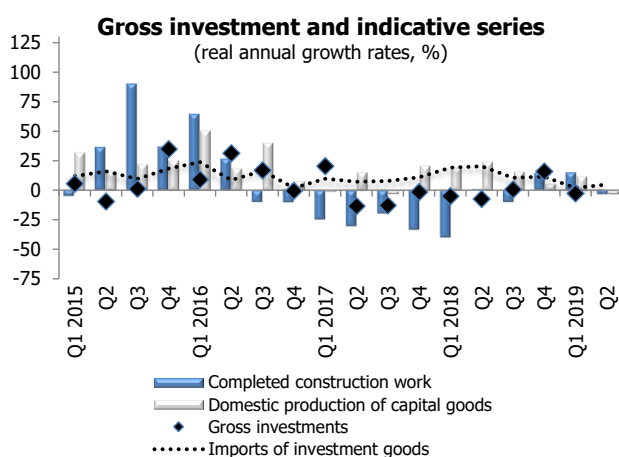### 1.3.2. Public consumption

The annual growth of public consumption slowed down, so that in the first quarter of 2019 it reduced to 0.1%, amid a decline of 0.5% on a quarterly basis. According to budget data, in the first quarter of 2019, there are higher expenditures on wages, goods and services, transfers to the health fund, as well as higher transfers to local authorities.

The data for the period April-May 2019 show an annual growth in public consumption in the second quarter, in conditions of growth in all categories of public consumption, amid the most significant growth in the expenditures on goods and services and wages.

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[15] European Commission's Consumer Survey as of May 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/revised-consumer-confidence-indicator_en

[16] From the private consumption indicators, only private transfers registered a decline in April 2019.

Gross investment and indicative series
(real annual growth rates, %)

- Completed construction work
- Domestic production of capital goods
- Gross investments
- Imports of investment goods

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

Gross investments and determinants
(annual growth rates, %, except FDI annual change in mill. of Denars)

- Government investments
- Long term credits to enterprises
- Gross investments
- FDI in the country, in mill. of Denars (right scale)

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

Exports and Imports, real annual growth rates
(y-o-y , in %)

- Export
- Import

Source: State Statistical Office.

1.3.3.   Investment consumption
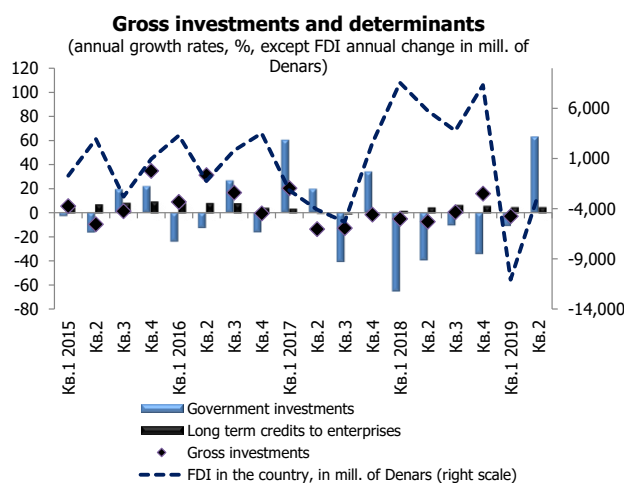
Favorable shifts in gross investments visible from the last quarter of 2018, continued in the first quarter of 2019, with annual investment growth of 9.9% (reduction on a quarterly basis of 1.6%). The improved dynamics of gross investments could be related to the favorable movements in the construction sector. At the same time, the support from the banks through the long-term corporate lending continued in the first quarter as well, and a higher domestic production of capital goods was also registered. Import of investment goods also increased. On the other hand, other indicative categories, such as foreign direct investment inflows and government capital investments, have lower performance compared to the same period last year.

In terms of the movement of investments in the second quarter of 2019, most of the high-frequency data indicate favorable movements. Namely, from the short-term investment indicators, annual growth was registered in government capital investments, foreign direct investments and import of investment products. At the same time, corporate lending for April-May continued to grow, with an increased demand for loans and net easing of lending conditions in this period, according to the results of the bank surveys. On the other hand, the data available for the activity in the construction sector and for the domestic production of capital goods indicate unfavorable movements in the second quarter of 2019.

1.3.4.   Net external demand
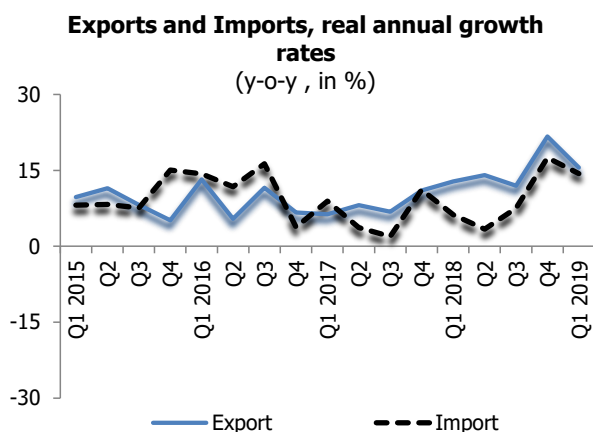
In the first quarter of 2019, net exports made a negative contribution to the growth of the domestic economy, similarly to the last quarter of 2018. Real export registered a high annual growth of 15.6% in the first quarter, remaining the component with the highest positive contribution to GDP growth (a slight decline of 0.9% on a quarterly basis). Analyzed by the high-frequency foreign trade statistics, the growth of nominal export was largely supported by the solid performance of the new export-oriented industrial facilities, and a more moderate positive contribution was made by the export of iron and steel. Intensified annual growth was also registered on the imports side of 14.4% (quarterly decline of 2.1%), which

Iron and steel export, base metals production and price of nickel
(index, 2010=100)
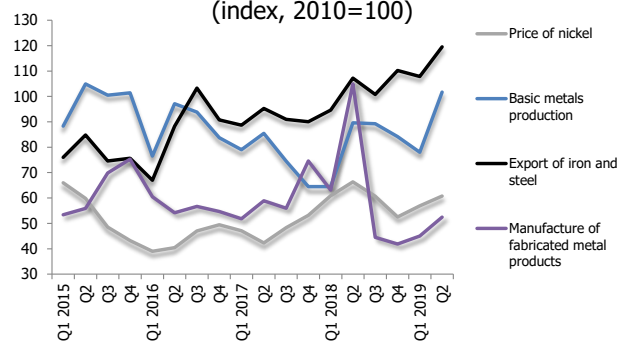
conditioned a negative contribution of the net export.

In the second quarter of 2019, the trade deficit is expected to widen on an annual basis, as indicated by the nominal data on foreign trade for the period April-May 2019, amid higher growth in imports than in exports of goods.

1.4. Employment and wages

Labor market indicators in the first quarter of 2019 show further growth in the number of employees, which is more pronounced compared to the growth in the previous quarter, as well as than the average growth in the previous few years, and it is driven mainly by the activities of transport and storage, manufacturing industry, and information and communications. At the same time, the unemployment rate reduced to 17.8%, 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. In terms of competitiveness indicators, unit labor costs continue to grow, while labor productivity registered a decrease in the first quarter.

Employment and unemployment rate
(in %)
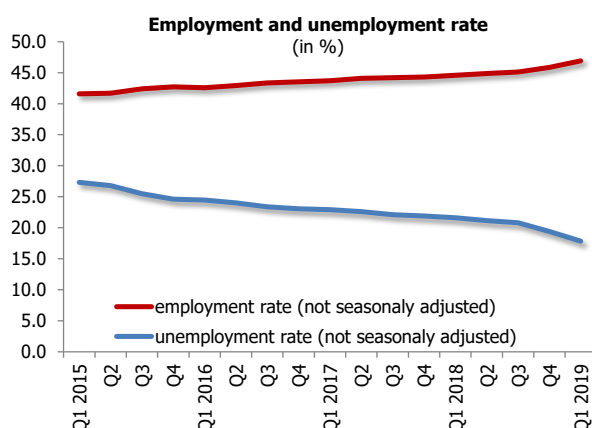
Employment in the first quarter of 2019 continued to increase, with more intense dynamics compared to the previous quarter. Thus, the number of employed persons increased by 5.3%, on an annual basis and by 2.5%[17], on a quarterly basis. Analyzed by individual activities, the activities of transport and storage, manufacturing industry and information and communications make the largest contribution to the annual growth. On the other hand, only a small part of the activities registered a decrease in employment, most pronounced in the category of agriculture, forestry and fishery. In terms of the economic status[18], the category of employed recorded the largest growth of the number of employees.

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[17] Analysis of quarterly dynamics of employment, unemployment and total active population is made by using seasonally adjusted data.
[18] 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).
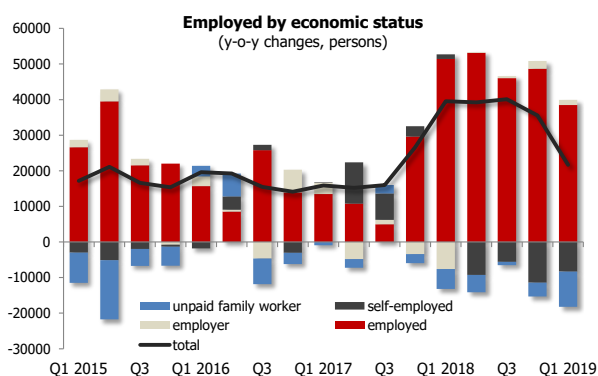
Employed by economic status
(y-o-y changes, persons)

Labour force, inactive population and participation rate
(in %)

activity rate
labour force (y-o-y changes, right scale)
Inactive population (y-o-y changes, right scale)
Job vacancies rate (right scale)

Employed by sectors of activities
(contributions to annual growth, in p.p.)

Agriculture
Construction
Transportation and storage
Other services*
Industry
Trade
Accommation and food service activities
Total
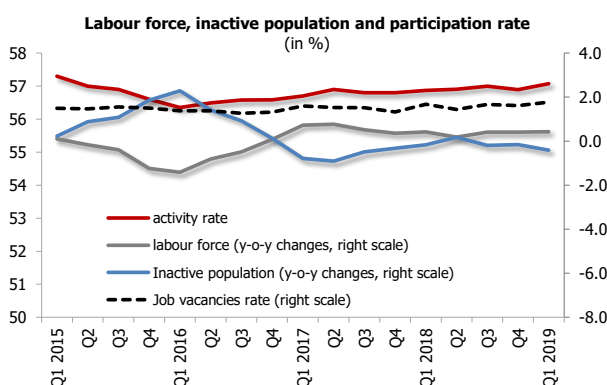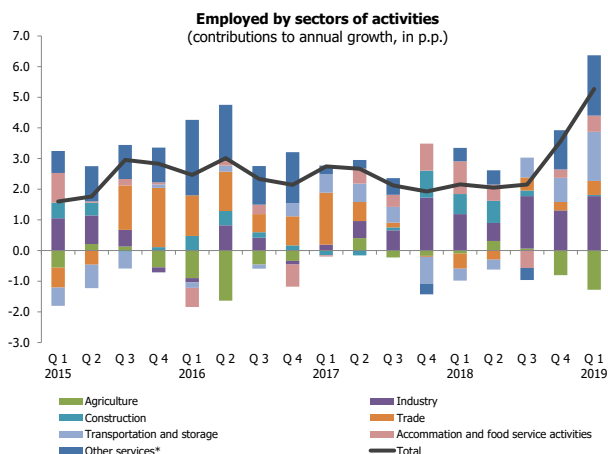
* In other services are included the activiteis from J+K+L+M+N+O+P+Q+R+S

In the first quarter of 2019, the employment rate amounted to 46.9%, which is an annual growth of 2.3 percentage points. Simultaneously, **the aggregated signals from business tendency surveys[19] mainly suggest increased optimism** among managers of business entities regarding the employment for the next three months. In the first quarter **the job vacancy rate[20] equals 1.8%** (1.7% in the same period of 2018). Analyzed on a longer-term basis, the job vacancy rate is relatively stable, which, amid continuous decrease in the unemployment rate, points to possible improvement of the connection process of the supply with the demand for skills in the labor market. Observed by activities, the highest vacancy rate was registered in the activity of accommodation and food service activities (2.7%), in the administrative and support service activities (2.6%), as well as in the activity of transport and storage (2.5%).

Shifts in the labor supply are also favorable, so the trend of growth observed since the last quarter of 2016 continued in the first quarter as well. Thus in the first quarter, the total labor force increased by 0.4% annually, while the activity rate equalled 57.1%.
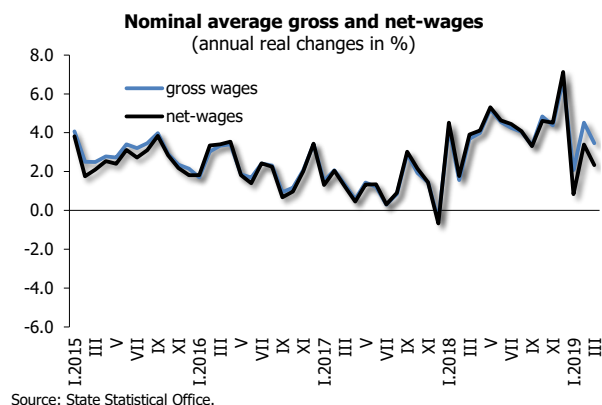
The stronger rise in the demand relative to supply of labor force in the first quarter of 2019 resulted in further fall in unemployment. The number of unemployed in the first quarter significantly decreased by 17.1% annually, while the unemployment rate reduced to 17.8% (annual and quarterly fall of 3.8 and 1.6 percentage points, respectively).

The average net and gross wages paid in the first quarter registered an annual growth of 3.4% and 4.6%[21], respectively, partly reflecting the growth of the minimum wage of

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[19] Source: State Statistical Office, business tendency surveys in manufacturing industry (April and May 2019), construction (first quarter of 2019) and trade (first quarter of 2019).

[20] 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 placement of these two indicators gives information on labor market performance in terms of potential mismatches between demand profiles and those available on the job market at a given moment (skill mismatches). 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.

[21] The faster increase in gross wages compared to net wages is a result of the increase in the rates at which contributions for compulsory pension and disability insurance and compulsory health insurance are paid, and due to the introduction of progressive personal income tax rates from early 2019. The rates at which contributions are paid in 2019 are 18.4% for compulsory pension and disability insurance and 7.4% for compulsory health insurance (previously these rates were 18% and 7.3%, respectively). The income tax, for the income acquired by labor, the income from self-employment, the income from copyrights and related rights and the income from the sale of own agricultural products, is paid at progressive rates, as follows: 10% personal income tax rate for income up to 90,000 denars (monthly tax base) and 18% of part of the income over 90,000 denars (proportional tax rate, so-called "flat tax", was previously applied and amounted 10%).

Nominal average gross and net-wages
(annual real changes in %)

Source: State Statistical Office.

Labour productivity
(contributions to the annual growth rate, in p.p.)

Source: State Statistical Office and NBRNM calculations

Unit labour cost
(contributions to the annual growth rate, in p.p.)

Source: State Statistical Office and NBRNM Calculations

1.4% in July 2018[22], as well as the increase of wages in certain segments of the public sector[23]. Moreover, the highest growth was registered in the following activities: health and social care, agriculture, forestry and fishery, transport and storage, construction, and administrative and support service activities. On a quarterly basis, nominal net wages decreased by 2.5%, while the decrease in the real net wages amounted to 2.3%, compared to the growth in the previous quarter. In the first quarter, given the growth of consumer prices of 1.2%, **the real annual growth of net and gross wages was 2.2% and 3.3%, respectively**.
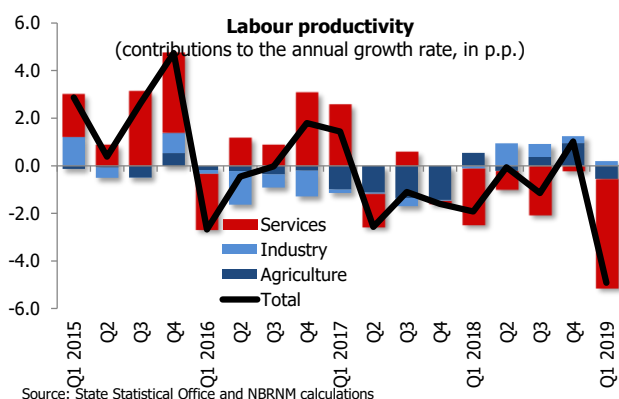
Following the growth in the previous three quarters, labor productivity in the first quarter of the year registered a decrease on an annual basis. In conditions of stronger employment growth than the value added growth, labor productivity[24] decreased by 1.3%, compared to the average growth of 0.7% in the previous three quarters. Analyzed by sectors, the decrease is largely explained by the decline in productivity in the services sector and industry, while productivity in the agriculture sector registered an increase. **The continued growth trend of wages with a simultaneous decline in productivity, led to an acceleration of the growth of unit labor costs, which in the first quarter reached 7.9%** (6.1% in the previous quarter). Moreover, most of the growth is explained by the higher costs in the services sector and industry, with a slight reduction of costs in the agriculture sector.

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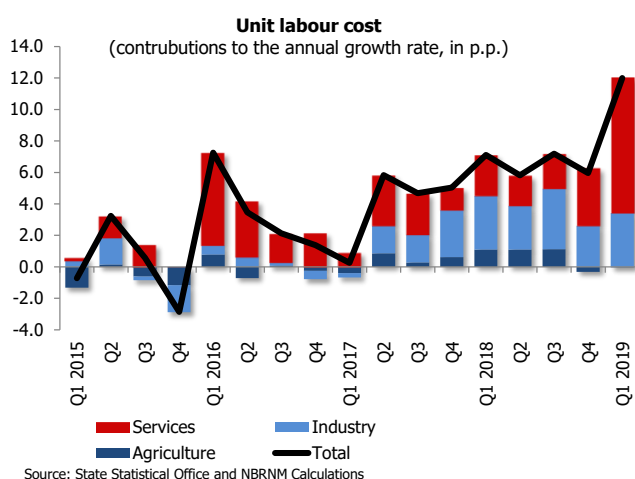
[22] The amount of minimum wage according to the Law on Minimum Wage (Official Gazette of the Republic of Macedonia No. 126/18) which is paid for the period from July 2018 to March 2019 is Denar 17,370 in gross amount, i.e. Denar 12,165 net wage (before this period, the minimum wage was Denar 17,130 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). With the last adjustment in March 2019 (Official Gazette of the Republic of North Macedonia No. 59/19), starting from April 2019, the minimum gross wage was increased to 17,943 denars, i.e. 12,507 denars net wage.

[23] There was an increase in the wages of 5% for the employees in health, education and in kindergartens starting with the September wage in 2018. According to the RNM Budget for 2019, the wages of specialists were increased by 10% from January and an additional increase of 5% is planned starting with the payment of the September wage in 2019, and the wages of other medical personnel in the public health institutions were also increased by 5% with the payment of the January wage in 2019.

[24] 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.

1.5. Inflation

In the second quarter of 2019, the annual inflation rate remained at 1.2%, same as in the previous two quarters. In terms of the structure of the main components of inflation, in this quarter the food component registered a slight slowdown in the annual growth, while core inflation experienced a slight acceleration of growth. On the other hand, the annual decline in energy prices continued in the second quarter, but it was significantly slower compared to the annual decline in the first quarter. When it comes to the future short-term dynamics of consumer prices, the current movements in imported inflation and producer prices of domestic producers generally do not indicate some more serious upward pressures on the general price level. However, unit labor costs registered a growth acceleration in the first quarter of the year. Regarding the expectations about the inflation rate in the forthcoming period, according to the National Bank Survey, economic analysts expect the inflation rate to be 1.6% in 2019, while in 2020 and 2021 they point to an average inflation of 1.8% and 1.9%, respectively. Such expectations are similar to the forecast of the National Bank, as well as to the expectations of international institutions.

Inflation rate

- Core inflation (contribution, p.p.)
- Energy (contribution, p.p.)
- Food (contribution, p.p.)
- Total inflation (annual changes, %)

Source: State statistical office and NBRNM calculations.

