

National Bank of the Republic of North Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

February 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 (November 2020 - January 2021) 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 latest perceptions of the IMF from January for the growth of the world economy are more favorable compared to the October forecasts as a result of the approval of several vaccines for use and the beginning of the vaccination in some of the developed countries from December 2020, the more favorable estimates for the second half of 2020 and the announcements for an additional fiscal stimulus in some of the developed countries in the period ahead. Moreover, regarding the risks from October, the occurrence of the second wave of the pandemic is one of the downward risks that was materialized, while the reaching of an agreement for Brexit in December 2020 represents elimination of one significant negative risk. **However, the high uncertainty remains present, as well as the risks mainly related to the development of the pandemic and the prospects for dealing with it.** The upward risks for the global growth relate to the more successful pandemic management and refer to the faster production and distribution of the vaccines, the greater effectiveness of the therapies for dealing with the virus, as well as the possibly greater fiscal stimulus than expected. On the other hand, the downward risks include the new accelerated spread of the infection, the possible introduction of significantly tougher measures for dealing with the virus than expected, the slower progress in the medical treatment against the virus, including the slower vaccination. In addition, the premature interruption of the policies for support of the economy may lead to an adverse effect on the labor market and on the companies' solvency and reduce the long-term growth, and the tightening of the financing terms may increase the default risk in some of the countries. Regarding the **economic developments in the euro area**, the initially published GDP estimates for the fourth quarter show a real annual fall in the economy of 5.1% (fall of 4.3% in the third quarter), whereby for the entire year an economic fall of 6.8% is registered. The household and corporate surveys as of January 2021 indicate a continuation of the trend of annual fall also in the first quarter of 2021, in conditions of prolonged restrictive measures for prevention of the spread of the second wave of the pandemic. Germany, as our most important trading partner, according to the initial estimate, in the last quarter of 2020 registered a real annual reduction of the economic activity of 3.9%, similar to the third quarter (decrease of 4%), and for the entire year the decrease is 5%. The surveys as of January suggest a slower activity compared to the last quarter of 2020, primarily due to the services sector which is due to the further restrictions, while the estimates for the industry continue to point to growth. The unemployment rate in the euro area in December is stable and amounts to 8.3% in the fourth quarter (8.6% in the third quarter). The annual inflation rate in the euro area in January 2021 accelerated and equals 0.9% (-0.3% in December 2020). Such strong change in the dynamics is a result of the solid rate of core inflation (of 1%), as opposed to the minimal growth in December, and to a lesser extent of the smaller decline in the prices of the energy component compared to December 2020. The forecasts for the **one-month EURIBOR** for the period 2021-2022 have been revised downwards, amid unchanged package of measures for maintaining the favorable financial conditions in the longer run at the meeting in January, but with market expectations for an additional stimulus by the ECB.

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 performance of the **foreign effective inflation** in 2020 is slightly lower relative to the October

assessments, and a downward revision has also been made for the next two-year period. The latest estimates for the **US dollar against the euro** indicate a depreciation of the US dollar in 2021 and 2022, at a faster pace compared to the October forecasts. **The prices of primary commodities in world markets** in 2020 mainly went down, with the exception of the growth of the price of wheat and copper, and the performances are higher than the October expectations. The latest forecasts for the prices of primary commodities in world markets suggest synchronized movements, expecting strong growth in 2021 and fall in 2022, which is a revision upwards for 2021, and downwards for 2022 compared to the October assessments. 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, 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 does not indicate significant deviations in the individual segments of the economy. 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. The currently available high-frequency data for the fourth quarter of 2020 indicate more favorable movements in the domestic economy and more moderate negative effects of the health crisis compared to the previous quarter, in conditions of a relatively fast recovery of the production and exports included in the global value chains, gradual adjustment of the behavior and habits of entities to the new situation, as well as implementation of target and less restrictive measures for dealing with the second COVID-19 wave and measures for support of the economy. Thus, the data for this period, on average, show further deceleration of the annual fall in industry (in December, there was also an annual growth, for the first time since the occurrence of the pandemic) and in total trade turnover, as well as acceleration in the growth in construction, amid further unfavorable movements in the turnover in catering. **Regarding the changes in consumer prices**, the annual inflation rate registered in January 2021 of 1.9% is in line with the expectations according to the October forecast. However, in conditions of revisions mainly in an upward direction in the external input assumptions, there is still pronounced uncertainty arising from the movement in the world prices of primary products in the next period and their impact on domestic prices, especially pronounced in conditions of a second wave of the COVID-19 pandemic, the mutations of the coronavirus and the problems with the production and distribution of the vaccine.

Foreign reserves (adjusted for the price and exchange rate differentials and securities price changes) at the end of 2020 amounted to Euro 3,359.9 million, which is an annual growth of Euro 98.4 million. Observed by growth factors, the growth mostly emanates from the transactions on behalf of the government, more specifically from the government borrowing abroad, while the interventions of the National Bank on the foreign exchange market were aimed at net sale of foreign currency. Other flows are positive, but with more moderate effects. Foreign trade data for the entire 2020 suggest a narrowing of the trade deficit, amid a decline in the import and export component, in line with the latest forecasts. At the same time, currency exchange operations data as of the end of 2020 are slightly higher than forecasted for the year. **The latest available data as of January 2021** still indicate an adequate level of foreign reserves. Available data for the net purchase from currency exchange operations, as of the end of January, point to the possibility for slightly lower net inflows from private transfers than forecasted for the first quarter of 2021. However, data are available for a short time period and are not sufficient to draw precise conclusions.

As for the monetary sector developments, final data as of December show a monthly growth of **total deposits** (of 2.9%) which is higher than the growth in the previous month (1%), which is partially a result of the impact of the seasonal factors, as well as of the payment of funds from the fourth package of economic measures for dealing with the COVID-19 crisis. Moreover, corporate and household deposits make an almost equal positive contribution to the increase in total deposits, amid a negative contribution of the other sectors. Analyzing the currency structure, the increase in total deposits is mostly a result of deposits in domestic currency (entirely as a result of the growth of

demand deposits), with a small positive contribution of foreign currency deposits. On an annual basis, total deposits in December grew by 5.7%, amid forecasted annual growth for the end of the fourth quarter of 2020 of 4.4%, according to the October forecast. Analyzing the credit market, **total private sector loans** in December registered a monthly growth of 1.1% (fall of 0.2 in the previous month). The increase in lending activity in December almost entirely derives from the growth of corporate loans, with a small positive contribution of household loans. Analyzing the currency structure, the monthly growth of the total loans is almost equally a result of loans in domestic and in foreign currency. On an annual basis, total loans in December grew by 4.7%, which is within the forecasted growth for the fourth quarter of 2020 (5.3%), according to the October forecast.

In 2020, the **Budget of the Republic of North Macedonia** registered a deficit of Denar 53,866 million. The budget deficit is mostly financed by external borrowing, 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. The budget deficit for this period of the year was 95.3% 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. Foreign reserves are still maintained in a safe zone. The performances as of the end of 2020 are better than expected, and the performances as of January reflect the dynamics of deleveraging of the government to abroad and the still weak supply of foreign currency due to the pandemic. The fall in the economic activity in the first three quarters of 2020 is within the expectations of the October forecasts, amid significant slowdown in the fall in the gross domestic product (GDP) in the third quarter. Available high frequency data for the last quarter of 2020 indicate more favorable movements in the domestic economy compared to the previous quarter and further deceleration of the fall in GDP, according to the expectations. Regarding the inflation, the performances in January 2021 are in line with the forecasts, whereby the uncertainty arising from the movement in the world prices of primary products remains pronounced in the period ahead and their impact on domestic prices, according to the still uncertain economic effects of the COVID-19 pandemic. Observing the monetary sector, the annual deposit growth in December is above the forecast for the fourth quarter of 2020, according to the October forecast, while the annual growth of loans is within the forecasted level.

Fast recovery of the total foreign trade in the second half of 2020

In 2020, the foreign trade deficit narrowed by 9.8% on an annual basis, in line with the expectations according to the October forecast, in conditions of a simultaneous annual fall in both the export and the import component. Export of goods in 2020 annually decreased by 10%, amid lower performances in all export categories, but with the largest drop being recorded with the export of the industrial capacities from the automotive industry in foreign ownership (with a share of around 65% in the total drop). Dynamically speaking, the greatest blow on exports as a result of the COVID-19 pandemic is concentrated in the second quarter, with a fall of 35.7% on an annual basis. Namely, in conditions of limitations placed on the movement in the domestic economy as well as in most of the EU countries, certain difficulties in the transport of goods and significant fall in demand, part of the production capacities in the domestic economy, including the export-oriented capacities, remained closed in this period. However, already in the third quarter, in conditions of temporary stabilization of the situation with the pandemic, gradual relaxation of the measures for prevention of its spreading and reactivation of the capacities included in the global value chains, there is a significant slowdown in the export fall (fall of only 1.4%) and a further accelerated recovery in the last quarter of the year when the total

export activity grew by 5.1%. Such performances suggest that the normalization of the value chains that include the export capacities and their adjustment to the new situation was relatively fast, which has a favorable effect on the overall economy. The movements of the import component of the foreign trade largely reflect the export performances. Thus, the annual reduction of 10% is a result of the lower performances in all import categories and is mostly concentrated in the second quarter, as a result of the reduced import of raw materials of the export-oriented capacities in the economy and the lower import of equipment and machinery and energy. The third and the fourth quarter registered a significant slowdown in the fall in the import of goods, in conditions of a fast recovery of the import of raw materials and the import of equipment and machinery, amid further lower performances in energy imports.

Selected economic indicators ¹				2019					2020														2021			
	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	Jan.
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	2.5	-2.3	-9.5	
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	-9.5	-9.5	-9.5	
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	1.4	1.9	1.5	2.1	2.2	2.3	2.2	1.9	
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	0.7	0.9	0.9	1.0	1.1	1.2	1.2	1.9	
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	1.8	
Core inflation (y-o-y) ^{1/5}	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	0.8	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	17,897	14,217	16,486	48,600	18,526	15,553	19,656	53,735	189,770	
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	21,095	59,484	24,018	17,066	17,443	58,527	17,479	20,787	33,465	71,731	243,636	
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	-7,045	-18,533	-6,121	-2,849	-957	-9,927	1,047	-5,234	-13,809	-17,996	-53,866	
Overall balance (in % of GDP) ^{1/4}	-2.7	-2.7	-1.8	-0.5	-0.6	-0.2	-0.9	-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	-2.1	-2.7	-8.0	
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	6.9	6.9	6.9	
Total credits, y-o-y growth rate	-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	4.7	4.7	4.7	
Total credits - households	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	8.0	8.0	8.0	
Total credits - enterprises	-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	1.1	1.1	1.1	
Total deposits (incl. demand deposits), y-o-y growth rate ^{1/7}	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	5.7	5.7	5.7	
Total deposits - households	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	4.6	4.6	4.6	
Total deposits - enterprises	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	10.1	10.1	10.1	
Interest rates ^{1/8}																										
Interest rates of CBBills (end of month/quarter/year)	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	
Lending rates																										
denar rates	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	5.0	5.1	5.2	
f/x rates (aggregated, incl. f/x and denar with f/x clause)	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	4.2	4.2	4.3	
Deposit rates																										
denar rates	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	1.3	1.4	1.5	
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7	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	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}	-1,786.2	-1,816.2	-1,811.1	-456.3	-474.5	-437.1	-646.8	-2,014.8	-134.4	-199.9	-176.8	-511.0	-162.5	-116.1	-105.7	-384.3	-198.9	-102.2	-89.5	-390.6	-167.2	-116.5	-247.0	-530.7	-1,816.6	
Trade balance (% of GDP)	-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	-2.3	-4.9	-16.7	
import (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	-695.2	-792.4	-2,252.0	-7,594.5	
export (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	545.3	1,721.4	5,777.9	
rate of growth of import (y-o-y)	6.5	10.7	12.3	11.6	10.9	11.9	5.9	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	-5.9	1.4	-1.4	-10.0	
rate of growth of export (y-o-y)	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	8.2	5.1	-10.0	-10.0	
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	8238.5	8324.7	8568.6	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	4095.2	4035.1	4074.2	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	4143.3	4289.6	4494.4	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 2020=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).

