

National Bank of the Republic of North Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

January 2021

Recent Macroeconomic Indicators

Review of the Current Situation – Implications for the Monetary Policy

The review of the current situation aims to give an overview of the recent macroeconomic data (October - December 2020) and to make a comparison with the latest macroeconomic forecasts (October 2020). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the latest round of forecasts. The review focuses on the changes in external assumptions and performances of domestic variables and the effect of these changes on the environment for monetary policy conduct.

The beginning of the vaccination for protection against COVID-19 increased the optimism of economic agents regarding the expectations for the global growth in the medium run. However, the high uncertainty remains present, as well as the risks related to the development of the pandemic and its duration. Moreover, the downward risks in the short term are mainly related to the limitations on larger production of the vaccine and problems with its distribution, but also to the present skepticism about the effectiveness and safety of the vaccine, the occurrence of a new mutation of the virus in the United Kingdom, which is already present in other countries, and accordingly the possible continuation of the duration of the introduced restrictive measures for dealing with the second wave of the pandemic, which were strengthened during December in some countries. The other risks refer to inadequate or to prematurely withdrawn fiscal measures, the increased prospects for longer-term unfavorable effect on the labor market and on the solvency of companies, the pressure on the global value chains¹, the possible longer retention of the current habits for greater restraint from consumption, the risk of re-tightening of the global financial conditions, the risk of inability to repay the public debt in some of the countries, as well as the possible intensification of the geopolitical and trade tensions. Regarding the **economic developments in the euro area**, October data show better performances relative to the third quarter. However, in conditions of reintroduced restrictions on prevention of the spreading of the second wave of the pandemic, the household and corporate surveys for the fourth quarter of 2020 indicate weaker movements of the economy relative to the third quarter, mainly due to the weaker estimates for the service sector and household consumption. Also in Germany, as our most important trading partner, the published October data are mainly more favorable relative to the performance in the third quarter, while the surveys that also cover the period of introduced restrictions, indicate weaker activity in the fourth quarter, mainly due to the service sector, despite the more favorable estimates for the industry. On the labor market in the euro area, the unemployment rate, according to the latest data, registers a downward trend from July onwards and equals 8.3% in November (8.4% in October). The annual inflation rate in the euro area is stable in the last five months and according to the initial December estimate, it amounts to -0.3%, which is mainly due to the annual fall in energy prices, amid stable and low core inflation (0.2%). For the whole of 2020, the inflation rate is 0.3% (1.2% in 2019). The **one-month EURIBOR interest rate** in 2020 is at a level of the October expectations, while the expectations for the period 2021-2022 have been revised downwards, given the measures undertaken by the ECB in December 2020 for a greater monetary stimulus and for maintenance of the favorable financial conditions in the long term.

In terms of the individual quantitative indicators of the external environment of the Macedonian economy, the estimates of the foreign effective demand have been revised upwards for 2020 and 2022, and downwards for 2021 relative to the October forecasts, while the **foreign effective inflation** has been revised downwards for the entire period of forecasts. In 2020,

¹ The pressures on the value chains are largely due to the government measures for ending the COVID-19 pandemic such as: the measures for social distance, the instructions for hygiene, the quarantine, the closure of borders and the requests for work from a distance.

the **US dollar against the euro** registered a slightly stronger depreciation relative to the October assessments, and the expectations for the next two years also indicate a depreciation of the US dollar at stronger pace. **The latest forecasts for the prices of primary commodities in world markets suggest synchronized movements, whereby for 2020 it is estimated a fall in the prices of almost all products, except of the wheat, then a strong growth in 2021 and a fall in 2022.** Moreover, the changes in prices have been adjusted upwards for 2020 and 2021 relative to the October assessments, and downwards for 2022. However, the movements and the assessments of the prices of primary commodities are extremely volatile, and are currently under the strong influence of the developments related to the pandemic of the new coronavirus, which creates greater uncertainty about their future dynamics and effects on the domestic economy, in both the short and the longer term.

The comparison of the latest macroeconomic indicators of the domestic economy with their forecast dynamics within the October forecasting round indicates certain deviations in the individual segments of the economy. According to the published estimated data and the GDP revisions², in the first three quarters of 2020, on average, the economy registers a real fall of 5.9% which is in line with the expectations of the October forecast (forecasted fall of 6.1%). Regarding the economic activity in the fourth quarter of 2020, the currently available high-frequency data for the period October-November 2020, generally indicate more moderate negative effects of the health crisis on the economic activity, and compared to the previous quarter the movements in the domestic economy are more favorable. Namely, in conditions of target and less restrictive measures for dealing with the second wave of COVID-19, gradual adjustment of the behavior and habits of entities to the new situation, as well as the undertaken measures for support of the economy, the data for this period show a further deceleration in the annual fall in industry and total trade turnover, as well as an acceleration in the growth in construction, and unfavorable movements are only registered in the turnover in catering. **Regarding the changes in consumer prices**, the annual inflation rate registered in December 2020 of 2.3% is slightly higher than expected according to the October forecast. However, for the whole of 2020, the annual inflation rate of 1.2% is in line with the October forecast (forecasted inflation rate of 1.1%). In conditions of revisions in different directions in the external input assumptions, the uncertainty arising from the movement in the world prices of primary products in the next period and their impact on domestic prices remains pronounced, especially pronounced in conditions of a second wave of the COVID-19 pandemic and the occurrence of a mutation of the coronavirus.

Foreign reserves are still at an appropriate level and are maintained in a safe zone.

Regarding the available external sector data, the currency exchange market data as of December indicate higher performances in private transfers, while the foreign trade data as of November suggest a trade deficit within the expectations for the last quarter, according to the October forecast.

During November, **total deposits** registered a monthly growth of 1%, as opposed to the minimal decline of 0.2% in the previous month. Observed by sector, the increase in total deposits³ is primarily a result of the positive contribution of corporate deposits, amid moderate growth of household deposits. According to the currency structure, the monthly growth of total deposits is a result of the simultaneous growth of denar (entirely as a result of the increase in demand deposits) and foreign currency deposits. On an annual basis, total deposits in November increased by 6.3%, mostly due to the growth of household deposits, i.e. of demand deposits. For the end of 2020, an annual growth of deposits of 4.4% is forecasted, according to the October forecast. Given the usual high growth of total deposits in the last month of the year, coupled with the payments of the fourth package of fiscal measures during December, such movements give an indication of higher

² According to the quarterly press release of the SSO for GDP, published on 7 December 2020, the real annual GDP rates for the first and second quarter of 2020 were revised to 0.9% and -14.9%, respectively (previously they amounted to 0.2% and -12.7%, respectively).

³ The monthly increase in total deposits during November is partially a result of the funds paid to the private sector within the government package of fiscal measures aimed at mitigating the economic consequences of the viral infection COVID-19.

performances in deposits than forecasted. In November, **total private sector loans** registered a minimal monthly decline of 0.2%, compared to the rise of 0.3% in the previous month. Observed by sector, a decrease is registered in corporate loans, amid small rise in household loans. On an annual basis, total loans in October increased by 5.4%. Observed by sector, the credit growth largely results from the household loans, with a positive contribution of corporate loans. The forecasted annual growth of loans at the end of the year is 5.3%, according to the October forecast.

In the period January-November, the **Budget of the Republic of North Macedonia** registered a deficit of Denar 40,052 million. The budget deficit is mostly financed by using foreign loans, with part of the inflows being retained as government deposits with the National Bank. At the same time, in this period, the government additionally borrowed on the domestic government securities market and with the domestic banks. The budget deficit for this period of the year was 70.9% of the deficit planned in the second Budget Revision for 2020.

The latest macroeconomic indicators and assessments indicate certain deviations in terms of the forecasted dynamics, but the perceptions about the environment for conducting the monetary policy are mainly unchanged compared to the previous forecasts. According to the latest performances in foreign reserves as of the end of 2020, they are still maintained in a safe zone. In the third quarter of 2020, the fall in the gross domestic product significantly slowed down, and the performances in the first three quarters are within the expectations of the October forecasts. The available high-frequency data for the last quarter of 2020 currently indicate more moderate negative effects of the health crisis on the economic activity and more favorable movements in the domestic economy, compared to the previous quarter. Regarding the inflation, the performances for the whole of 2020 are in line with the forecasts, which, amid revisions in different directions in the external input assumptions, currently indicates balanced risks regarding the movement of inflation in the period ahead. Within the monetary sector, the annual growth in deposits and loans as of November are generally within the forecasts for the fourth quarter of 2020, with the October forecast.

The inflation rate in the domestic economy maintained at a low and stable level in 2020

The average annual inflation rate in 2020 equals 1.2% and is in line with the forecasted rate of the October forecasting round (of 1.1%). The dynamics of consumer prices in the domestic economy in 2020 mostly results from food prices, which are higher by 2.6%, as well as from the positive contribution of core inflation which amounts to 0.9%. On the other hand, energy prices dropped by 1.4%, under the influence of the substantial fall in the price of oil in world markets, although this effect was partly offset by the decision to increase the excise duties on some of the derivatives from April and the decision to increase the domestic price of electricity from August. Within the food categories, a moderate increase is registered in the prices of bread and cereals, meat, milk products and fruit. Core inflation is mainly driven by the changes of an administrative nature, related to the increase in the excise duty on the prices of tobacco. The performances in 2020 indicate a slight acceleration in inflation compared to the performances in 2019, when the inflation amounted to 0.8%. In conditions of generally downward pressures from the import prices (more moderate foreign effective inflation) and a fall in the domestic demand, the slight acceleration in the domestic inflation in 2020 partially reflects the developments related to COVID-19, i.e. the more pronounced consumption of certain products and services, as well as the increases in the prices of an administrative and regulatory nature, and the limitations on the supply side caused by the global health and economic crisis also have a certain effect.

Selected economic indicators ^{1/}				2019					2020																
	2016	2017	2018	Q1	Q2	Q3	Q4	2019	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep.	Q3	Oct.	Nov.	Dec.	Q4	2020
I. Real sector indicators																									
Gross domestic product (real growth rate, y-o-y) ^{1/2}	2.8	1.1	2.9	1.4	4.3	3.6	3.3	3.2				0.9				-14.9				-3.3					
Industrial production ^{1/3}																									
y-o-y	3.4	0.2	5.4	8.8	1.1	7.1	-1.3	3.7	0.3	3.5	-13.4	-3.7	-33.5	-27.0	-15.1	-25.0	-9.5	-9.1	-4.1	-7.5	-5.2	-4.0			
cumulative average	3.4	0.2	5.4	8.8	4.8	5.6	3.7	3.7	0.3	1.9	-3.7	-3.7	-11.2	-14.4	-14.6	-14.6	-13.8	-13.2	-12.1	-12.1	-11.3	-10.6			
Inflation ^{1/4}																									
CPI Inflation (y-o-y) ^{1/5}	-0.2	2.4	0.9	1.2	1.2	0.6	0.0	0.4	0.6	0.7	0.5	0.6	-0.1	-0.2	1.7	0.5	1.3	1.5	1.9	1.5	2.1	2.2	2.3	2.2	2.3
CPI Inflation (cumulative average)	-0.2	1.4	1.5	1.2	1.2	1.0	0.8	0.8	0.6	0.7	0.6	0.6	0.4	0.3	0.5	0.5	0.6	0.8	0.9	0.9	1.0	1.1	1.2	1.2	1.2
Core inflation (cumulative average)	1.3	2.3	1.5	0.9	0.9	0.8	0.5	0.5	0.3	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.9	0.9	0.9
Core inflation (y-o-y)	1.0	2.8	1.4	0.9	1.0	0.6	-0.4	-0.3	0.3	0.8	1.0	0.7	0.7	0.4	0.4	0.5	0.6	0.8	1.1	0.9	1.3	1.5	1.9	1.6	1.9
Labor force																									
Unemployment rate	23.7	22.4	20.7	17.8	17.5	17.1	16.6	17.3				16.2				16.7				16.5					
II. Fiscal Indicators□ (Central Budget and Budgets of Funds)																									
Total budget revenues	169,356	179,673	188,505	46,042	50,076	50,986	56,718	203,822	15,599	15,727	15,158	46,484	14,241	12,660	14,050	40,951	17,896	14,218	16,486	48,600	18,525	15,554			
Total budget expenditures	185,407	196,561	200,071	49,243	53,915	52,085	62,202	217,445	16,806	18,824	18,264	53,894	18,969	19,420	21,094	59,483	24,018	17,066	17,443	58,527	17,478	20,784			
Overall balance (cash)	-16,051	-16,888	-11,566	-3,201	-3,839	-1,099	-5,484	-13,623	-1,207	-3,097	-3,106	-7,410	-4,728	-6,760	-7,044	-18,532	-6,122	-2,848	-957	-9,927	1,047	-5,230			
Overall balance (in % of GDP) ^{1/4}	-2.7	-2.7	-1.8	-0.5	-0.6	-0.2	-0.8	-2.0	-0.2	-0.5	-0.5	-1.1	-0.7	-1.0	-1.0	-2.8	-0.9	-0.4	-0.1	-1.5	0.2	-0.8			
III. Financial indicators ^{1/6}																									
Broad money (M4), y-o-y growth rate	6.2	5.1	11.8	11.7	10.5	10.8	9.3	9.3	8.9	8.2	8.9	8.9	7.5	9.4	9.8	9.8	9.1	6.6	6.9	6.9	6.6	7.7			
Total credits, y-o-y growth rate																									
Total credits - households	-0.1	5.4	7.3	9.0	8.1	5.6	6.0	6.0	6.8	6.9	5.8	5.8	5.5	5.9	6.6	6.6	8.2	6.9	7.3	7.3	6.7	5.4			
Total credits - enterprises	7.0	9.2	10.3	9.7	9.9	9.5	10.5	10.5	10.6	11.1	10.1	10.1	9.4	8.6	8.8	8.8	9.4	9.0	9.5	9.5	9.0	8.3			
Total deposits (incl. demand deposits), y-o-y growth rate/ ⁷	-5.3	2.3	4.5	8.2	6.4	1.7	1.9	1.9	3.2	2.8	1.8	1.8	2.0	3.3	4.6	4.6	7.1	4.8	5.2	5.2	4.4	2.5			
Total deposits - households	6.1	5.0	12.1	11.9	10.6	11.0	9.0	9.0	8.8	7.8	7.9	7.9	6.0	7.8	8.4	8.4	8.0	5.3	5.4	5.4	4.9	6.3			
Total deposits - enterprises	2.5	6.1	9.5	8.7	9.0	9.3	7.9	7.9	8.5	8.7	8.6	8.6	7.8	8.2	8.7	8.7	8.4	5.7	6.1	6.1	5.6	5.4			
Interest rates ^{1/8}	13.4	2.1	9.5	12.1	10.1	11.1	14.6	14.6	12.2	10.2	12.5	12.5	6.5	9.8	11.2	11.2	9.0	5.8	8.0	8.0	6.9	10.2			
Interest rates of CBBills (end of month/quarter/year)																									
Lending rates	3.75	3.25	2.50	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.50	1.50	1.50	1.5	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
denar rates																									
f/x rates (aggregated, incl. f/x and denar with f/x clause)	7.0	6.6	6.1	5.8	5.7	5.6	5.4	5.6	5.4	5.3	5.3	5.3	5.3	5.3	5.2	5.3	5.1	5.1	5.1	5.1	5.1	5.1			
Deposit rates	5.7	5.3	4.9	4.7	4.7	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.2	4.3	4.2	4.2			
denar rates																									
f/x rates (aggregated, incl. f/x and denar with f/x clause)	2.5	2.2	2.0	2.0	1.9	1.9	1.7	1.9	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4			
	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6			
IV. External sector indicators																									
Current account balance (millions of EUR)	-275.5	-102.9	-7.1	-175.0	-65.6	162.2	-293.9	-372.3	2.1	-69.9	-80.6	-148.3	-76.8	-8.8	0.6	-85.0	-20.5	1.7	-24.4	-43.3					
Current account balance (% of GDP)	-2.9	-1.0	-0.1	-1.6	-0.6	1.4	-2.6	-3.3	0.0	-0.6	-0.7	-1.4	-0.7	-0.1	0.0	-0.8	-0.2	0.0	-0.2	-0.4					
Trade balance (millions of EUR) ^{1/9}																									
Trade balance (% of GDP)	-1,786.2	-1,816.2	-1,811.1	-456.3	-474.5	-437.1	-646.8	-2,014.8	-1,344	-199.9	-176.8	-511.0	-162.5	-116.1	-105.7	-384.3	-198.9	-102.2	-89.5	-390.6	-167.2	-115.7			
import (millions of EUR)	-18.0	-18.1	-16.9	-4.1	-4.2	-3.9	-5.8	-18.0	-1.2	-1.8	-1.6	-4.7	-1.5	-1.1	-1.0	-3.5	-1.8	-0.9	-0.8	-3.6	-1.5	-1.1			
export (millions of EUR)	-6,176.5	-6,834.9	-7,676.3	-1,990.4	-2,095.7	-2,066.0	-2,284.2	-8,436.3	-591.4	-719.8	-607.6	-1918.8	-373.8	-455.5	-597.7	-1426.9	-717.3	-603.4	-676.1	-1996.8	-764.5	-694.4			
import (millions of EUR)	4,390.3	5,018.7	5,872.4	1,534.0	1,621.2	1,628.9	1,637.4	6,421.6	457.0	519.9	430.8	1407.7	211.3	339.4	492.0	1042.6	518.4	501.2	586.6	1606.2	597.3	578.7			
rate of growth of import (y-o-y)	6.5	10.7	12.3	11.6	10.9	11.9	9.9	9.9	3.7	5.9	-18.0	-3.6	-50.9	-36.4	-3.4	-31.9	-4.1	-9.2	3.5	-3.3	0.1	-6.0			
rate of growth of export (y-o-y)	7.4	14.3	17.0	17.1	11.1	10.8	0.2	9.4	10.0	-1.9	-26.8	-8.2	-60.3	-39.3	-7.3	-35.7	-8.1	0.1	4.0	-1.4	5.6	2.0			
Foreign Direct Investment (millions of EUR)																									
	316.9	180.0	603.7	40.2	11.0	62.9	176.5	290.6	26.9	-48.0	-107.0	-128.1	-42.5	36.2	20.0	13.7	2.5	-3.5	18.8	17.8					
External debt																									
Gross external debt (in millions of EUR)	7,216.6	7,372.5	7,843.7	8,238.5	8,324.7	8,568.6	8,154.4	8,154.4				8,311.7				8,787.1				9,086.6					
public sector	3,445.3	3,461.8	3,756.2	4,095.2	4,035.1	4,074.2	3,836.6	3,836.6				3,816.5				4,460.3				4,642.3					
public sector/GDP (in %)	35.7	34.5	35.1	36.1	35.6	35.9	33.8	33.8				35.0				40.9				42.6					
private sector	3,771.2	3,910.7	4,087.5	4,143.3	4,289.6	4,494.4	4,317.8	4,317.8				4,495.2				4,326.8				4,444.3					
Gross external debt/GDP (in %)	74.7	73.4	73.3	72.6	73.4	75.6	71.9	71.9				76.3				80.6				83.4					
Gross official reserves (millions of EUR) ^{1/10}																									
	2,613.4	2,336.3	2,867.1	2,866.4	2,928.2	3,127.5	3,262.6	3,262.6	3,100.6	3,084.5	3,017.3	3,017.3	3,159.6	3,079.1	3,639.7	3,639.7	3,512.4	3,406.4	3,480.2	3,480.2	3,540.9	3,368.7	3,359.8	3,359.8	3,359.8