	(annual changes, in %)								(contribution to annual changes, in p.p.)							
	2017	2018				2018	2019		2017	2018				2018	2019	
		Q1	Q2	Q3	Q4		Q1	Q2		Q1	Q2	Q3	Q4		Q1	Q2
Consumer price index - all items	1.4	1.5	1.5	1.6	1.2	1.5	1.2	1.2	1.4	1.5	1.5	1.6	1.2	1.5	1.2	1.2
Food	0.0	1.7	1.0	0.2	0.6	0.9	2.7	2.1	0.0	0.7	0.4	0.1	0.2	0.3	1.0	0.8
Energy	1.4	0.5	2.7	4.8	2.6	2.6	-1.4	-0.2	0.2	0.1	0.4	0.7	0.4	0.4	-0.2	0.0
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	0.0
Heat energy	-7.6	-2.5	-2.5	-2.8	-2.9	-2.7	-2.9	-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	0.1	0.2	0.1	0.4	0.6	0.4	0.4	-0.2	0.0
Food and energy (volatile prices)	0.4	1.4	1.5	1.5	1.1	1.4	1.6	1.5	0.2	0.7	0.8	0.8	0.6	0.7	0.8	0.8
Core inflation calculated by the NBRM (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	1.0	1.1	0.8	0.7	0.8	0.6	0.7	0.4	0.5
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	0.9								
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	0.5								

Source: State Statistical Office and NBRNM calculations.

1.5.1. Current inflation

In the second quarter, consumer prices in the domestic economy registered the same annual growth rate as in the previous two quarters (annual inflation rate of 1.2%)[25]. Moreover, core inflation registered a slight acceleration of annual growth, food prices registered a small deceleration compared to the previous quarter, while energy prices continued to decline, but that decline is significantly lower compared to fall registered in the first quarter.

The core inflation rate registered a slight acceleration in the second quarter and amounted to 1% on annual basis (0.9% in the previous quarter). In terms of structure, tobacco[26] makes the highest positive contribution, followed by tourist arrangements, health and hospital services, as well as services in restaurants and hotels. A slight acceleration of growth on an annual basis is also observed in the other sub-indices of inflation, which exclude the most volatile prices. Thus, the total index, excluding energy[27], liquid fuels and lubricants (for transport) and unprocessed food registered an annual growth of 0.9% (0.6% in the previous quarter), while the total index excluding energy, liquid fuels and lubricants (for transport), unprocessed food, tobacco and alcoholic beverages registered an

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[25] On a quarterly basis, consumer prices increased by 1%, while on a seasonally adjusted basis they increased by 0.4%.

[26] The annual growth of tobacco price in the second 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 2023. Also, there was an increase in the prices of certain types of cigarettes in March 2019.

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

Food prices
(annual rates of change, in %)
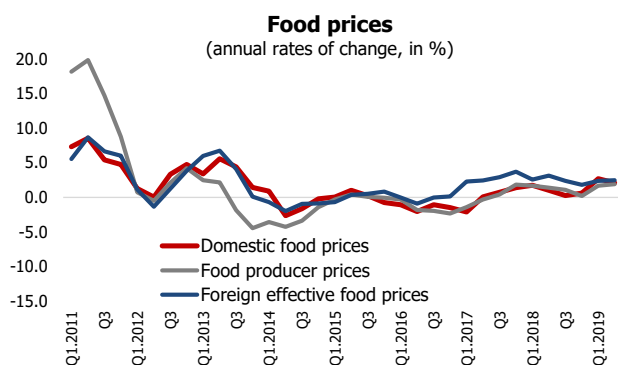
* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.
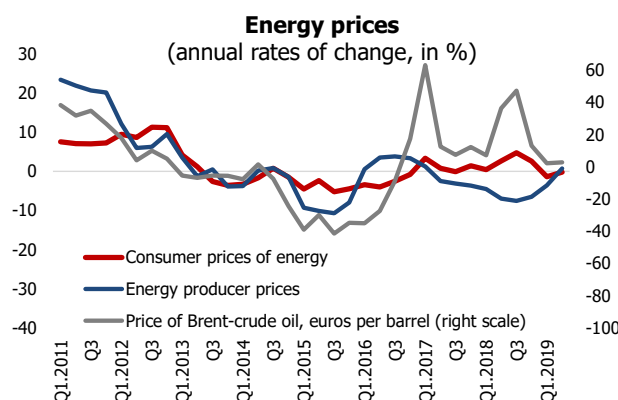
Energy prices
(annual rates of change, in %)

Source: State statistical office and NBRNM calculations.

Factors affecting consumer prices
(annual rates of change, in %)

Source: State statistical office and NBRNM calculations.

annual growth of 0.5% (0.3% in the previous quarter).

In the second quarter, the growth of **food prices** was more moderate (annual growth rate of 2.1% versus 2.7% in the first quarter). The main driver of food price growth are the prices of vegetables, while the prices of bread also make a slightly smaller contribution. On the other hand, in the second quarter[28] there is a slight acceleration of growth in the selling prices of the domestic food producers, as well as in the foreign effective food prices. **Energy prices** registered a small annual decline in this quarter as well, although it is significantly lower compared to the decline in the previous quarter, which is mainly explained by the movement of domestic prices of oil derivatives. This shift in domestic energy prices is in line with the upward movement in the price of crude oil and oil derivatives on the world market. Selling prices of energy producers have also registered a small increase[29] after two years of decline.

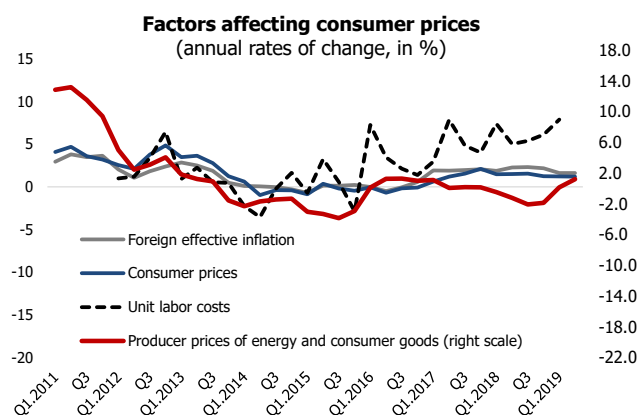**Producer prices of industrial products** registered a slight acceleration of growth in the second quarter (0.9% versus 0.2% in the first quarter), as well as the **producer prices of energy and consumer goods** (growth of 1.2% versus 0.2% in the first quarter)[30].

Foreign effective inflation[31], as an indicator of imported inflation, in the second quarter, maintained the growth dynamics from the first quarter (annual growth of 1.6%). Despite the fact that for the time being there are no more serious pressures on domestic inflation through the channel of foreign prices and producer prices, **unit labor costs** still register a high growth rate (7.9%, compared to 6.1% in the fourth quarter of 2018). Given the small positive output gap[32] in the domestic economy, longer-term continued growth in labor costs can potentially cause upward pressures on the prices of final product in the future.

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[28] The analysis of selling prices of domestic food producers and foreign effective food prices refers to the first two months of the second quarter.

[29] The analysis of oil prices and selling prices of energy producers refers to the first two months of the second quarter.

[30] The analysis of the producer prices of industrial products and the producer prices of energy and consumer goods for the second quarter refers to the first two months of the second quarter.

[31] 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 North 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.

[32] 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 small and stable.

Housing prices and housing loans

Housing loans (y-o-y rates, %) - right axis*   House prices (y-o-y rates, %) - left axis*
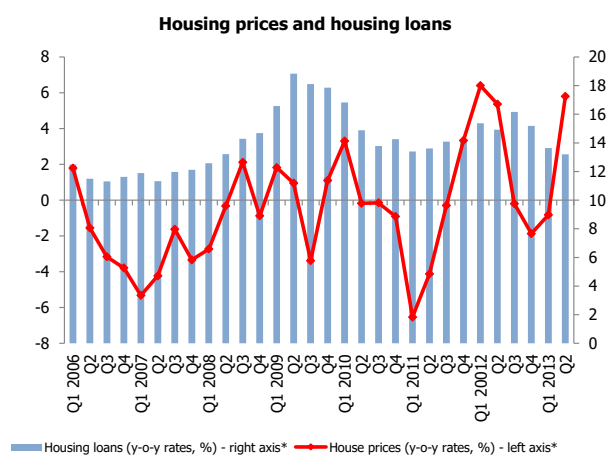
Source: NBRNM. Index of housing prices is calculated by the employees of the NBRNM based oo the data from the daily newspapers.
*Annual changes for 2009 are not calculated due to changes in methodology.

Indicators of housing supply
(annual rates of change, in %)

Issued Permits for residential buildings   Construction of residential buildings

Source: SSO and NBRNM calculations.

In the second quarter of the year, apartment prices, measured through the Hedonic index[33]**,** grew at a rate of 5.8%, after the decline that was present in the previous three quarters. In terms of supply, the value of the constructed residential buildings registered a slight decline in the first quarter of the year, and a decline is also observed in the value of the issued approvals for construction of residential buildings[34]. Analyzing the demand, also in the second quarter of 2019, the demand for apartments was supported by the solid rise in the housing loans[35].
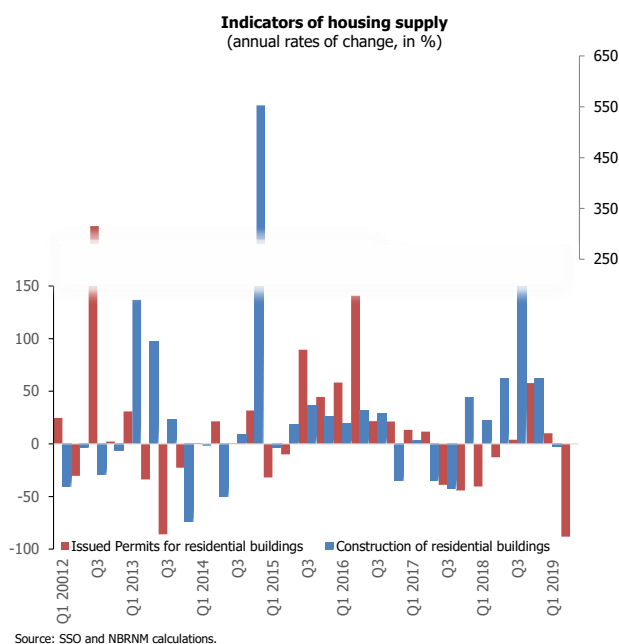
A brief review of the post-crisis path of inflation - factors and implications

A decade after the onset of the global financial crisis, the global economy has recovered, the unemployment has reduced, and the growth has returned to the average pre-crisis levels. However, the global inflation is still maintained at a lower level than before the crisis (Chart 1). A similar situation is found in individual regions and countries. In the United States, for example, inflation in the last ten years has been around 1.8%. In the Euro area, despite the growth of the economy, the already closed negative output gap and the unemployment rate close to the pre-crisis level, the inflation rate is below the long-term target of 2%. Inflation is low and stable in most developing countries as well.

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[33] Hedonic index of housing prices, prepared by the National Bank 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 neighborhood in which it is located, the floor, whether the apartment has central heating and whether the apartment is new.
[34] The analysis refers to the first month of the second quarter.
[35] Available data for the first two months of the quarter.

Chart 1 Global growth and inflation rate

Global growth (growth rate of GDP, in %)

Global inflation (in%)

Source: WEO database and calculations of NBRNM.
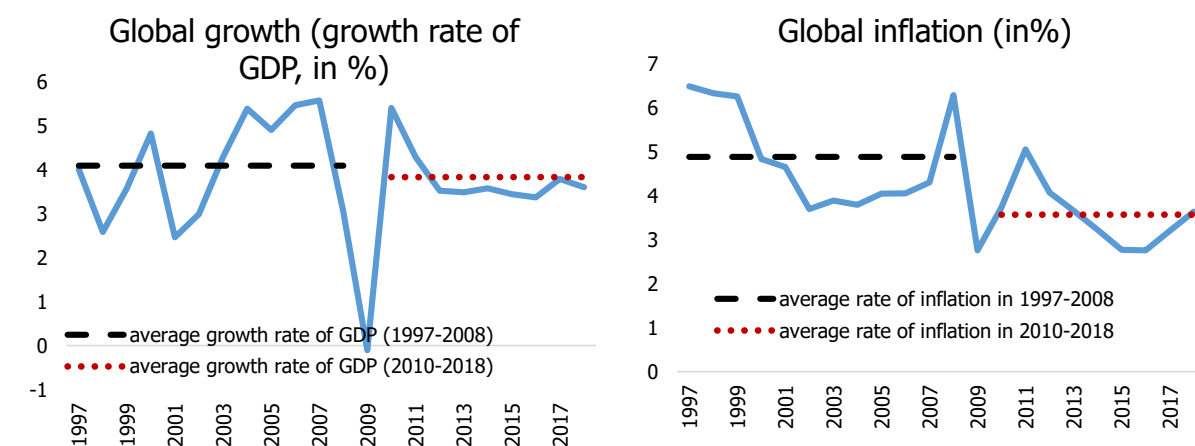
When it comes to the potential long-term effects of low inflation rate, it is essential to determine whether the current inflation trajectory is a result of persistent factors or cyclical, temporary factors. Although in both cases the final effect on inflation would be the same, at least in the short term, policy setup will be different. In terms of temporary factors, stabilization of the inflation rate around its equilibrium and long-term level is expected in the medium term, without taking specific actions and measures by policy makers. On the other hand, in terms of changes in the long-term trend, then changes in policies are necessary in order to raise the inflation to the desired level.

However, despite the large number of empirical studies on this issue, there is still no consensus on the factors that would explain the dynamics of prices in the last ten years. One of the reasons for the absence of significant inflationary pressures, in conditions of growth of the demand in the economy and reduction of unemployment, is the reduced price responsiveness of the indicators for the cyclical position of the economy. Such changes in the Phillips curve, according to researches, are a result of the high level of globalization and intense competition on that basis, stable inflation expectations in conditions of high credibility of central banks in dealing with inflation, as well as increased bargaining power of employers, as opposed to the deteriorated negotiating positions of the workers (development of technology, trade unions' weakening power, reduced savings, difficult access to financing during the crisis). Recent empirical researches conclude that the Phillips curve is still a useful tool for analyzing price dynamics, and most of the factors that explain the low inflation are cyclical (Ciccarelli and Osbat, 2017). Additionally, part of the literature also emphasizes the importance of structural factors, such as technological development and demographic changes (the aging process of the population), which also explain part of the current inflation path.

Price dynamics in the region of Central, Eastern and Southeast Europe (CESEE) does not deviate significantly from the trend of global inflation. The average inflation rate in the CESEE region in the whole period after the global financial crisis was around 2% (1.9%), whereby certain years (2015 and 2016) also registered a negative inflation rate (-0.1% in both years). Such shifts, similar to those of the developed economies, occur in a period of recovery of the economic activity and gradual closing of the negative output gaps (Chart 2). In the last two years, the production gap, on average for the whole region, enters the positive zone, which indicates potential demand pressures on prices, but still, the inflation rate remains still stable and relatively low.

Global trends and characteristics of the CESEE countries explain most of the inflation trajectory in the post-crisis period. Namely, in conditions of a high degree of trade integration of CESEE with the Euro area, the low imported inflation from the Euro area has a direct impact on the domestic inflation in the region. Also, given that these are small and open economies, shifts in primary commodity prices, which are characterized by a high degree of volatility, also have a significant effect on the domestic inflation rates. Researches on this issue have identified statistically significant results for the relationship between the domestic inflation in the CESEE region and changes in world food and energy prices (Ramadani and Pandiloski, 2018). Consequently, if we observe the movement of the prices of primary products during the

last decade, it can be concluded that, after the two significant upward shocks - in 2008 and in the period 2010-2011, these prices after 2011 generally follow a downward path, until 2017, when an upward trend is observed again.

Chart 2 Inflation in CESEE and factors of inflation
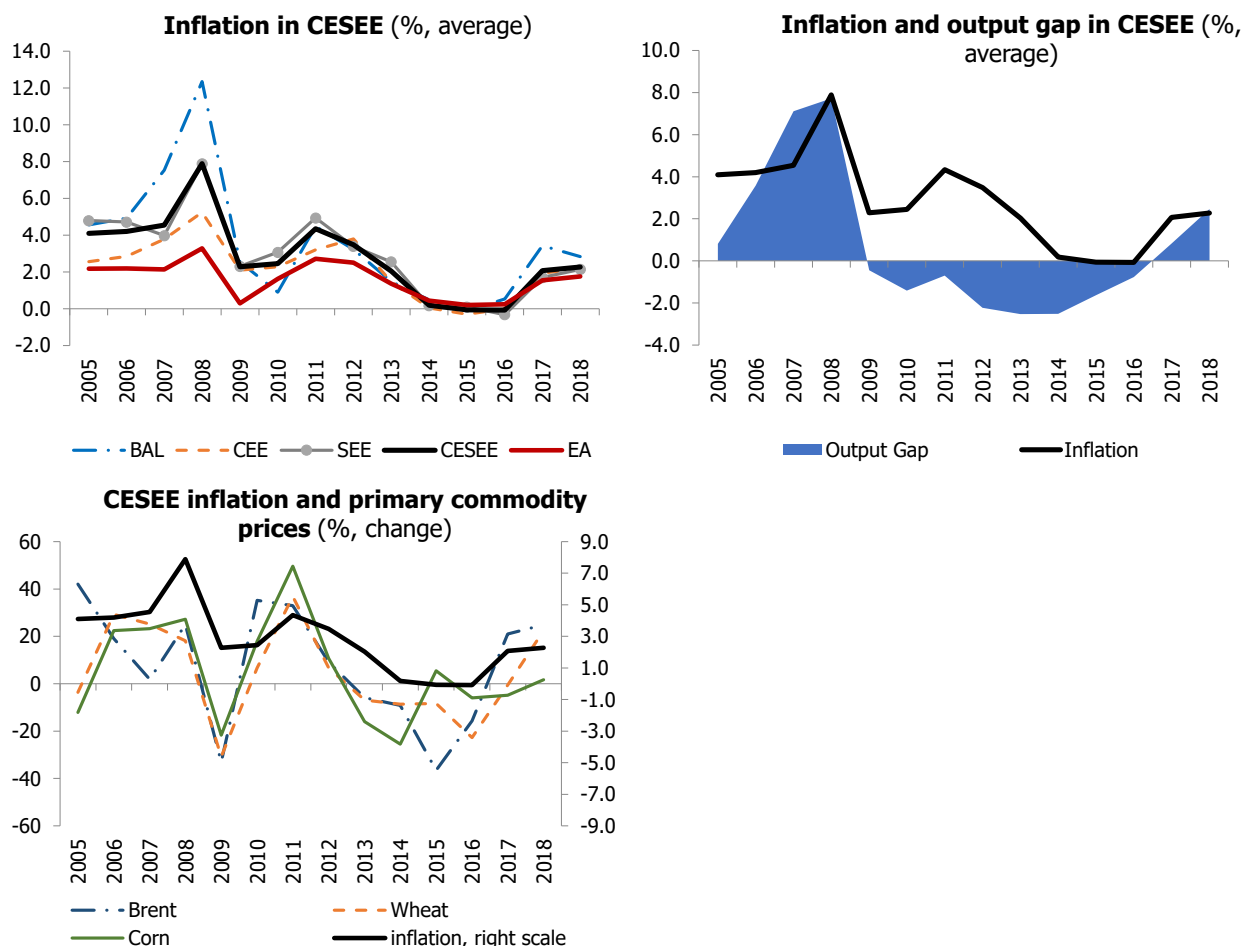
Source: WEO database, Eurostat and calculations of NBRNM.