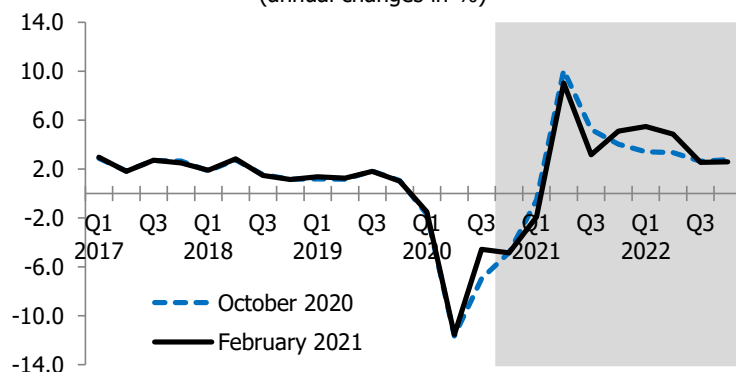
^{1/7} It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.

^{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.

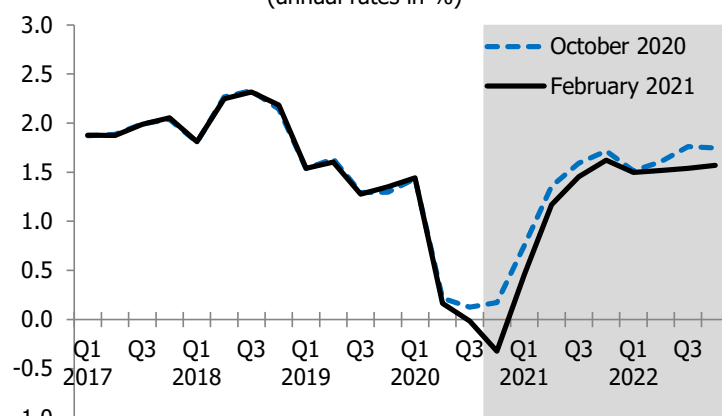
Foreign effective demand
(annual changes in %)



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. Namely, it is currently expected that the fall in the foreign effective demand in 2020 will equal -5.6% (-6.3% in October), while the growth in 2021 and 2022 will equal 3.7% and 3.8%, respectively (4.6% and 3% in October, respectively). Such revisions are largely a result of the revised estimates for the economic activity in Germany¹ and Italy. Namely, in these countries there are significantly better performances in the second half of 2020 relative to the October expectations, while the current estimates indicate their slower growth in 2021, and faster in 2022.

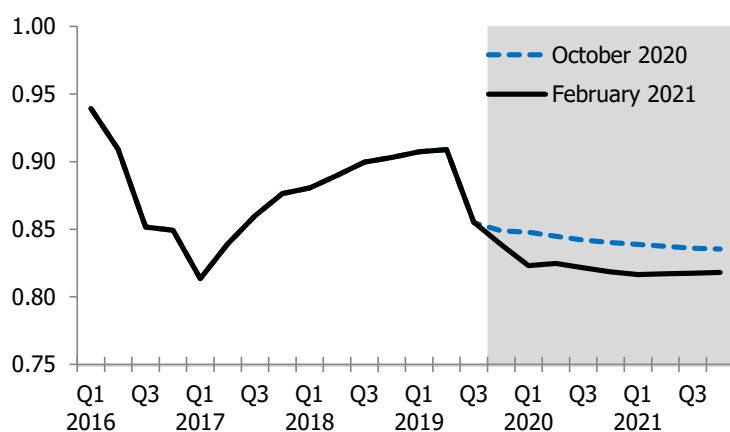
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

The foreign effective inflation in 2020 equals 0.3% and is slightly lower than the October assessments (0.5%). For the next two-year period, a minor downward revision was also made and it is expected that the foreign effective inflation will equal 1.2% and 1.5% in 2021 and 2022, respectively (1.4% and 1.7% in October). The downward revision is due to the lower inflation in most countries included in the index.

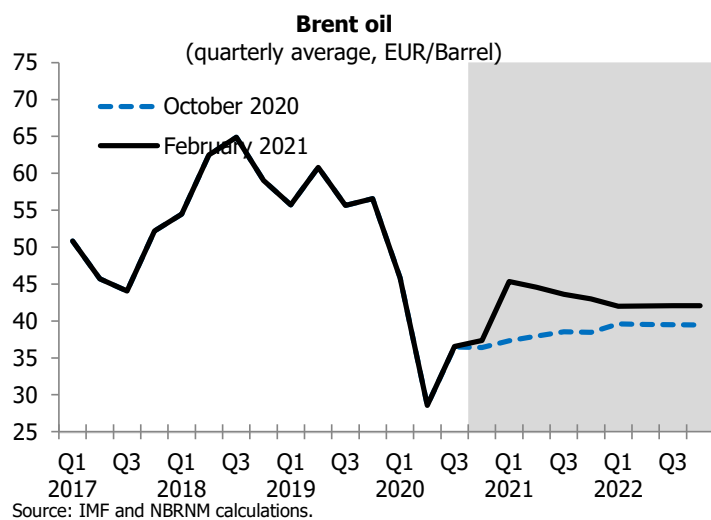
EUR/USD exchange rate



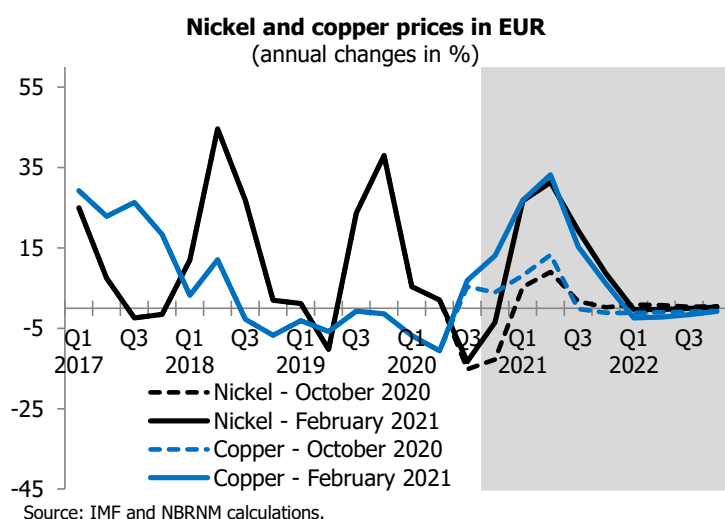
Source: Consensus forecasts and NBRNM calculations.

The latest **euro/US dollar exchange rate estimates resulted in a downward revision for 2021 and a minor upward revision for 2022**. Moreover, it is still expected that the US dollar will depreciate against the euro, especially in 2021. Such dynamics largely reflects the expectations for a significant fiscal stimulus in the USA in order to overcome the economic repercussions of COVID-19, as well as the smaller interest of investors in the dollar amid more favorable prospects for the global economy with the commencement of the process of mass vaccination.

¹ Forecasted fall in Germany of 5% in 2020, versus 5.7% in October and forecasted growth of 3.6% in 2021 and in 2022 respectively, versus 4.4% and 2.5% in October.



The expectations for the movement of the price of oil² in 2021 have been revised upwards, currently expecting a significantly faster price growth than forecasted in October. The upward revision mostly reflects the investors' expectations for growth of the global demand for oil, in conditions of relatively more positive prospects for the global economy with commencement of the vaccination, a fall in the value of the US dollar, as well as the estimates for a reduced level of inventories as a result of the decision of the OPEC+ countries to extend the measure for reduction of the supply of oil in world markets³. On the other hand, for 2022 the estimates have been revised downwards, expecting a decline, despite the small growth forecasted in October.



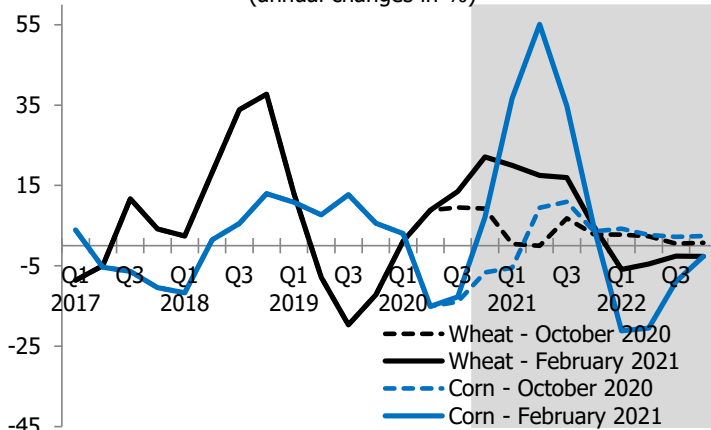
The decline in the nickel price in 2020 is smaller than forecasted in October, while the copper price registered a small increase, instead of the previously expected decline. For 2021, metal prices have been revised upwards, currently expecting a significantly faster growth of the prices of copper and nickel than previously forecasted. Such revisions are due to the expectations for growth in demand, whereby in the copper, it is driven by the Chinese economy and the construction industry in the USA, while in the nickel, by the industry of electric cars and by the manufacturing industry of steel. In 2022, the nickel price is expected to stabilize, and the copper price is expected to register a slightly larger decline than forecasted in October.

The wheat price in 2020 registered faster growth than forecasted in October, while the fall in the corn price was slower than previously expected. For 2021, the prices of primary food products have been revised upwards, currently expecting a significantly faster growth of the price of corn and wheat, compared with the October assessments. The upward revision of the wheat price is largely a result of the reduced level of production in Argentina and China, the increased global demand, as well as of the announcements for introduction of export tax by Russia, while in the corn, it reflects the expectations for the smaller

² 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.

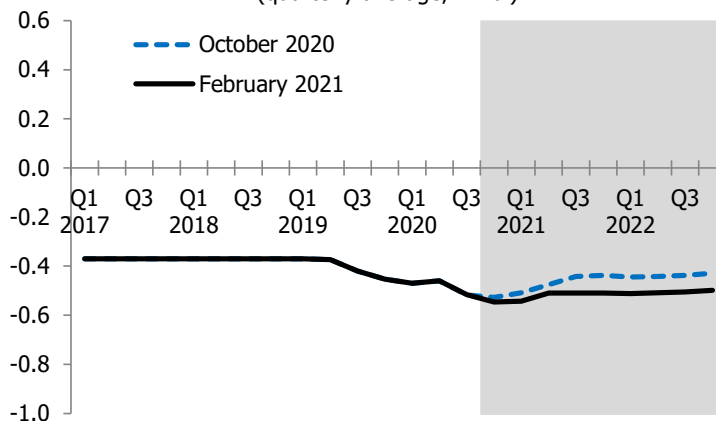
³ On 5 January 2021, apart from the decision of the OPEC+ countries to extend the measure to limit oil production, Saudi Arabia made a decision to voluntarily reduce its oil production in February and March 2021 by additional 1 million barrels of oil per day. Consequently, in the first three months of 2021, the quotas for limiting production will average 7.8 million barrels per day, as opposed to the previously determined 7.1 million barrels per day (on average) for these three months.

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



production in Argentina, Brazil, the European Union and the United States, and the strong demand from China. On the other hand, for 2022, the movements in the price of wheat and corn have been revised downwards, now expecting a slight decline in wheat and a more significant decline in corn, instead of the small growth forecasted in October.