^{1/1} In calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2020, the projected level from NBRNM's last forecasting round is used.

^{1/2} The quarterly data for 2019 are preliminary, while for 2020 are estimated (Press release for quarterly data on GDP as of 07.12.2020). The annual data for 2018 is final data (Announcement for annual data for GDP from 30.09.2020) while for 2019 is preliminary data (Announcement for annual data for GDP from 05.10.2020).

^{1/3} The changes of Index of industrial production are according to base year 2015=100.

^{1/4} CPI calculated according to COICOP 2019=100.

^{1/5} The rate on annual basis corresponds to end-year inflation (December current year/December previous year)

^{1/6} The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since June 2018).

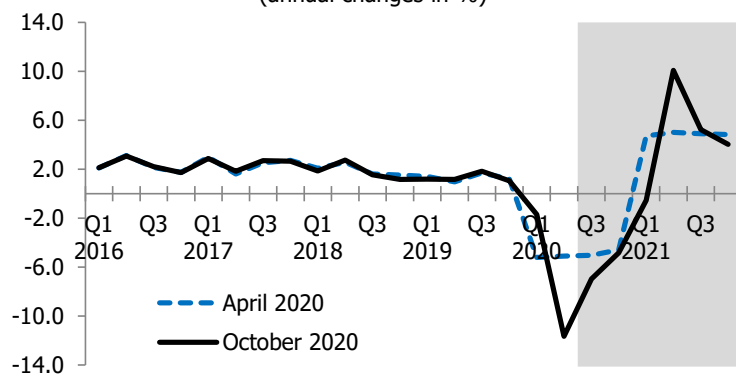
^{1/7} It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.

^{1/8} As of June 2018 data for active and passive interest rates are compiled according to the new methodology of NBRNM.

^{1/9} Trade balance according to foreign trade statistics (on c.i.f. base).

^{1/10} The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

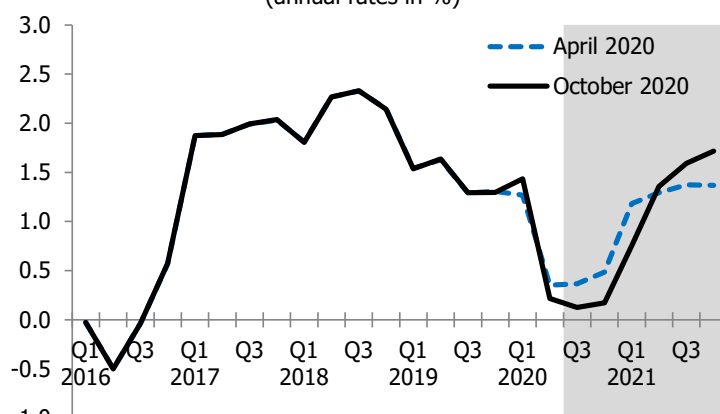
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

The latest estimates for the **foreign effective demand** resulted in an upward revision for 2020 and 2022, and a downward revision for 2021. Thus, it is currently expected that the fall in the foreign effective demand in 2020 will equal -5.9% (-6.3% in October), while the growth in 2021 and 2022 will equal 3.9% and 3.7%, respectively (4.6% and 3% in October, respectively). Such revisions are largely a result of the revised estimates for the economic activity in Germany⁴ and Italy. Namely, in these countries there are significantly better performances in the third quarter of 2020 relative to the October expectations, while the current estimates indicate their slower growth in 2021, and faster in 2022.

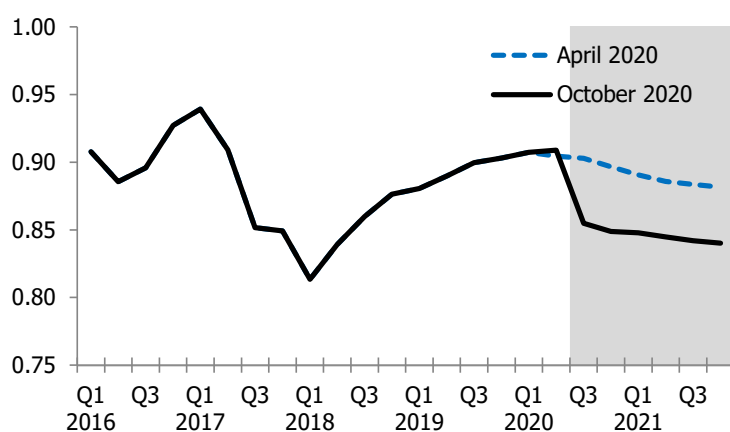
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

The foreign effective inflation was slightly revised downwards for the entire period of forecasts. Thus, the growth of the foreign effective inflation is currently expected to amount to 0.4%, 1.2% and 1.6% in 2020, 2021 and 2022, respectively, versus 0.5%, 1.4% and 1.7% in October. The downward revision is due to the lower inflation in most countries included in the index.

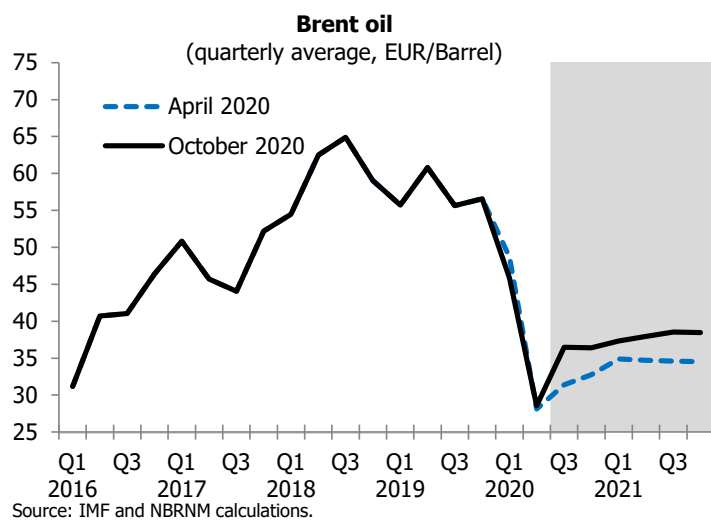
EUR/USD exchange rate



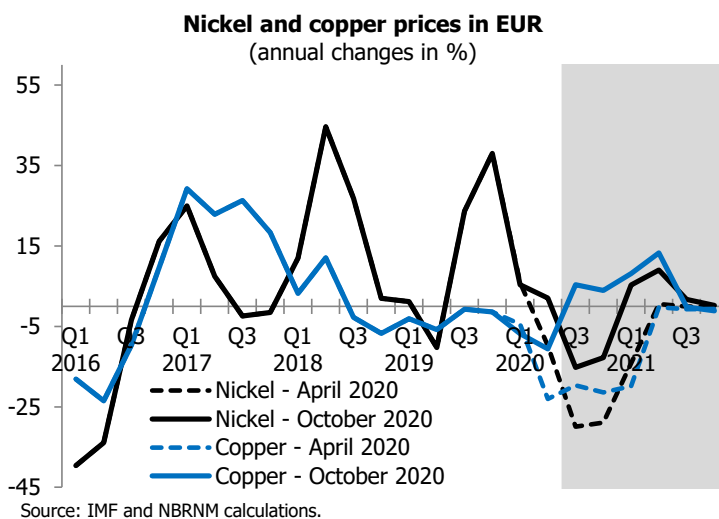
Source: Consensus forecasts and NBRNM calculations.

Regarding the **euro/US dollar exchange rate**, in 2020 there was a fall in the value of the US dollar of 1.8%, i.e. a **slightly stronger depreciation relative to the October expectations**. The latest estimates for the next two years indicate a downward revision for the entire period of forecasts. Moreover, it is still expected that the US dollar will depreciate against the euro, especially in 2021. Such dynamics largely reflects the expectations for further fiscal measures and for an increased deficit in the current account of the USA, the smaller interest of investors in the US dollar amid more favorable prospects for the global economy with the beginning of the vaccination against COVID-19 and the expectations of investors that the Fed will maintain the low interest rates also in the next years.

⁴ Forecasted fall in Germany of 5.4% in 2020, versus 5.7% in October and forecasted growth of 3.6% and 3.3% in 2021 and 2022 respectively, versus 4.4% and 2.5% in October.



In 2020, the oil price⁵ in world markets registered a sharp decline of 35.2% (expressed in euros), which is in line with the October expectations. For 2021, the oil price has been revised upwards, currently expecting a significantly faster growth than expected in October. The upward revision mostly reflects the investors' expectations for growth of the global demand for oil, amid relatively more positive prospects for the global economy due to the beginning of the vaccination in some of the major economies, a fall in the value of the US dollar, the estimates for a decline in the inventories of oil, as well as the decision of the OPEC+ countries to extend the measure for reduction of the supply of oil in world markets⁶. On the other hand, for 2022 the estimates have been revised downwards, expecting a decline, despite the small growth forecasted in October.

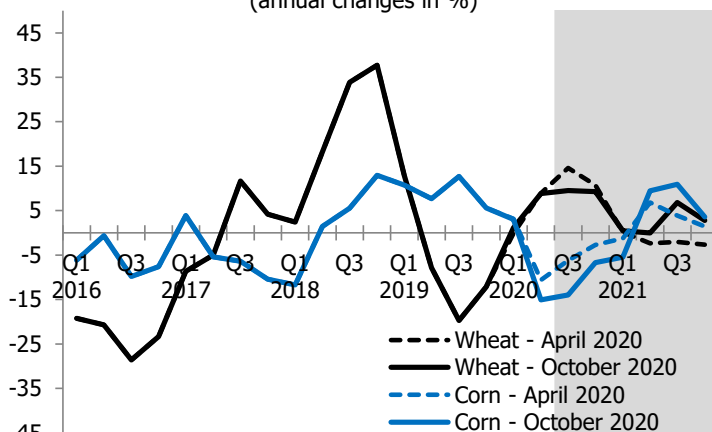


Expectations for metal prices for 2020 and 2021 have been revised upwards relative to October. Namely, it is currently expected a smaller decline in the price of nickel and copper in 2020 and their significantly faster growth in 2021, than previously forecasted. Such changes largely reflect the investors' expectations for faster growth of the global demand, largely driven by the Chinese economy, but also the optimism about the vaccine against COVID-19 and the stimulating programs in several countries of the world as a support to the global economic recovery. In 2022, the nickel price is expected to stabilize, and the copper price is expected to register a slightly larger decline than expected in October.

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

⁶ On 5 January 2021, apart from the decision of the OPEC+ countries to extend the measure to limit oil production, Saudi Arabia made a decision to voluntarily reduce its oil production in February and March 2021 by additional 1 million barrels of oil per day. Consequently, in the first three months of 2021, the quotas for limiting production will average 7.8 million barrels per day, as opposed to the previous 7.125 million barrels per day (on average) for these three months.