Basically, the question of whether the current shifts in inflation are temporary, or whether it is a change in the long-term trend, remains open. There is no doubt that the low and positive inflation rate has beneficial effects on the economy as a whole and contributes to a stable and predictable macroeconomic environment. However, the low inflation rate can also be an indicator of the existence of certain imbalances in the economy. Additionally, in terms of monetary policy, maintaining inflation low for a longer period of time seriously narrows the room for conducting monetary policy, especially in conditions when it is necessary to reduce interest rates, in order to stimulate the economic activity. In the current environment of low interest rates and the absence of inflationary pressures, there is also the question of how much the monetary policy can effectively affect the prices through the change of interest rates. In such conditions, attention should be paid to the so-called monetary policy transmission channel through risk-taking. Namely, the current environment of low interest rates and low inflation increases the propensity of entities to take risks, and hence for indebtedness of the economy (Borio and Zhu, 2008) which could have negative effects on the real economy. Hence the need for careful monitoring of price dynamics.
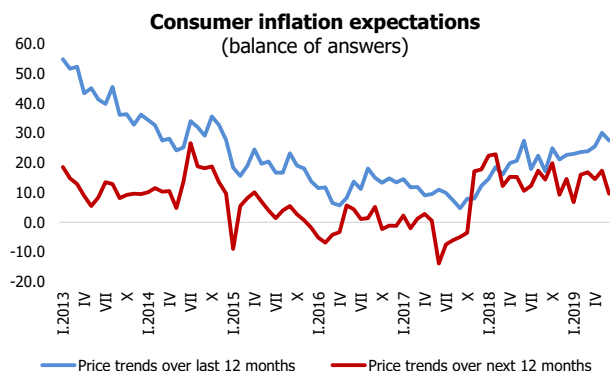
1.5.2. Inflation expectations

Expectations for the following period do not indicate significant changes in terms of dynamics and movement of the inflation rate.
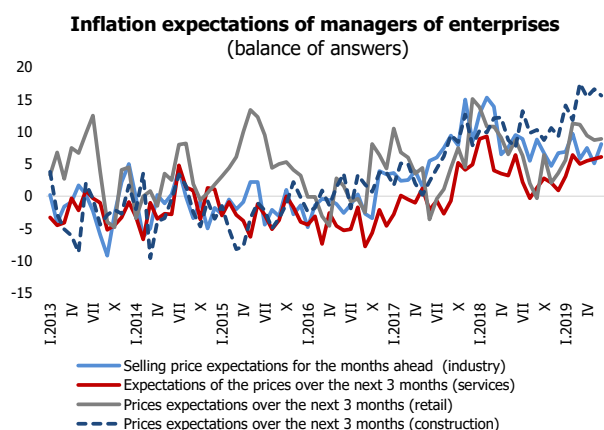
Forecasts and expectations for the inflation rate

	2019	2020	2021
Economic analysts	1.6	1.8	1.9
IMF	1.8	2.0	2.2
Consensus Forecast	1.7	2.0	/
Ministry of Finance	2.0	2.0	2.2
NBRNM	1.5	2.0	2.0

Source: Inflation and real GDP growth expectations survey, June 2019; IMF World Economic Outlook, April 2019; Consensus Forecast, June 2019; Ministry of Finance, Fiscal strategy 2020-2022, May 2019; NBRNM, April 2019.

Consumer inflation expectations
(balance of answers)

— Price trends over last 12 months   — Price trends over next 12 months

Source: European Commission.

Inflation expectations of managers of enterprises
(balance of answers)

— Selling price expectations for the months ahead (industry)
— Expectations of the prices over the next 3 months (services)
— Prices expectations over the next 3 months (retail)
- - - Prices expectations over the next 3 months (construction)

Source: European Commission.

Thus, according to economic analysts, a slight acceleration of the inflation rate is expected in the next two years. According to the research from the **Survey on Inflation Expectations and the Expectations for the Movement of the Real GDP**[36] conducted in June, the inflation rate is expected to be 1.6% in 2019, while for the next period the inflation rate is expected to be 1.8% and 1.9% in 2020 and 2021, respectively. A similar movement and dynamics of the inflation is predicted by other domestic and international institutions.

The short-term expectations of consumers and corporate managers for price movements, expressed in the surveys in the second quarter, are also in a similar direction. Thus, according to the **"consumer expectations for price changes in the next 12 months"**[37], a larger number of persons believe that in the next 12 months there will be an increase in prices, as opposed to the number of persons who expect a reduction or unchanged prices. In the **corporate sector**[38], expectations for growth of their prices in the next few months also prevail. Moreover, the expectations in industry and service activities are more optimistic compared to those from the previous quarter, while the expectations in trade and construction are more moderate.

1.6.   Balance of payments

In the first quarter of 2019, the deficit in the current account of the balance of payments registered a slight annual increase, which mainly results from the lower surplus in secondary income and in services. This change was partially offset by the favorable trade deficit movements, and additionally, mainly due to the strong export activity of the new production facilities. At the same time, the financial account registered inflows on a net basis, mostly on the basis of trade credits, and to a lesser extent on direct investments and net external borrowing. The realized financial flows in the first quarter of 2019 enabled almost full financing of the current account deficit and a stable level of foreign reserves during the quarter.

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[36] Starting from October 2017, the National Bank changed the current Inflation Expectations Survey. The new Survey on Inflation Expectations and Expectations for the Movement of the Real GDP is conducted on a sample of economic analysts, and the subject of the Survey has also been expanded, according to the practice of the European Central Bank (ECB).
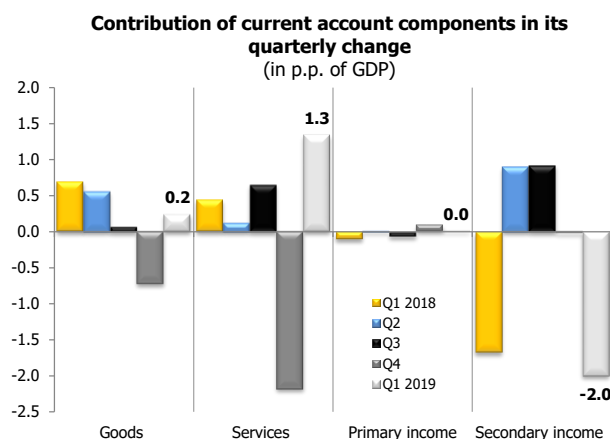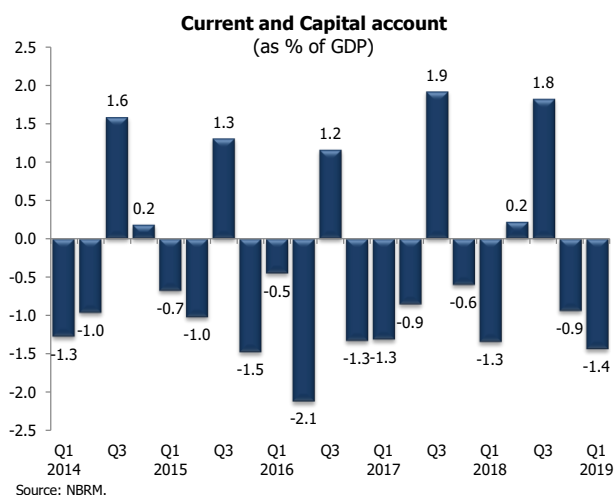
[37] European Commission's Consumer Survey as of June 2019.

[38] European Commission's business tendency surveys in industry, retail trade, construction and services sector as of June 2019.

	2017		2018					2019	2017					2018					2019
	Q1	I-XII	Q1	Q2	Q3	Q4	I-XII	Q1	Q1	Q2	Q3	Q4	I-XII	Q1	Q2	Q3	Q4	I-XII	Q1
	in EUR mil.								% of GDP										
I. Current account	**-135.4**	**-102.9**	**-144.5**	**23.9**	**195.8**	**-107.1**	**-31.9**	**-162.5**	**-1.4**	**-0.9**	**1.9**	**-0.7**	**-1.0**	**-1.3**	**0.2**	**1.8**	**-1.0**	**-0.3**	**-1.4**
Goods and services	**-364.1**	**-1410.9**	**-360.2**	**-289.8**	**-209.7**	**-519.2**	**-1378.8**	**-374.8**	**-3.6**	**-3.7**	**-2.2**	**-4.5**	**-14.1**	**-3.4**	**-2.7**	**-2.0**	**-4.8**	**-12.8**	**-3.3**
Credit	1250.7	5512.8	1406.4	1562.0	1689.4	1788.5	6446.3	1617.2	12.5	13.5	14.6	14.5	55.1	13.1	14.6	15.7	16.7	60.1	14.3
Debit	1614.8	6923.8	1766.6	1851.7	1899.1	2307.7	7825.1	1991.9	16.1	17.2	16.8	19.0	69.1	16.5	17.2	17.7	21.5	72.9	17.6
Goods	-462.0	-1787.9	-463.0	-406.6	-395.6	-471.4	-1736.6	-473.1	-4.6	-4.2	-4.0	-5.0	-17.9	-4.3	-3.8	-3.7	-4.4	-16.2	-4.2
Services	97.9	377.0	102.8	116.8	185.9	-47.8	357.8	98.4	1.0	0.4	1.8	0.5	3.8	1.0	1.1	1.7	-0.4	3.3	0.9
Primary income	**-98.5**	**-397.5**	**-113.5**	**-111.2**	**-117.5**	**-108.2**	**-450.5**	**-113.9**	**-1.0**	**-1.0**	**-1.0**	**-1.0**	**-4.0**	**-1.1**	**-1.0**	**-1.1**	**-1.0**	**-4.2**	**-1.0**
Secondary income	**327.1**	**1705.5**	**329.2**	**424.8**	**523.1**	**520.2**	**1797.3**	**326.2**	**3.3**	**3.9**	**5.1**	**4.8**	**17.0**	**3.1**	**4.0**	**4.9**	**4.8**	**16.7**	**2.9**
II. Capital account	**4.0**	**18.0**	**0.3**	**0.2**	**0.0**	**6.3**	**6.9**	**0.3**	**0.0**	**0.1**	**0.0**	**0.1**	**0.2**	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**	**0.0**
Net lending (+) / net borrowing (-) (balance from current and capital account)	-131.4	**-84.9**	-144.1	24.1	195.8	-100.8	**-25.1**	-162.2	-1.3	-0.9	1.9	-0.6	**-0.8**	-1.3	0.2	1.8	-0.9	**-0.2**	-1.4
III. Financial account	**-55.0**	**51.5**	**-416.5**	**-23.6**	**108.8**	**-226.5**	**-557.8**	**-152.3**	**-0.5**	**-0.4**	**2.9**	**-1.5**	**0.5**	**-3.9**	**-0.2**	**1.0**	**-2.1**	**-5.2**	**-1.3**
Direct investment	-96.5	**-180.0**	-235.4	-74.1	1.5	-313.8	**-621.9**	-21.6	-1.0	0.2	0.6	-1.7	**-1.8**	-2.2	-0.7	0.0	-2.9	**-5.8**	-0.2
Portfolio investment	-20.3	**18.5**	-368.6	1.5	35.0	11.9	**-320.3**	22.3	-0.2	0.1	0.4	-0.1	**0.2**	-3.4	0.0	0.3	0.1	**-3.0**	0.2
Currency and deposits	34.4	**248.5**	80.2	72.8	72.9	60.1	**286.0**	35.2	0.3	0.2	1.6	0.4	**2.5**	0.7	0.7	0.7	0.6	**2.7**	0.3
Loans	29.1	**36.8**	47.5	-57.1	-36.2	35.1	**-10.8**	-19.1	0.3	-0.2	0.4	-0.1	**0.4**	0.4	-0.5	-0.3	0.3	**-0.1**	-0.2
Trade credit and advances	-1.8	**-72.2**	59.9	33.9	35.8	-19.7	**109.9**	-169.2	0.0	-0.6	-0.1	0.1	**-0.7**	0.6	0.3	0.3	-0.2	**1.0**	-1.5
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	**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	**0.0**	0.0
IV. Net errors and omissions	**9.9**	**-9.6**	**-15.7**	**13.2**	**4.6**	**15.5**	**17.6**	**4.4**	**0.1**	**-0.1**	**0.0**	**0.0**	**-0.1**	**-0.1**	**0.1**	**0.0**	**0.1**	**0.2**	**0.0**
V.Reserve assets	**-66.5**	**-146.0**	**256.6**	**60.9**	**91.6**	**141.1**	**550.3**	**-5.6**	**-0.7**	**-0.6**	**-1.0**	**0.8**	**-1.5**	**2.4**	**0.6**	**0.9**	**1.3**	**5.1**	**0.0**

Source: NBRNM.

Current and Capital account
(as % of GDP)

Source: NBRM.

Contribution of current account components in its quarterly change
(in p.p. of GDP)

Source: NBRM.

1.6.1. Current account

In the first quarter of 2019, the current account of the balance of payments registered a deficit of Euro 162.5 million, or 1.4% of GDP[39], which is a slight increase of 0.1 percentage points of GDP, on an annual basis. This change is a result of the lower surplus in secondary income, where there are lower net inflows based on private transfers, and of the lower surplus in services, mainly due to the deficit in the part of construction services (compared to last year's surplus registered in the first three months of 2018). These performances in construction services were largely offset by the higher net inflows in the category of telecommunication services and in the production services for processing of goods in foreign ownership. The balance of goods registered a slight improvement on an annual basis, mainly due to the stronger export activity of the new industrial facilities with foreign capital. Primary income is almost unchanged on an annual basis.

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[39] The calculations use the projected amount of the nominal GDP (from April 2019).

Balance of goods and services
(annual change, in EUR million)
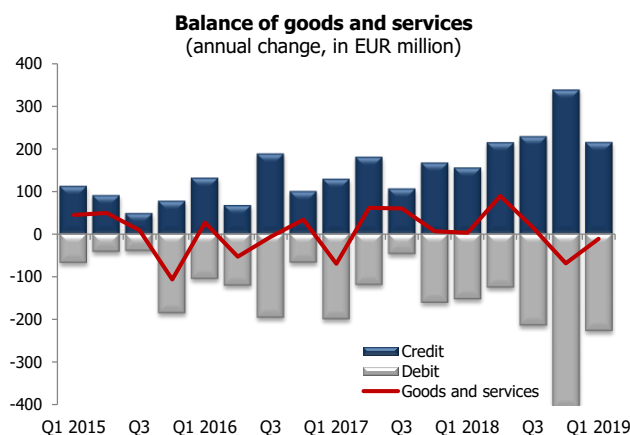
* Postive change in the import of goods mean it's decrease.
Source: NBRM.

Box 1: Foreign trade of goods and movement of the Nominal and the Real Effective Exchange Rate (NEER and REER)[40]

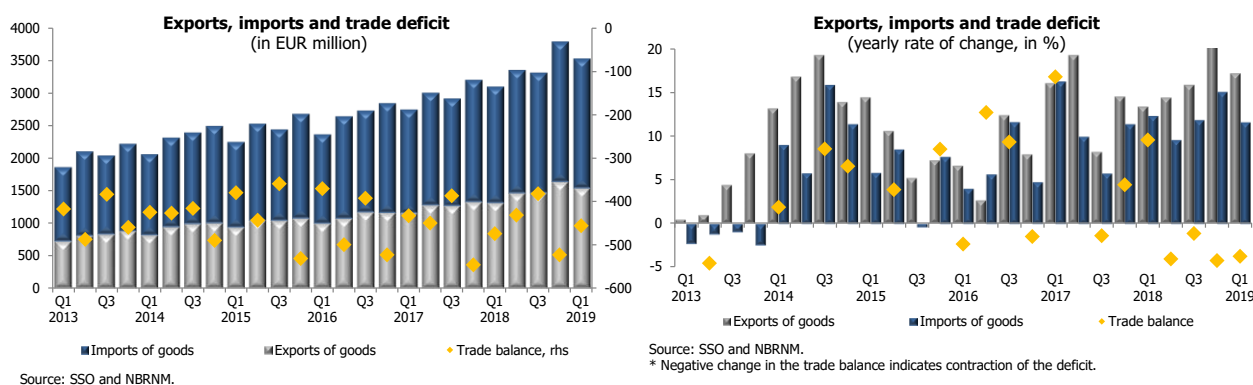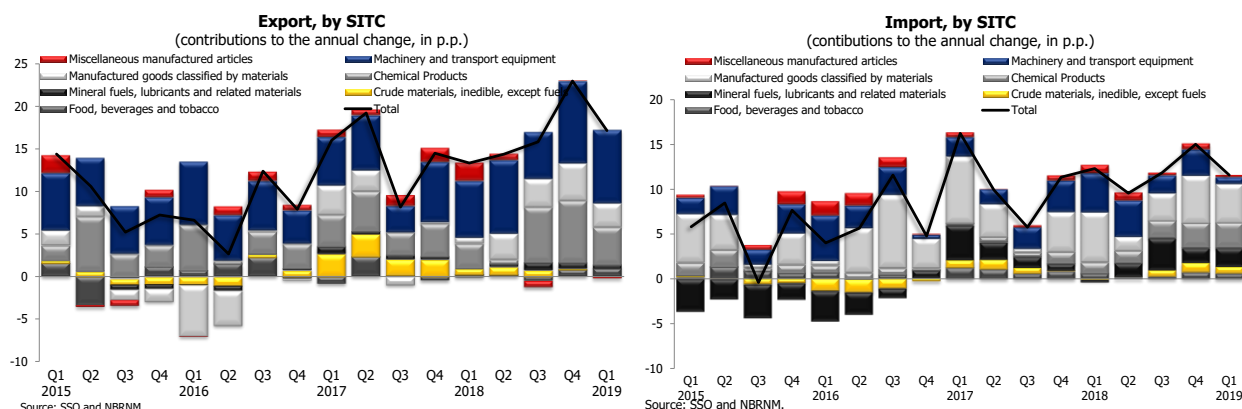**The foreign trade in the first three months of 2019 amounted to Euro 3,524.3 million, i.e. 31.2% of GDP.** Compared on an annual basis, the total foreign trade continues to grow and is higher by 13.9% (or 2.4 percentage points of GDP), in conditions of solid growth in both its components.
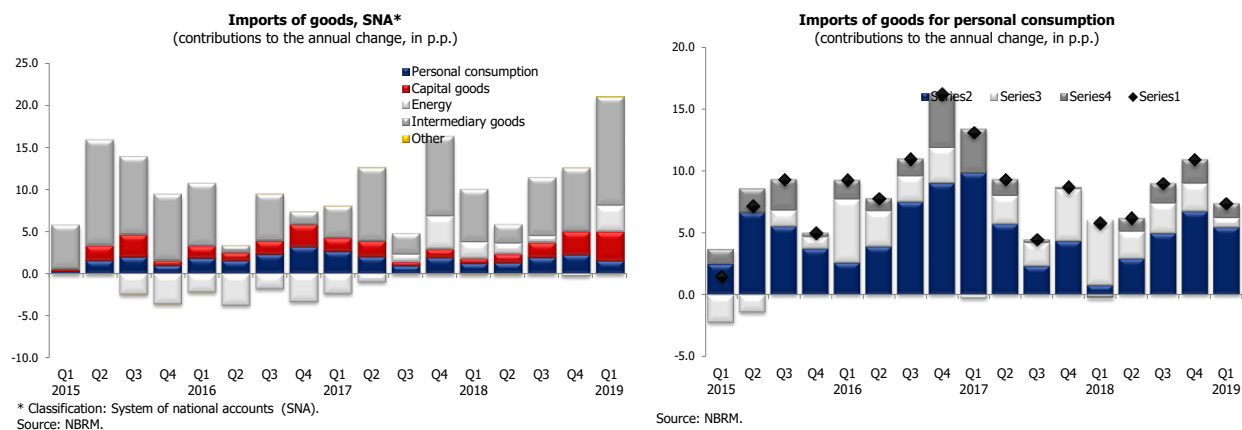
Exports, imports and trade deficit
(in EUR million)

Source: SSO and NBRNM.

Exports, imports and trade deficit
(yearly rate of change, in %)

Source: SSO and NBRNM.
* Negative change in the trade balance indicates contraction of the deficit.

The export of goods in the first quarter of 2019 recorded an annual growth of 17.1% (23% in the previous quarter), which is still mostly due to the favorable performance of the new production export-oriented facilities. From a structural point of view, this is largely perceived through the increased placement of machinery and transport equipment and of chemical products. Some of the traditional export sectors, and primarily the increased export of iron and steel also have a significant impulse to the annual growth, which is also a result of the increased export volumes and of the higher prices, amid a growth of stock exchange metal prices. An additional small positive contribution to the export growth is also made by the increased food export. **Import of goods in the first quarter registered an increase on an annual basis of 11.6%,** more moderate compared to the growth of 15% in the previous quarter. Similar to the structure of the higher export, the increase in imports mainly reflects the higher imports of raw materials for the needs of the new industrial facilities, i.e. the category of machinery and transport equipment and chemical products, with an additional contribution from the higher imports of non-metal minerals and non-ferrous metals. Contribution to the total growth of imports is also made by the higher energy imports, which dominantly reflects the more substantial increase in the imports of oil derivatives. Moreover, the annual growth of the import of oil derivatives mostly results from the higher imported quantities, amid simultaneously almost unchanged imported prices. **Such trends of the foreign trade components in the first quarter of 2019 slightly narrowed the trade deficit by 3.8% on an annual basis.** In

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

terms of the individual balances, such change is due to the lower deficit in non-energy component, amid worsening of the energy deficit.

Export, by SITC
(contributions to the annual change, in p.p.)

Legend: Miscellaneous manufactured articles; Machinery and transport equipment; Manufactured goods classified by materials; Chemical Products; Mineral fuels, lubricants and related materials; Crude materials, inedible, except fuels; Food, beverages and tobacco; Total

Source: SSO and NBRNM.

Import, by SITC
(contributions to the annual change, in p.p.)