1-month Euribor
(quarterly average, in %)

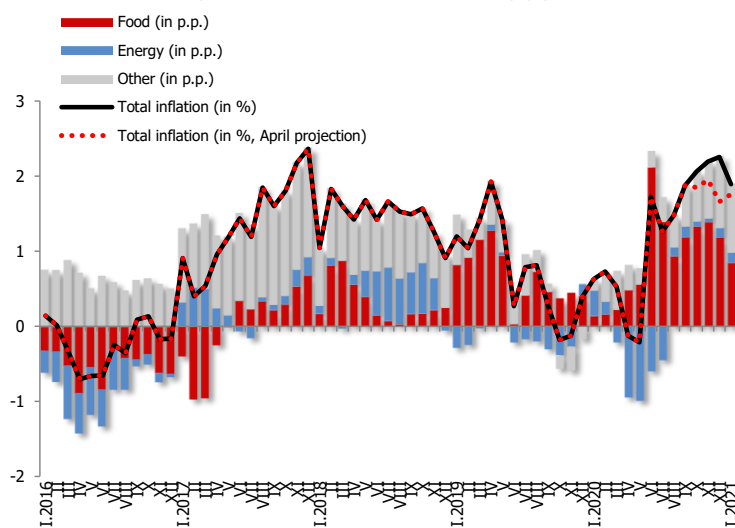


Regarding the one-month EURIBOR, for 2021 and 2022 a downward revision was made in relation to the October forecasts.

Namely, the latest estimates are that the one-month EURIBOR will average -0.52% in 2021 (-0.47% in October) and -0.51% in 2022 (-0.44% in October). Such movements largely reflect the expectations for an additional monetary stimulus by the ECB, in conditions of worsened economic prospects in Europe amid slower vaccination process.

Inflation rate

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



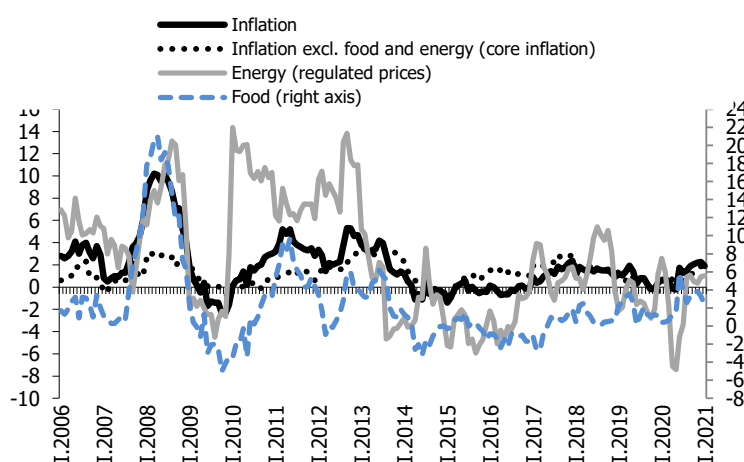
Source: SSO and NBRNM.

In January 2021, **domestic consumer prices** decreased by 0.2% on a monthly basis (after their increase of 0.4% in the previous month), mostly due to the decrease in the prices in the categories from the food component, in conditions of unchanged core inflation and a small positive contribution of the energy component⁴.

The annual inflation rate in January amounts to 1.9% (2.3% in the past month) and is mainly driven by the growth of the prices of the core and food component, and to a small extent by the energy component⁵. The annual inflation rate in January is in line with the forecasted inflation rate according to the October forecasting round, amid an upward deviation in the energy component, and to a lesser extent in the core component, while a small downward deviation is registered in food prices.

Inflation and volatility of food and energy

(annual growth rates, in %)



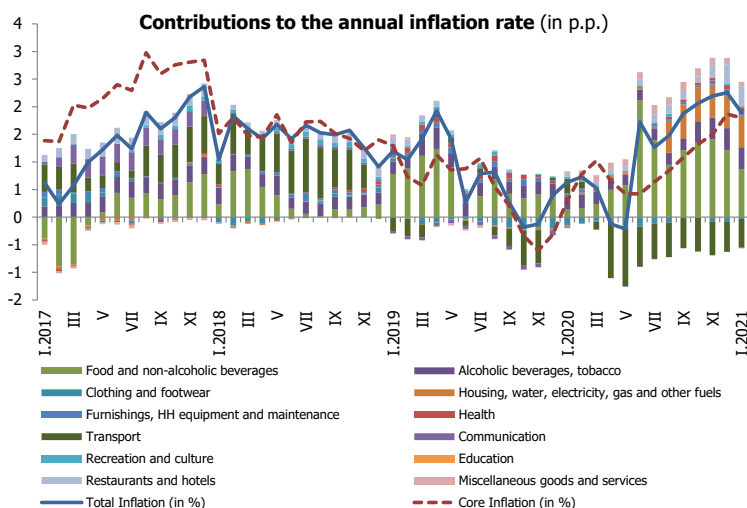
Source: State statistical office and NBRNM calculations.

The prices of the core component of inflation in January are unchanged on a monthly basis (following the growth registered in the previous month of 0.9%). On an annual basis, the rate of core inflation minimally slowed down and amounted to 1.8% (1.9% in the previous month). Moreover, the highest positive contribution was made by the prices of tobacco⁶, followed by the contribution of the prices of restaurant and hotel services, while the prices of air traffic, audiovisual and computer equipment and the prices of clothing made a negative contribution.

⁴ Observed by group of products, the largest negative contribution on a monthly basis was made by the lower prices of vegetables, fruit and meat, then by the fall in the prices of footwear, non-durable household products, and by the lower prices of air traffic. On the other hand, the greatest positive contribution was made by the increase in the prices of liquid fuels and lubricants, the prices of large household appliances, the prices in the category "electrical appliances for personal hygiene and other appliances, personal hygiene products", and the prices of restaurant and hotel services.

⁵ 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>).

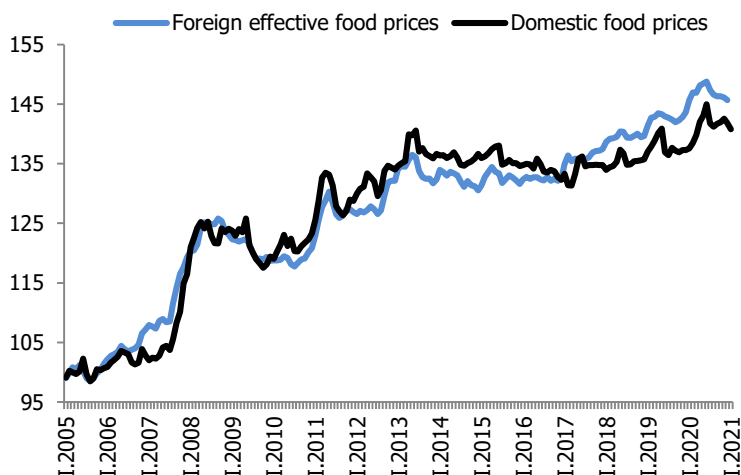
⁶ The annual growth of tobacco price in January reflects the increase in the prices of cigarettes in March and July 2020, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023. The same effect was that of the changes in the Law on Tobacco, 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.



Regarding the expected price movements of the external input assumptions in the inflation forecast, the revisions are mainly in an upward direction.

Source: SSO and NBRNM.

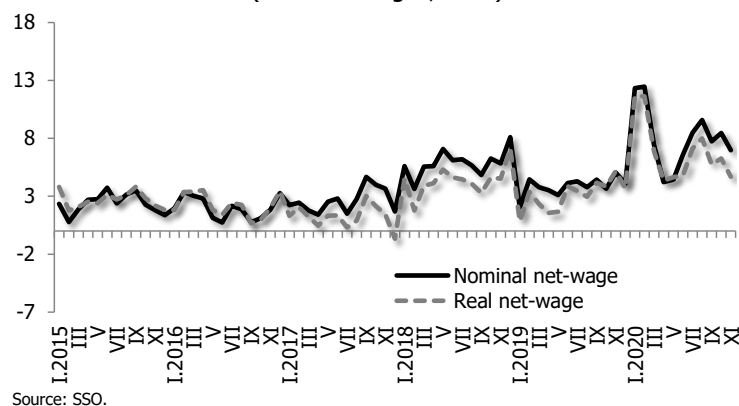
Foreign effective food prices* and domestic food prices



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 related to the second wave of the pandemic and the mutations of the virus, as well as to the production and distribution of the vaccines.

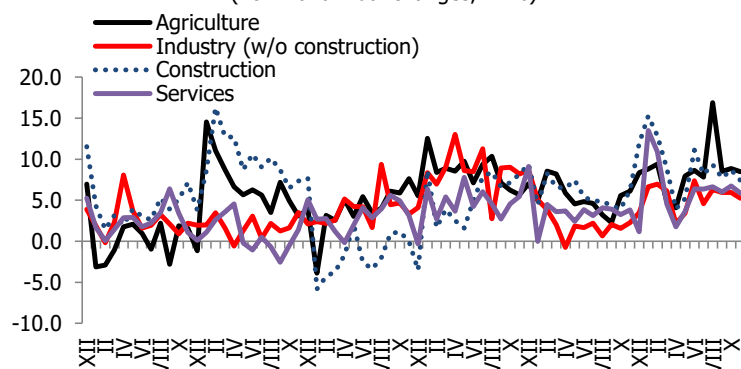
* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.

Average net-wage
(annual changes, in %)



In November 2020, the nominal annual growth of the average net wage was 7% (8.4% in the previous month). The continuation of the solid wage growth, as before, is partly a spillover effect of the increase in the wages in the public sector⁷, the effect of the measure for subsidizing contributions due to wage increase⁸, coupled with the effect of this year's adjustment of the growth of the legally determined minimum wage (increase of 3% in July⁹). Also, the fiscal measure for financial help to the employers hit by the health crisis for wage payment was reimplemented in the fourth quarter.

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



Wage growth was registered in most of the activities, with the most prominent one being registered in the activities related to "arts, entertainment and recreation", "health and social work", "education", "information and communication", "wholesale and retail trade", "agriculture", "other services", "construction", as well as in the manufacturing industry¹⁰.

Amid increase in the consumer prices on an annual level, the **real annual growth of the net wage in November was 4.7%**.

The annual wage growth in the first two months of the fourth quarter is slightly higher relative to the expectations for growth in wages within the October forecast.

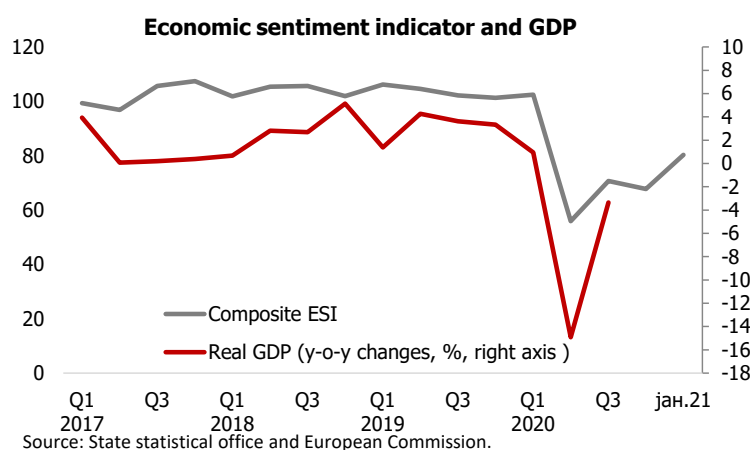
High-frequency data on the supply and demand side available for the fourth quarter of 2020 are generally more favorable compared to the performances in the third quarter. However, the movements on an annual basis still point to a fall in the economic activity in the fourth quarter of the year, but at a more moderate pace compared to the fall in the previous

⁷ 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).

⁸ 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).

⁹ 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).

¹⁰ A decrease in wages in November 2020 is registered only in the activities related to "accommodation facilities and catering services".