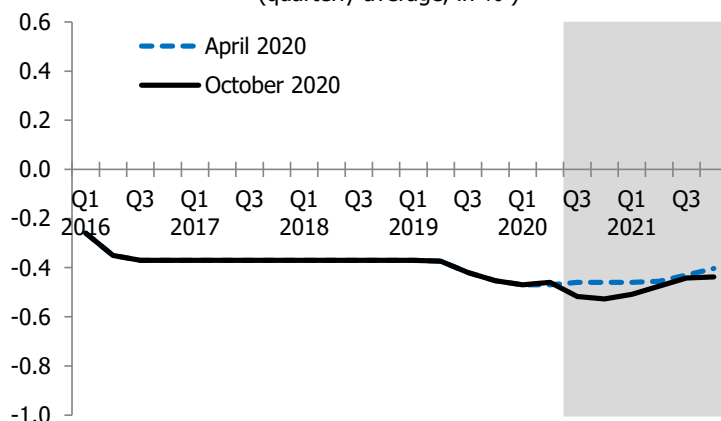
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

The latest estimates for the prices of primary food products indicate an upward revision for 2020 and 2021. The faster growth of the wheat price in both years compared to October is largely due to the expectations for lower wheat production at global level, as well as to the announcements for introducing export tax by Russia (in the period 15 February - 30 June 2021⁷). Regarding the corn price, it is forecasted a smaller decline in 2020 and a faster growth in 2021 than forecasted in October. Such revisions in the corn are a result of the concern about the supply from South America, due to the present longer drought, as well as the expectations for a greater demand, mostly from China. At the same time, the forecasts for lower inventories and the weak dollar are additional factors for growth of the prices of cereals. On the other hand, for 2022, the movements in the price of wheat and corn have been revised downwards, now expecting a decline, instead of the small growth forecasted in October.

1-month Euribor
(quarterly average, in %)



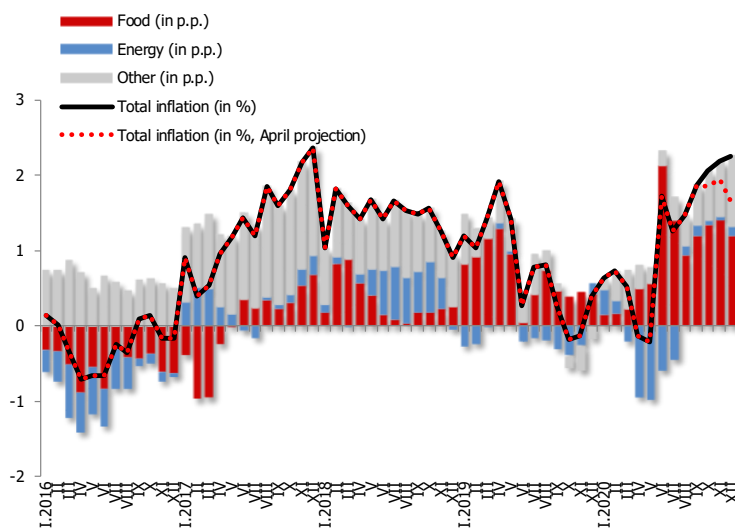
Source: Consensus forecasts and NBRNM calculations.

The one-month EURIBOR in 2020 equals -0.50% and is according to the October expectations. For the next two-year period, it has been revised downwards and in the period 2021-2022 it is expected to average -0.52% (-0.46% in October). These developments are largely a result of the measures for a greater monetary stimulus undertaken by the ECB at the meeting in December.

⁷ More information can be found at the following Internet [link](#).

Inflation rate

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



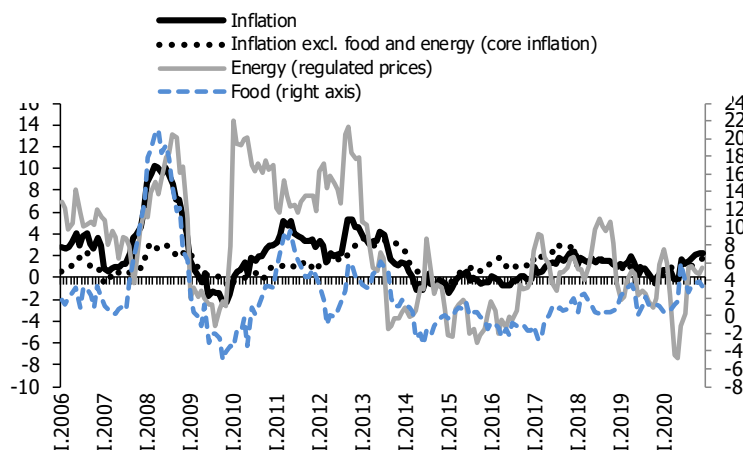
Source: SSO and NBRNM.

In December 2020, **domestic consumer prices** increased by 0.4% on a monthly basis (after their unchangeability in the previous month), mostly due to the increase in the prices in the categories from the core component and from the minimal positive contribution of the energy component, in conditions of a small negative contribution of the food component⁸.

The annual inflation rate in December amounted to 2.3% (2.2% in the past month) mainly driven by the growth of the prices of the food and core component, and to a small extent by the energy component⁹. The annual inflation rate in December is slightly higher than expected according to the October forecasting round. In terms of the structure, regarding the forecast, an upward deviation is registered in all main components of inflation.

Inflation and volatility of food and energy

(annual growth rates, in %)



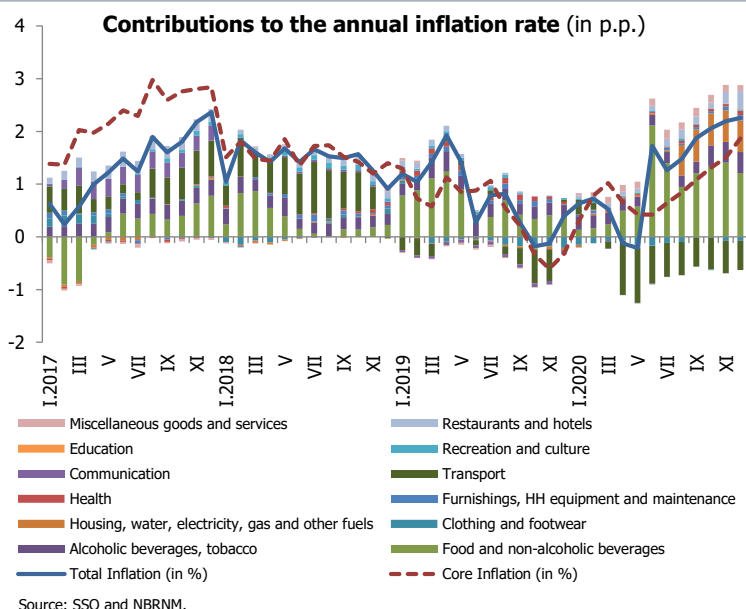
Source: State statistical office and NBRNM calculations.

The monthly rate of core inflation in December is positive and equals 0.9% (after the negative rates registered in the previous three months), and on an annual basis the rate of core inflation accelerates and amounts to 1.9% (1.5% in the previous month). The structure of the annual rate of core inflation in December is similar to the previous month, i.e. the prices of tobacco¹⁰ continue to make the highest positive contribution. Also, a positive contribution this month was also made by the prices of restaurants and accommodation services. On the other hand, a negative contribution was made by the prices of air traffic, clothing and footwear, audiovisual and computer equipment.

⁸ Observed by group of products, the largest positive contribution on a monthly basis was made by the higher prices of transport, i.e. by the prices of air traffic, followed by the increase in the prices of accommodation services, the prices of liquid fuels and lubricants, package tours, as well as by the prices of meat. On the other hand, the greatest negative contribution was made by the prices of vegetables, fruit, bread and cereals.

⁹ In conditions of an annual fall in the prices of liquid fuels and lubricants according to the world movements of the price of oil, the annual growth of energy prices is a result of the increase in electricity prices in August, pursuant to the decision of the Energy Regulatory Commission. Starting from 1 August 2020, the price of electricity is higher by 7.4%, i.e. for a high tariff it is 5.95 den/kWh, for a low tariff it is 2.99 den/kWh, while for one-tariff measurement it is 4.77 den/kWh (<https://www.erc.org.mk/pages.aspx?id=153>).

¹⁰ The annual growth of tobacco price in December reflects the increase in the prices of cigarettes in March and July 2020, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023. The same effect was that of the changes in the Law on Tobacco, tobacco products and related products, which requires all packs of cigarettes to have by 20 cigarettes by November 2020 (previously there were packs by 19 cigarettes), which together with the increased amount for excise collected by cigarette, contributed to the increase in producer costs.

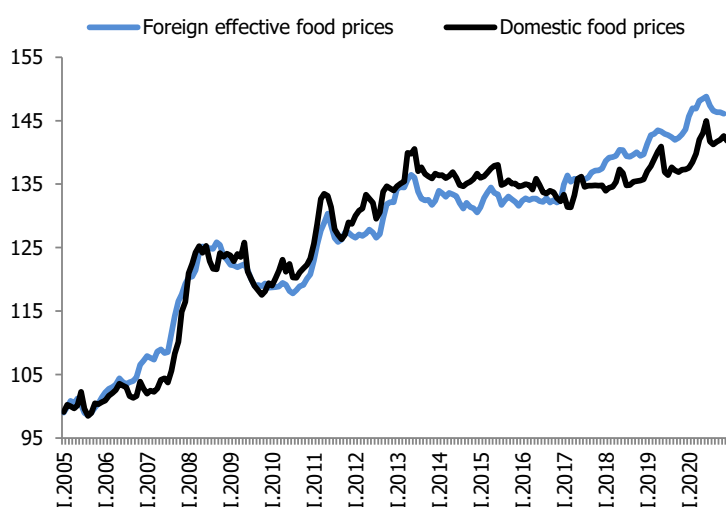


Cumulatively analyzed, for the whole of 2020, the annual inflation rate equals 1.2% and is mainly in line with the October forecast (forecasted inflation rate of 1.1%).

Regarding the expected price movements of the external input assumptions in the inflation forecast, the revisions are in a different direction.

In such circumstances, there is still highlighted uncertainty arising from the movement in the world prices of primary products in the next period and their impact on domestic prices, according to the uncertain economic effects of the second wave of the COVID-19 pandemic and its duration, as well as the occurrence of a mutation of the coronavirus.

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



* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.

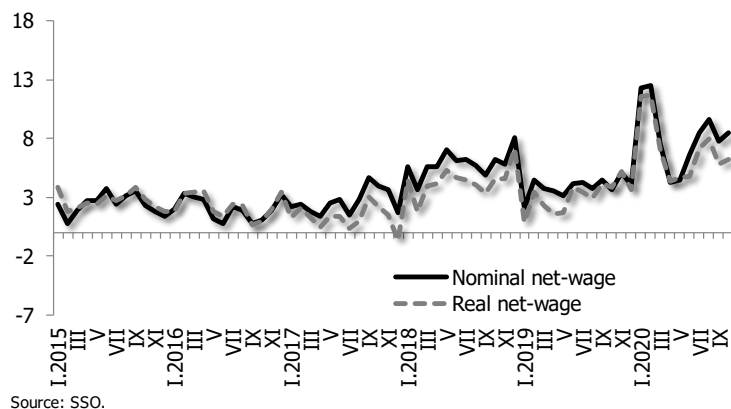
Source: State statistical office, Eurostat and NBRNM calculations.

In October 2020, the nominal annual growth of the average net wage was 8.4% (7.7% in the previous month). The solid wage growth, as before, is partly a spillover effect of the increase in the wages in the public sector¹¹, the effect of the measure for subsidizing contributions due to wage increase¹², coupled with the effect of this year's adjustment of the

¹¹ In January 2020, the wages in education were increased by 10%, and from February 2020, the wages of employees in health were increased (growth of 25% for specialists, 15% for general practitioners, 10% for nurses, and by 5% for health associates and ancillary-technical staff).

¹² According to the Law on subsidizing contributions from compulsory social insurance due to wage increase, which started to be enforced with the payment of the November wage (Official Gazette of the Republic of North Macedonia No. 239/19), whereby the subsidizing of contributions is approved if the increase in the net wage is in the amount of at least Denar 600 up to Denar 6000 per month by insuree (Official Gazette of the Republic of North Macedonia No. 239/19, Articles 2 and 3).

Average net-wage
(annual changes, in %)



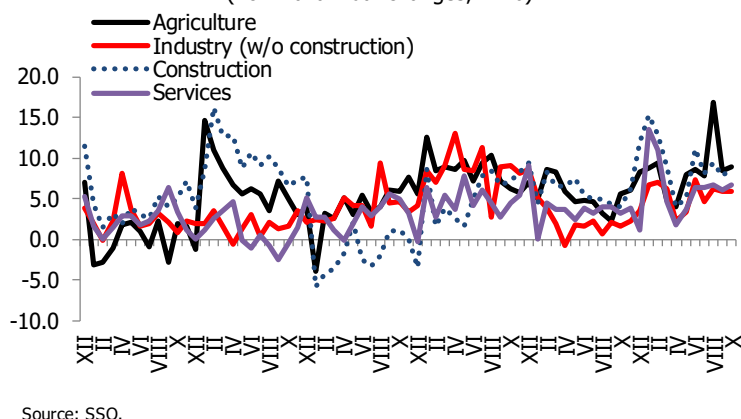
growth of the legally determined minimum wage (increase of 3% in July¹³).

Wage growth was registered in most of the activities, with the most prominent one being registered in the activities related to "health and social work", "arts, entertainment and recreation", "manufacturing industry", "wholesale and retail trade", "information and communication", "professional, scholar and technical activities", as well as in the employees in education¹⁴.

Amid increase in the consumer prices on an annual level, the **real annual growth of the net wage in October was 6.3%**.

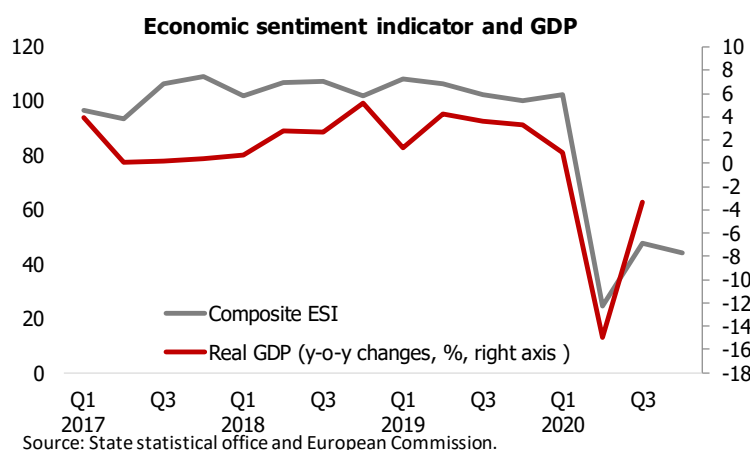
The annual wage growth in October is slightly higher relative to the expectations for growth in wages within the October forecast.

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



¹³ According to the announcement of the Ministry of Labor and Social Policy, issued in the Official Gazette of the Republic of North Macedonia No.75/20 and the Decree with legal force on the enforcement of the Law on Minimum Wage in the Republic of Macedonia Official Gazette of the Republic of North Macedonia No. 88/20, the minimum net wage increased by 3%, i.e. by Denar 434. The minimum wage in gross amount, starting from July 2020 to March 2021 is Denar 21,776 (previously Denar 21,107), i.e. the minimum wage in net amount is Denar 14,934 (previously Denar 14,500). The regular adjustment for increasing the minimum wage (with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth - one third of the growth of each indicator, respectively) was made even before the crisis caused by the COVID-19 pandemic, but with a Decree, the Government put it under moratorium until the end of the state of emergency (i.e. for the period April-June 2020). Previously, in addition to the regular adjustment in April 2019, the minimum wage was extraordinarily increased in December 2019 (by about Denar 2000, net) and amounted to Denar 14,500, net (Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 239/19).

