



Introduction

For the second year in a row, the macroeconomic forecasts are published in times of pandemics and present global uncertainty. A year after the outbreak of the pandemics, the world is facing the third and most vigorous wave of infections, followed by introduction of new restrictions, although milder and more selective than the measures in the first wave of the pandemics, leaving the service sector heavily affected. Although the battle with the pandemics is not over yet, 2021 is expected to be a year of transition and mass immunization against COVID-19, and a year of gradual recovery of confidence and mobility. So far, the world is facing pronounced divergence, from the aspect of both dynamics of the national immunization programs and the economic performances. Consequently, the focus on overcoming the crisis is globally put on establishing a global approach to vaccines and rapid immunization as well as continuous supporting policies to the real sector as long as needed.

With the outbreak of the COVID-19 pandemic, the National Bank took number of measures for monetary easing and regulatory flexibility, as well as support to the banking system and the economy as a whole, in conditions of crisis. Thus, in the first quarter this year, **the policy rate was cut by additional 0.25 percentage points, to 1.25%.** The decision on further monetary easing was made in conditions of stable foreign exchange market developments and moderate inflation dynamics, amid high uncertainty about the health crisis and its impact on the economic recovery path. It is also supported by the more pronounced accommodative nature of the European Central Bank (ECB) aimed to maintain favorable financial conditions in the long term. Further monetary easing would additionally ease the financial conditions and support domestic economy. In this period as well, **the ECB decided to extend the validity of repo line arrangements, which provided the National Bank an access to euro liquidity for the first time,** with adequate collateral. Namely, the validity of repo line worth Euro 400 million is extended until March 2022. Such change is a significant support for the National Bank, since it creates additional room for rapid and efficient action in case of a need for mitigation of possible further effects by the corona crisis on the domestic economy and financial markets, given the uncertainty of the present global crisis. During the first quarter, **the National Bank passed a Decision on temporary limitation of the distribution and payment of dividends to the bank and savings houses shareholders.** It is a timely measure, in order to prevent and protect the public interest, and should contribute to further increase of the resilience of the banking system, maintain stability as well as support the lending activity, amid uncertainty about the further course of the health crisis. It is a temporary decision and will be valid until the end of the year, and the National Bank will reassess the pandemic circumstances underlying the decision, no later than 30 September. The National Bank may prematurely lift the restriction from this decision, depending on the assessment.

In the period between the two projections, certain changes have been made in the assessment of the main indicators for international economic surrounding. At the same time, the initial conditions have been changed within the foreign effective demand, given the lower decrease in 2020 than the expected one in the latest forecasts. Consequently, compared to October, the current perceptions on the foreign effective demand indicate more moderate growth in 2021 (of 3.6%, compared to growth assessments of 4.6% in October), and at the same time, expectations for a more dynamic growth in 2022 (of 4.1% compared to the growth assessments of 3% in October). The October assessment of 1.4% for the current 2021 remains for the **foreign effective inflation**, while for 2022 a minimal downward revision is made, which brings the inflation to 1.6%. **The latest forecasts on the prices of primary products on the world stock market indicate their synchronized growth in 2021, where the upward revisions compared to the October assessments are significant. In 2022, the expectations for negative prices shifts prevail almost without exceptions, which is a downward revision compared to the October forecasts.** However, the movements of prices of the primary products are extremely volatile and highly affected by the pandemics, which causes greater uncertainty around their future dynamics.