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-19¹¹, 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 seen through the perceptions of economic agents for the economic situation¹², 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. For the subsequent period, the latest results of the surveys in January 2021 suggest significantly more favorable perceptions for the economic situation compared to the fourth quarter of 2020.

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 fourth quarter, **total trade turnover** registered a real fall of 24.3% 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 retail trade, is milder compared to the fall registered in the third quarter.

In the fourth quarter of 2020, **industrial output** registered an average fall of 2.3% on an annual basis, which is a significant slowdown compared

¹¹ 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>.

¹² 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

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

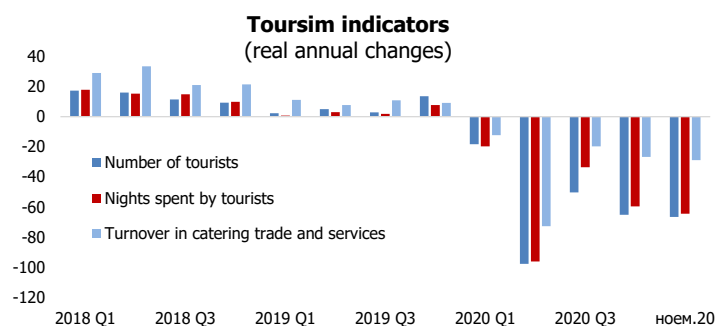
	2019				2020							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Oct	Nov	Dec	
	<i>real annual changes in %</i>											
Gross domestic product	1.4	4.3	3.6	3.3	0.9	-14.9	-3.3	-	-	-	-	
Industrial output*	8.8	1.1	7.1	-1.3	-3.7	-25.0	-7.5	-2.3	-5.2	-3.9	2.5	
Construction	15.1	-3.3	3.0	5.3	6.3	-5.1	3.0	-	7.4	18.7	-	
Building	-9.3	5.1	23.7	-1.1	-8.5	-20.4	17.9	-	-17.4	-11.6	-	
Civil Engineerings	58.3	-8.0	-6.7	11.1	21.3	4.7	-6.2	-	27.3	41.6	-	
Retail and wholesale trade	13.9	12.8	15.3	15.5	-16.7	-30.6	-26.1	-24.3	-23.8	-24.3	-24.7	
Retail trade	7.6	8.8	12.0	13.8	1.0	-18.6	-15.7	-15.5	-13.4	-17.1	-15.9	
Wholesale trade	18.0	16.0	18.1	17.3	-27.8	-40.1	-38.7	-36.3	-37.8	-37.5	-33.8	

* 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.

to the fall of 7.5% in the third quarter, in conditions of a positive annual growth rate registered in December 2020, for the first time from the occurrence of the pandemic. Observed by main industrial activities, in the fourth quarter, the largest drop and consequently the highest negative contribution is still registered in the manufacturing industry, and a small negative contribution is also registered in the energy sector. On the other hand, mining sector made a 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. On the other hand, the highest positive contribution to the manufacturing industry in the fourth quarter is registered in the production of motor vehicles (an activity that registered a significant fall in the period from March to September), which is also the generator of the growth of the industry in December together with the growth of the production of metals, textile and electrical equipment.

The deceleration in the annual fall in the industrial production in the fourth quarter of 2020, 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), but also to the more moderate fall in the manufacturing industry and the energy sector. Moreover, within the manufacturing industry, the greatest improvement is recorded in some of the activities in which the companies from the automotive industry operate, as well as in the production of textile and the production of beverages.

In the period October-November 2020, the **construction sector** registered a relatively high real annual growth of 13.5%, which is an acceleration in the growth compared to the third quarter (growth of 3%). Moreover, the growth in the period October-November is entirely due to the growth of the activity in the part of civil engineering, amid real annual fall in building construction.

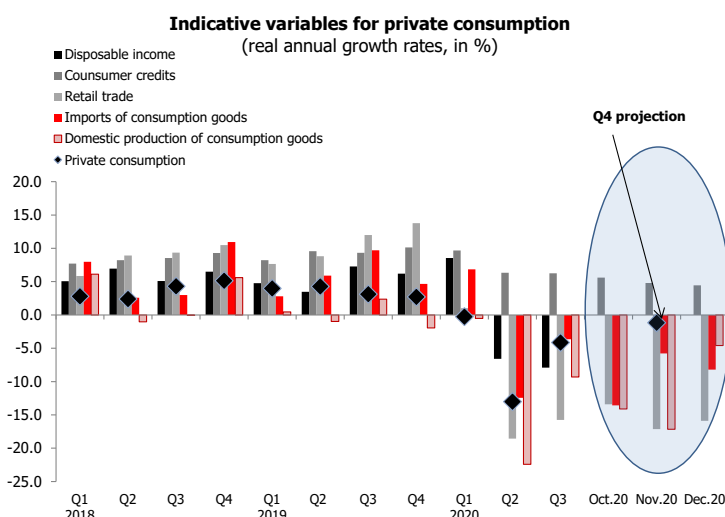


Source: SSO and NBRNM calculations.

In **catering**, in the period October-November 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 the period October-November is almost entirely due to the fall in the number and overnight stays of domestic tourists (after their growth in the previous quarter, mainly as a result of the more active use of the measure for support of the domestic tourism).

The available **aggregated demand** indicators are also more favorable compared to the third quarter, and similar to supply, they 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**¹³ generally point to a deceleration of the annual fall in consumption in the fourth quarter of the year. Thus, a small deceleration in the fall in this period is registered in gross revenues from VAT and in retail trade. Regarding the sources of financing of private consumption, the solid growth of the pension bill, as well as the growth of wages and household loans, continues. The fiscal measure for one-time financial help to different categories of citizens¹⁴ is also aimed at deceleration of the annual fall in private consumption in the fourth quarter. 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



Source: SSO and NBRNM calculations.

¹³ 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 are as of December 2020, while net wages are as of November 2020.

¹⁴ In the second half of December, the Government started to pay off one-off help of Denar 6,000 to support private consumption as part of the fourth set of economic measures for dealing with the negative consequences caused by the corona crisis in order to help those categories of citizens who did not receive help with the third set of economic measures (low income citizens, pension beneficiaries, beneficiaries of legal social security of old persons, young persons, single parents, children without parents and parental care, artists and other persons who perform an activity in the culture, film workers, entertainers). Although the financial help was initially supposed to be used by 25 December 2020 and for the purchase of domestic products as before when the domestic payment cards were granted, however the measure underwent several changes whereby the money could also be used in cash, be withdrawn from the bank accounts and be spent on any product or service, and the deadline was prolonged, whereby at its 38th meeting, the Government made a decision to extend it until 31 March 2021. For more information on the measure visit: <https://vlada.mk/node/23652>, <https://vlada.mk/node/23516>, <https://vlada.mk/node/23874>.

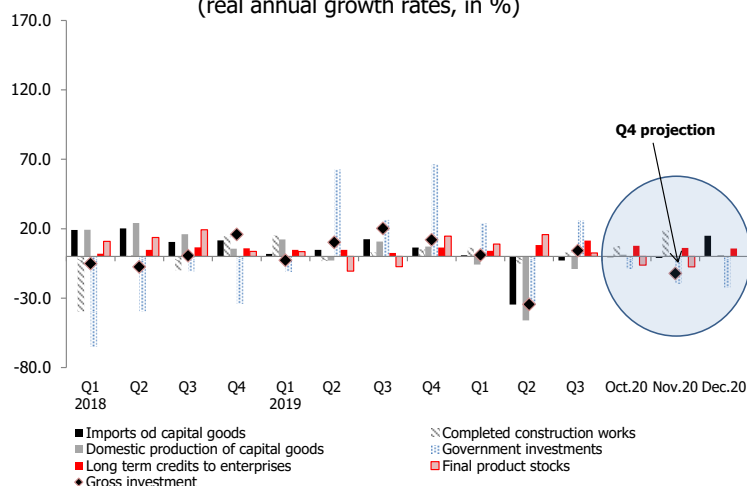
spendings in the period ahead), partly as a reflection of the growing uncertainty due to the occurrence of the second wave of the COVID-19 pandemic and the reintroduction of restrictive measures.

The available high-frequency data on the **gross investments**¹⁵ for the last quarter of the year mainly indicate more favorable movements in this category. Thus, the dynamics of the growth in construction accelerates, and after the fall in the previous quarter, growth is also registered in the domestic production of capital goods, the income from corporate tax and the import of means of work. At the same time, the growth of long-term lending to enterprises by banks continues. 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 the industrial production slows down, and the estimates of corporate managers in industry in the fourth quarter are similar to the estimates given in the third quarter. Only government capital investments declined, following the growth in the previous quarter.

Foreign trade data indicate 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.

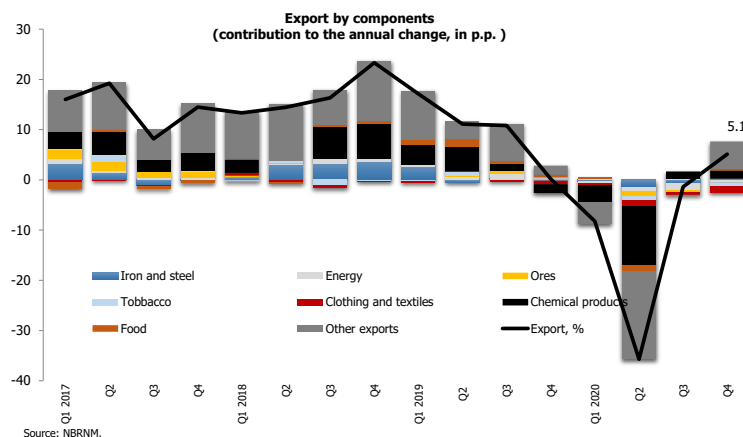
According to the fiscal data as of December 2020, the budget performances suggest a more moderate annual growth of **public consumption** in the fourth quarter. Thus, from the main categories of public consumption, the growth in the expenditures on salaries and the transfers to the local authorities slowed down, while the expenditures on goods and services continued to decrease. Only health care transfers registered faster growth.

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



Source: SSO and NBRNM calculations.

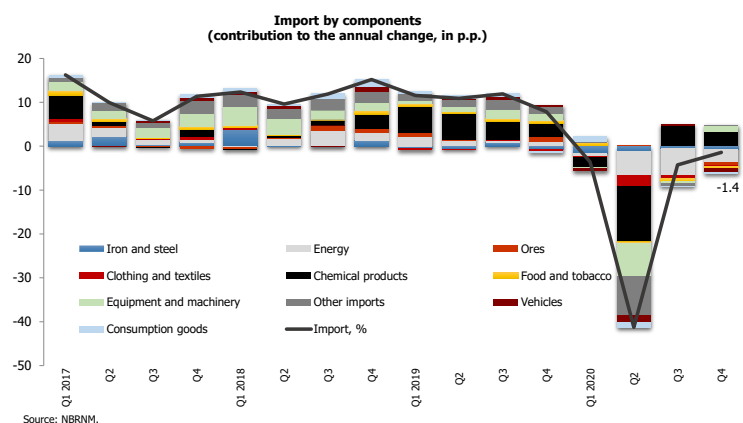
¹⁵ Data on completed construction works are as of November 2020, while data on long-term corporate loans, government capital investments, industrial production, imports of investment goods and domestic production of capital goods are as of December 2020.



In the fourth quarter of 2020, the foreign trade deficit narrowed by 18% 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 slightly higher compared to the same period last year, which indicates recovery of the total trade after the initial strong shock caused by the COVID-19 pandemic in the second quarter.

In the fourth quarter of 2020, the export of goods grew by 5.1% on an annual basis. The exports growth is mostly due to the accelerated export activity of the export-oriented capacities from the automotive industry, and to a small extent to the better performances in the export of food and iron and steel. On the other hand, the other export categories made a moderate negative contribution to the total exports, primarily the export of clothing and textile and of tobacco.