¹⁴ A decrease in wages in October 2020 is registered only in the activities related to "financial and insurance activities".

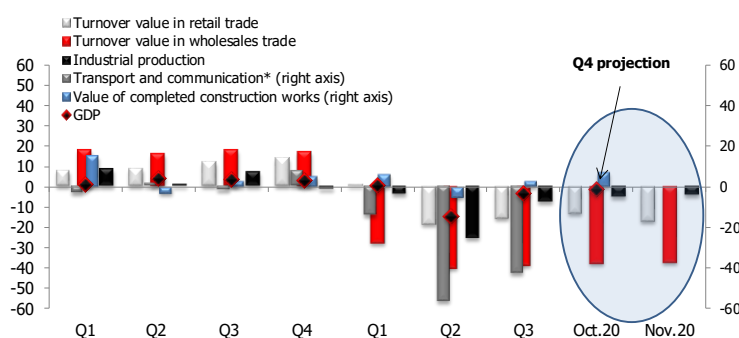


High-frequency data on the supply and demand side available for the period October-November 2020 are generally more favorable compared to the performances in the third quarter. However, the movements on an annual basis still point to a fall in the economic activity in the fourth quarter of the year, but at a more moderate pace compared to the fall in the previous quarter, which is in line with the expectations according to the October forecasting round. The further deceleration in the fall and the gradual economic recovery is due to the target and less restrictive measures for dealing with the second wave of COVID-19¹⁵, then to the gradual adjustment of the behavior and habits of entities (both companies and consumers) to the new situation, as well as the effect of the undertaken monetary and fiscal measures. On the other hand, as for the latests perceptions of economic agents for the economic situation¹⁶, the results of the surveys for the period October-December 2020 indicate slightly weaker perceptions compared to the third quarter, but still less negative than those in the second quarter, when the economy was facing the first wave of the pandemic and significantly tougher restrictive measures were taken.

In most of the available high-frequency data on the supply side there is an improvement with respect to the performances in the third quarter, as well as a further deceleration in their annual fall.

In the period October-November, **total trade turnover** registered a real fall of 24.1% on an annual basis, reflecting the still unfavorable performances in the wholesale and retail trade, while the trade in motor vehicles registered a high real growth. However, the fall in the total trade turnover, as well as in the wholesale and

Economic activities
(real annual changes, in %)



*Simple average of annual growth rates of the different types of transport and the telecommunications.
Source: SSO and NBRNM calculations.

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES													
	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Oct	Nov
	real annual changes in %												
Gross domestic product	0.7	2.8	2.7	5.1	1.4	4.3	3.6	3.3	0.9	-14.9	-3.3	-	-
Industrial output*	5.2	4.9	5.1	6.4	8.8	1.1	7.1	-1.3	-3.7	-25.0	-7.5	-5.2	-3.9
Construction	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-5.1	3.0	7.4	-
Building	3.2	6.1	-11.4	28.1	-9.3	5.1	23.7	-1.1	-8.5	-20.4	17.9	-17.4	-
Civil Engineerings	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.7	11.1	21.3	4.7	-6.2	27.3	-
Retail and wholesale trade	5.8	8.2	7.3	9.2	13.9	12.8	15.3	15.5	-16.7	-30.6	-26.1	-23.8	-24.3
Retail trade	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-18.6	-15.7	-13.4	-17.1
Wholesale trade	5.2	6.8	7.0	8.6	18.0	16.0	18.1	17.3	-27.8	-40.1	-38.7	-37.8	-37.6

* Real growth rates are calculated by the NBRNM, by dividing nominal growth rates with annual inflation, measured by CPI. The data regarding trade in 2020 is previous data.
Source: SSO and NBRNM staff calculations.

¹⁵ In the period October-November 2020, the Government adopted several decisions to reintroduce restrictive measures for protecting the health of citizens and dealing with the coronavirus, and as a result of the significantly increased number of newly infected and deceased persons in this period. These also include limitation on the working hours of the catering facilities, limitation on the capacity of passengers in the vehicles in the public transport, ban on grouping in a public space, etc. Also, at its 23rd session, the Government adopted a Decision on the existence of a crisis situation on the territory of the Republic of North Macedonia. However, such restrictive measures are less restrictive than those in the second quarter. For more information on the undertaken measures visit: <https://vlada.mk/node/22716>, <https://vlada.mk/node/22871>, <https://vlada.mk/node/23041> и <https://vlada.mk/node/23294>.

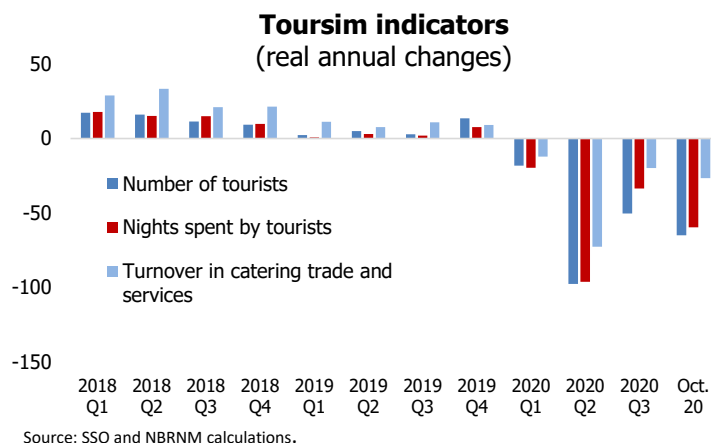
¹⁶ It refers to the surveys conducted by the European Commission to measure the economic confidence of agents in an economy. The composite indicator of economic confidence is a weighted average of the consumer confidence indicators and economic sectors confidence indicators (construction, industry, retail trade and services). Starting from January 2019, the European Commission revised the structure of consumer confidence indicator, and accordingly, the composite indicator of economic confidence. For more information on the new methodological changes visit: https://ec.europa.eu/info/files/revised-consumer-confidence-indicator_en

retail trade, is milder compared to the fall registered in the third quarter.

Industrial output in the period October-November decreased by 4.5% on an annual basis (deceleration compared to the fall of 7.5% in the third quarter). Observed by main industrial activities, the largest drop and consequently the highest negative contribution is still registered in the manufacturing industry, while a minor negative contribution is registered in the energy sector. On the other hand, mining sector made a small positive contribution. The fall within the manufacturing industry is widely dispersed, and the largest negative contribution is registered in some of the traditional activities, such as "production of food products", "production of clothing", as well as "production of tobacco products". When it comes to the activities where the foreign export facilities are active, the greatest negative contribution is registered in the production of machines and devices. Also, a larger negative contribution is also registered in the activity "production of other non-metal mineral products". On the other hand, the highest positive contribution to the manufacturing industry in the period October-November was registered in the production of motor vehicles (an activity that in the past period from March to September registered a significant fall).

The deceleration in the annual fall in the industrial production in the period October-November, relative to the fall in the third quarter, is primarily due to the growth in the mining sector (contrary to the decline in the third quarter) and to the more moderate fall in the energy sector. Within the manufacturing industry, the greatest improvement is recorded in some of the activities in which the companies from the automotive industry operate, but also in some of the traditional activities, such as the production of beverages and textile.

In October 2020, the **construction sector** registered a real annual growth of 7.4%, which is an acceleration in the growth compared to the third quarter (growth of 3%). Moreover, the growth in October is entirely due to the growth of the activity in the part of civil engineering, amid high real annual fall in building construction.

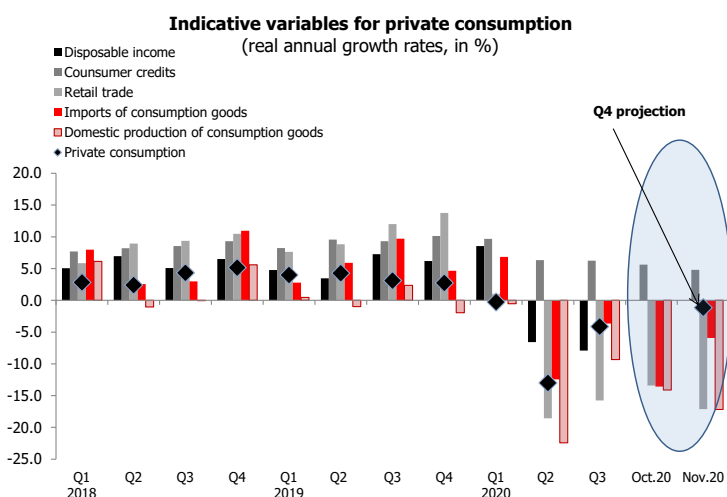


In **catering**, in October 2020 there is a real annual fall in the number of tourists, overnight stays, as well as total turnover and the decline in all three categories is rougher compared to the third quarter. Such deepening in October is almost entirely due to the fall in the number and overnight stays of domestic tourists (after their growth in the previous quarter) partially as a result of the exhausted effects of the government measures for support of the domestic tourism.

The available **aggregate demand** indicators are more favorable compared to the third quarter, but similar to supply, the indicators suggest a further but more moderate annual fall in the economic activity in the fourth quarter of the year.

Indicators of the movements in **private consumption**¹⁷ generally point to a deceleration of the annual fall in consumption in the fourth quarter of the year. Thus, a further deceleration in the fall in this period is registered in gross revenues from VAT and retail trade, although minimal. Also, there are favorable funding sources of private consumption, where the solid growth in almost all components of disposable income (growth of the pension and real wage bill) continues, and the growth in household loans continues as well. On the other hand, domestic production of consumer goods and import of consumer goods show somewhat more substantial fall compared to the third quarter. As for the consumer confidence indicator, it suggests an increase in the pessimism in the fourth quarter, relative to the third quarter (more negative perceptions and expectations regarding the financial and general economic situation in the country and their spendings in the period ahead), partly as a result of the occurrence of the second wave of the COVID-19 pandemic and the reintroduction of restrictive measures.

The high-frequency data on the **gross investments**¹⁸ in the period October-November 2020 mainly indicate more favorable movements in this category. Thus, the dynamics of the growth in construction accelerates, and after the



Source: SSO and NBRNM calculations.

¹⁷ From the indicators for personal consumption, data on turnover in retail trade, pensions, domestic production of consumer goods, imports of consumer goods and household loans refer to the period October - November 2020, while net wages are as of October 2020.

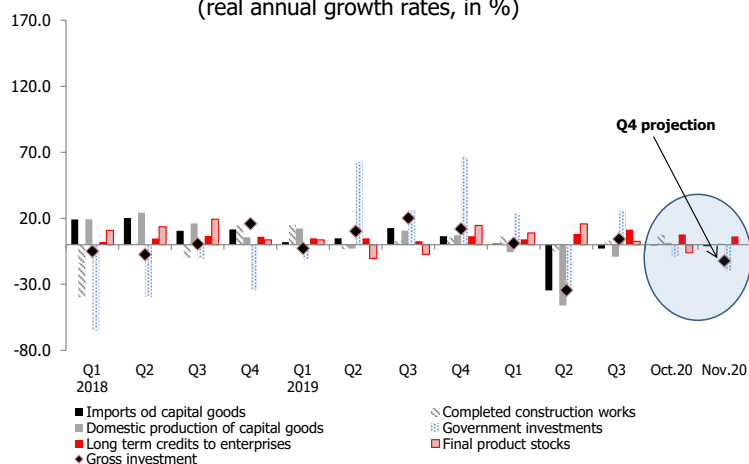
¹⁸ Data on completed construction works are as of October 2020, while data on long-term corporate loans, government capital investments, industrial production, imports of investment goods and domestic production of capital goods refer to the period October-November 2020.

fall in the previous quarter, growth is also registered in domestic production of capital goods, and corporate tax. At the same time, the growth of long-term lending to enterprises by banks continues, but at a slower pace. Also, there are favorable estimates of corporate managers from construction that suggest better movements in the fourth quarter compared to the previous quarter. At the same time, in this period, the fall in both the import of means of work and the industrial production slows down, and the estimates of corporate managers in industry in the fourth quarter are similar to the third quarter. On the other hand, government capital investments declined, following the growth in the previous quarter.

Foreign trade data in the period October-November 2020 indicate potential deficit narrowing in the fourth quarter of the year compared to the same period last year, in conditions of a nominal annual growth of the export contrary to the fall in the import of goods.

Budget performances in the period October-November 2020 point to a more moderate annual growth of **public consumption** in the fourth quarter, amid a slower growth in most of the main categories of public consumption, such as the health care transfers, the transfers to the local authorities, the Employment Service Agency and the expenditures on salaries. Unlike the past three quarters, in the period October-November, small growth was registered in the expenditures on goods and services, while the transfers to the Pension and Disability Insurance of the Republic of North Macedonia Fund decreased.

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



Source: SSO and NBRNM calculations.

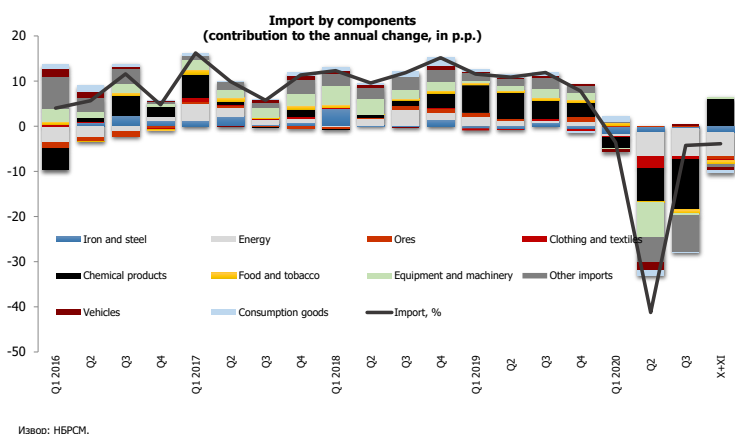
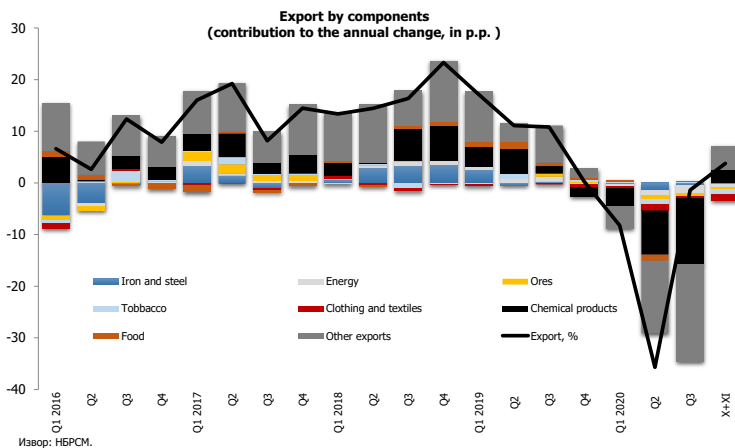
In the period October - November 2020, the foreign trade deficit decreased by 23.5% on an annual basis, in circumstances of growth in the export of goods amid a simultaneous small decline in the import of goods. Moreover, the total foreign trade is almost unchanged on an annual level, indicating a recovery after the initial strong shock caused by the COVID-19 pandemic in the second quarter.