Legend: Miscellaneous manufactured articles; Machinery and transport equipment; Manufactured goods classified by materials; Chemical Products; Mineral fuels, lubricants and related materials; Crude materials, inedible, except fuels; Food, beverages and tobacco; Total

Source: SSO and NBRNM.

According to the analysis of the import of goods under the System of National Accounts (SNA), 71.5% of the annual growth of total imports of goods in the first quarter is a result of the higher import of intermediate products, while the positive contribution of the other components to the overall growth is significantly more moderate. In terms of the import intended for private consumption, the annual growth of this component reflects the increased import of consumer goods and food, with a slightly lower contribution than the import of passenger cars. Analyzed dynamically, the growth of the import for private consumption in the first quarter of 2019 slowed down and did not indicate more serious pressures on the import from the growth of this category.

Imports of goods, SNA*
(contributions to the annual change, in p.p.)

Legend: Personal consumption; Capital goods; Energy; Intermediary goods; Other

* Classification: System of national accounts (SNA).
Source: NBRM.

Imports of goods for personal consumption
(contributions to the annual change, in p.p.)

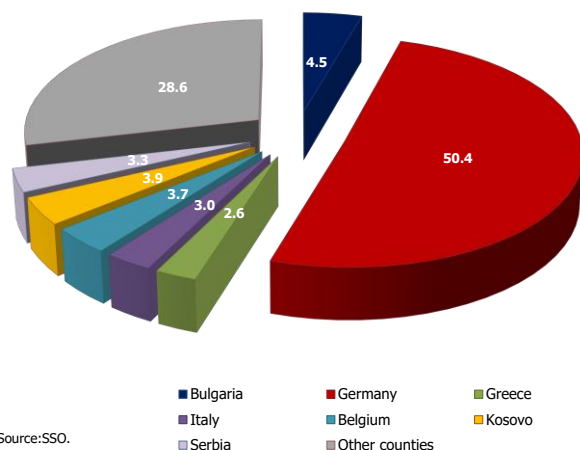Legend: Series2; Series3; Series4; Series1

Source: NBRM.

The latest available data on foreign trade during April and May 2019 indicate annual growth of both the exports and the imports of goods. The export of goods increased by 11.5% on annual basis, which is mostly driven by the good performance of the new export capacities in the economy, with an additional positive effect of the export of food and tobacco. Import of goods during April and May registered an annual growth of 17.7%, as a result of the higher imports of raw materials of some of the new capacities in the economy, as well as the higher energy imports on an annual basis.

The foreign trade analysis by trading partners shows that in the first quarter of 2019, the European Union was still the major trading partner of the domestic economy, making up 71.1% of total trade. In terms of individual countries on the export side, a key driver of the annual growth is the exports of equipment and machinery to Germany, as a market to which the export activity of the new facilities of the economy is largely targeted. Intensified export activity of these facilities also led to higher exports of equipment and machinery to Hungary and of vehicles to Belgium. The increased export to Great Britain and Kosovo, coupled with higher export of iron and steel to the Netherlands and China, also made a positive contribution to the annual growth. The analysis of imports shows that the largest contribution to the annual growth is made by the import of non-ferrous metals from the Republic of South Africa. In terms of the European Union countries, the import from Great Britain registered highest increase in the first

quarter, which is coupled with the higher imports from Poland, the Netherlands and Italy. Additionally, the import of iron and steel from Ukraine and Turkey also made a positive contribution to the growth of imports. Analyzed in terms of balances, the narrowing of the trade deficit in the first quarter largely reflects the favorable performance in the trade with the European Union countries, with which in the first quarter a trade surplus is achieved, driven by the larger surplus in the trade with Germany and Belgium, amid a simultaneous balancing of the balance with Hungary and lower deficit with Romania. On the other hand, there was a deepening of the negative balance with Great Britain, Greece and Poland, compared to the same period last year. Additionally, a higher deficit was registered in the trade of goods with Ukraine.

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

Source:SSO.

- Bulgaria
- Germany
- Greece
- Italy
- Belgium
- Kosovo
- Serbia
- Other counties

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

Source: SSO.

- Bulgaria
- Germany
- Greece
- Italy
- Great Britain
- Turkey
- China
- Serbia
- Other counties
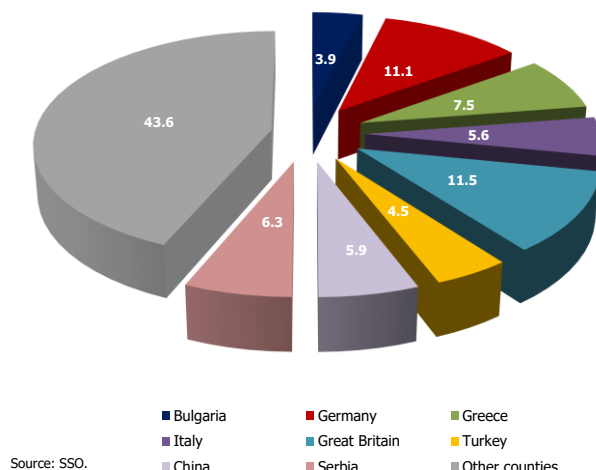
In the first quarter of 2019, price competitiveness indicators of the Macedonian economy registered favorable movements compared to the same period last year. The real effective exchange rate index calculated according to the consumer prices is relatively stable (slight annual depreciation of 0.2%), and the index calculated according to the producer prices depreciated by 2.5%. The relative prices decreased on an annual basis, given the decline in the relative consumer prices and the relative producer prices (of 1.6% and 3.9%, respectively). On the other hand, the NEER index registered an annual appreciation of 1.5%, mostly due to the appreciation of the denar against the Turkish lira and the Russian ruble.

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

Source:NBRNM.
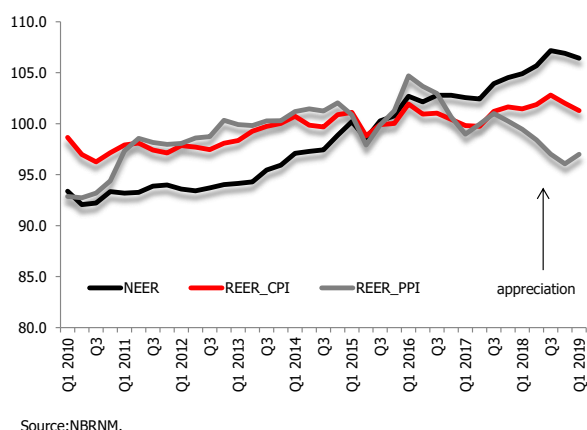
Relative prices
(2015=100)

Source:NBRNM.
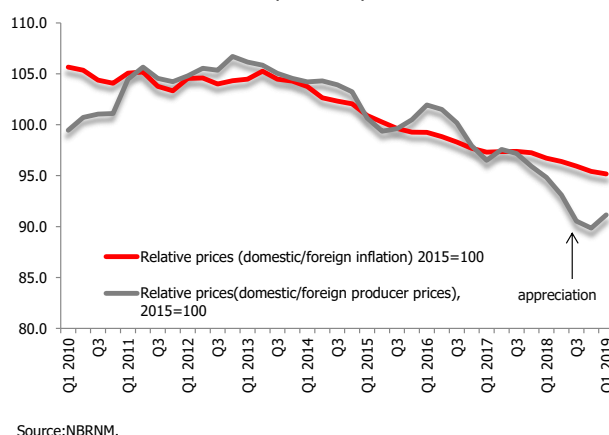
The analysis of the REER indices calculated with weights based on the foreign trade without primary products[41] indicates generally similar changes. Namely, the REER, deflated by the consumer prices, registers no major changes (slight appreciation of 0.2%), while the REER calculated according to the producer prices depreciated by 2%, on an annual basis. The NEER index appreciated by 1.7% on an annual 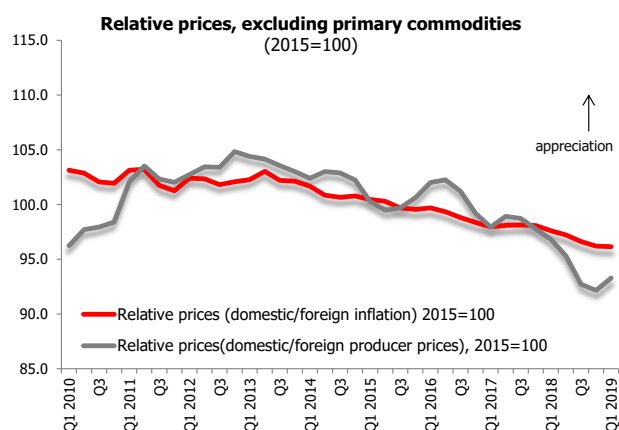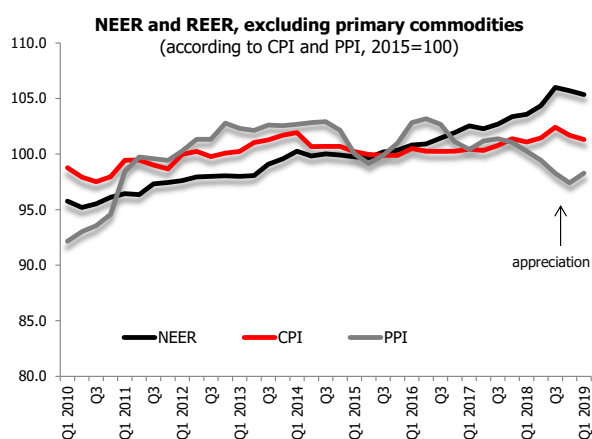basis, unlike the decline in the relative consumer prices and the relative producer prices (of 1.5% and 3.6%, respectively).
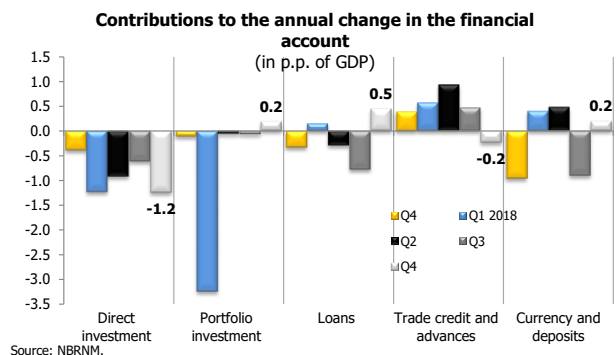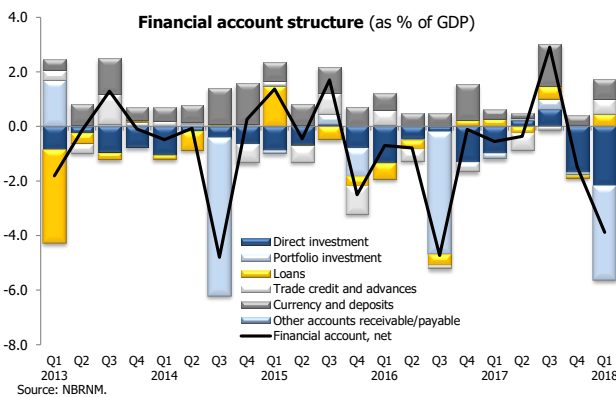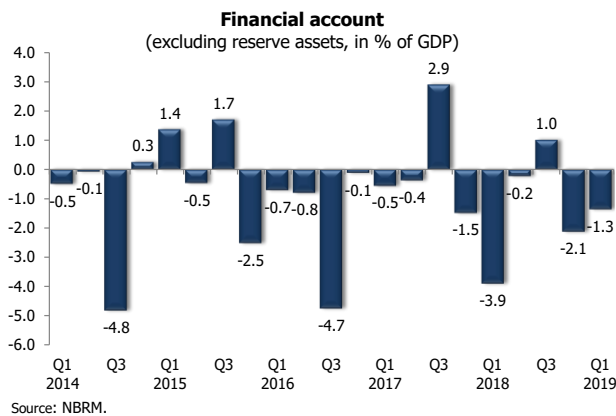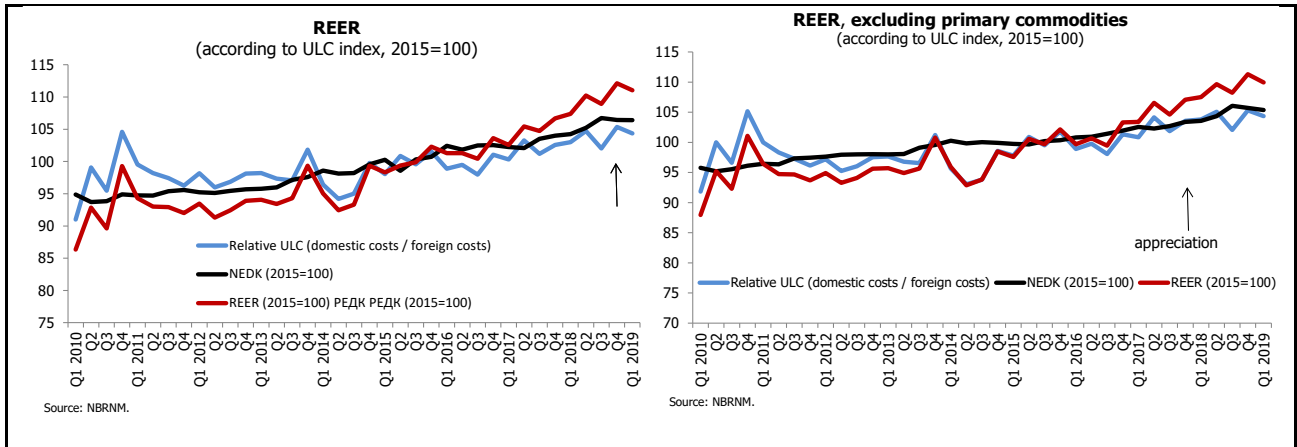
NEER and REER, excluding primary commodities
(according to CPI and PPI, 2015=100)

Source:NBRNM.

Relative prices, excluding primary commodities
(2015=100)

Source:NBRNM.

The latest data on price competitiveness for the period April-May 2019 indicate positive movements of the REER as measured using weights of the total trade of goods. Amid appreciation of the NEER (of 0.8%) on an annual basis, the real effective exchange rate registered a depreciation, where the REER, deflated by the consumer prices, depreciated by 0.6%, while the REER, deflated by the producer prices, registered higher depreciation of 2.1%. REER indicators, as measured using weights based on the foreign trade without primary commodities registered divergent movements. The REER deflated by consumer prices have appreciated by 0.4% and the REER deflated by producer prices depreciated by 1%.

In the first quarter of 2019, the analysis of REER indices calculated according to the unit labor costs[42] indicates deterioration in the price competitiveness of the domestic economy. The REER index calculated with the weights based on the total foreign trade appreciated by 3.4%, amid an annual growth of the relative labor costs of 1.3% and a NEER appreciation of 2.1%. Annual appreciation was registered in the REER index calculated by using weights based on the foreign trade without primary products (of 2.3%), determined by the appreciation of the NEER (of 1.7%) and the annual increase of the relative labor costs (of 0.5%).

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[41] 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_realniot_efektiven_devizen_kurs_na_denarot_mak.pdf

[42] 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. Exceptions are the data based on internal calculations, such as the data for Switzerland, as well as for Turkey and Serbia, whereby the calculated indices refer to the industrial sector only.
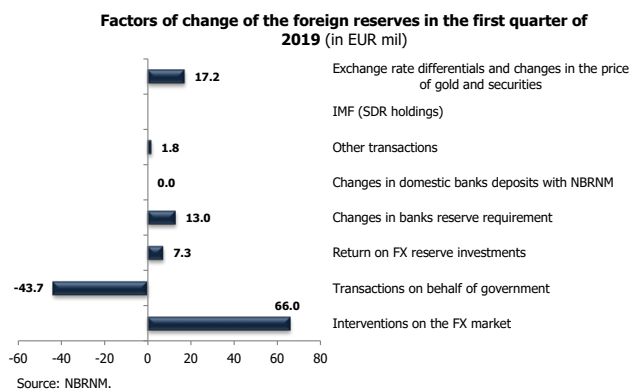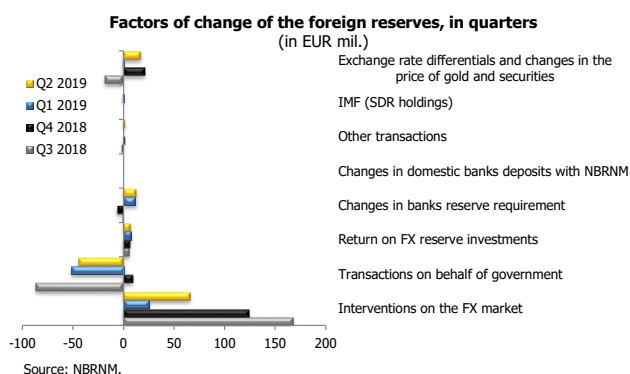
REER
(according to ULC index, 2015=100)

Relative ULC (domestic costs / foreign costs)
NEDK (2015=100)
REER (2015=100) РЕДК РЕДК (2015=100)

Source: NBRNM.

REER, excluding primary commodities
(according to ULC index, 2015=100)

appreciation

Relative ULC (domestic costs / foreign costs) NEDK (2015=100) REER (2015=100)

Source: NBRNM.

Financial account
(excluding reserve assets, in % of GDP)

Source: NBRM.

Financial account structure (as % of GDP)

Direct investment
Portfolio investment
Loans
Trade credit and advances
Currency and deposits
Other accounts receivable/payable
Financial account, net

Source: NBRNM.

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

Q4 Q1 2018
Q2 Q3
Q4

Direct investment Portfolio investment Loans Trade credit and advances Currency and deposits

Source: NBRNM.

1.6.2.   Financial account

In the first quarter of 2019, the financial account of the balance of payments registered net inflows of Euro 152.3 million or 1.3% of GDP. The main source of financing in this period is the borrowing through trade credits (1.5% of GDP), which is historically the highest quarterly amount registered so far, in conditions of increased foreign trade of goods. Additionally, moderate net inflows were registered in the categories of direct investments and loans. Namely, within the direct investments, the net inflows from the non-debt component (equity and reinvested earnings) were relatively high, but were largely offset by the outflows on the basis of intercompany debt. The positive trends registered in loans mainly arise from the short-term component, as a result of the borrowing of the depository institutions. On the other hand, net outflows are registered in the categories of currency and deposits and portfolio investments.

The realized net inflows in the financial account during the first quarter of 2019 are lower compared to their performance in the same period of the previous year. Such shifts in this period are mostly due to the flows in the portfolio investments[43], as well as the lower net inflows in the foreign direct investments. On the other hand, the performances in the other categories of the financial account improved on an annual basis, and mostly in trade credits where net inflows were registered, as opposed to the net outflows registered in the same period last year.

At the end of the first quarter of 2019, the gross foreign reserves amounted to Euro 2,866.4 million, which is a minimal quarterly

[43] On 11 January 2018 the sixth Eurobond in the amount of Euro 500 million with maturity of 7 years and an interest rate of 2.75 % was issued on the international capital market.

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

- Q2 2019
- Q1 2019
- Q4 2018
- Q3 2018

Exchange rate differentials and changes in the price of gold and securities

IMF (SDR holdings)

Other transactions

Changes in domestic banks deposits with NBRNM

Changes in banks reserve requirement

Return on FX reserve investments

Transactions on behalf of government

Interventions on the FX market

Source: NBRNM.

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

Exchange rate differentials and changes in the price of gold and securities — 17.2

IMF (SDR holdings)

Other transactions — 1.8

Changes in domestic banks deposits with NBRNM — 0.0

Changes in banks reserve requirement — 13.0

Return on FX reserve investments — 7.3

Transactions on behalf of government — -43.7

Interventions on the FX market — 66.0

Source: NBRNM.

International investment position
(% of GDP)

Legend: International assets · International liabilities · IIP, net

Values: -51.3, -52.7, -53.1, -56.0, -53.7, -55.9, -56.7, -57.7, -56.7, -58.8, -58.2, -58.1, -56.9, -56.4, -56.1, -55.4, -54.2

Q1 Q2 Q3 Q4 (2015) | Q1 Q2 Q3 Q4 (2016) | Q1 Q2 Q3 Q4 (2017) | Q1 Q2 Q3 Q4 (2018) | Q1 (2019)

Source: NBRNM.

decline. This change mainly arises from the net outflows based on the transactions on behalf of the government, due to regular servicing of external liabilities of the country. On the other hand, the movements on the foreign exchange market were still favorable, due to which the National Bank intervened with purchase of foreign currency during this quarter, contributing to the growth of foreign reserves. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.