Compared to the October forecast, the performances in the fourth quarter are higher than the export expected for the last quarter. Significant upward deviations were registered in the export of the production facilities in foreign ownership, coupled with the slightly higher export of food and of iron and steel.

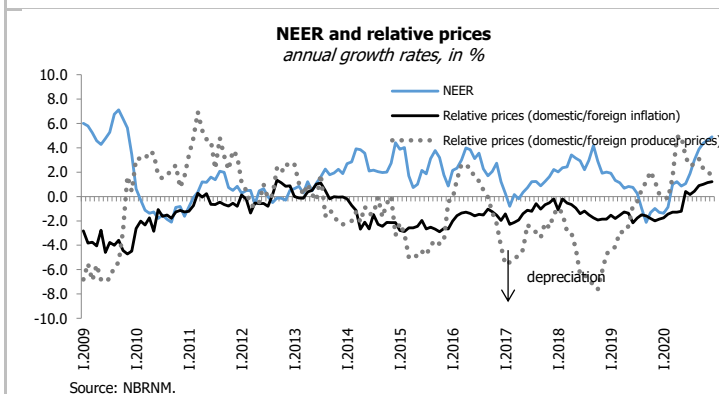
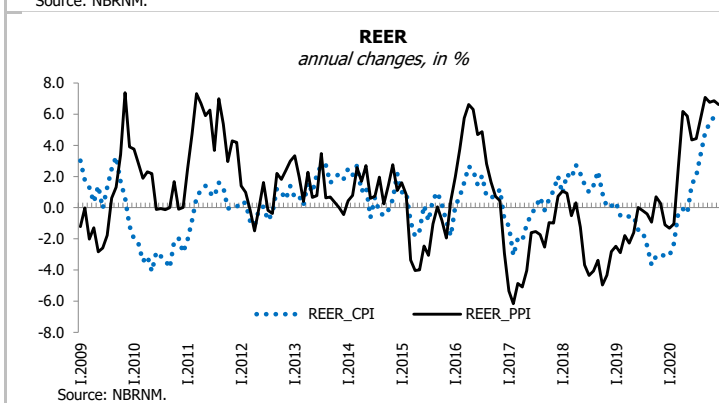
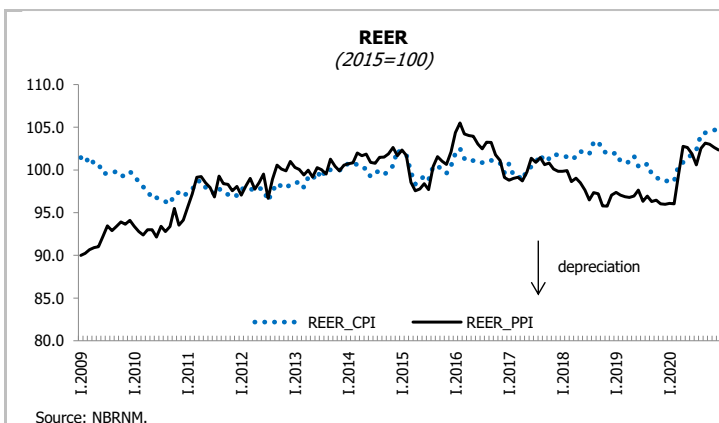


Import of goods in the fourth quarter of 2020 registered a slight decline of 1.4% on an annual basis, amid lower performances in most of the import categories. Moreover, the largest contribution to the reduction of the total exports on an annual basis was made by the lower energy imports (as a combined effect of the lower import volumes and the fall in the price of crude oil on world markets), coupled with the lower import of vehicles, iron and steel and ores. Such performances are partially offset by the higher import of raw materials of some of the export facilities in foreign ownership and the higher import of equipment and machinery.

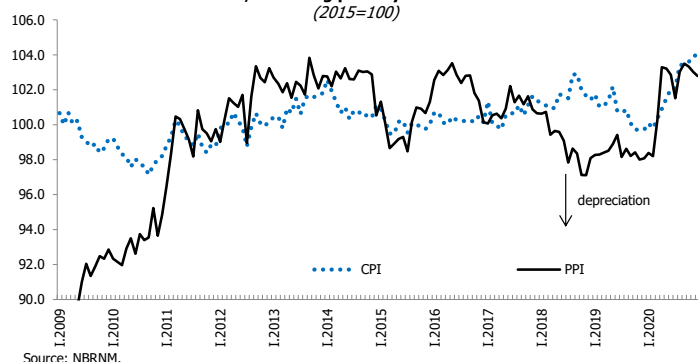
The performance of the import of goods in the fourth quarter of 2020 is higher than expected for the last quarter according to the October forecasts, amid higher import in some of the production facilities in foreign ownership, as well as the import of equipment and machinery.

According to the larger upward deviation of imports than exports, the trade deficit registered in the fourth quarter of 2020 is moderately higher than expected according to the October forecast.

In December 2020, the REER index deflated by consumer prices appreciated by 6.2%, while the REER index deflated by producer prices appreciated by 6.6%. The largest contribution to such change is made by the NEER, which appreciates by 4.9%, 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 1.2%, while the relative producer prices rose by 1.6%.

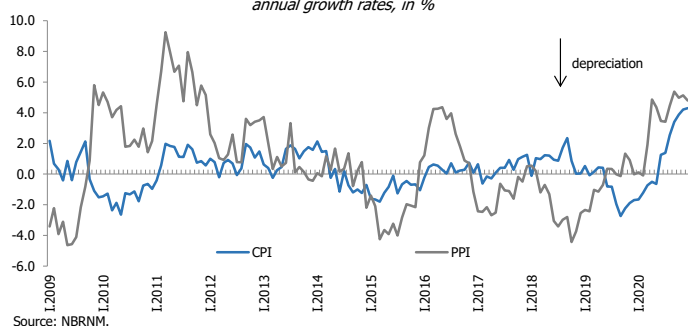


REER, excluding primary commodities
(2015=100)

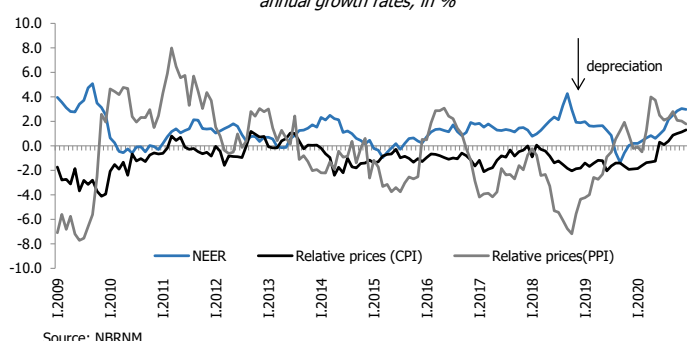


REER indices, as measured using weights based on the foreign trade without primary commodities, in December 2020, also appreciated on an annual basis. Thus, the REER index deflated by consumer prices appreciated by 4.3%, while the REER deflated by producer prices appreciated by 4.8%. Moreover, the greatest contribution is made by the nominal effective exchange rate which appreciated by 3% on an annual basis, while the relative consumer prices and the relative producer prices rose by 1.3% and 1.8%, respectively.

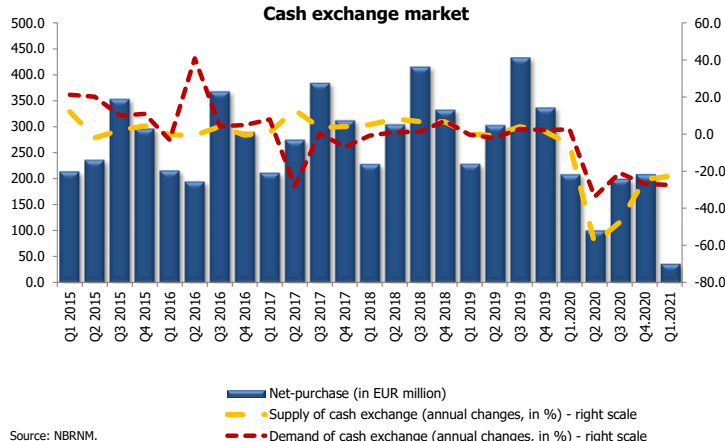
REER, excluding primary commodities
annual growth rates, in %



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



Cash exchange market



The net purchase on the currency exchange market registered in January 2021 equaled Euro 58.5 million, which is annual decrease of 28.2%. Such performances are driven by the simultaneous fall in the supply of and in the demand for foreign currency (by 28.1% and 28.0% respectively).

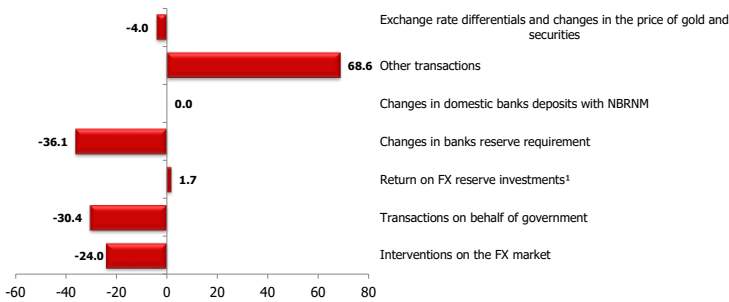
Foreign exchange reserves
(stock, in EUR million)



Source: NBRNM.

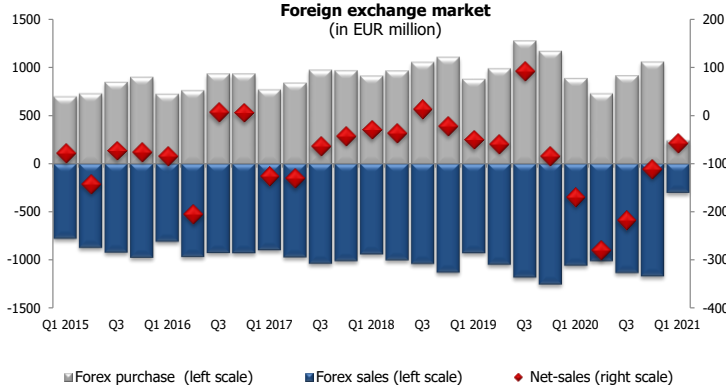
As of 31 January 2021, the gross foreign reserves stood at Euro 3,335.7 million. Observed by growth factors, this period registered regular servicing of external liabilities of the public sector and the National Bank intervened on the foreign exchange market by selling foreign currency. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period, including the regular transactions carried out within the foreign reserves management.

Factors of change of the foreign reserves in January 2021
(in EUR million)



Source: NBRNM.

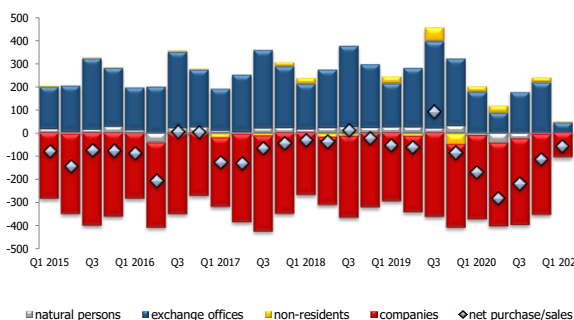
Foreign exchange market
(in EUR million)



Source: NBRNM.

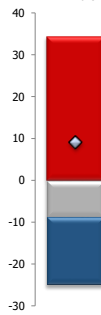
In January 2021, the banks' foreign exchange market reported a net sale of foreign currency which is lower compared to the same period last year, amid a more significant fall in the demand for relative to the fall in the supply of foreign currency.

Structure of foreign exchange market,
(net purchase/sales, in millions of euro)



Source: NBRNM.