Exports of goods in the period October-November increased by 3.8% on an annual basis. The main factor for the positive movements is the accelerated export activity of the export-oriented capacities from the automotive industry. On the other hand, almost all other export categories made a moderate negative contribution to the total exports (and mostly tobacco and clothing and textile).

Compared to the October forecast, the performances in October and November 2020 point to the possibility for better export results than expected for the fourth quarter of 2020. Significant upward deviation is registered in the export of the facilities in foreign ownership, while the performances in the other export categories are mainly in line with the expectations for the fourth quarter.

Imports of goods in the period October-November fell slightly by 2.9% on an annual basis. An annual fall is registered in most import categories, with the largest negative contribution by the lower energy imports (as a combined effect of the lower import volumes and the fall in the price of crude oil on world markets). The import of iron and steel, vehicles, food and consumer goods also acted in the same direction, but at quite more moderate pace. On the other hand, such performances are partially offset by the higher import of raw materials of some of the export facilities in foreign ownership during October and November.

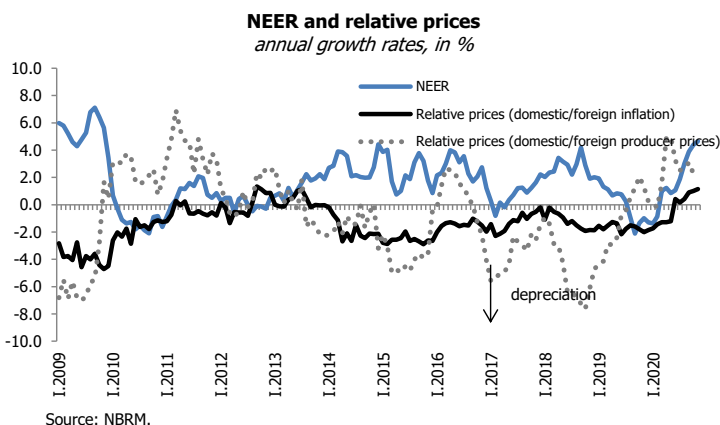
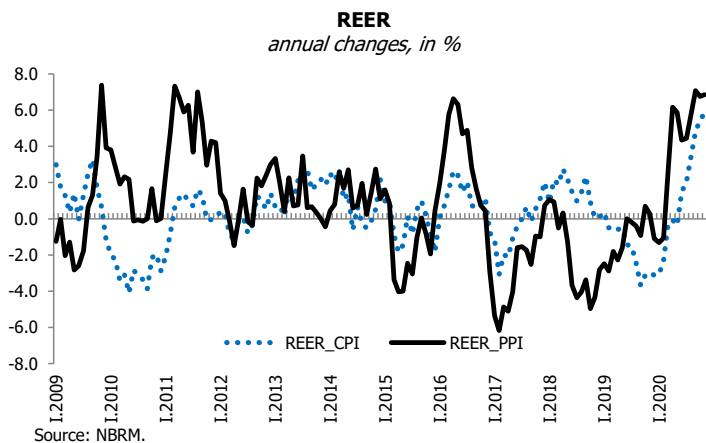
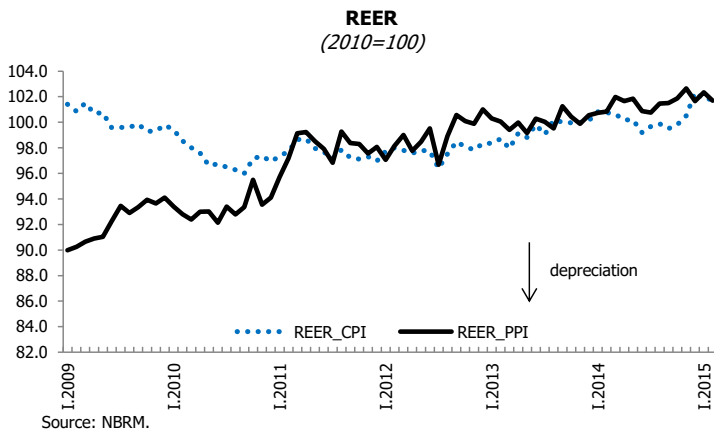
Compared to the October forecast, the performances in October and November 2020 point to the possibility for higher performances on the import side than expected for the fourth quarter of 2020. Moreover, significant upward deviation is currently registered in the import of raw materials of some of the export facilities in foreign ownership and in the import of equipment



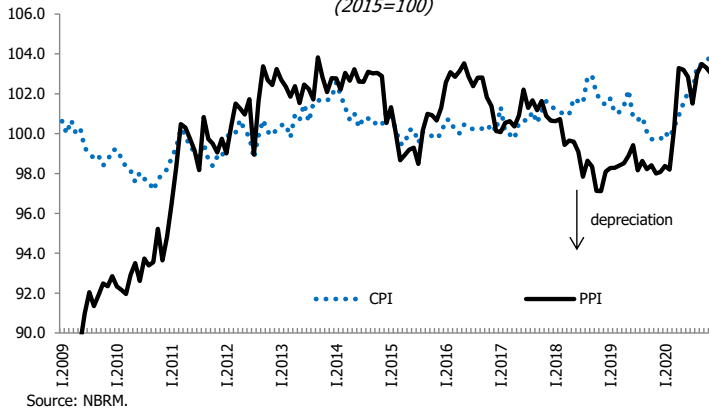
and machinery, according to the better export activity.

Consequently, the performances in the export and import of goods in October and November 2020 point to the possibility for achieving a trade deficit generally in line with that expected according to the October forecast.

In the period October-November 2020, the REER index deflated by consumer prices appreciated by 5.6%, while the REER index deflated by producer prices registered a higher appreciation of 6.8%. The largest contribution to such change is made by the NEER, which appreciates by 4.5%, which is largely due to the depreciation of the Russian ruble and the Turkish lira. At the same time, the relative consumer prices went up by 1.1%, while the relative producer prices rose by 2.2%.

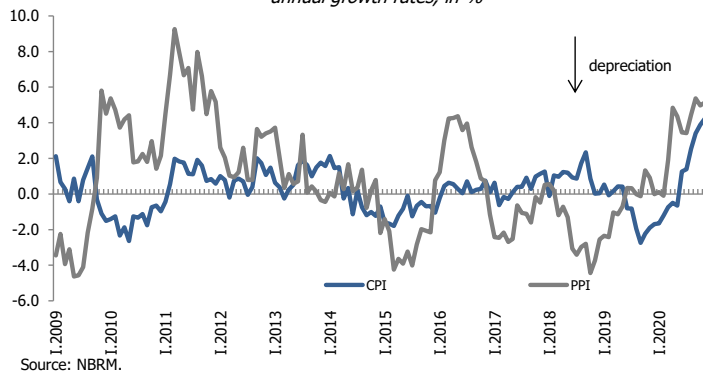


REER, excluding primary commodities
(2015=100)

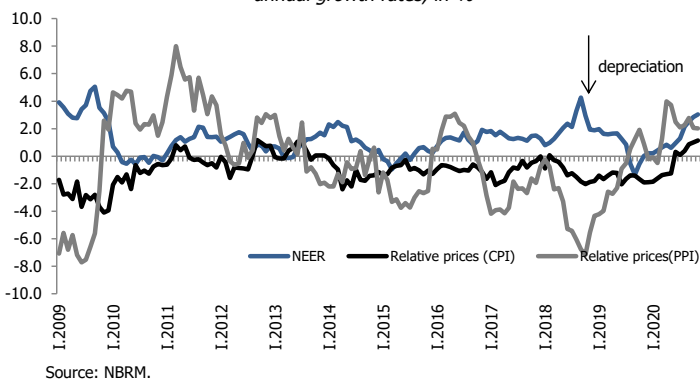


REER indices, as measured using weights based on the foreign trade without primary commodities, in the period October-November 2020, also appreciated on an annual basis. Thus, the REER index deflated by consumer prices appreciated by 4%, while the REER deflated by producer prices appreciated by 5%. Moreover, the relative consumer prices increased by 1.1%, and the relative producer prices rose by 2%, and the largest contribution was made by the nominal effective exchange rate which appreciated by 2.9% on an annual basis.

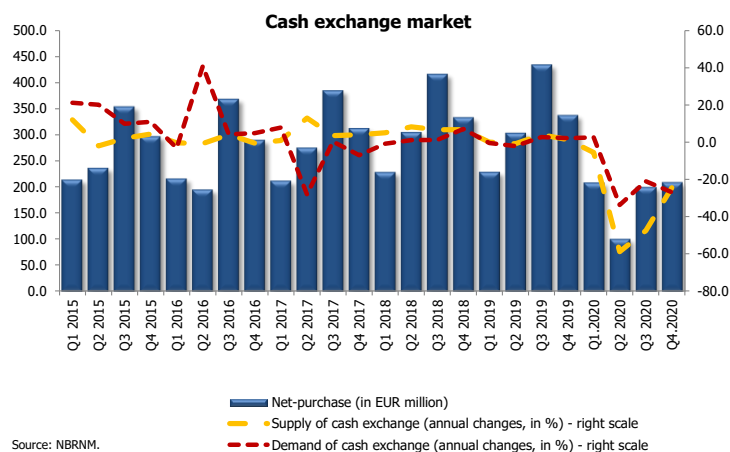
REER, excluding primary commodities
annual growth rates, in %



NEER and relative prices, excluding primary commodities
annual growth rates, in %



The net purchase on the currency exchange market in the last quarter of 2020 was Euro 256.5 million, which is an annual decrease of 23.9%. Such performances are driven by the simultaneous fall in the supply of and in the demand for foreign currency (by 24% and 24.3%, respectively).

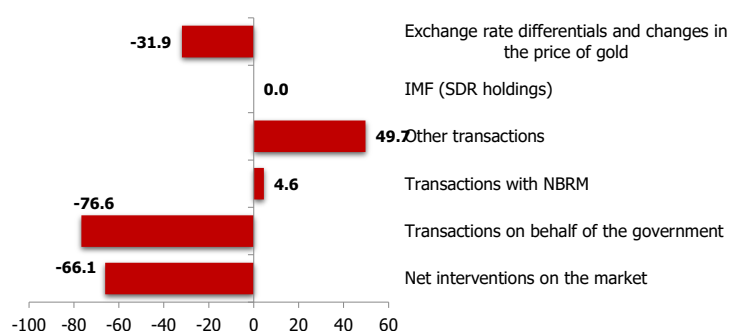


As of 31 December 2020, the gross foreign reserves stood at Euro 3,360.1 million.

Observed by growth factors, this period registered regular servicing of external liabilities of the public sector¹⁹, the National Bank intervened by selling foreign currency on the foreign exchange market, amid currency changes and changes in the price of gold. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.



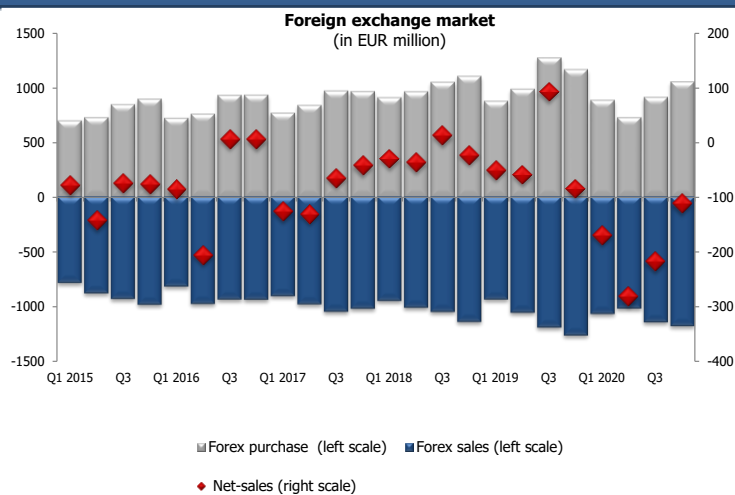
Factors of change of the foreign reserves in Q4.2020
(in EUR million)



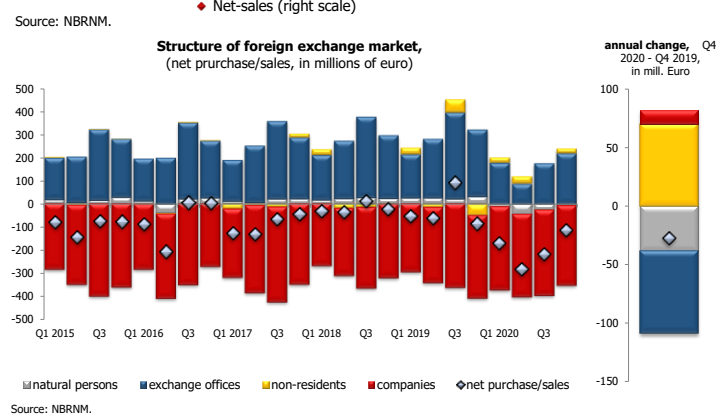
Source: NBRNM.

¹⁹ In November 2020, payment of the remaining part of the Eurobond issued in 2015 was made.

EXTERNAL SECTOR



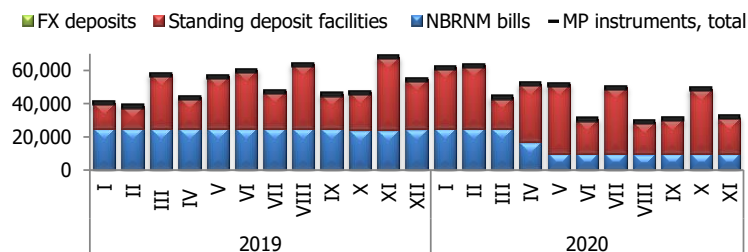
In the last quarter of 2020, the banks' foreign exchange market reported a slightly higher net sale of foreign currency compared to the same period last year, in conditions of a fall in both the supply of and the demand for foreign currency.



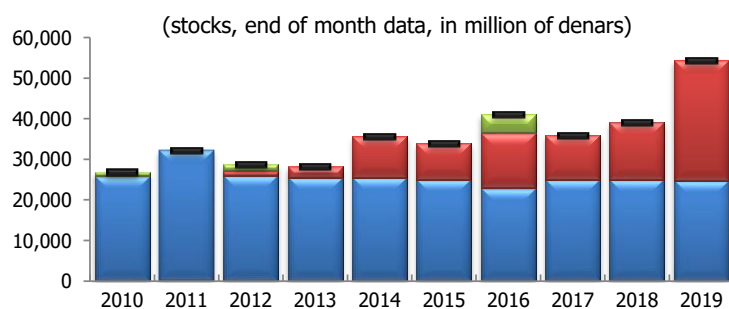
Sector-by-sector analysis shows that such shifts result from the lower net purchase in exchange offices and from the net sale in natural persons, contrary to the net purchase registered in the same period last year.

Monetary policy instruments

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



At the end of November, the stock of monetary instruments reduced compared to the previous month, due to the reduction in the amount of banks' assets placed in deposits with the National Bank, amid unchanged stock of CB bills²⁰. The level of monetary instruments at the end of November is lower than forecasted for the end of the fourth quarter of 2020²¹.