The gross foreign reserves at the end of the second quarter of 2019 amounted to Euro 2,928.2 million, a level higher than that registered at the end of the first quarter (by Euro 61.7 million). Moreover, the National Bank's interventions on the foreign exchange market were in the direction of more intensive purchase, and positive performances were also registered in the other categories, with the exception of the transactions on behalf of the government which acted towards reducing the foreign reserves.

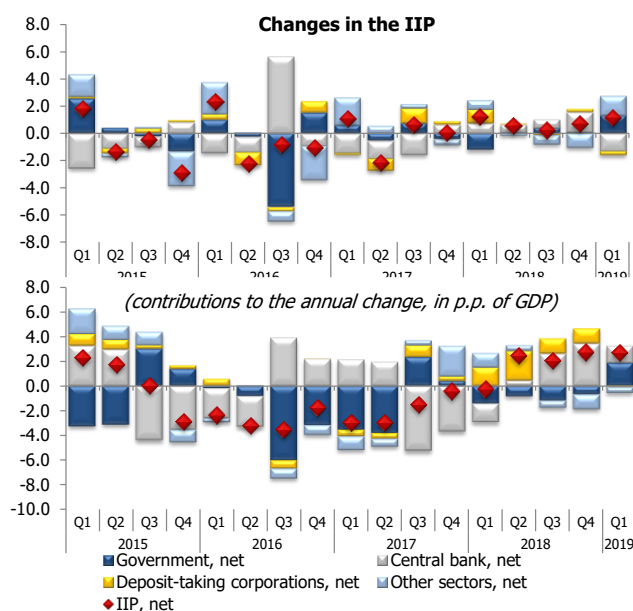### 1.6.3.   *International investment position and gross external debt*
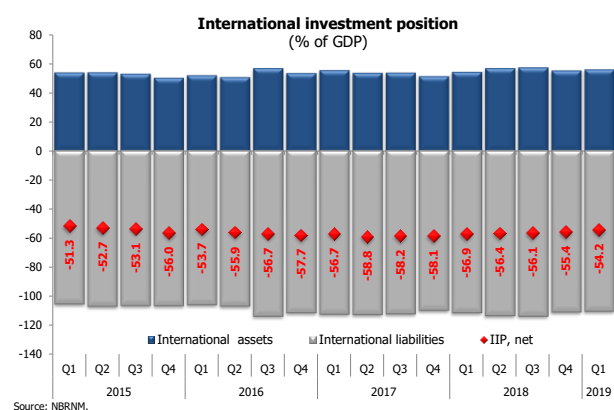
The negative international investment position (IIP)[44] of the Macedonian economy at the end of the first quarter of 2019 amounted to Euro 6,121.7 million, or 54.2% of GDP. The analysis on a quarterly basis indicates a decrease in the negative international investment position of 1.2 percentage points of GDP, in conditions of growth of international assets and fall in international liabilities. In terms of division by sectors, the quarterly improvement results from the reduction of net liabilities of the other sectors[45], mainly on the basis of foreign direct investments and long-term loans, as well as from the reduction of the government liabilities based on debt securities and loans. On the other hand, lower net assets of the central bank and higher net liabilities of the depository institutions were registered.

The annual change in the international investment position indicates an improvement of

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[44] In the second quarter of 2011, the NBRM began concluding repo and reverse repo transactions. These transactions represent an investment opportunity to use portfolio securities to provide additional income. Conclusion of repo transactions incurs liabilities. At the same time, claims created from reverse repo agreements tend to increase gross claims. The NBRM simultaneously carries out matched repo and reverse repo agreements in nearly identical amounts. In general, as they are concluded concurrently, these transactions have a neutral net effect, i.e. they appear in almost identical amount on both liabilities and assets side, and therefore do not affect the total net IIP nor the total net external debt.

[45] Refers to other financial institutions, non-financial corporations, households, and NPISHs.

Changes in the IIP

(contributions to the annual change, in p.p. of GDP)

■ Government, net   ■ Central bank, net
■ Deposit-taking corporations, net   ■ Other sectors, net
◆ IIP, net

Source: NBRNM.

Gross external debt, by debtors
(in % of GDP)

66.9 67.1 66.7 69.3 67.4 68.1 73.9 74.7 73.4 74.4 73.1 73.6 74.1 75.7 76.0 73.7 70.9

■ Public debt   ■ Private debt   ◆ Gross external debt

* Excluding repo-transactions.
Source: NBRSM.

Changes in private sector debt
(contributions to the quarterly change, in p.p. of GDP)

(contributions to the annual change, in p.p. of GDP)

Source: NBRSM.   ■ Banks   ■ Non-banking private sector   ■ Intercompany lending

2.7 percentage points of GDP, as a result of the increase in international assets, amid simultaneously lower international liabilities (by 1.7 percentage points and 1 percentage point of GDP, respectively)[46]. Sector-by-sector analysis shows that this change is entirely due to the shifts in the net position of the government (mainly reflecting the lower liabilities based on debt securities) and in the central bank (as a result of the increase in foreign reserves). These movements were partially offset by the shifts in the net position of other sectors, mainly due to the higher liabilities based on long-term loans and direct investments. The net position of the depository institutions registered no significant changes on an annual basis.

The gross external debt at the end of the first quarter of 2019 amounted to Euro 8,304.2 million, or 73.5% of GDP, which is a slight decline of 0.1 percentage point of GDP compared to the previous quarter. By excluding the effect of repo-transactions of the National Bank[47], the gross external debt amounts to 70.9% of GDP and registers a quarterly decline of 2.8 percentage points of GDP, which equally arises from the quarterly reduction of both the private sector debt and the public debt[48]. Within the private debt, the quarterly change reflects the lower intercompany debt and the liabilities of the non-banking private sector in the form of long-term loans. Regarding the public debt, the change was mostly due to the lower long-term government liabilities on debt securities and loans.
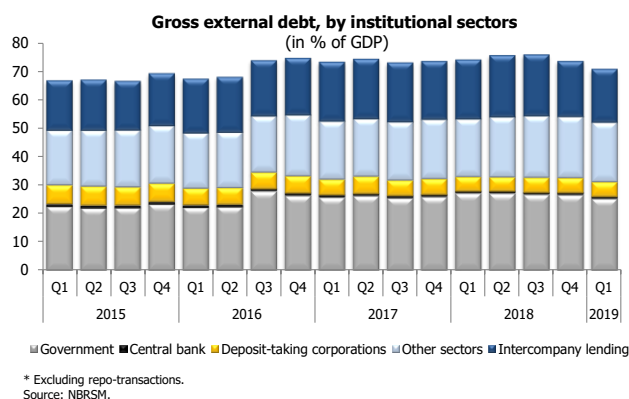
On an annual basis, the gross external debt decreased by 3.3 percentage points of GDP, amid a decline in both the private and the public debt (of 1.8 and 1.4 percentage points of GDP, respectively). The annual decline in the private debt is largely due to the reduction of the intercompany debt, amid moderate growth of long-term liabilities of the banking sector. The decrease in the public sector indebtedness is mostly due to the lower government liabilities based on debt securities, while the higher liabilities based on long-term loans of public enterprises acted in the opposite direction.

At the end of the first quarter of 2019, the net external debt amounted to Euro 2,688.3 million, or 23.8% of GDP, which is a decrease of 0.9 percentage points of GDP on a quarterly basis. The lower net external debt is mainly due to the

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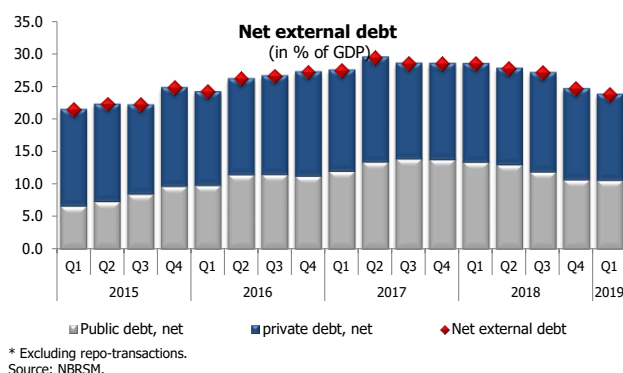[46] In absolute amounts, the IIP registered a slight deterioration of 0.2% on an annual basis.
[47] The overall analysis below relates to gross external debt without the central bank liabilities based on repo transactions.
[48] The dynamic analysis of the gross external debt in nominal amounts indicates quarterly and annual growth of the debt of 1.2% and 0.6%, respectively.

Gross external debt, by institutional sectors
(in % of GDP)

■ Government ■ Central bank ■ Deposit-taking corporations ■ Other sectors ■ Intercompany lending

* Excluding repo-transactions.
Source: NBRSM.

Net external debt
(in % of GDP)

■ Public debt, net ■ private debt, net ◆ Net external debt

* Excluding repo-transactions.
Source: NBRSM.

decrease of the private net debt, with a slight decline in the public net debt.

In general, external indebtedness indicators of the national economy remain in the safe zone. Gross external debt to GDP ratio still classifies our economy in the group of highly indebted countries, while all other ratios point to low indebtedness. Moreover, the dynamic analysis of external indebtedness indicates favorable annual developments in most of the solvency and liquidity indicators.

Indicators for external indebtness	Solvency				Liquidity		
	Interest payments/ Export of goods and services and other inflows	Gross debt/ Export of goods and services and other inflows	Gross debt/ GDP	Debt servicing/ Export 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	2.58	120.98	74.96	10.66	1.39	0.97	25.84
Moderate indebtedness criterion *	*12 - 20%*	*165 - 275%*	*30 - 50%*	*18 - 30%*	*1.00*		

*The moderate indebtedness criterion is accordng to the World bank's methodology of calculationg 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).
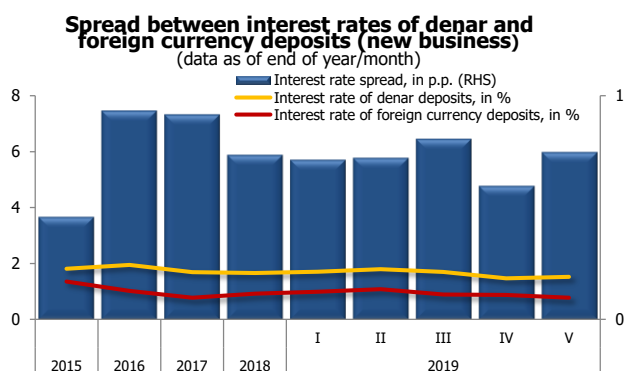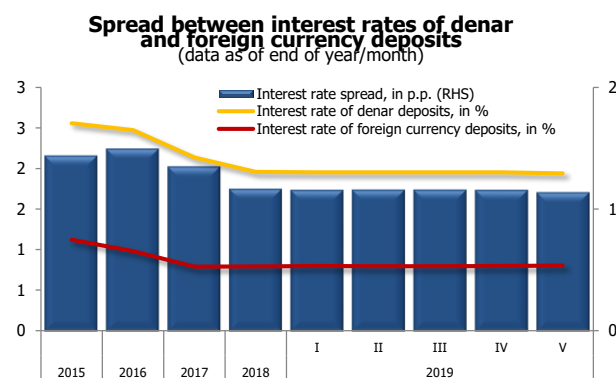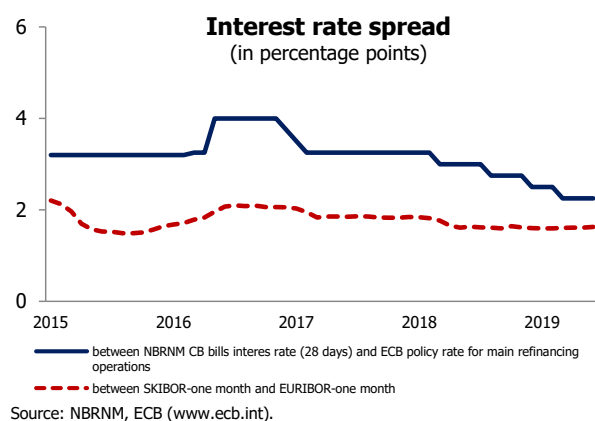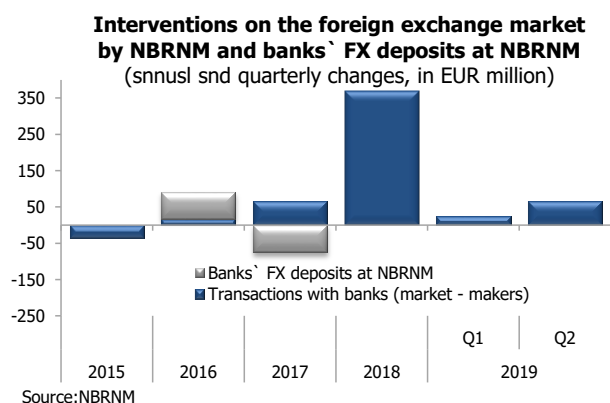Source: NBRNM.

II. Monetary policy

After easing the monetary policy at the end of the first quarter, the National Bank kept the key interest rate at 2.25% in the second quarter of 2019. The monetary setup was assessed as appropriate to the existing economic and financial conditions, given the sound economic fundamentals and the absence of imbalances in the economy. During the second quarter of the year, the movements on the foreign exchange market were favorable, with the National Bank continuing to intervene with purchase of foreign currency. In the second quarter of the year, the foreign reserves increased, and according to all adequacy ratios, they are still maintained in the safe zone. Favorable shifts were also registered in the deposit and credit flows, which as of May indicated a possibility for achieving higher growth of total deposits on an annual basis and lending activity within the expectations with the April forecasts. 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.
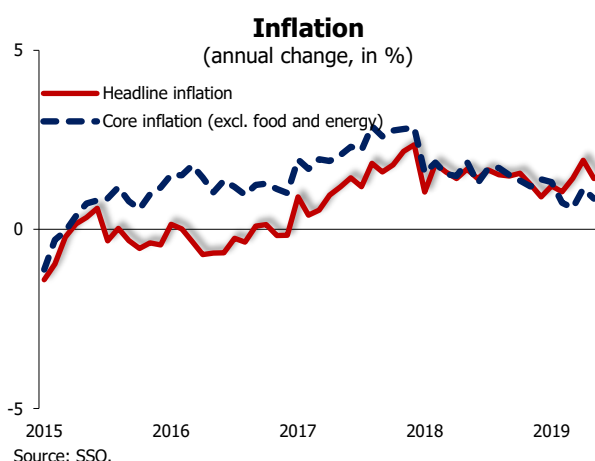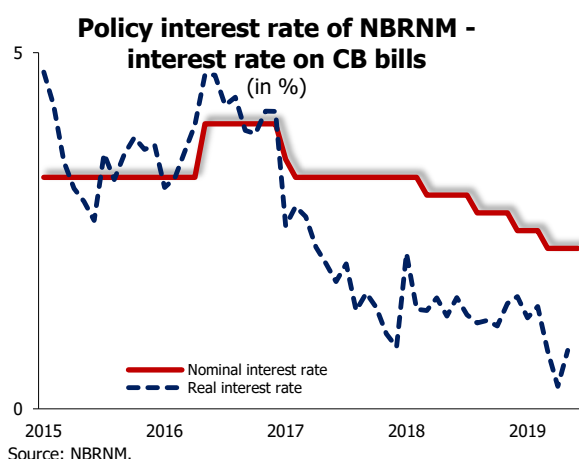
During the second quarter[49] of 2019, the National Bank did not change the monetary policy setup, i.e. the policy rate - the interest rate on CB bills, was maintained at the level of 2.25%. During the regular review of the monetary setup, it was assessed that most of the macroeconomic indicators, which are important for the monetary policy setup, do not deviate significantly from the forecasts, and the fundamentals of the economy are still sound, without the presence of imbalances. The lack of non-equilibrium is evident through low and stable inflation and favorable external position, a context which is conducive to favorable movements on the foreign exchange market and interventions for purchasing foreign currency by the National Bank at the beginning of the year. The dynamics and currency structure of household savings show stable expectations and favorable perceptions. The National Bank will continue to closely monitor the trends and potential risks from the domestic and external environment in the next period, in order to timely and appropriately adjust the monetary policy setup.

Policy interest rate of NBRNM - interest rate on CB bills
(in %)

Source: NBRNM.

Inflation
(annual change, in %)

Source: SSO.

The performances in the main macroeconomic indicators are mainly within their forecasted dynamics with the April forecasting round. The growth of inflation in the period April-May was moderate and averaged 1.7%, on an annual basis, which is a downward deviation from the April forecast, as a result of the lower food and energy prices. Amid lower than forecasted inflation and revisions in the external input assumptions in different directions, the assessments of the risks around the inflation forecast of 1.5% for 2019 were assessed as balanced. In terms of the economic activity, according to the estimated GDP data for the first quarter, the economy registered a solid growth of 4.1%, which is in line with the April forecast. The driver of the growth of the economic activity in the

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[49] Refers to the decisions of the OMPC sessions held in the period April-June.

Interventions on the foreign exchange market by NBRNM and banks` FX deposits at NBRNM
(snnusl snd quarterly changes, in EUR million)

Source:NBRNM

Interest rate spread
(in percentage points)

— between NBRNM CB bills interes rate (28 days) and ECB policy rate for main refinancing operations

- - - between SKIBOR-one month and EURIBOR-one month

Source: NBRNM, ECB (www.ecb.int).

Spread between interest rates of denar and foreign currency deposits
(data as of end of year/month)

- Interest rate spread, in p.p. (RHS)
- Interest rate of denar deposits, in %
- Interest rate of foreign currency deposits, in %

Spread between interest rates of denar and foreign currency deposits (new business)
(data as of end of year/month)

- Interest rate spread, in p.p. (RHS)
- Interest rate of denar deposits, in %
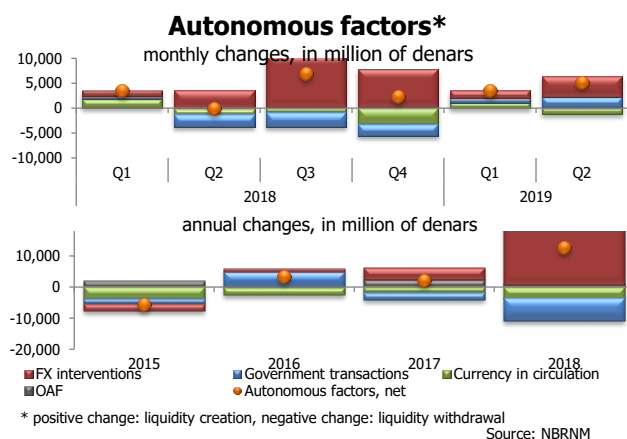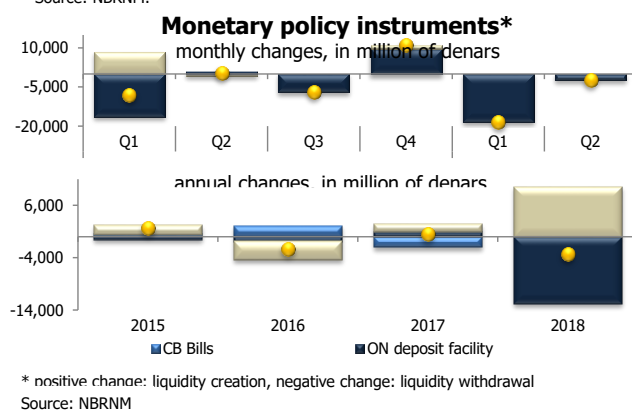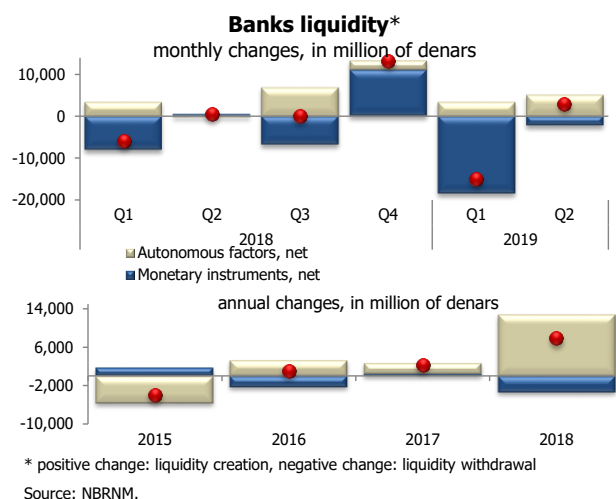- Interest rate of foreign currency deposits, in %

first quarter of the year is the domestic demand, while the net export demand makes a small negative contribution. Regarding the situation of the economy in the second quarter, the available high-frequency indicators currently indicate continuation of the favorable trends, visible through the further growth of industrial production and trade turnover. Foreign reserves in the second quarter registered a moderate increase, mostly as a result of the National Bank's interventions on the foreign exchange market with purchase of foreign currency. Foreign reserves adequacy ratios continue to show that their level is appropriate and maintained in the safe zone. Regarding the deposit and credit flows, the second quarter registered no major deviations from the expected dynamics. The available data as of May indicated a possibility for achieving slightly higher growth of total deposits on an annual basis and lending activity within the expectations with the April forecasts. Credit market developments also match the results of the Lending Survey in the first 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 the second quarter of the year.