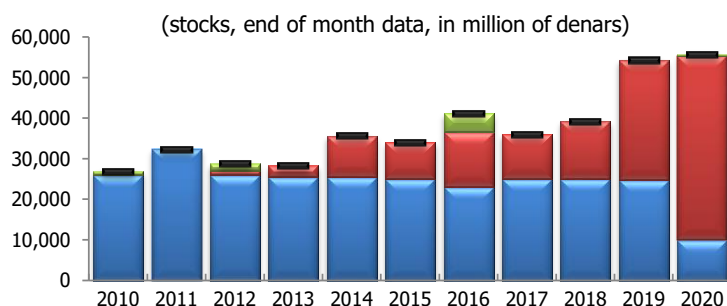
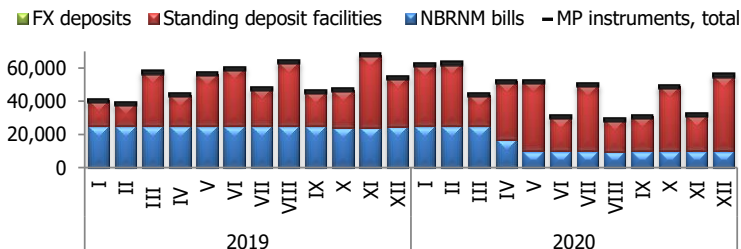
annual change,
2021 - 01 2020,
in mill. Euro



Sector-by-sector analysis shows that such shifts entirely result from the lower net sales of companies.

Monetary policy instruments

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



Source: NBRNM

At the end of December, the stock of monetary instruments increased compared to the previous month, due to the increase in the amount of banks' assets placed in deposits with the National Bank, amid unchanged stock of CB bills¹⁶. The level of monetary instruments at the end of December is higher than forecasted for the end of the fourth quarter of 2020¹⁷.

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

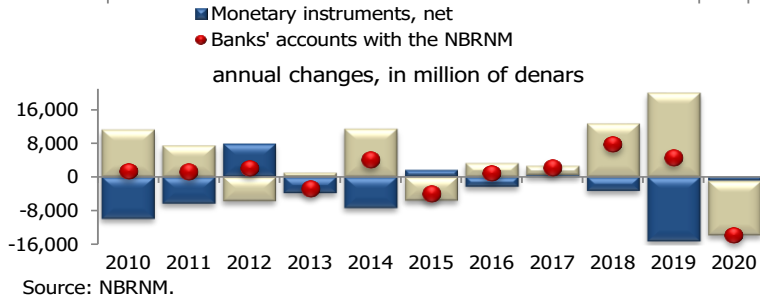
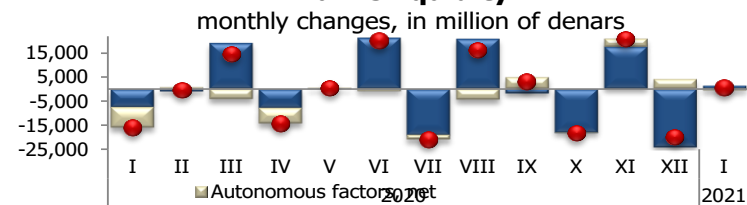
In December, the total government deposits with the National Bank registered a monthly decrease, and their stock at the end of December is higher than forecasted for the end of the fourth quarter of 2020.

Reserve money in December registered a monthly fall, as a result of the decrease in the banks' total reserves with the National Bank, amid moderate growth in the currency in circulation. Moreover, the reserve money stock at the end of December is lower than the forecasted level.

¹⁶ 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.

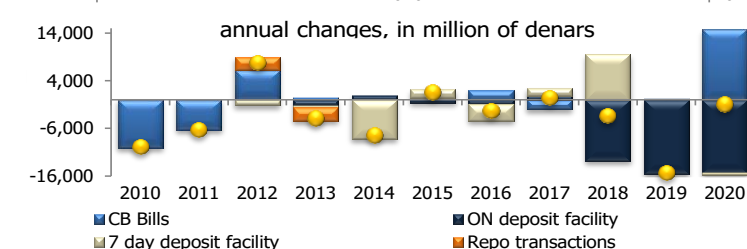
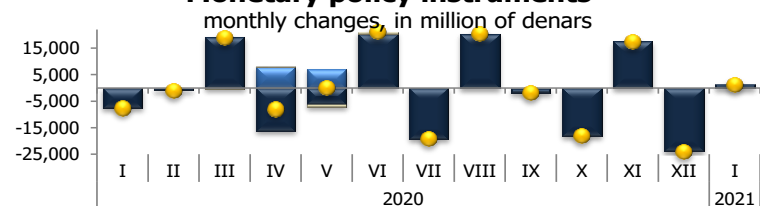
¹⁷ The performance comparisons are against the October forecasts of the National Bank.

Banks liquidity*



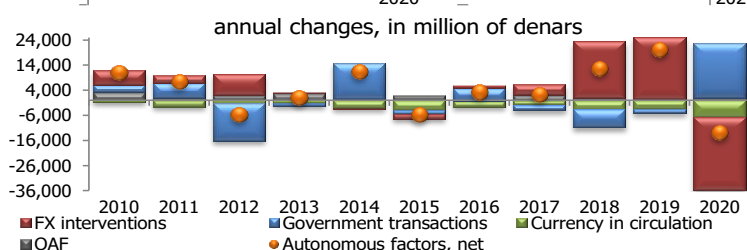
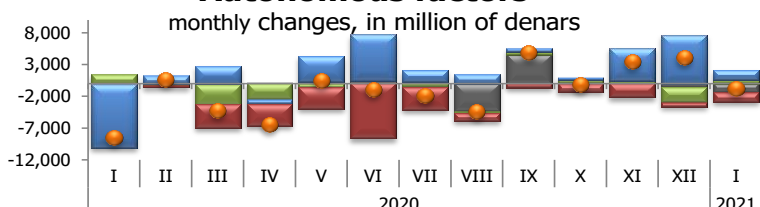
In January, the liquid assets of the banking system registered a small monthly growth. The change results from the lower amount of banks' placements in short-term deposits, i.e. in overnight deposits, amid unchanged stock of CB bills¹⁸. At the same time, the autonomous factors, net, contributed to the reduction of the liquidity of the banking system, mainly as a result of the foreign currency interventions.

Monetary policy instruments*



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

Autonomous factors*

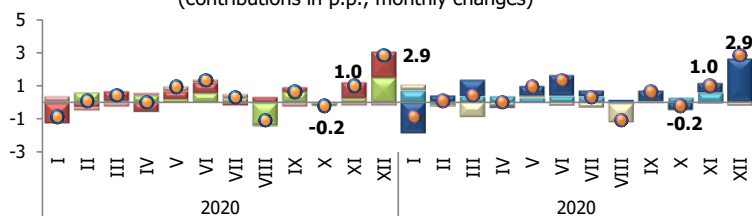


* positive change: liquidity creation, negative change: liquidity withdrawal

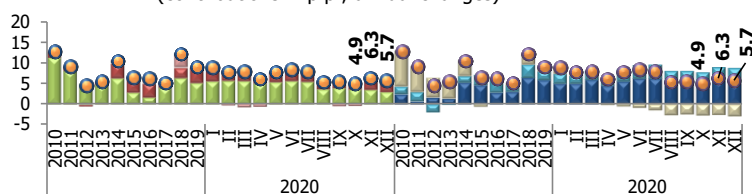
¹⁸ At the CB bills auction of the National Bank held on 13 January 2021, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.5% and maturity of 28 days.

Total Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by sector

Composition by currency

Other institutions Deposits*

Domestic Currency Deposits

Foreign Currency Deposits

Demand Deposits

Enterprise Deposits

Household Deposits

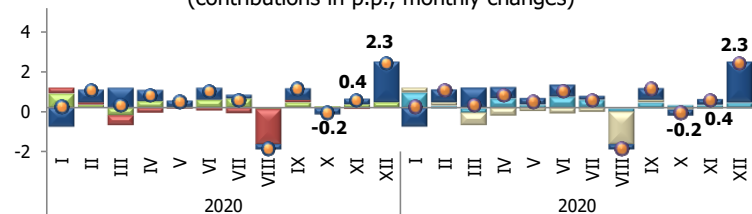
Deposits, monthly/annual changes, in %

Deposits, annual changes, in %

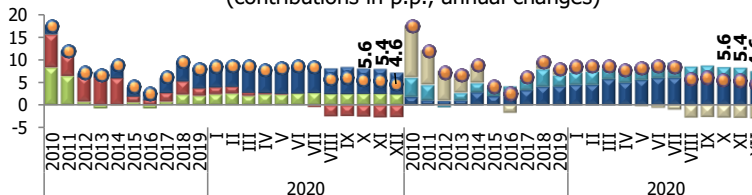
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the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

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity

Composition by currency

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.

Total deposits¹⁹ in the financial system in December registered a monthly growth of 2.9%, which is partially a result of the impact of the seasonal factors, as well as of the payment of funds from the fourth package of economic measures for dealing with the COVID-19 crisis. Observed by sector, the increase in total deposits is a result of the almost equal positive contribution of corporate and household deposits, amid reduction of other sectors deposits. Analyzing the currency structure, the monthly growth of total deposits is mostly due to the growth of denar deposits (entirely as a result of the growth of demand deposits), amid a slower growth of foreign currency deposits. In the fourth quarter of 2020, total deposits registered an increase, which is moderately higher compared to the forecasted increase for the fourth quarter of the year.

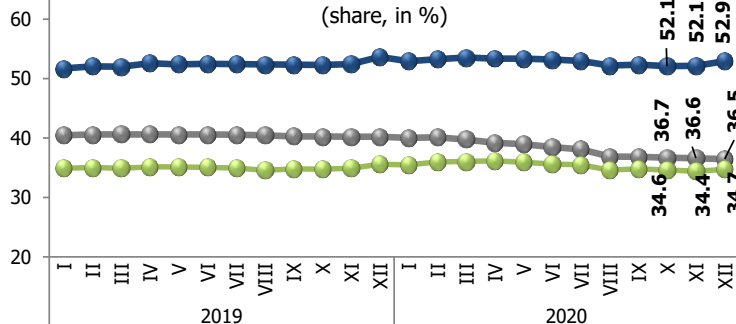
In December, the annual growth rate of total deposits was 5.7%, amid forecasted annual growth for the end of the fourth quarter of 2020 of 4.4%. From sectoral and currency aspect, the growth is largely driven by household deposits, i.e. by demand deposits and foreign currency deposits.

In December, household deposits registered a monthly growth of 2.3%, which is a faster acceleration compared to the previous month. This is a result of 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 solid growth of household deposits is a result of certain seasonal factors that are common for the end of the year (the early payments of pensions and of part of the wages in the private sector), as well as the payment of the financial support for the citizens from the fourth package of economic measures for dealing with the consequences of the coronavirus. **On annual basis, the household growth rate amounts to 4.6%.**

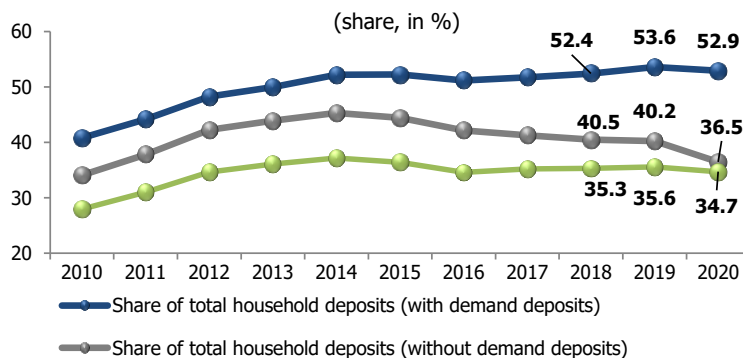
¹⁹ Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National 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.