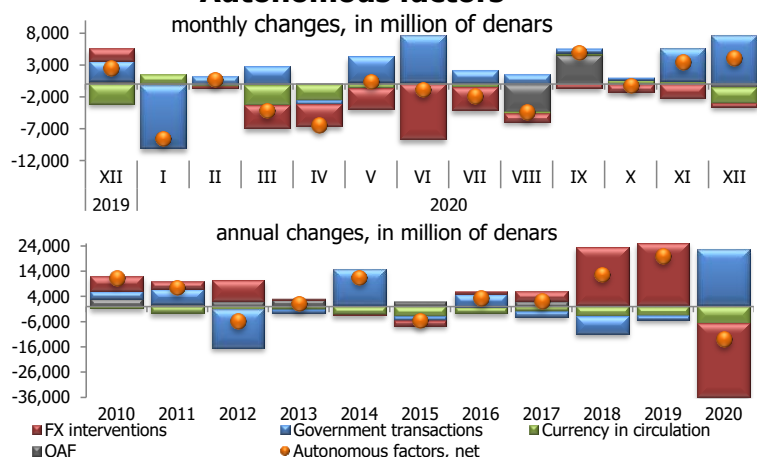
The net foreign assets of the National Bank at the end of November are currently higher than forecasted for the end of the fourth quarter of 2020.

Source: NBRNM

²⁰At the CB bills auction of the National Bank held on 11 November 2020, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.5% and maturity of 35 days.

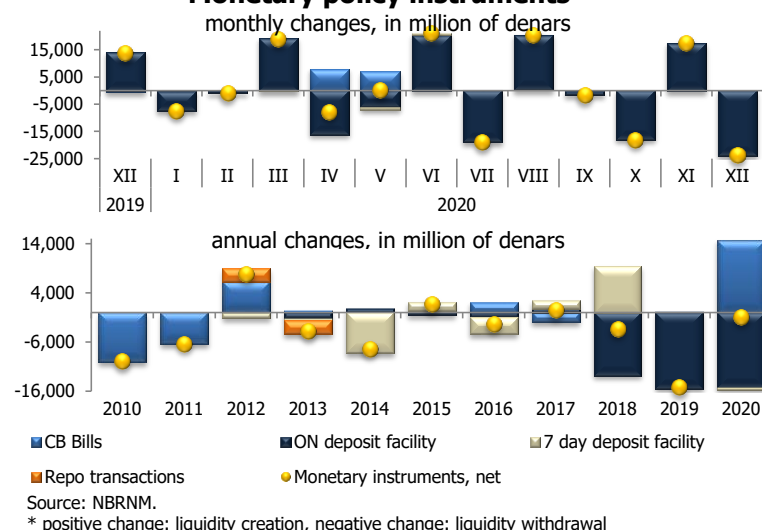
²¹The performance comparisons are against the October forecasts of the National Bank.

Autonomous factors*



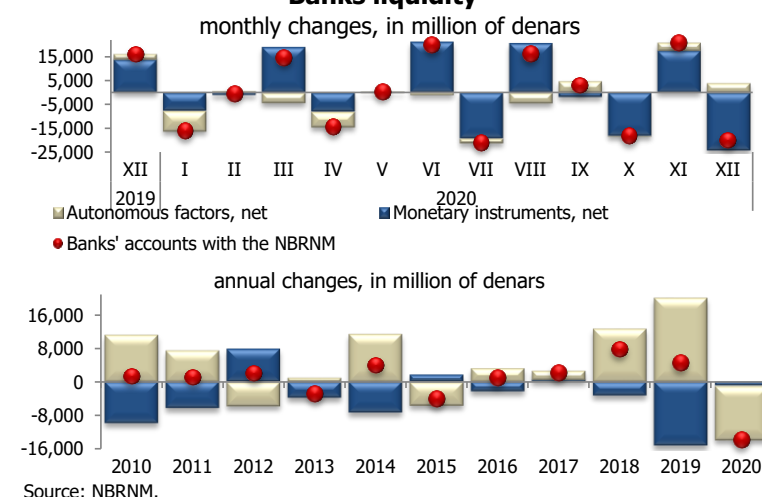
In November, the total government deposits with the National Bank registered a monthly decrease²², but still their stock at the end of November is higher than forecasted for the end of the fourth quarter of 2020.

Monetary policy instruments*



Reserve money in November registered a monthly growth, as a result of the increase in the banks' total reserves with the National Bank, amid a slight decrease in the currency in circulation. Moreover, the reserve money stock is almost at the level forecasted for the fourth quarter of 2020.

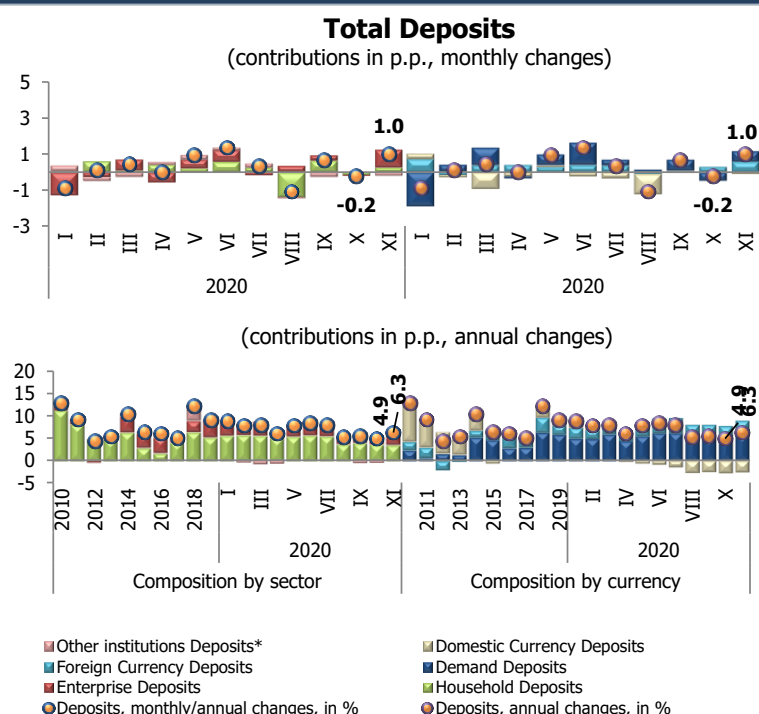
Banks liquidity*



In December, the liquid assets of the banking system registered a monthly fall. The change entirely results from the higher amount of banks' placements in short-term deposits, i.e. in overnight deposits, amid unchanged stock of CB bills²³. The autonomous factors, net, contributed to increasing the liquidity of the banking system, as a result of the change in government transactions.

²² In November 2020, payment of the remaining part of the Eurobond issued in 2015 was made.

²³ At the CB bills auction of the National Bank held on 16 December 2020, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.5% and maturity of 28 days.



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

Total deposits²⁴ in the financial system in November registered a monthly growth of 1%, after the minimal decline in the previous month. Observed by sector, the increase in total deposits²⁵ is primarily a result of the positive contribution of corporate deposits, amid moderate growth of household deposits. According to the currency structure, the monthly growth of total deposits is a result of the simultaneous growth of denar (entirely as a result of the increase in demand deposits) and foreign currency deposits. In October and November, total deposits grew, according to the October forecast for the fourth quarter. Given the usual high growth of total deposits in the last month of the year, coupled with the payments of the fourth package of fiscal measures during December, such movements give an indication of higher performances in deposits than forecasted.

In November, the annual growth rate of total deposits was 6.3%, amid forecasted annual growth for the end of the fourth quarter of 2020 of 4.4%. From sectoral and currency aspect, the annual growth mostly emanates from household deposits, i.e. from demand deposits.

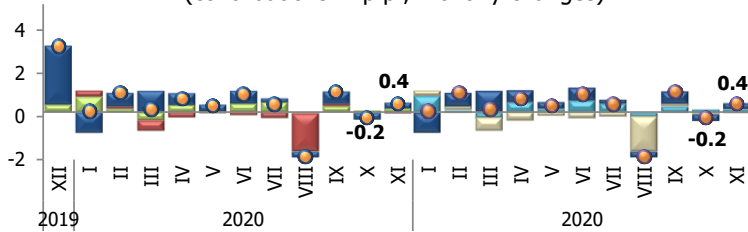
In November, household deposits registered a monthly growth of 0.4%. This is due to the change in denar deposits (entirely as a result of the increase in demand deposits), amid a slower growth of foreign currency deposits. An additional contribution to the growth was also made by short-term deposits, amid almost unchanged long-term deposits. **The annual increase in household deposits in November was 5.4%.**

²⁴ 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.nsp.x.

²⁵ The monthly increase in total deposits during November is partially a result of the funds paid to the private sector within the government package of fiscal measures aimed at mitigating the economic consequences of the viral infection COVID-19.

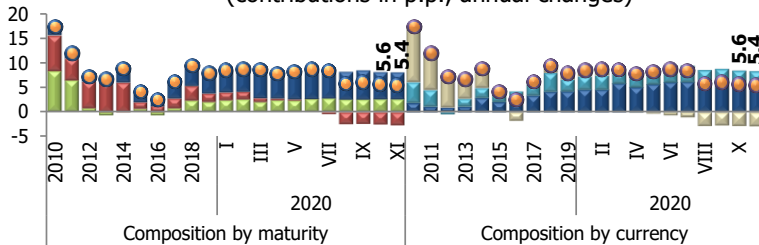
Household Deposits

(contributions in p.p., monthly changes)



The share of denar deposits (including demand deposits) in total household deposits remained unchanged compared to the previous month and amounted to 52.1%.

(contributions in p.p., annual changes)



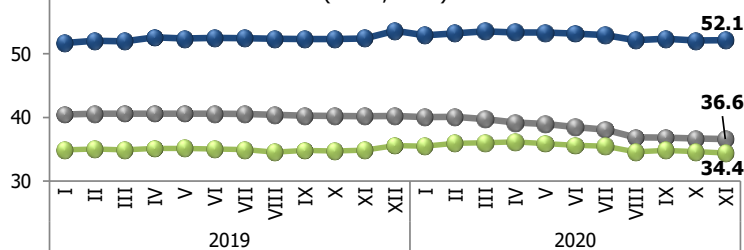
Composition by maturity

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

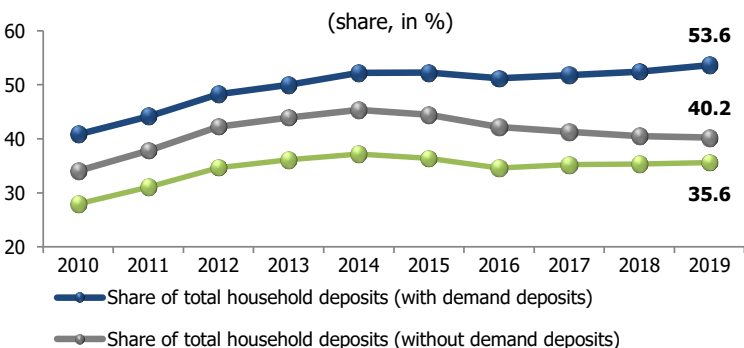
Source: NBRNM.

Denar Deposits of Households/Total Deposits of Households

(share, in %)



The broad money, measured through the broadest monetary aggregate M4, grew by 0.8% on a monthly basis. This is a result of the simultaneous growth of denar deposits (entirely as a result of the growth of demand deposits) and foreign currency deposits. With respect to the maturity structure, short-term deposits registered a monthly growth, amid small growth in long-term deposits. In November, broad money increased by 7.7% annually, amid forecasted annual growth of 5.4% for the fourth quarter of 2020.

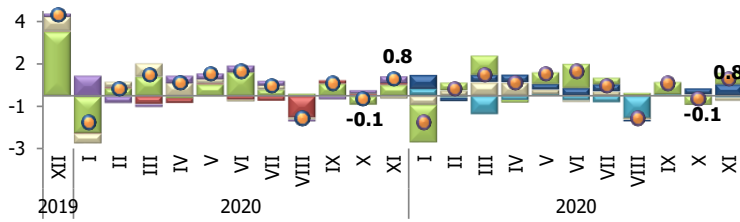


* Includes deposits at Banks and Saving Houses

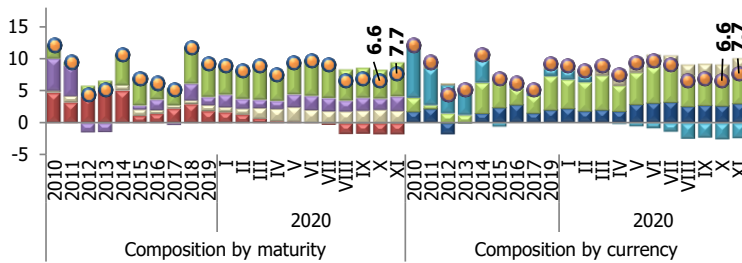
Source: NBRNM.

Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity

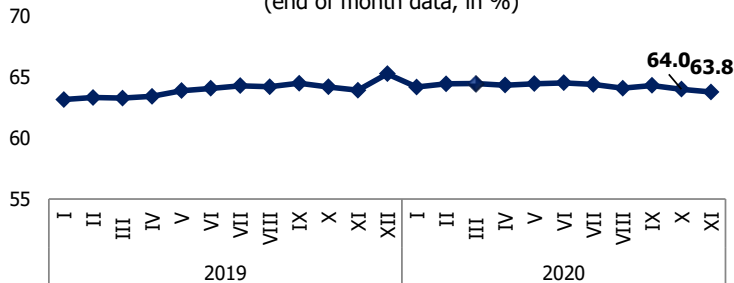
Composition by currency

- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits

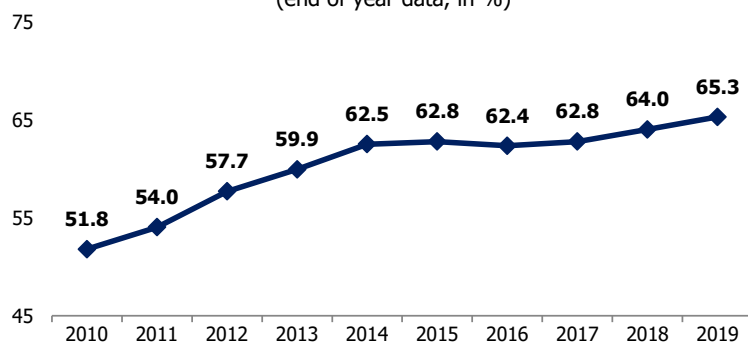
Source: NBRNM.