At the ECB meeting at the beginning of June, it was emphasized that policy rates will remain at the current levels at least until the end of the first half of 2020, despite the previous announcements that they will remain unchanged at least until the end of this year. Given this setup, i.e. given the unchanged policy rate of the National Bank and the interest rate of the ECB[50] in the second quarter of 2019, the spread between these interest rates remained at the same level as of the previous quarter. Regarding the indicative market interest rates, there was a decrease in 1m EURIBOR of 0.02 percentage points, with unchanged 1m SKIBOR, compared to March, whereby their interest rate spread registered a minimum expansion.

In the domestic economy, regarding the total received deposits, the interest rates on denar and foreign currency deposits remained stable compared to March, so that the interest rate spread was 1.1 percentage point. Newly received deposits registered lower interest rate on denar and foreign currency deposits by 0.2 and 0.1 percentage points, whereby the interest rate spread registered a minimal narrowing and reduced to 0.7 percentage points.

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[50] Main refinancing operations rate.

Banks liquidity*
monthly changes, in million of denars

* Autonomous factors, net
* Monetary instruments, net

annual changes, in million of denars

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

Monetary policy instruments*
monthly changes, in million of denars

annual changes, in million of denars

CB Bills   ON deposit facility

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

Autonomous factors*
monthly changes, in million of denars

annual changes, in million of denars

FX interventions   Government transactions   Currency in circulation
OAF   Autonomous factors, net

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

2.1. Banks' liquidity

In the second quarter of 2019, the banks' liquid assets[51] on the accounts with the National Bank registered moderate growth, amid an increase in the banks' placements in deposits with the National Bank.

The stock of monetary instruments increased by Denar 2,238 million, which fully stems from the increase in the stock of short-term deposits of the banks, i.e. the growth of overnight deposits, amid unchanged stock of CB bills at a level of Denar 25,000 million[52].

Autonomous factors acted towards creating liquidity, in the amount of Denar 5,215 million, on a net basis. According to the analysis of individual autonomous factors, the foreign currency interventions of the National Bank (purchase of foreign currency on the foreign exchange market) were the dominant factor for creating liquid assets in the banking system, with the government transactions acting in the same direction, but to a lesser extent. On the other hand, currency in circulation acted towards withdrawing liquidity from the banking system.

In the second 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 second quarter was by 12% higher than the denar reserve requirement calculated as an average of the three reserve maintenance periods in the second quarter of the year.
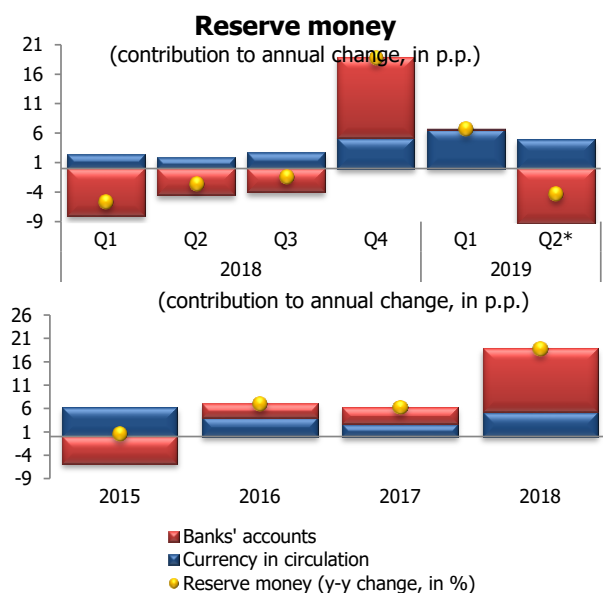
In the second quarter[53] of the year, the reserve money[54] registered an annual decline of 4.3%, compared to the growth of 6.8% in the previous quarter.

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[51] Refers to changes in banks' account balances with the NBRNM.
[52] In the second quarter of 2019, three auctions of CB bills of the NBRNM were held, at which CB bills in the amount of Denar 25,000 million were offered and sold.
[53] As of May.
[54] Includes reserve requirement in foreign currency.

**Fulfilment of reserve requirment
years/quarters**
(end of period average, in %)

Source: NBRNM

CB bills
(stocks, in MKD milion)

25,000

Source: NBRNM

Reserve money
(contribution to annual change, in p.p.)

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

- Banks' accounts
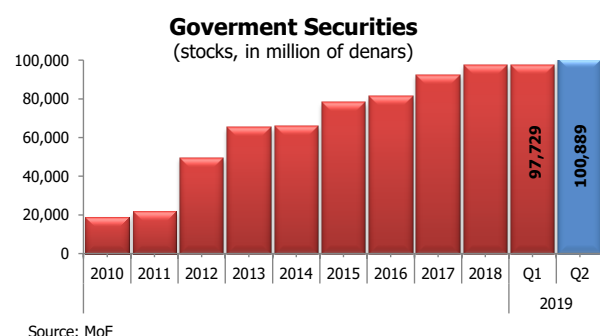- Currency in circulation
- Reserve money (y-y change, in %)
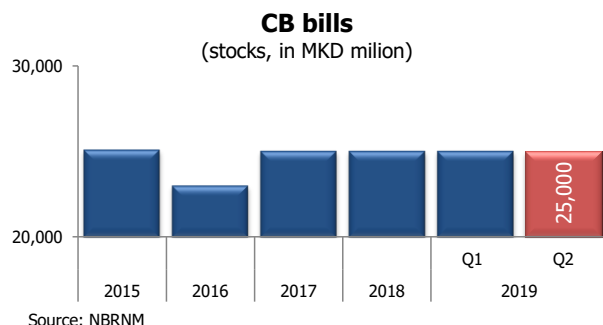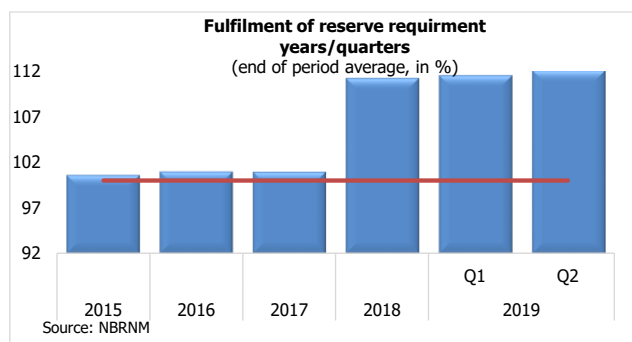
*end of мay
Source: NBRNM

III. Financial market developments

In the second quarter of 2019, amid unchanged key interest rate of the National Bank, the interbank interest rate on the deposit market remained stable, and no changes were registered in the indicative interest rates for interbank trading with deposits (SKIBOR). On the primary government securities market, the new issues were mostly on longer maturities and in domestic currency. On the secondary market, government bonds were traded, with a residual maturity of 10-15 years and of 15-30 years. On the Macedonian Stock Exchange, the value of MBI-10 continued to increase, and a positive shift was also observed in most of the stock exchanges in the region. On the

international financial markets, the financial conditions indexes moved in different directions, pointing mainly to a small increase in uncertainty in the bond trading segment. Yields on Macedonian Eurobonds continued to decline, which narrowed the spreads in relation to the yields on German government bonds, which also registered a downward trend.

Interest rates
in %

Source: NBRNM.

SKIBOR and CB bills interest rate
in %

Source: NBRNM

Money and short-term securities market
(turnover in million of denars)

Source: NBRNM

Goverment Securities
(stocks, in million of denars)

Source: MoF
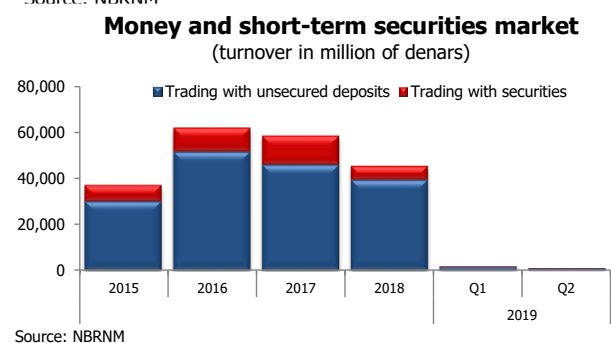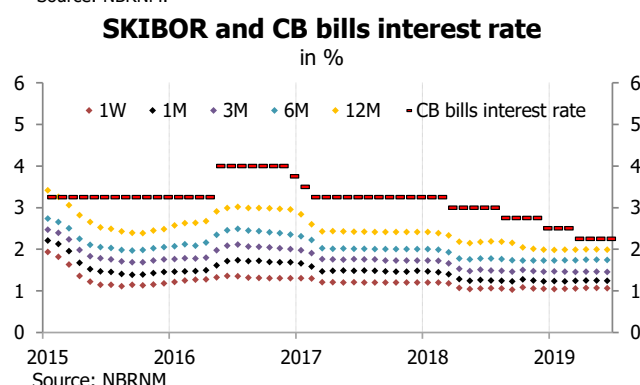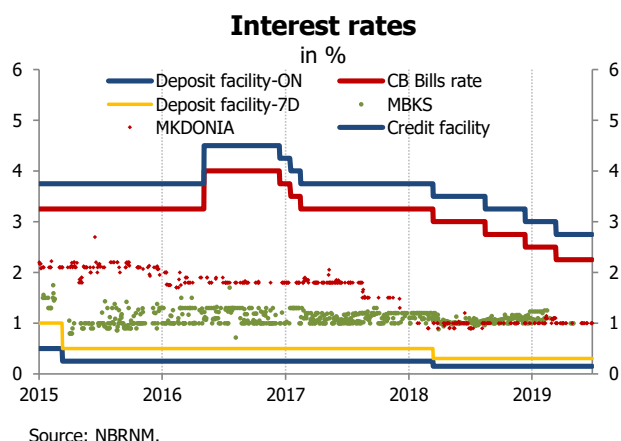
3.1. Interbank market for uncollateralized deposits
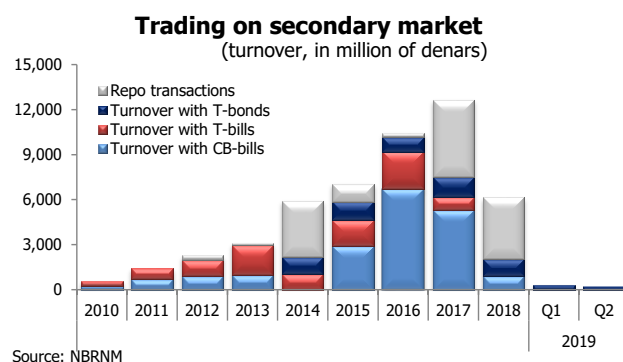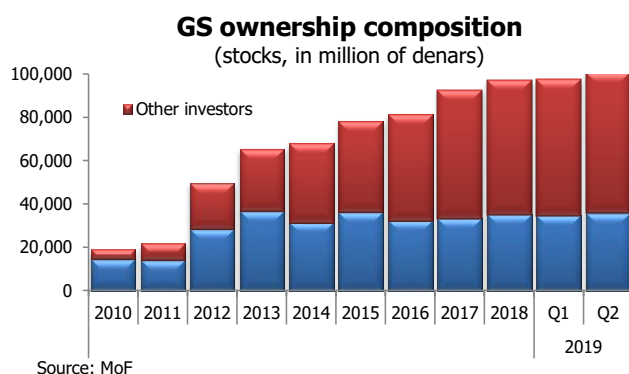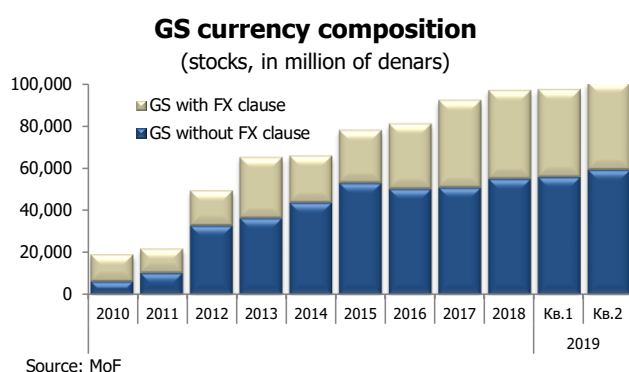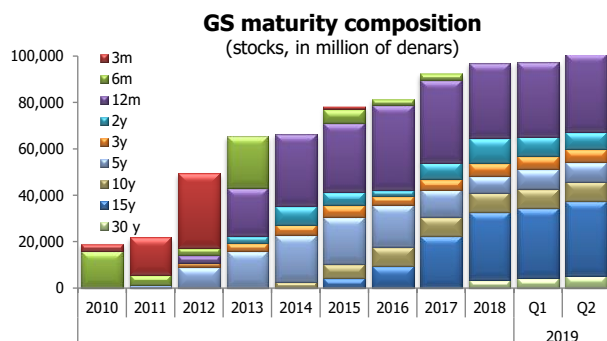
On the interbank deposit market, amid unchanged key interest rate of the National Bank, the interbank interest rate in the second quarter of the year remained low and stable, whereby no changes were registered in the SKIBOR quotations[55]. The total turnover with uncollateralized deposits of the interbank market in the second quarter of the year amounted to Denar 1,006 million and was lower compared to the previous quarter (by 37%). On the interbank market, there was overnight and 7 day trading. The interbank interest rate on all transactions (MBKS) averaged 1% for the quarter and remained low and relatively stable compared to the previous quarter, whereby no changes were registered 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. The stock of government securities in the second quarter of the year increased, which was largely due to the increase in the long-term securities (government bonds with a maturity of 15 and 30 years), amid growth, but to a lesser extent of the stock of treasury bills (with a maturity of 12 months). At the same time, a decrease was registered in the securities with shorter maturities, i.e. in the 2-year government bonds and in the 6-month treasury bills. At the end of the second quarter, the total amount of government securities is still dominated by the 15-year government bonds and the 12-month treasury bills, with a share of 32% and 33%, respectively.

The new issues of government securities were mostly in domestic currency. Thus, the share of securities without foreign currency clause at the end of the second quarter of the year amounted to 59% of the total stock of

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

GS maturity composition
(stocks, in million of denars)

Legend: 3m, 6m, 12m, 2y, 3y, 5y, 10y, 15y, 30y

Source: MoF

GS currency composition
(stocks, in million of denars)

Legend: GS with FX clause, GS without FX clause

Source: MoF

GS ownership composition
(stocks, in million of denars)

Legend: Other investors

Source: MoF

Trading on secondary market
(turnover, in million of denars)

Legend: Repo transactions, Turnover with T-bonds, Turnover with T-bills, Turnover with CB-bills

Source: NBRNM

government securities, i.e. it increased by 2 percentage points on a quarterly basis.

Growth in the government securities portfolio was registered with all groups of investors. The majority of the total issued government securities at the end of the second quarter of the year remained in the ownership of other investors (64%), primarily pension funds, while 36% of the total government securities are in bank ownership.
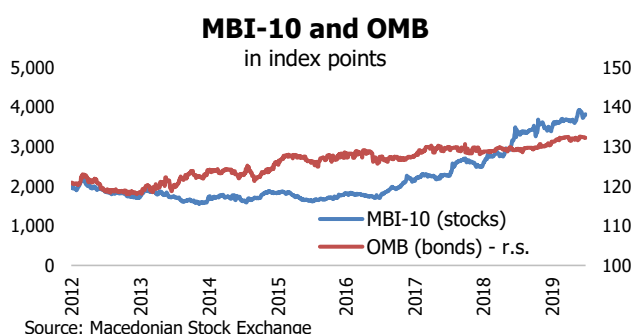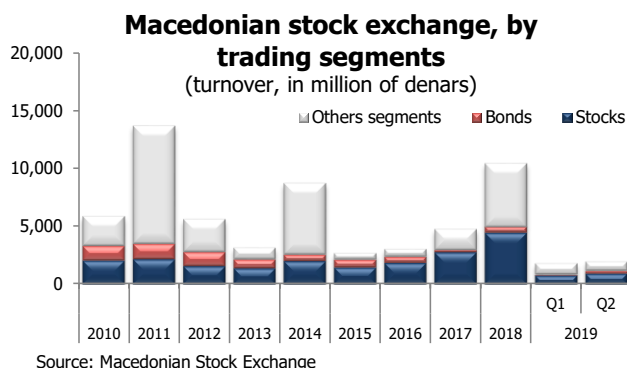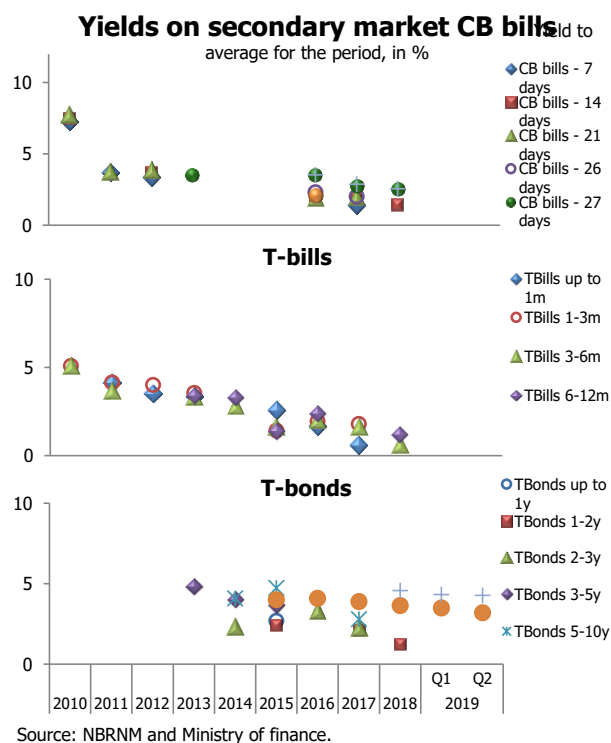
Interest rates on the primary securities market remained unchanged. During the second quarter of the year, 12-month treasury bills without currency clause, 5-year and 15-year government bonds without currency clause and 30-year government bonds with currency clause were issued, and their interest rates were 0.8%, 1.7%, 3.2% and 4.3%, respectively.

The secondary securities market registered trade in government bonds. The securities turnover of the secondary market in the second quarter of the year (Denar 232 million) was lower compared to the previous quarter (Denar 345 million) and was fully realized with government bonds. In terms of the maturity segments on which the trading was realized, the transactions with government bonds were with a residual maturity of 10 to 15 years (with yield to maturity of 3.2% on average) and with a residual maturity of 15 to 30 years (with yield to maturity of 4.3% on average).

The value of the stock exchange index (MBI-10) on the Macedonian Stock Exchange continued to increase. The total turnover of the Macedonian Stock Exchange in the second quarter of the year amounted to Denar 1,938 million and was slightly higher compared to the previous quarter (Denar 1,784 million), amid growth in the trading in both shares and bonds[56]. MBI-10 in the second quarter continued to increase and at the end of the quarter it was 3,821.6 (quarterly growth of 4%). At the end of the second quarter, the bond index (OMB) amounted to 132.2 and registered no changes on a quarterly basis.

The value of stock exchange indices on regional stock exchanges continued to increase. From the stock exchanges in the region, a more significant upward shift was

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[56] On 18 June 2019, the Ministry of Finance issued the 18th issue of denationalization bonds with a nominal value of Denar 400 million, an annual interest rate of 2% and an initial trading date on the Stock Exchange of 21 June 2019. By the end of June, Denar 139 million or 35% of the total value of the issue were traded.

Yields on secondary market CB bills
average for the period, in %

Yield to

Legend:
- ◆ CB bills - 7 days
- ■ CB bills - 14 days
- ▲ CB bills - 21 days
- ○ CB bills - 26 days
- ● CB bills - 27 days

T-bills

Legend:
- ◆ TBills up to 1m
- ○ TBills 1-3m
- ▲ TBills 3-6m
- ◆ TBills 6-12m

T-bonds

Legend:
- ○ TBonds up to 1y
- ■ TBonds 1-2y
- ▲ TBonds 2-3y
- ◆ TBonds 3-5y
- ✕ TBonds 5-10y

2010 2011 2012 2013 2014 2015 2016 2017 2018 | Q1 Q2 2019

Source: NBRNM and Ministry of finance.