MONETARY SECTOR

Denar Deposits of Households/Total Deposits of Households
(share, in %)



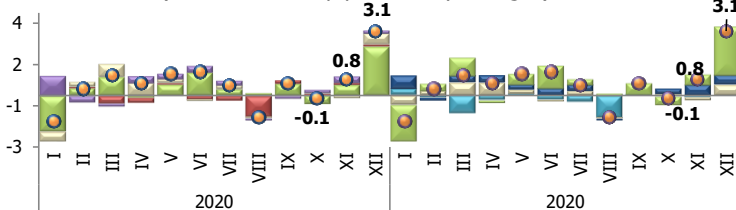
The share of denar deposits (including demand deposits) in total household deposits increased by 0.8 percentage points compared to the previous month and amounted to 52.9%.



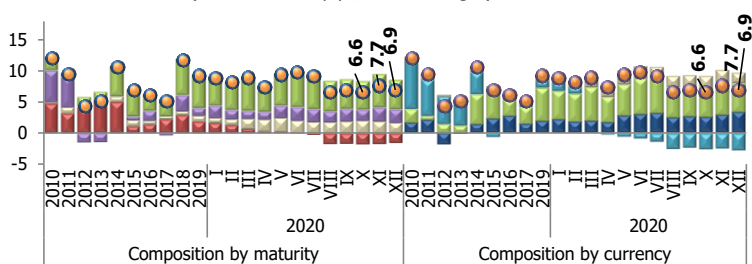
* Includes deposits at Banks and Saving Houses
Source: NBRNM.

Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



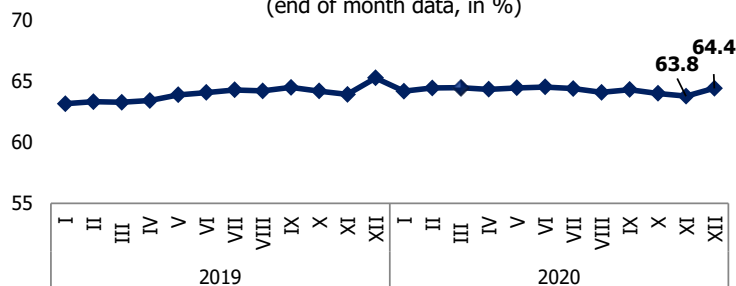
CC Outside Depository Corporations
Demand Deposits
Total Short-term Deposits
Total Denar Deposits

Source: NBRNM.

In December, broad money, measured through M4, grew by 3.1%. The increase is mostly due to the most liquid money supply components, primarily to the increase in demand deposits, amid solid growth of currency in circulation. An additional contribution to the growth was also made by the other components, primarily foreign currency deposits and short-term deposits, amid minimal growth of long-term deposits. **In December, broad money increased by 6.9% annually, amid forecasted annual growth of 5.4% for the end of the fourth quarter of 2020.**

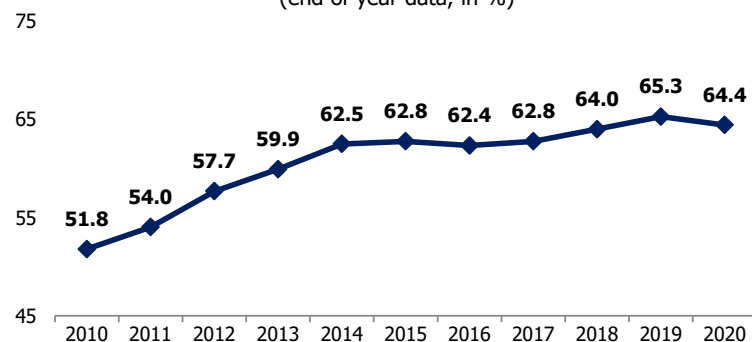
Share of Denar M4 in total M4

(end of month data, in %)



At the end of December, the denar share in total broad money M4 was 64.4% (63.8% in the previous month).

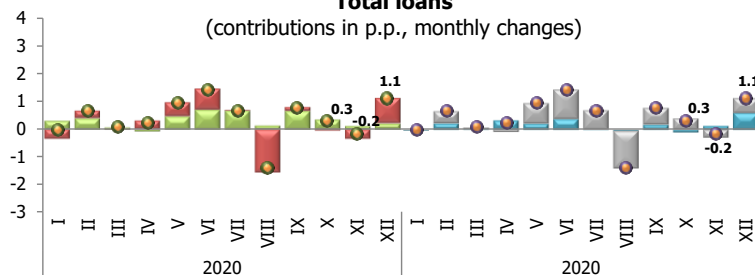
(end of year data, in %)



Source: NBRNM.

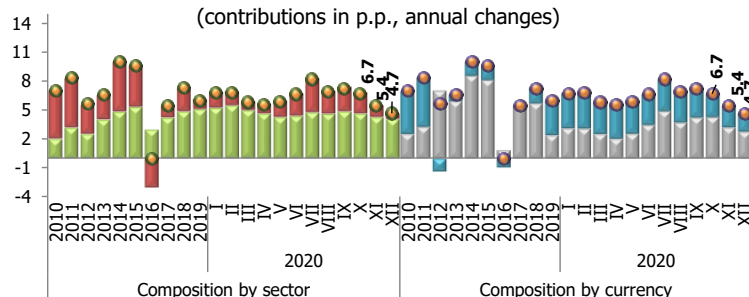
Total loans

(contributions in p.p., monthly changes)



In December, total loans registered a monthly growth of 1.1%, as opposed to the minimal decline in the previous month. The growth mostly emanates from the corporate loans, amid small growth of the household loans. Analyzing the currency structure, the credit growth is almost equally a reflection of the change in loans in both domestic and foreign currency. In the fourth quarter of 2020, total loans registered an increase, which is moderately lower than the quarterly increase forecasted for the fourth quarter of the year.

(contributions in p.p., annual changes)

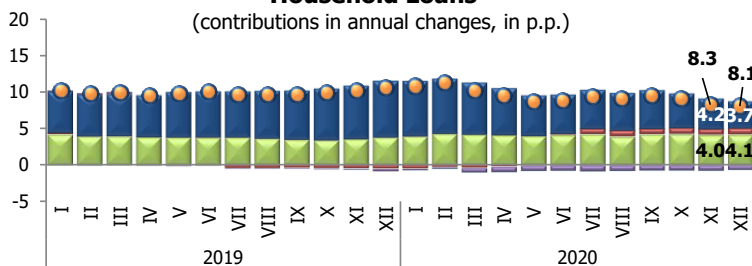


In December, the annual growth rate of total loans equaled 4.7%, amid forecasted annual growth of 5.3% for the end of the fourth quarter of 2020, according to the October forecast. Observed by sector, the growth is still largely driven by the growth of the household loans, with a smaller positive contribution 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).

Source: NBRNM.

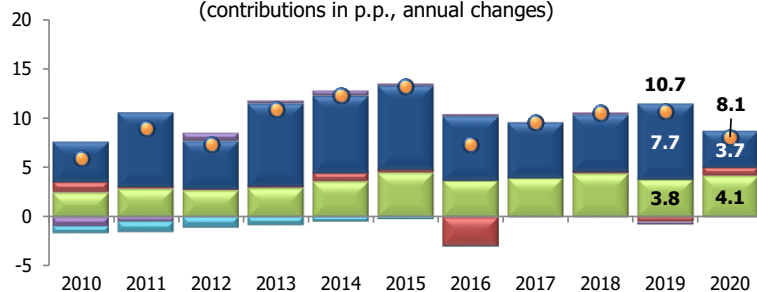
Household Loans*

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



The annual growth of household loans²⁰ in December amounted to 8.1%, and was largely driven by housing loans that contributed with 4.1 percentage points, with a solid positive contribution of consumer loans (of 3.7 percentage points).

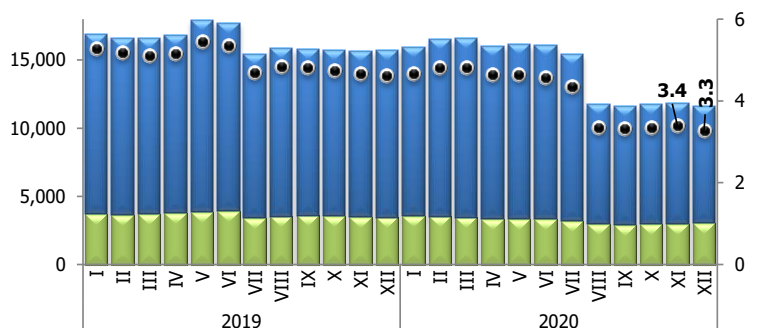
(contributions in p.p., annual changes)



* Self-employed individuals are not included.
Source: NBRNM.

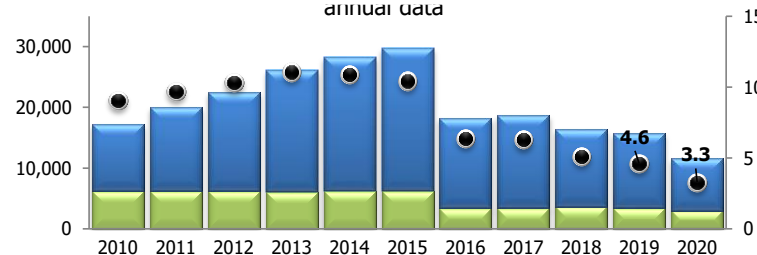
Doubtful and contested claims

(composition by sector and share in total loans)

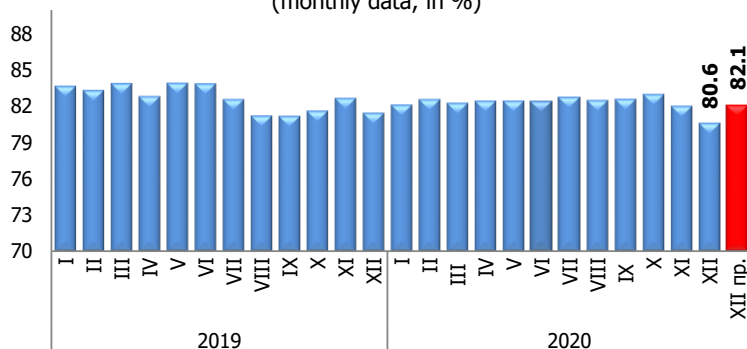


The share of doubtful and contested claims in total loans in December registered a minimal monthly decline of 0.1 percentage point and amounted to 3.3%. In terms of the sector structure, most of the total amount of non-performing loans still results from the corporate sector, while the share of non-performing loans of the household sector is significantly lower.

annual data

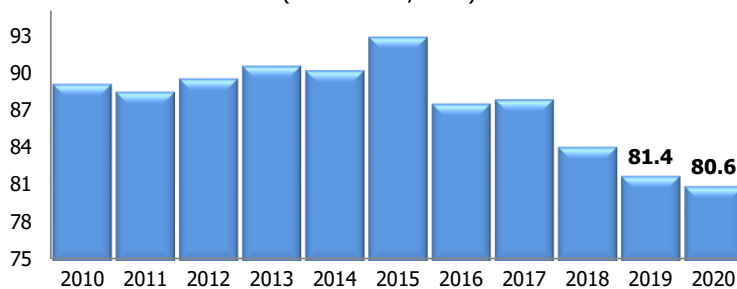


Total credits/total deposits
(monthly data, in %)



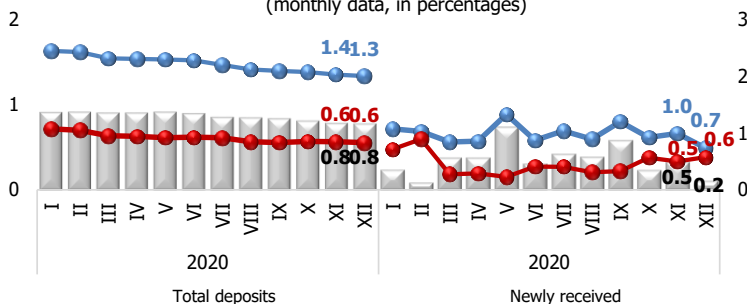
The indicator for the utilization of banks' deposit potential for lending to the private sector in December equals **80.6%**, whereby it is slightly lower than forecasted for the end of 2020 (82.1%), according to the October forecast.