Share of Denar M4 in total M4

(end of month data, in %)

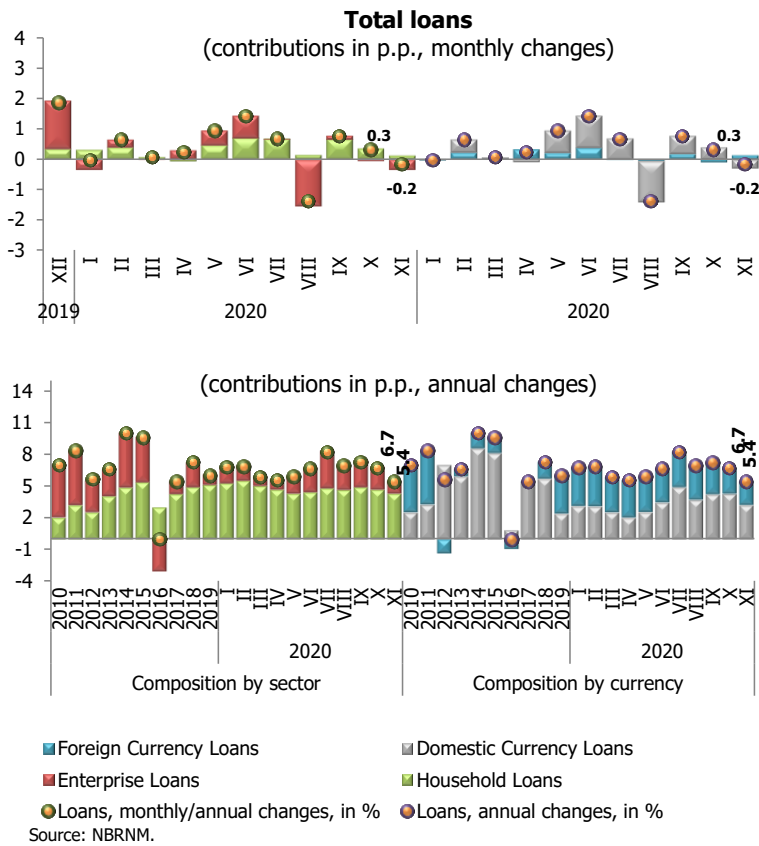


(end of year data, in %)



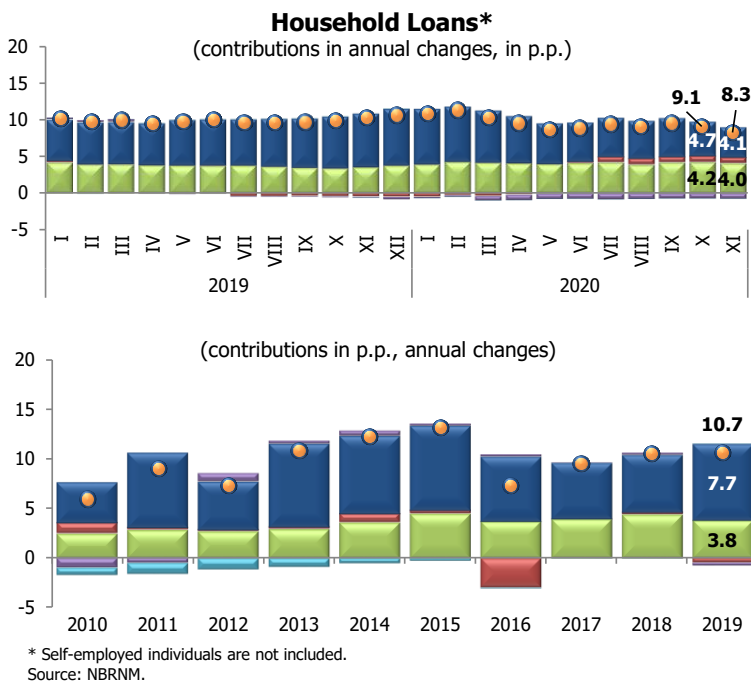
Source: NBRNM.

At the end of November, the denar share in total broad money M4 was 63.8% (64% in the previous month).



In November, total loans registered a minimal monthly decline of 0.2%, contrary to the growth registered in the previous month. Observed by sector, the reduction of total loans is entirely due to corporate loans²⁶, amid small rise in household loans. Observing by currency, the monthly fall in total loans is a result of denar loans, amid small rise in foreign currency loans. In October and November, total loans grew, according to the October forecast for the fourth quarter of the year. Moreover, one should bear in mind the usually high growth in total loans in the last month of the year, due to which the performance in loans at the end of the year is uncertain.

In November, the annual growth rate of total loans equaled 5.4%, amid forecasted annual growth of 5.3% for the fourth quarter of 2020, according to the October forecast. Observed by sector, the growth still largely results from the positive contribution of the household loans, with a smaller positive contribution of corporate loans. Regarding the currency structure, a larger contribution to the annual credit growth was made by loans in domestic currency, with a positive contribution of foreign currency loans (including denar loans with currency clause).

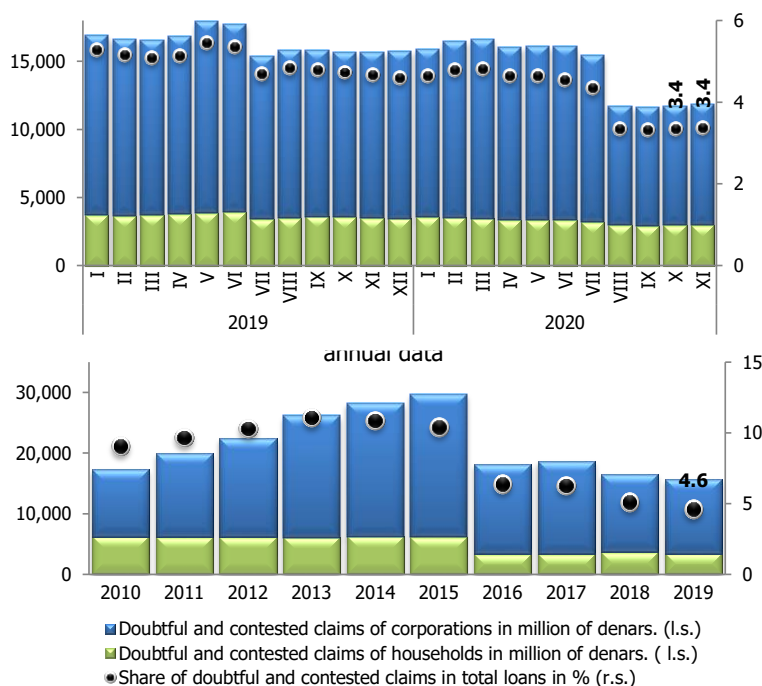


The annual growth of household loans²⁷ in November amounted to 8.3%, amid an almost equal contribution of consumer and housing loans (of 4.1 and 4.0 percentage points, respectively).

²⁶ The monthly decrease in corporate loans is mostly due to the collection of a loan by one bank from one major company.

²⁷ Excluding loans of self-employed individuals.

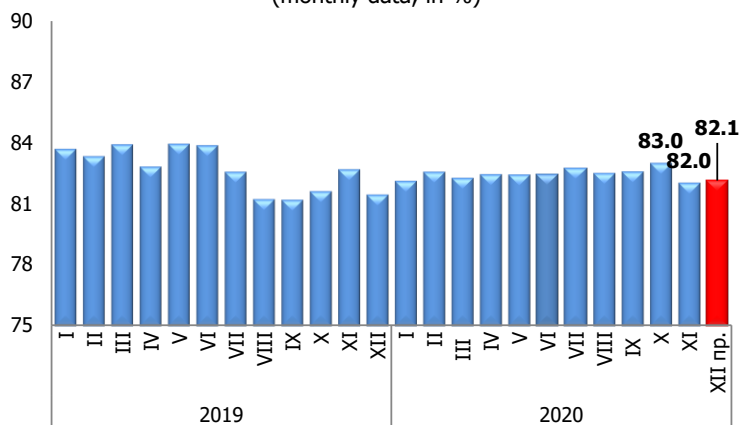
Doubtful and contested claims
(composition by sector and share in total loans)



Source: NBRNM.

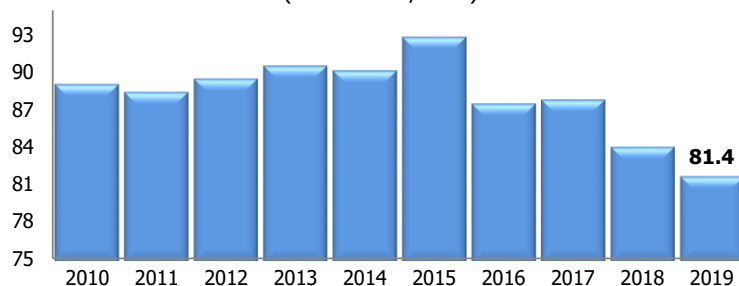
The share of doubtful and contested claims in total loans in November was 3.4% and remained unchanged compared to the previous month. In terms of the sector structure, most of the total amount of non-performing loans still results from the corporate sector, while the share of non-performing loans of the household sector is significantly lower.

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

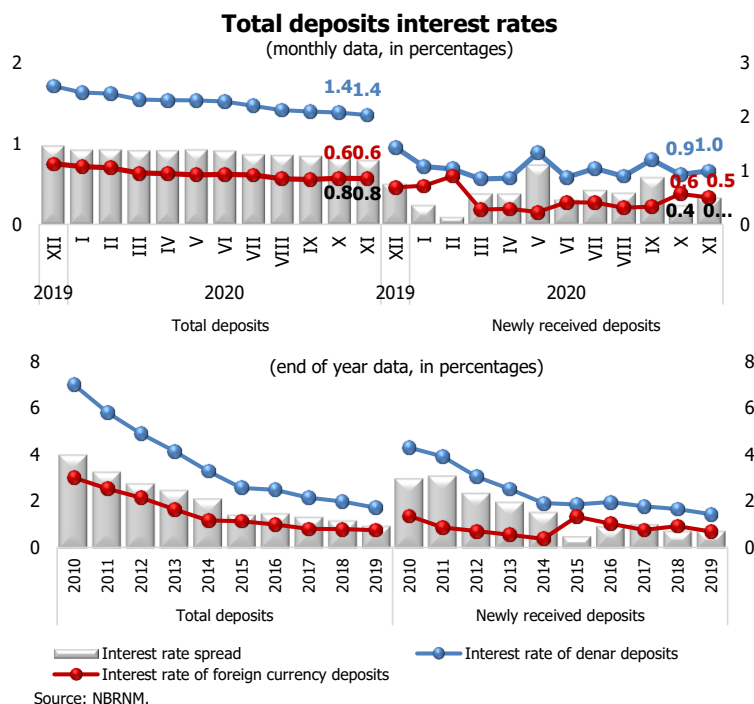


The indicator for the utilization of banks' deposit potential for lending to the private sector in November equals 82%, whereby it is almost at the same level as the forecasted value of this indicator for the end of the fourth quarter of 2020 (82.1%), according to the October forecast.

(annual data, in %)



Source: NBRNM.



In November 2020, there were no monthly changes in the interest rates on total deposits²⁸, whereby the spread between the interest rates on denar and foreign currency deposits remained unchanged compared to the previous month (0.8 percentage points). In total newly accepted deposits²⁹, the interest rate spread increased and amounted to 0.5 percentage points as a result of the increase in the interest rate on denar deposits of 0.1 percentage point, with a decline in the interest rate on foreign currency deposits of 0.1 percentage point.

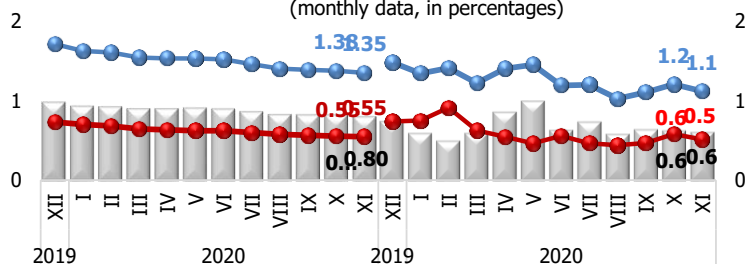
Regarding the interest rates on household deposits, the spread between the interest rates on denar and foreign currency deposits is still 0.8 percentage points, amid almost unchanged interest rates on denar and foreign currency deposits. Also, the interest rate spread of the newly received household deposits registered no changes, whereby the interest rates on denar and foreign currency deposits decreased by 0.1 percentage point, respectively.

²⁸ 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.nbm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.

²⁹ 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 determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.

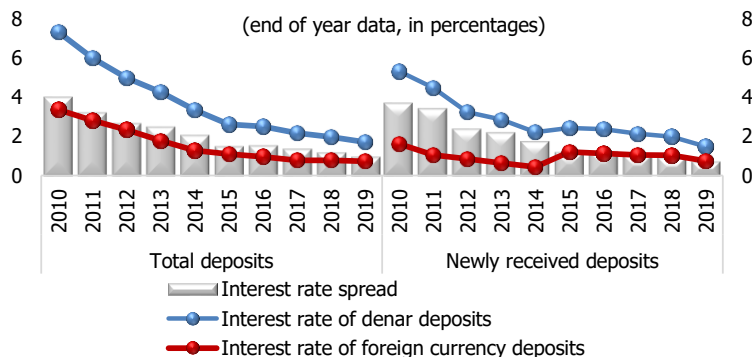
Households' deposits interest rates

(monthly data, in percentages)



In November, the interest rates on **total corporate and household loans** registered no monthly changes, amounting to 3.8% and 5.5%, respectively. In the **newly approved loans**³⁰ in November, the interest rate on corporate loans decreased by 0.4 percentage points, while the interest rate on household loans registered no changes, whereby these two interest rates amount to 3.7% and 4.5%, respectively.

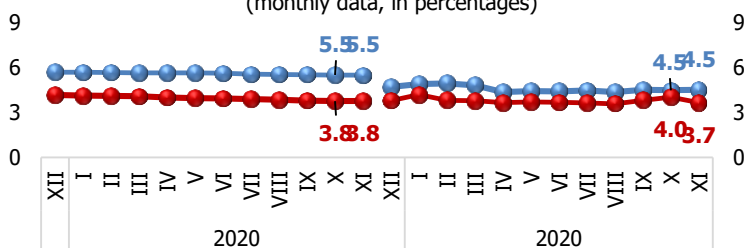
(end of year data, in percentages)



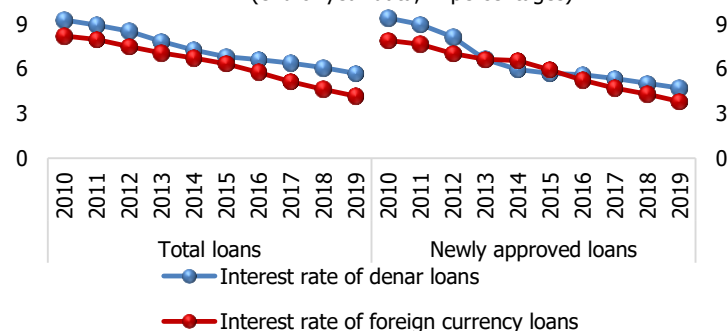
Source: NBRNM.

Total loans interest rates

(monthly data, in percentages)



(end of year data, in percentages)

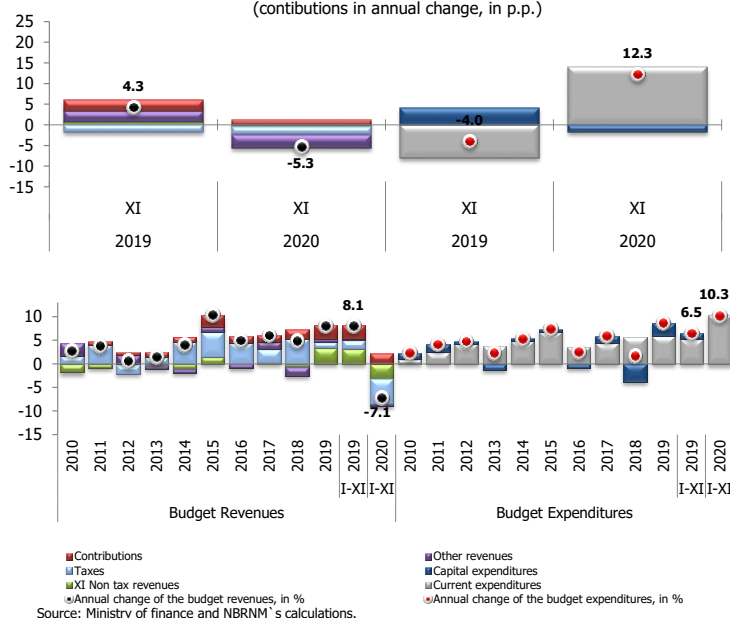


Source: NBRNM.