Macedonian stock exchange, by trading segments
(turnover, in million of denars)

Legend: Others segments ■ Bonds ■ Stocks

2010 2011 2012 2013 2014 2015 2016 2017 2018 | Q1 Q2 2019

Source: Macedonian Stock Exchange

MBI-10 and OMB
in index points

Legend:
- MBI-10 (stocks)
- OMB (bonds) - r.s.

Source: Macedonian Stock Exchange

registered in the Romanian and Croatian stock exchange index, which increased and registered a quarterly growth of 10% and 5%, respectively. Growth was also registered in the other indices of the stock exchanges of the region, except the Hungarian index, whose value decreased by 3%, on a quarterly basis.

Volatility indices on bond and equity markets[57] during the second quarter moved in different directions. The VIX index registered a variable movement during the quarter, with its average value in the second quarter being slightly lower compared to the first quarter, while the MOVE index moved upwards, indicating a moderate increase in the uncertainty.

Yields on long-term government bonds in the United States and the Euro area continued to decline. Yields on the US 10-year government bonds[58] during the second quarter continued the downward trend and averaged 2.3% (2.7% in the first quarter). The decline in yields is related to the renewed global trade tensions and the tightening of the US trade relations with China and Mexico, which have led to reduced propensity to take risk with investors, on the international financial markets. As a result, the demand for government securities increased, which led to an increase in their prices and consequently to a decline in yields. Yields on the 10-year government securities in the Euro area entered the negative zone at the end of the second quarter, averaging 0% in the quarter (0.3% in the fourth quarter)[59].
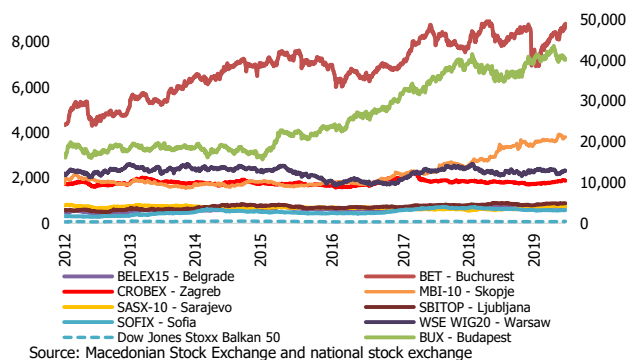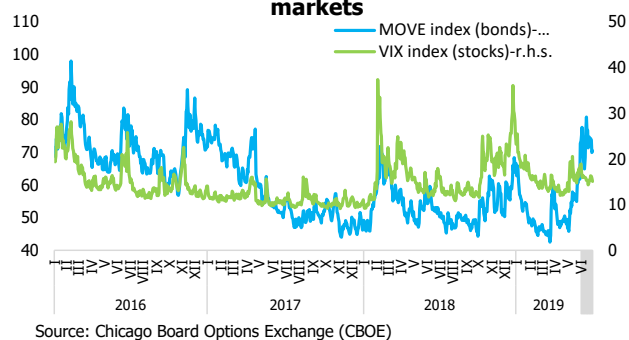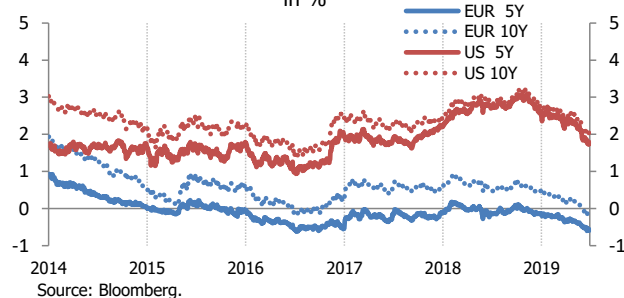
Yields on most of the Macedonian Eurobonds[60] continued to decline, which further narrowed the spreads in relation to the German government bonds. The spread between the yields on the issued Macedonian Eurobonds and the yields on the German government bonds for the second quarter of the year averaged 1.8 percentage points, 1.5 percentage points, 2.3 percentage points and 2.4 percentage points, and continued to narrow, except for the Eurobond issued in December 2015, whose spread expanded.

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[57] 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 the indices indicates a decrease in volatility.
[58] Those are generic yields derived from the yield curve of government bonds of the United States.
[59] Those are generic government bonds derived from the yield curves of government bonds of Germany and France.
[60] It refers to the Macedonian 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

BELEX15 - Belgrade
CROBEX - Zagreb
SASX-10 - Sarajevo
SOFIX - Sofia
Dow Jones Stoxx Balkan 50
BET - Buchurest
MBI-10 - Skopje
SBITOP - Ljubljana
WSE WIG20 - Warsaw
BUX - Budapest

Source: Macedonian Stock Exchange and national stock exchange

Volatility indexes on stocks and bond markets

MOVE index (bonds)-...
VIX index (stocks)-r.h.s.

Source: Chicago Board Options Exchange (CBOE)

GS yields in USA and eurozone
in %

EUR 5Y
EUR 10Y
US 5Y
US 10Y

Source: Bloomberg.

Yields and spreads between Eurobonds and German government securities

Eurobond 7/21 and German GS 7/21
Eurobond 12/21 and German GS 10/20
Eurobond 7/23 and German GS 8/23
Eurobond 1/25 and German GS 2/25

Source: Bloomberg.
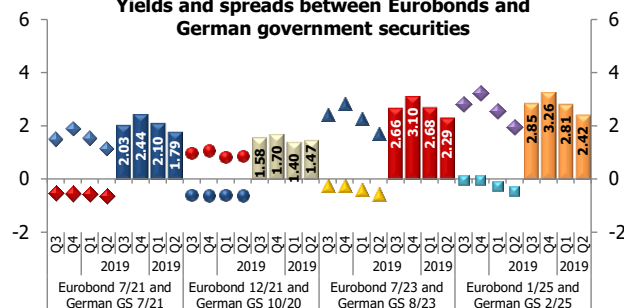
IV. Monetary and credit aggregates

In the second quarter of 2019, favorable shifts were observed in the monetary and credit aggregates. Thus, after an almost stagnation in the first quarter, the broadest money supply increased on a quarterly basis. From a structural point of view, growth is recorded in all components of the money supply, but the main contribution results from the most liquid

component. This change is partly a reflection of seasonal factors, but it is also in line with the signals for favorable shifts in the economic activity. From a sectoral point of view, the growth of total deposits in the financial system stems from the growth of household deposits and corporate deposits, while other sectors deposits make a small negative contribution. There are also favorable shifts in the lending activity, which in the second quarter of the year accelerated compared to the previous quarter. From a sectoral point of view, the growth of the lending activity is mostly driven by household loans, with a positive contribution of corporate loans. Such performance is in line with the results from the Bank Lending Survey for the second quarter, which indicate an increase in the demand for loans, amid further easing of the overall lending conditions.

4.1.1. Monetary aggregates

The broadest money supply M4 in the second quarter registered a quarterly growth of 2.0% (0.4% in the previous quarter). This change in the money supply in the second quarter of the year is partly a reflection of seasonal factors, but it is also in line with the signals for favorable shifts in terms of economic activity. The structure analysis indicates that the acceleration of the M4 growth is mostly due to demand deposits[61], which after the decline in the previous quarter experienced growth in the second quarter of the year. A small growth was also registered in the other components of the broadest money supply, i.e. currency in circulation, short-term and long-term deposits. Analyzed by currency, the growth of money supply stems from denar deposits (including demand deposits) with a positive contribution of 1.8 percentage points, while the contribution of foreign currency deposits is negative (0.1 percentage point). At the end of the second quarter, the share of foreign currency deposits in M4 was 35.9% and registered a downward trend (36.7% at the end of the previous quarter). **Annually**, the growth of the broadest money supply at the end of the second quarter was 10.5% (11.7% at the end of the first quarter).

Total deposits in the financial system[62] in the second quarter of the year increased by 1.9% on a quarterly basis (quarterly growth of 0.7% in the previous quarter). From a sectoral point of view, the growth of total deposits

M4, composition
(quarterly data, contributions in percentages points)

(annual data, contributions in percentage points)

Source: NBRNM.

[61] In the second quarter of 2019, subsidies for agriculture in the amount of about Denar 2,800 million were paid from the Budget of the Republic of North Macedonia.
[62] Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspx.

Total deposits
(contributions to quarterly changes, in percentage points)

(contribution to annual changes, in percentage points)

Source: NBRNM.
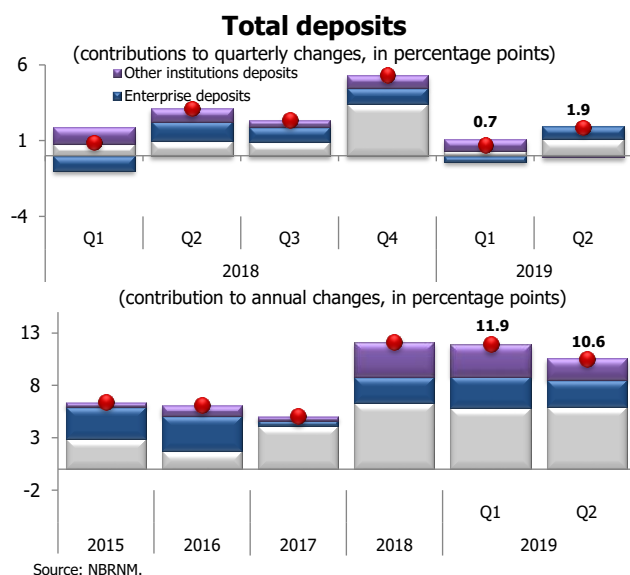
Total deposits

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total deposits	0.9	3.1	2.4	5.3	0.7	1.9
contributions to quarterly growth, p.p.						
Deposit money	-0.1	1.0	1.7	3.3	-0.7	1.4
Denar deposits	0.5	0.7	0.6	0.8	0.4	0.5
FX deposits	0.5	1.4	0.1	1.2	0.9	-0.1
Short-term deposits	0.1	1.5	-0.4	1.5	0.6	0.1
Long-term deposits	0.9	0.6	1.0	0.6	0.8	0.3
Households	0.8	1.0	0.9	3.4	0.3	1.1
Enterprises	-1.0	1.3	1.0	1.1	-0.4	0.9
Other institutions deposits	1.1	0.8	0.4	0.8	0.8	-0.1

Source: NBRNM.

Household deposits

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total household deposits	1.2	1.4	1.4	5.2	0.5	1.7
contribution to quarterly change of total deposits. in p.p.						
Deposit money	-0.1	0.3	0.4	3.4	-0.8	1.2
Denar deposits	0.5	0.1	0.2	0.7	0.6	0.2
FX deposits	0.8	1.1	0.8	1.1	0.7	0.3
Short-term deposits	0.5	0.7	0.2	0.8	0.5	0.1
Long-term deposits	0.8	0.5	0.8	0.9	0.8	0.3

Source: NBRNM.

Enterprise deposits

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total household deposits	-3.9	5.3	3.9	4.2	-1.6	3.4
contribution to quarterly change of total deposits. in p.p.						
Deposit money	-2.7	1.7	5.6	0.6	-2.1	3.6
Denar deposits	-1.2	1.2	0.0	1.4	-0.8	0.9
FX deposits	0.0	2.3	-1.7	2.2	1.3	-1.1
Short-term deposits	-1.4	3.7	-2.0	3.8	-0.1	-0.5
Long-term deposits	0.2	-0.1	0.2	-0.2	0.6	0.3

Source: NBRNM.

is almost equally a result of the growth of household deposits and corporate deposits, while other sectors deposits make a small negative contribution. From currency point of view, denar deposits (including demand deposits) fully explain the growth of total deposits, while foreign currency deposits make a small negative contribution. According to the maturity structure, the growth is largely due to long-term deposits, but the contribution of short-term deposits is also positive. **On an annual basis,** the growth of total deposits equalled 10.6% at the end of June (11.9% at the end of March).

Total household deposits in the second quarter of 2019 grew by 1.7%, which is an acceleration compared to the performance in the previous quarter (quarterly growth of 0.5%). Seasonal factors, such as subsidy payments to farmers, have certain impact on the quarterly growth acceleration. From currency point of view, the quarterly growth is mostly due to the higher denar deposits (including demand deposits), amid simultaneous growth of foreign currency deposits. In terms of the maturity structure, the second quarter continues to register positive shifts in savings, with a positive contribution of both short-term and long-term deposits (contribution of 0.1 percentage point and 0.3 percentage points, respectively). **On an annual basis,** the growth of total household deposits at the end of June equals 9.0%, compared to 8.7% at the end of March.

Total corporate deposits in the second quarter registered a quarterly growth of 3.4%, compared to the decline registered in the previous quarter (of 1.6%). According to the currency structure, the quarterly growth is entirely due to denar deposits (including demand deposits), amid a decrease in foreign currency deposits. In terms of maturity, short-term deposits make a negative contribution, while long-term deposits register an increase. **On an annual basis,** corporate deposits at the end of June were higher by 10.1%, which is a more moderate growth compared to the growth at the end of the previous quarter (12.1%).

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

Interest rate spread
Denar interest rate
FX interest rate

2.0

1.0   0.9
1.1   1.1

2015   2016   2017   2018   Q1   Q2*
                              2019
*end of May
Source: NBRNM.

Interest rates of newly received deposits of enterprises
(in %)

Interest rate spread
Denar interest rate
FX interest rate

1.3   1.2

0.7   0.5
0.6   0.7

2015   2016   2017   2018   Q1   Q2*
                              2019
*end of May
Source: NBRNM.

According to the analysis of the yields[63] **of the new savings,** in May, the interest rates on the newly received[64] denar and foreign currency household deposits registered a minimal decrease of 0.1 percentage point compared to March and amounted to 2.0% and 0.9%, respectively. In such conditions, the interest rate spread between the new denar and foreign currency household savings remained unchanged in May. In the corporate sector, the interest rates on the newly received denar and foreign currency deposits decreased by 0.1 percentage point and by 0.2 percentage points, respectively, compared to March, amounting to 1.2% and 0.5%, respectively, whereby the interest rate spread expanded in May compared to March. **Regarding the total received deposits**, the interest rates on household deposits (denar and foreign currency) in May registered no changes compared to March, amounting to 1.4%, while the interest rates on corporate deposits were reduced to 1.6% (1.7% in March).

Total credits of private sector

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total credits of private sector	-0.7	2.7	1.8	3.4	0.8	1.8
Contribution in quarterly change of total credits (in p.p.)						
Denar credits	-0.6	1.6	1.1	3.4	0.4	0.8
Foreign currency credits	-0.2	1.1	0.7	0.0	0.5	1.0
Short-term credits	-0.8	0.6	0.0	1.5	-0.1	-0.3
Long-term credits	1.3	2.0	1.7	1.6	0.8	1.8
Households	1.1	1.6	1.2	0.9	0.9	1.7
Corporations	-1.8	1.1	0.6	2.4	0.0	0.2

Source: NBRNM.

4.1.2.   Lending activity

In the second quarter of 2019, the banking sector increased the lending support to the private sector. Loans registered a quarterly increase of 1.8%, which is an acceleration compared to the growth in the previous quarter (0.8%). Lending activity growth is in accordance with the results of the Bank Lending Survey[65] for the second quarter, indicating a further increase in the demand for loans, amid further easing of the overall lending conditions. For the third quarter of 2019, banks expect further increase in the total demand for loans by both sectors, with further easing of the overall lending conditions.
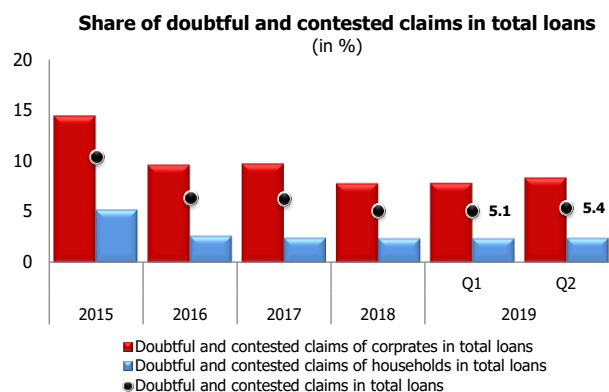
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[63] Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit:
http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspx.
[64] 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.
[65] For more information, also see Bank Lending Survey at http://nbrm.mk/?ItemID=F7AC78DEE498764FBAF39049F726CE3C.

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

Doubtful and contested claims of corprates in total loans
Doubtful and contested claims of households in total loans
Doubtful and contested claims in total loans

Source: NBRNM.

credit conditions

credit demand

corporations   housing   consumer credit

Source: Bank lending Survey, NBRNM.

Total credits of households

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total credits of households	2.3	3.3	2.5	1.8	1.8	3.4
Contribution in quarterly change of household credits (in p.p.)						
Denar credits	1.4	2.4	1.7	1.1	1.6	1.7
Foreign currency credits	0.9	0.9	0.8	0.7	0.2	1.7
Short-term credits	0.3	0.3	0.2	-0.3	0.4	0.0
Long-term credits	2.0	2.9	2.3	2.1	1.4	3.2

Source: NBRNM.

The analysis of the sectoral structure indicates that the quarterly growth of loans to the private sector is largely a result of household lending, with a simultaneous positive contribution of corporate lending. From a currency point of view, the growth is almost equally due to denar and foreign currency loans[66]. Regarding the maturity structure, the quarterly growth of total loans is entirely due to long-term loans, with a decrease in short-term loans. The share of doubtful and contested claims in total loans at the end of June was 5.4% and increased by 0.3 percentage points compared to the previous quarter.
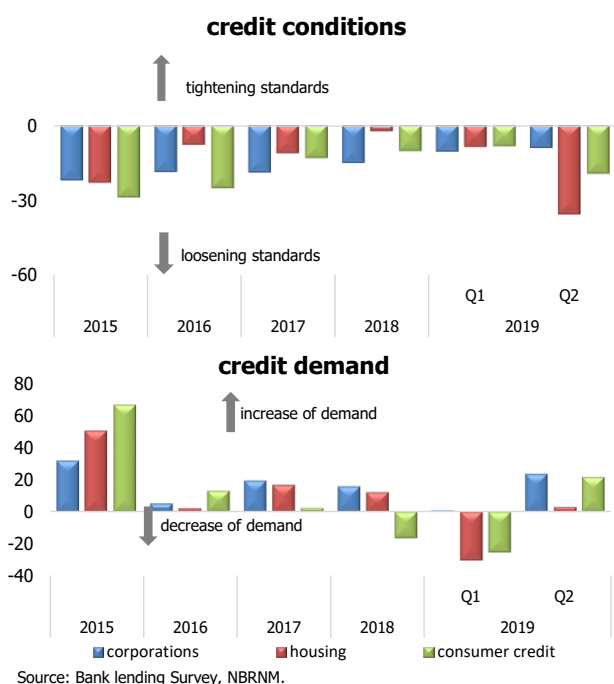
On an annual basis, total loans at the end of the second quarter increased by 8.1%, which is more moderate compared to the previous quarter (9.0%). Moreover, stable share of total loans in total deposits was maintained, amounting to 83.8% at the end of June (83.9% at the end of March).