The April perceptions on the growth of the Macedonian economy are similar to the current one, but somewhat better for the next year, compared to the October forecasts. Thus, a growth of the GDP of 3.9% (same as in October) is projected for 2021, which still assumes



a partial recovery of the domestic economy after the high decrease in 2020. In terms of the activity structure for 2021, the perceptions are basically unchanged in comparison to the October assessments, i.e. a positive contribution is still expected from the domestic demand, amid negative contribution of the net-export. Within the domestic demand, a positive contribution is expected from the investments, which in 2020 were highly influenced by the weak demand and high level of uncertainty. Generally speaking, given the postponed investment decisions during 2020, along with the recovery of confidence in the companies, they could use part of their own reserves to start a new investment cycle, with an expectation for rapid public infrastructure investments. The accommodative financial conditions (supplemented with government credit lines and guarantee schemes) positively influence the private investments. The most probable risk factor related to investments in the private corporate sector would probably be the incompletely used capacities due to insufficient demand, as well as reduced profitability. According to the baseline scenario, a similar positive contribution is expected from the household consumptions. The percentage of vaccinated population is expected to increase in the second half of the year, which will increase the confidence and the consumption would start to normalize gradually. So far, the pandemic has shown a limited influence on the labor market, partly because of the economic measures which were mostly aimed at protection of this market segment. Given the announcements for further fiscal support for the most affected in the pandemic, the baseline scenario for 2021 does not predict deterioration of the conditions on the labor market. On short terms, however, despite the immunization pace, the uncertainty about the employments and the income could be considered as factors underlying the possible higher consumption restraint. According to the projected path of fiscal consolidation, the public consumption will have a slightly low negative contribution to the growth in 2021, reflecting the gradual decrease of the high consumption related to the needs of the health system in conditions of pandemic. In 2021, a negative contribution is forecasted for the net-export. In conditions of growth of foreign demand and recovery of a large part of temporarily deteriorated global chains of production and logistics, the export will record an increase in 2021, with a stronger dynamics than the expected one in October. The increased export activity, amid growth and domestic demand will cause increase of import of goods and services. **Further recovery of the economy is expected in the medium term, with a growth rate of 3.9% in 2022** (upward revision in terms of October growth assessments of 3.6%) **and 4% in 2023. The risks around the baseline scenario are still assessed as more pronounced downward.** Namely, the improved prospects for the global demand, motivated by the significant fiscal incentives of the most developed economies and the progress in their process of immunization are encouraging. However, the pandemic and the spread of the virus mutations, as well as their implications on the economic and financial conditions remain sources of downward risks.

In terms of the future movement of the domestic economy prices, the latest projections indicate moderate acceleration of the inflation rate during 2021, which is expected to be 2.2%, compared to the October assessments of 1.5%. The largest part of the upward revision is related to the world prices of the primary food products and oil, which record more pronounced increase in a short period. Still, the growth of these prices is expected to be temporary, so in 2022 their stabilization is expected. Consequently, in 2022-2023 the rate of inflation is expected to moderately slow to a level of around 2%. The uncertainty around the inflation prediction, despite being related to large price volatility of the primary products on international markets, it is also related to the possible deterioration of global supply chains, which would increase not only the input prices, but also the costs of transport. Amid possible narrowing of the profit margins, there is a risk of more rapid and complete transfer of growth of these prices over the final prices of products.

The lending activity of the banking system remains one of the important factors for support of the economic growth. Namely, during 2020 the lending support was solid, and the current projections indicate its gradual acceleration in the forthcoming period. In order to encourage lending activity, the National Bank has adopted a series of measures, creating conditions for reducing the financing cost through bank loans, as well as for providing additional liquidity in the banking system. Amid solid lending support in the first quarter of 2021, slightly lower than the forecasted, and expectations that it will continue until the end of the year, the credit growth for the entire 2021 would be 5.8% (6% according to the October forecast). With a gradual normalization of the conditions and stable expectations, a gradual acceleration of the growth of lending activity is expected in the period ahead. Consequently, the credit



growth for the period 2022-2023 would average 7% (7.1% with the October forecast). In terms of the sources of financing, given the solid growth of overall deposits during 2020 and the first quarter of 2021, the growth in the 2021 is expected to be 7.5% (6.2% with the October forecast). Such changes in the deposit base are partially a reflection of the larger restraint on spending/ investments amid uncertainty, as well as the economic measures by the Government to deal with the consequences of the health crisis, thus providing additional assets for the companies and households to improve their liquidity. In terms of lower uncertainty and stronger economic recovery, a higher propensity for consumption and investments is expected, because of which the growth of deposits will stabilize in 2022, followed by moderate acceleration to 8% in 2023 (similar growth intensity as in the October forecast, for both years).