³⁰ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures

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

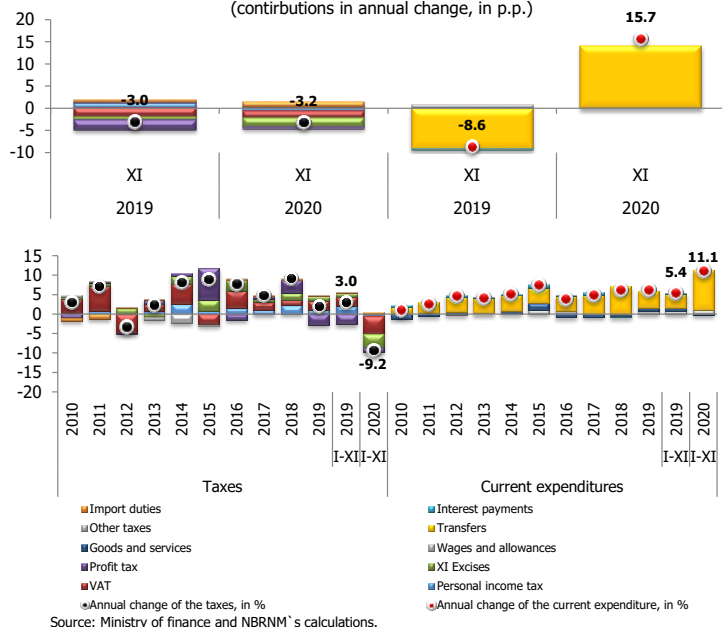


In the Budget of the Republic of North Macedonia (central budget and budgets of funds), in November 2020, total budget revenues are still lower on an annual basis, but the fall is slowing down. Total budget expenditures still register an annual growth, at a stronger pace compared to the previous month. The reduction of **budget revenues** of 5.3% is mostly due to the negative contribution of other income³¹ (3.3 percentage points), tax revenues (1.8 percentage points), amid a smaller negative contribution of non-tax revenues (0.6 percentage points), while contributions still register a positive performance (contribution of 1.1 percentage point). Tax revenues went down by 3.2% on an annual basis as a result of the lower inflows from excise duties, from VAT and personal tax, while import duties and corporate tax registered small growth. The growth of **budget expenditures** of 12.3% on an annual basis, entirely results from the contribution of current expenditures (14.1 percentage points), while capital expenditures make a small negative contribution (1.8 percentage points). Current expenditures in November increased by 15.7% annually, mainly due to the growth of transfers³².

In the period January - November 2020, total budget revenues went down by 7.1% compared to the same period last year. The reduction is mostly due to the lower performances in tax and non-tax revenues (contribution of 5.2 and 3.3 percentage points, respectively), while contributions registered a positive performance (with a contribution of 2.2 percentage points). On the other hand, total budget expenditures increased by 10.3%, which was mostly due to the higher current expenditures (mainly due to the increased transfers).

Taxes and current expenditures

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

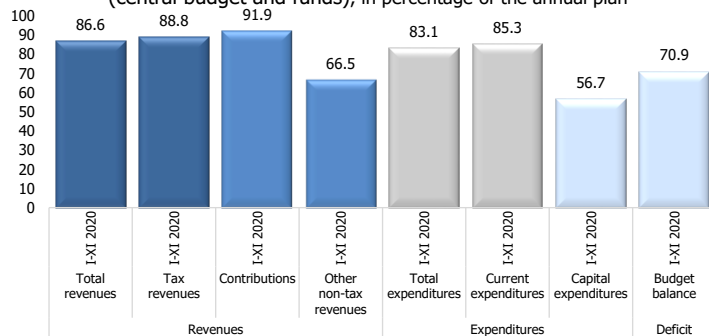


³¹ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

³² The annual growth of transfers is mostly associated with the payments related to the measures for mitigating the effects of the pandemic, stated in the category "other transfers", and to a lesser extent with the higher pension and health care costs.

Budget implementation , per categories

(central budget and funds), in percentage of the annual plan*

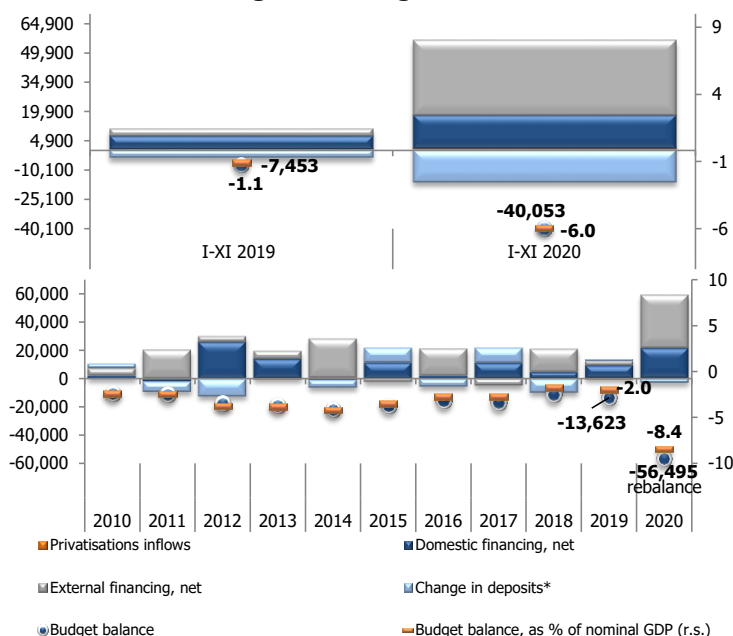


*for 2019 and 2020, figures are calculated compared to the Budgete rebalance for 2019 and 2020, respectively.

Source: Ministry of Finance and NBRNM's calculations.

In comparison with the second Budget Revision³³ for 2020, in the period January - November 2020, 86.6% of the planned budget revenues were realized, while the budget expenditures amounted to 83.1%. The budget deficit in the amount of Denar 40,053 million accounts for 70.9% of the second revision for 2020.

Financing of the budget balance



The budget deficit in the period January - November 2020 of Denar 40,053 million (or 6.0% of the nominal GDP³⁴) is mostly financed by foreign³⁵ and domestic government borrowing³⁶, with larger part of the inflows being retained as government deposits with the National Bank.

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

Source: MoF.

³³ "On 4 November 2020, the second Budget Revision for 2020 (Official Gazette of the Republic of North Macedonia No. 262 of 4 November 2020) was adopted."

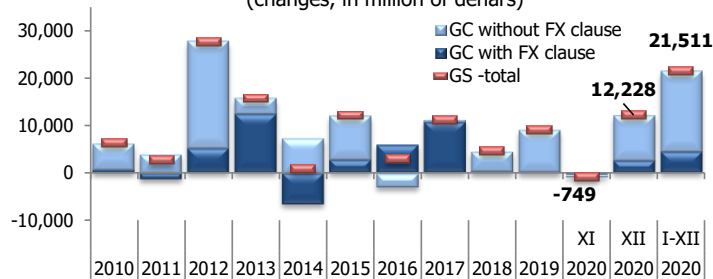
³⁴ The analysis uses the National Bank's October forecasts for the nominal GDP for 2020.

³⁵ At the beginning of April, the International Monetary Fund confirmed financial support for our country, through the Rapid Financing Instrument, in the amount of around Euro 176 million. In addition, an inflow of funds from the newly issued Eurobond was registered in June, while in October there was an inflow on the government account of Euro 83 million, in the form of a loan within the macro-financial assistance from the European Commission.

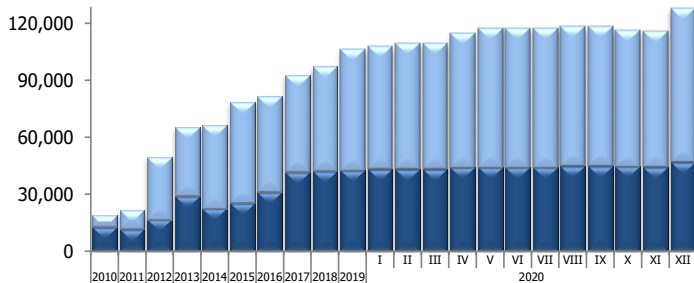
³⁶ Besides the issuance of government securities, domestic government borrowing was also made by the domestic commercial banks by around Euro 135 million, i.e. Denar 8,172.5 million, intended for repayment of a loan that fell due on 29 January 2020. It is a repayment of the second installment in the amount of Euro 158 million from the PBG loan concluded in 2013.

Government securities

(changes, in million of denars)



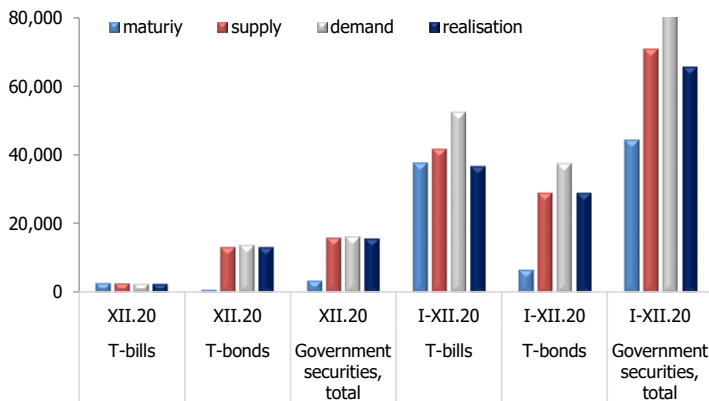
In December 2020, the stock of issued government securities³⁷ in the primary market increased on a monthly basis by Denar 12,228 million³⁸ and at the end of the month amounted to Denar 127,865 million. The increase in government securities in December results from the growth in the two-year, the three-year and the fifteen-year government bonds. Compared to the end of 2019, the stock of government securities at the end of December increased by Denar 21,511 million.



Source: MoF.

Government securities auctions

in million of denars



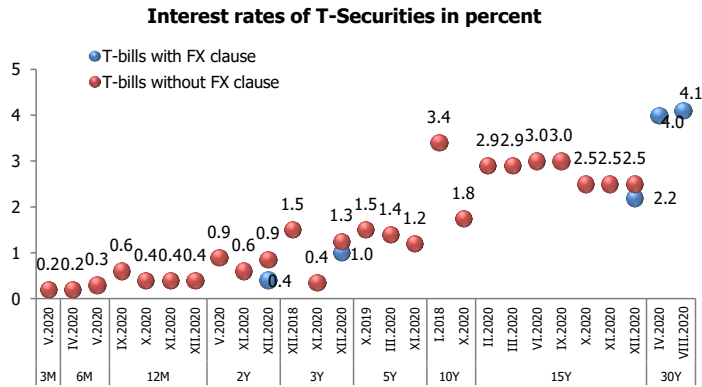
Source: Ministry of finance.

The new issues of government securities in December³⁹ 2020 were with twelve-month, two-year, three-year and fifteen-year maturity, whereby the market participants' interest was slightly higher than the offered amount. Amid issue of government securities in a higher amount than the amount due, their stock increased at the end of December.

³⁷ The second Budget Revision plans a net domestic borrowing (continuous government securities) of the government of Denar 21,525 million for 2020, i.e. increase in the stock of government securities to Denar 127,879 million.

³⁸ Most of the growth of the stock of government securities is a change in the form of government financing by banks, i.e. an investment in government securities at the expense of the due loan (around Denar 8,173 million) which was approved at the beginning of the year.

³⁹ In December 2020, the twelve-month treasury bills and the two-year government bonds fell due.



Source: Ministry of Finance

The interest rates on the newly issued government securities registered changes compared to the previous auctions. Namely, in December, the Ministry of Finance offered higher interest rates on the newly issued two-year and three-year government bonds without currency clause (average weighted interest rates of 0.9% and 1.3%, respectively) compared to the previous month, while maintaining the same interest rates on the newly issued twelve-month treasury bills and the fifteen-year government bonds without currency clause (0.4% and 2.5%, respectively). In addition, the Ministry of Finance issued two-year government securities with currency clause at an average weighted interest rate of 0.4% as well as three-year and fifteen-year government securities at interest rates of 1% and 2.2%, respectively.

Box 1: Indicative private consumption and gross capital formation categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION

	2018				2019				2020					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Sept emb	October	November
	<i>real annual growth rates in %</i>													
Retail trade*	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-18.6	-15.7	-14.1	-13.4	-17.1
VAT revenues*	3.9	6.5	7.5	6.9	3.5	1.4	7.5	6.6	1.8	-20.0	-10.8	-7.6	-9.9	-4.3
Imports of consumption goods*	8.0	2.6	3.0	11.0	2.8	5.9	9.7	4.7	6.8	-12.4	-3.6	-3.9	-13.6	-5.9
Domestic production of consumption goods	6.1	-1.0	-0.1	5.6	0.5	-1.0	2.4	-2.0	-0.5	-22.4	-9.3	-12.8	-14.1	-17.2
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	9.7	6.3	6.2	6.2	5.6	4.8
Average net wage*	3.4	4.7	3.9	5.4	2.2	2.4	3.5	4.2	10.0	4.6	7.0	5.8	6.3	-
Private net transfers*	5.6	9.2	4.3	2.1	-2.2	-4.7	5.7	2.2	-2.7	-40.2	-36.7	-24.8	-	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	5.7	6.2	5.3	3.8	4.7	6.0

* real growth rates are calculated by the NBRNM, by dividing the nominal growth rates with the annual CPI inflation.

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

INDICATIVE VARIABLES FOR INVESTMENTS

	2018				2019				2020					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	September	October	November
	<i>real annual growth rates in %, except for FDI in million denars</i>													
Imports of capital goods*	19.1	20.2	10.5	11.6	1.9	4.8	12.5	6.4	0.9	-34.6	-2.9	0.5	-0.5	-1.1
Completed construction works**	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-5.1	3.0	20.5	7.4	-
Domestic production of capital goods	19.3	24.2	16.0	5.7	12.3	-2.9	10.7	7.1	-5.7	-46.0	-9.0	2.4	1.3	0.8
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	23.8	-34.4	26.0	-31.3	-8.9	-19.6
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-10950.9	-2541.5	5284.4	-6903.5	4212.6	-2604.5	-6127.0	-3879.1	-	-
Long term credits to enterprises*	2.0	4.7	6.6	5.9	4.9	4.8	2.6	6.4	4.1	8.2	11.5	11.5	7.7	6.2

* real growth rates are calculated by the NBRNM, by dividing the nominal growth rates with the annual CPI inflation.

** real growth rates are obtained using the rate of growth of the construction costs for new housing facilities deflator.

*** real amounts are calculated by NBRNM, by dividing the nominal amounts with the level of the CPI index (base year: 2018=100).

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