During the second quarter of 2019, the lending to the household sector accelerated (growth of 3.4%) compared to the previous quarter (1.8%). The quarterly growth largely stems from the increase in consumer loans, with a further positive contribution of housing loans and other loans, while credit cards and overdrafts registered a slight decrease. Such performance correspond to the results of the Bank Lending Survey for the second quarter of the year, which indicate an increase in the demand for housing and consumer loans, amid eased lending conditions. From a currency point of view, the growth of household loans equally arises from denar and foreign currency loans. In terms of the maturity structure, the quarterly growth arises from long-term loans, with a neutral contribution of short-term loans. **Annually,** at the end of June, total loans to households increased by 9.9% (9.7% at the end of March).
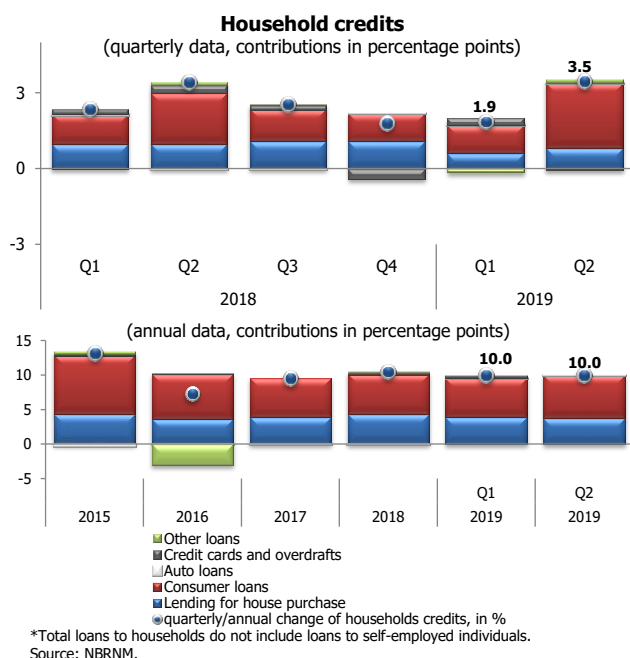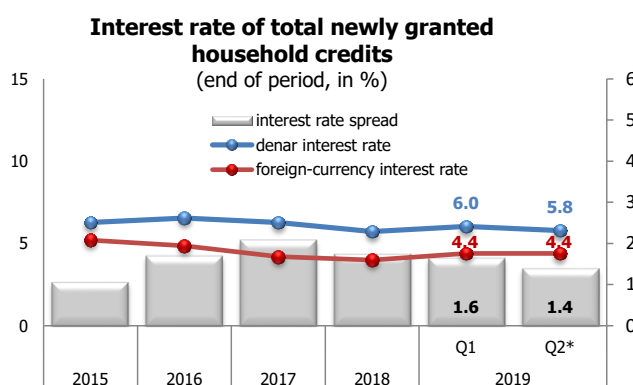
In the second quarter of 2019, total loans granted to the corporate sector increased slightly by 0.3%, after the stagnation in the

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[66] Foreign currency loan data also include denar loans with currency clause.

Household credits
(quarterly data, contributions in percentage points)

(annual data, contributions in percentage points)

- Other loans
- Credit cards and overdrafts
- Auto loans
- Consumer loans
- Lending for house purchase
- quarterly/annual change of households credits, in %

*Total loans to households do not include loans to self-employed individuals.
Source: NBRNM.

Total credits of corporations

| | 2018 | | | | 2019 | |
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total credits of corporations	-3.5	2.1	1.1	4.8	0.0	0.3
Contribution in quarterly change of corporation credits (in p.p.)						
Denar credits	-2.4	0.9	0.5	5.5	-0.8	0.1
Foreign currency credits	-1.1	1.2	0.6	-0.7	0.7	0.2
Short-term credits	-1.8	0.8	-0.1	3.3	-0.5	-0.7
Long-term credits	0.7	1.1	1.2	1.0	0.4	0.4

Source: NBRNM.

Interest rate of total newly granted household credits
(end of period, in %)

- interest rate spread
- denar interest rate
- foreign-currency interest rate

*End of May
Source: NBRNM.

previous quarter. Such performance is in accordance with the results of the Bank Lending Survey for the second quarter, which indicate an increase in the demand for corporate loans, amid eased lending conditions. From a currency point of view, the growth of total corporate loans is almost equally a result of denar and foreign currency loans. According to the analysis of the maturity structure, the quarterly growth arises from long-term loans, while short-term loans make a negative contribution. **Annually,** at the end of June, total corporate loans increased by 6.4% (8.2% at the end of March).

According to the data on the interest rates[67] **on the newly approved loans**[68] **in May**, the interest rates on denar loans to households decreased from 6.0% in March to 5.8% in May, while the interest rates on foreign currency loans remained unchanged (4.4%), which conditioned narrowing of the interest rate spread to 1.4 percentage points. Regarding the enterprises, the interest rates on the newly approved denar and foreign currency loans in May decreased at a level of 4.5% and 4.0%, respectively (previously 4.7% and 4.3%, respectively), whereby the interest rate spread minimally increased to 0.5 percentage points. Regarding the total approved loans, at the end of May, the interest rate on household loans decreased to 5.9% (6.0% in March), while the total interest rate on corporate loans remained unchanged and amounted to 4.5%.

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[67] Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspx.
[68] 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.

Interest rate of total newly granted corporate credits
(end of period, in %)

*End of May
Source:NBRNM.
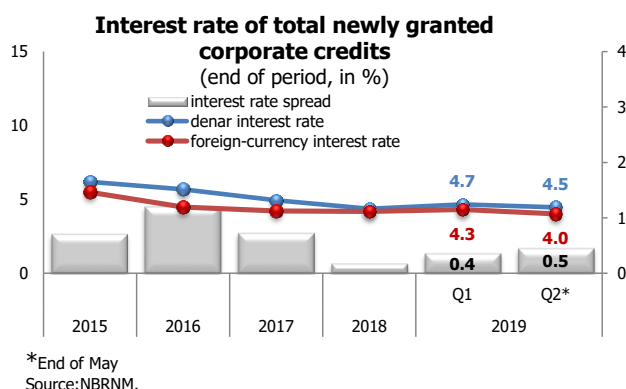
V. Public finances

In the first quarter of 2019, total budget revenues and expenditures registered moderate growth on an annual basis, while the registered budget deficit remained at last year's level of 0.5% of GDP. The deficit was mainly financed by funds from the government deposit account with the National Bank and to a lesser extent by net issuance of government securities on the domestic financial market. Observed for the first five months of the year, the budget deficit equals 0.7% of GDP, which is 28.2% of the Budget plan for 2019. The budget deficit in the period January-May was financed by net issuance of government securities on the domestic securities market, and to a lesser extent by funds from the government deposit account with the National Bank. The total public debt at the end of the first quarter of 2019 amounted to 46.4% of GDP and is by 2 percentage points lower than the previous quarter.

Budget revenues
contibution to annual change, in p.p.

annual data, contirbutions in p.p.
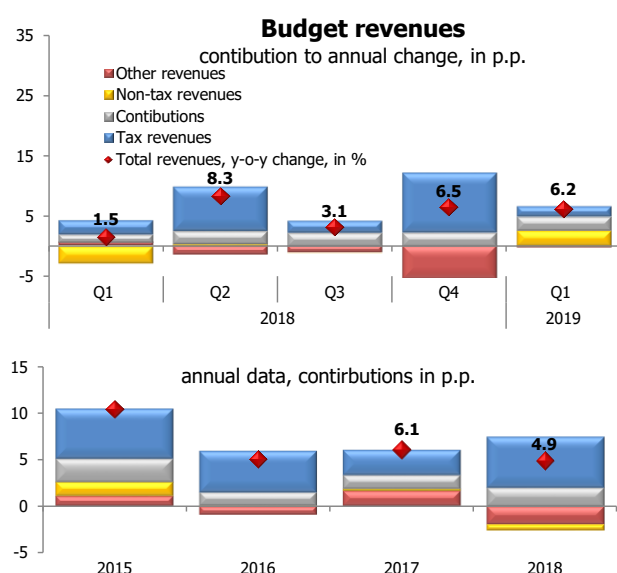
*Other revenues includes capital revenues, foreign donations and revenues from due loans.
Sources: Ministry of finance and NBRNM`s calcualtions.

The total revenues in the Budget of the Republic of North Macedonia[69] generated in the first quarter of 2019 increased by 6.2%, on an annual basis. The growth of budget revenues is a result of the higher non-tax revenues[70], contributions and taxes (with a contribution of 2.6 percentage points, 2.3 percentage points and 1.7 percentage points, respectively), while the other revenues[71] made a small negative contribution (0.3 percentage points).
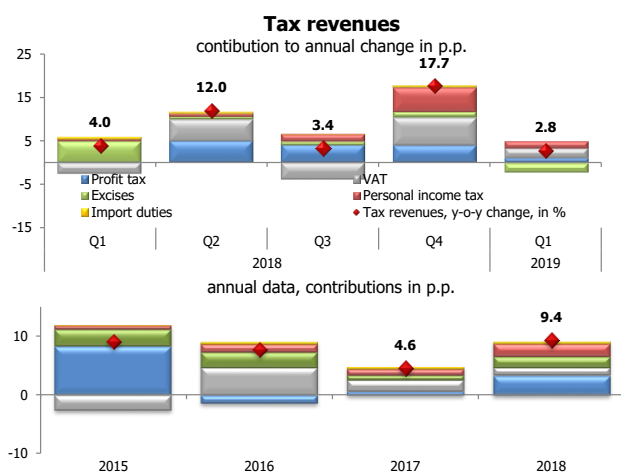
In the same period, total tax revenues[72] increased by 2.8% on an annual basis. The growth of tax revenues in the first quarter of the year is a result of the larger amount of net
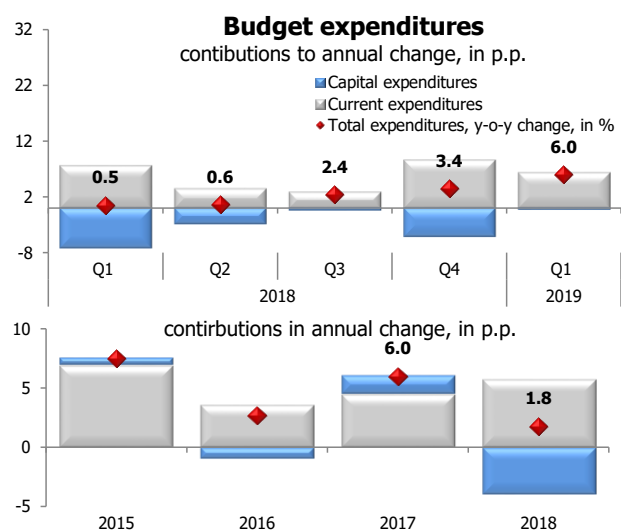
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[69] Central budget and budgets of funds.
[70] Higher non-tax revenues were mostly due to inflows to the Pension and Disability Insurance Fund's account in the RNM Budget. These inflows are a result of the transfer of funds of the private pension funds 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.
[71] Other revenues include capital revenues, donations from abroad and revenues from recovered loans.
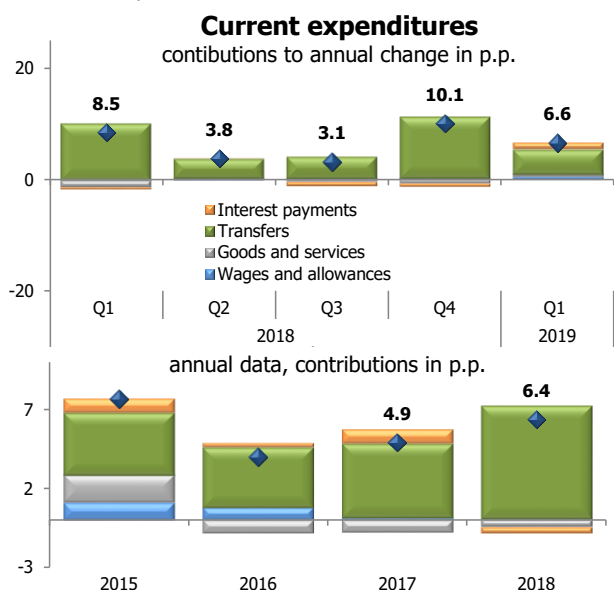[72] It also includes own revenue accounts (SSP).

Tax revenues
contibution to annual change in p.p.

annual data, contributions in p.p.

Source: Ministry of finance and NBRNM`s calculations

Budget expenditures
contibutions to annual change, in p.p.

contirbutions in annual change, in p.p.

Source: Ministry of finance.

Current expenditures
contibutions to annual change in p.p.

annual data, contributions in p.p.

Source: Ministry of finance and NBRNM`s calcualtions.

revenues from VAT[73], as well as of the increased revenues from personal income tax[74] and corporate tax (with a contribution of 2.3 percentage points, 1.7 percentage points and 1.0 percentage points, respectively). Excises make a negative contribution (of 2.1 percentage points), while import duties make a neutral contribution.

Total expenditures in the Budget in the first quarter of 2019 were by 6.0% higher on an annual basis. The growth of budget expenditures is entirely due to the higher current expenditures, with a contribution of 6.3 percentage points, while the contribution of capital expenditures is negative and amounts to 0.4 percentage points.

In the first quarter of 2019, the total current expenditures increased by 6.6% on an annual basis. Within the current expenditures, all categories increased, with the largest contribution of the category of transfers (4.5 percentage points), while the contribution of the categories of interest payments, goods and services and wages and allowances was 1.2 percentage points, 0.5 percentage points and 0.5 percentage points, respectively.
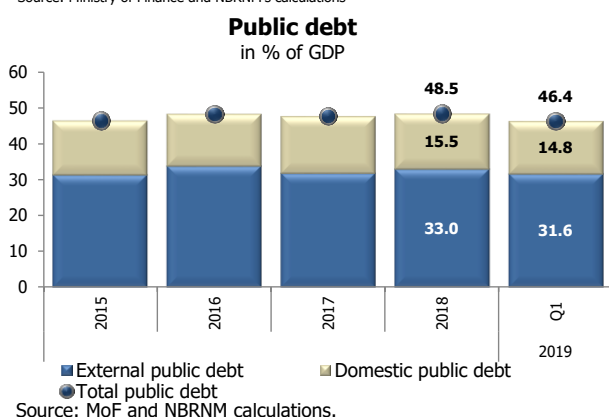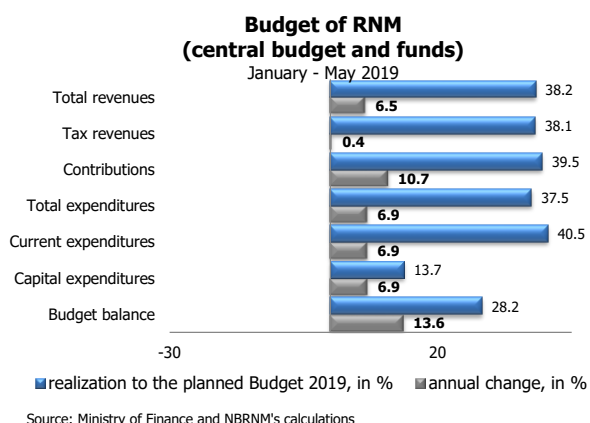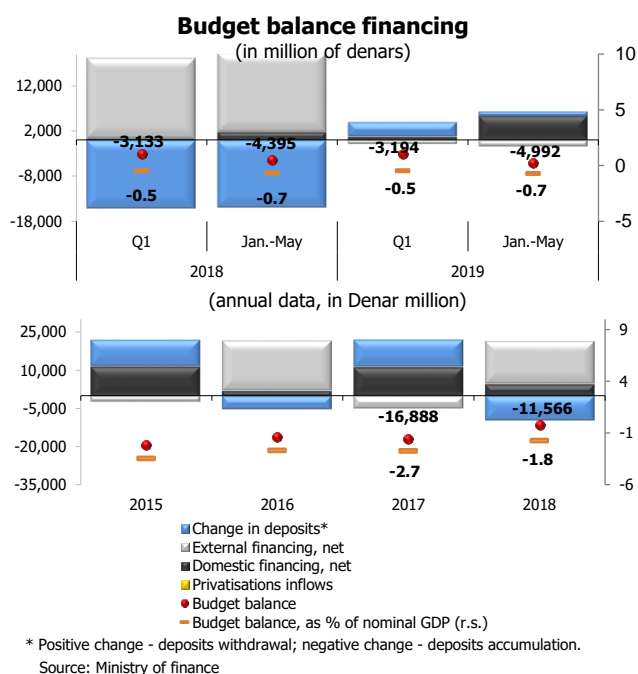
During the first quarter of 2019, a budget deficit of Denar 3,194 million was registered, or 0.5% of GDP[75], which is the same performance as last year. The deficit in this period was mostly financed by withdrawing funds from the government deposit account with the National Bank and to a lesser extent by government borrowing on the domestic financial market.

In the period January - May 2019, total budget revenues increased by 6.5% compared to the same period last year. The growth is mostly a result of better performance mainly in non-tax revenues and contributions, with a contribution of 3.4 percentage points and 3.1 percentage points, respectively. In the same period, **the budget expenditures increased by 6.9% on an annual basis**, which was mostly a

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[73] Higher net revenues from VAT in the first quarter of 2019 are mostly explained by the growth of gross revenues from VAT of 4.8% annually, amid growth of the payment of the VAT refund of 4.0% on an annual basis.
[74] Higher revenues from personal income tax in the first quarter of 2019 are partly explained by the introduction of progressive personal income tax rates from the beginning of 2019.
[75] The analysis uses the NBRNM April forecast for the nominal GDP for 2019.

Budget balance financing
(in million of denars)

(annual data, in Denar million)

Change in deposits*
External financing, net
Domestic financing, net
Privatisations inflows
Budget balance
Budget balance, as % of nominal GDP (r.s.)

* Positive change - deposits withdrawal; negative change - deposits accumulation.

Source: Ministry of finance

Budget of RNM
(central budget and funds)
January - May 2019

realization to the planned Budget 2019, in %   annual change, in %

Source: Ministry of Finance and NBRNM's calculations

Public debt
in % of GDP

External public debt   Domestic public debt
Total public debt

Source: MoF and NBRNM calculations.

result of the growth of current expenditures, with a contribution of 6.6 percentage points, while the contribution of capital expenditures amounted to 0.3 percentage points. **In the first five months of the year, the budget deficit is Denar 4,992 million,** or 0.7% of GDP, which is 28.2% of the deficit planned for 2019. The deficit was mostly financed by net issuance of government securities on the domestic financial markets, and to a lesser extent by withdrawal of funds from the government deposit account with the National Bank.

At the end of the first quarter of 2019, total public debt[76] was 46.4% of GDP[77], which is a quarterly decrease of 2 percentage points. In terms of structure, the decrease is a result of the decline in the external debt from 33.0% to 31.6% of GDP, with a simultaneous decline in the domestic debt from 15.5% to 14.8% of GDP. In terms of structure, total government debt[78] at the end of the first quarter of 2019 amounted to 38.5% of GDP and decreased by 2.0 percentage points compared to the previous quarter, while the debt of public enterprises[79] (for which the government has issued a state guarantee) remained unchanged at 8.0% of GDP. Compared to the same period of 2018, total public debt at the end of the first quarter of 2019 decreased by 0.9 percentage points of GDP.

[76] The public debt is defined under the Law on Public Debt (Official Gazette No. 62/2005, 88/2008, 35/11, 139/14 and 98/19) as the sum of the government debt and the debt of public companies 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.
[77] At the end of the first quarter of 2019, the total public debt equaled Euro 5,242 million.
[78] Government debt is defined as a sum of debts of the central and the local government.
[79] Refers to guaranteed debt of public companies and joint stock companies owned by the state, according to the public debt definition under the Law on Public Debt (Official Gazette No. 62/2005, 88/2008, 35/11, 139/14 and 98/19).

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

	2019						
	Budget	Q1	Jan.-May	Q1		Jan.-May	
	Realization, in mil. denars			Annual changes, perod in Q1 2019 over the same period in the previous year, in %	Contributions in annual changes, perod in Q1 2019 over the same period in the previous year, in %	Annual changes, perod in January to May 2019 over the same period in the previous year, in %	Contributions in annual changes, perod in January to May 2019 over the same period in the previous year, in %
TOTAL REVENUES	**210,848**	**46,076**	**80,616**	**6.2**	**6.2**	**6.5**	**6.5**
Tax revenues and contributions	184,201	40,646	70,940	4.4	4.0	3.5	3.2
Taxes	120,166	26,272	45,839	2.9	1.7	0.4	0.2
Contributions	62,316	14,061	24,584	7.7	2.3	10.7	3.1
Non-tax revenues	18,521	4,324	7,632	35.3	2.6	51.2	3.4
Capital revenues	2,026	218	347	-52.2	-0.5	-54.2	-0.5
Foreign donations	6,000	888	1,697	12.7	0.2	26.3	0.5
Revenues from repayments of loans	100	0	0		0.0		0.0
TOTAL EXPENDITURES	**228,548**	**49,270**	**85,608**	**6.0**	**6.0**	**6.9**	**6.9**
Current expenditures	202,577	47,656	82,040	6.6	6.3	6.9	6.6
Capital expenditures	25,971	1,614	3,568	-10.0	-0.4	6.9	0.3
BUDGET DEFICIT/SURPLUS	**-17,700**	**-3,194**	**-4,992**				
Financing	17,700	3,194	4,992				
Inflow	**34,195**	**7,702**	**11,843**				
Privatisation receipts	100	168	194				
Foreign loans	25,416	64	531				
Deposits	-10,325	3,223	1,024				
Treasury bills	19,001	4,217	10,064				
Sale of shares	3	30	30				
Outflow	**16,495**	**4,508**	**6,851**				
Repayment of principal	16,495	4,508	6,851				
External debt	6,175	855	1,859				
Domestic debt	10,320	3,653	4,992				

Source: Ministry of Finance and NBRNM calculations.