Within the external sector, an annual narrowing of up to 2.9% of the GDP is expected in the current account deficit in 2021 (2.6% of the GDP in the October forecasts). Such expectations are almost due to the projected recovery of the current transfers, category which was mostly affected by the pandemic in 2020. Namely, gradual easing of the restrictive measures in the EU, in accordance to the expectations for rapid vaccination, will contribute to the growth of inflows from remittances through informal channels, especially in the second half of the year. Additionally, the enhanced inflow of remittances through formal channels is expected to continue, along with the changes which started in 2020, initiated by the limited international movement of passengers. With the foreign trade exchange, amid significant upward accommodation within the two components, an increased deficit in the exchange of goods is expected. Stabilization of expectations, growth of external demand, as well as gradual recovery of the global supply chains in the car industry and high growth of metal prices on the world stock market will contribute to a significant growth in the export activity during the year, especially in the export of foreign capacities in the car and metal industries. At the same time, the more pronounced upward trend of the primary products prices is expected to significantly affect the growth of import, mostly by the increased import of energy caused by the high growth of prices of crude oil and other energy resources, as well as due to the higher import of raw materials for the industry and recovery of the domestic consumption. In the balance of exchange of services, a decrease of the surplus is expected, under the pressure of the recovery of import of services, while in the primary income, further slight narrowing of the deficit is forecasted. **In the next two-year period, 2022-2023, the deficit of the current account would additionally decrease to an average of 2% of the GDP (somewhat higher than the October forecasts in medium terms),** amid expectations for further improvement in the secondary income, better position with the balance of services and narrowing of the trade deficit under the influence of stable export performances and slightly moderate import pressures. The normalization of the conditions is expected to have a positive effect on the profitability of the domestic companies owned abroad, by which the deficit on the primary income will moderately increase. **From the financial account aspect, the financing of the current transactions in the period 2021-2023 is mostly expected to be enabled through foreign government borrowing and foreign direct investments.** The adequacy ratio of the foreign reserves indicate their maintenance in the safe zone during the whole period of forecasts.

In general, the latest assessment for the period 2021-2023, compared to the October perceptions, confirm the expectations for gradual recovery of the domestic economy from the pandemic, with similar dynamics. Namely, during 2021, the economic activity will still recover from the accumulated losses in 2020 and will return to the pre-crisis level during 2022. **In terms of the sources of risks, they are still assessed as pronounced downward and almost completely related to the COVID-19 pandemic.** Namely, although the beginning of vaccination increased the prospects for a turnover during the pandemic, the presence of new waves, as well as new types of the virus create concern about the prospects for economic recovery. Hence, the major economic risk is related to the success in dealing with the pandemic, and its possible materialization will affect the labor market, economic growth and fiscal deficit. On the other hand, possible economic gains from our country's NATO membership and eventual start of the negotiations for full membership in the EU, have not been embedded in the projections, and remain a positive risk for the projection, in medium terms. Such scenario indicates a moderate acceleration of the inflation this year, but it will have a short term and will be primarily driven by the foreign factors, without changes in the expectations for the inflation path in medium term. At the same time, positive movements in the balance of payments are expected, given the strong recovery of the exchange of goods, as well as gradual recovery of remittances. The significant monetary easing by the



major central banks enabled some of the developing countries with healthy fundamentals, access to global capital markets in favorable financial conditions, despite the deep recession, which was a case with our country. Therefore, the baseline scenario predicts maintaining the favorable financial conditions in global frames and free access to capital markets. Consequently, the foreign exchange reserves will remain in the safe zone during the whole period of projection. The National Bank will continue to monitor the trends and surrounding potential risks and is ready to adequately adjust policies within its mandate.