(annual data, in %)



Source: NBRNM.

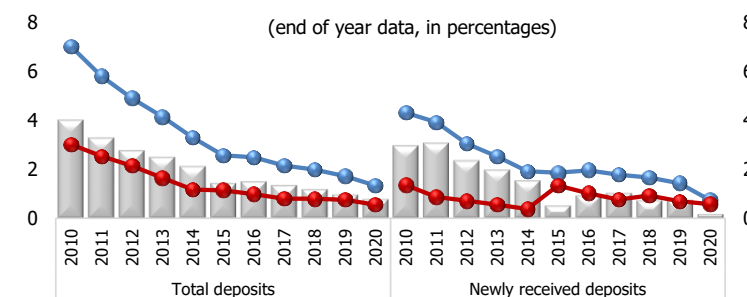
Total deposits interest rates
(monthly data, in percentages)



Regarding the interest rates on total deposits (denar and foreign currency)²¹, the interest rate spread remained at **0.8 percentage points**, amid almost unchanged interest rates on denar and foreign currency deposits.

In **total newly accepted deposits**²², the interest rate spread decreased and amounted to 0.2 percentage points as a result of the decrease in the interest rate on denar deposits of 0.3 percentage points, amid growth of the interest rate on foreign currency deposits of 0.1 percentage point.

(end of year data, in percentages)



Legend: Interest rate spread (grey bar), Interest rate of denar deposits (blue line), Interest rate of foreign currency deposits (red line).

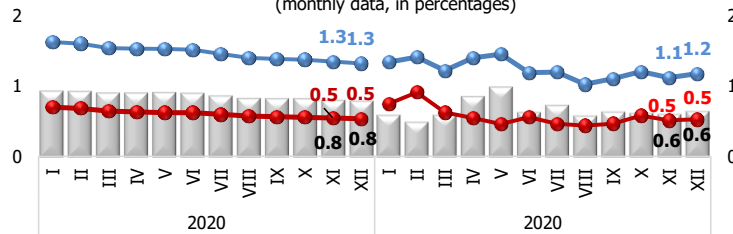
Source: NBRNM.

²¹ 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.

²² 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.

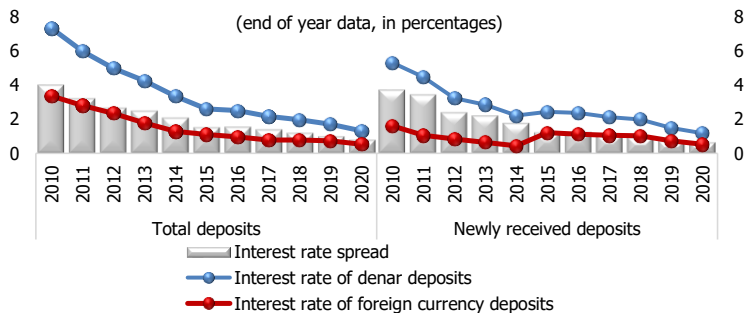
Households' deposits interest rates

(monthly data, in percentages)



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 unchanged interest rates on denar and foreign currency deposits.

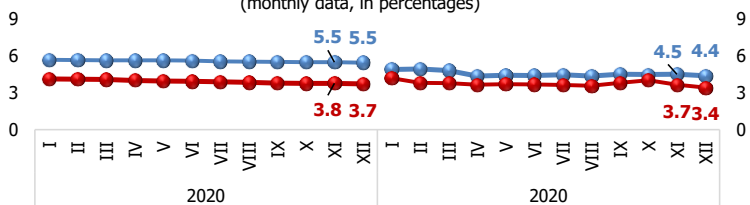
Also, the interest rate spread of the newly received household deposits registered no changes, amid almost unchanged interest rates on denar and foreign currency deposits.



Source: NBRNM.

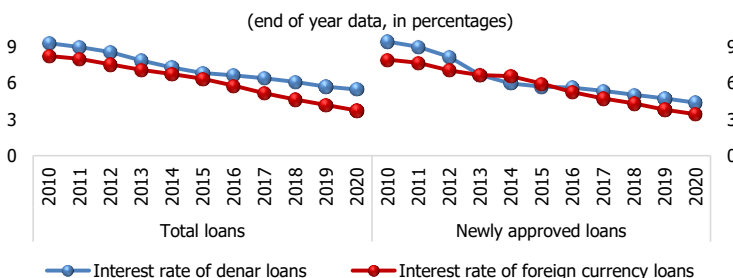
Total loans interest rates

(monthly data, in percentages)



In December, the interest rates on **total corporate and household loans** registered no significant monthly changes, amounting to 3.7% and 5.5%, respectively.

In the **newly approved loans**²³ in December, the interest rates on corporate and household loans decreased by 0.3 percentage points and 0.1 percentage point, respectively, whereby these two interest rates amount to 3.4% and 4.4%, respectively.

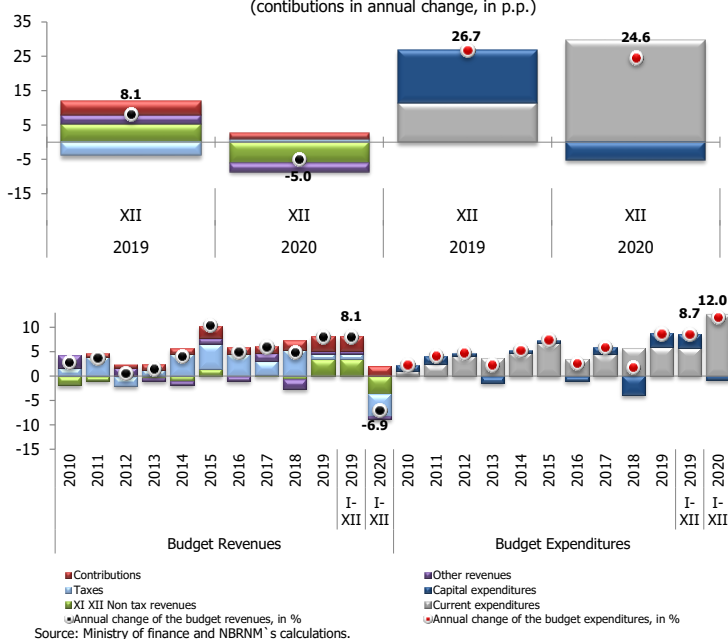


Source: NBRNM.

²³ 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.)

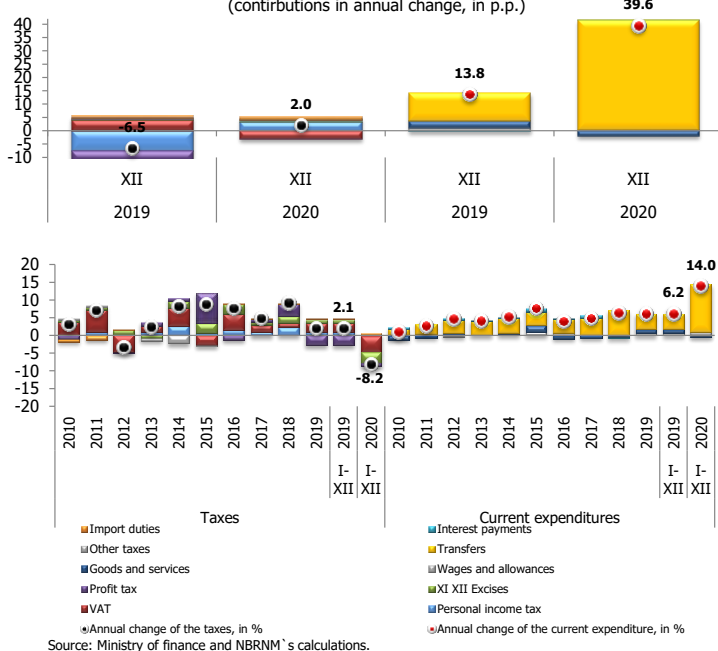


In the Budget of the Republic of North Macedonia (central budget and budgets of funds), in December 2020, total budget revenues continued to decline on an annual basis, but at a slower pace. On the other hand, the annual growth of total budget expenditures accelerated. The reduction of budget revenues of 5.0% is mostly due to non-tax revenues and other income²⁴, while tax revenues and contributions register a positive performance. Namely, tax revenues rose by 2.0% on an annual basis, as a result of the higher inflows of personal tax, import duties, excises and corporate tax, amid decline in net revenues from VAT. The growth of budget expenditures of 24.6% on an annual basis, entirely results from the higher current expenditures, amid reduced capital expenditures. Current expenditures in December increased by 39.6% annually, mainly due to the growth of transfers²⁵.

In the period January - December 2020, total budget revenues went down by 6.9% compared to the same period last year. Reduction was registered in all main income categories, except for contributions which increased. On the other hand, total budget expenditures increased by 12.0%, which was mostly due to the higher current expenditures (mainly due to the increased transfers).

Taxes and current expenditures

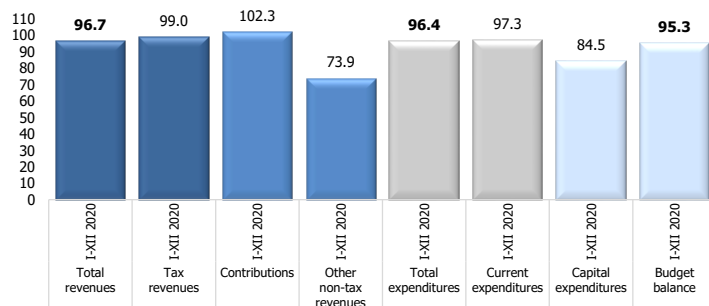
(contributions in annual change, in p.p.)



²⁴ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

²⁵ 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 health care costs.

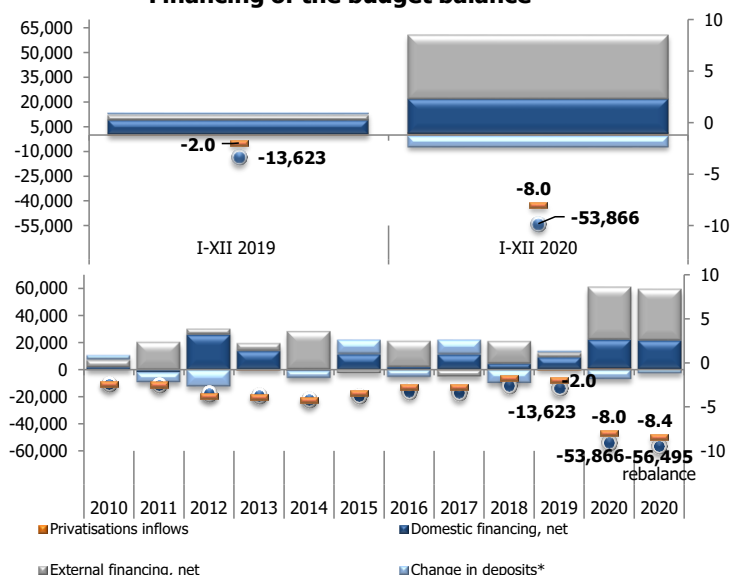
Budget implementation , per categories
(central budget and funds), in percentage of the annual plan*



*for 2020, figures are calculated compared to the Budget rebase for 2020.
Source: Ministry of Finance and NBRNM's calculations.

In comparison with the second Budget Revision²⁶ for 2020, in the period January - December 2020, 96.7% of the planned budget revenues were realized, while the budget expenditures amounted to 96.4%. The budget deficit in the amount of Denar 53,866 million accounts for 95.3% of the planned deficit.

Financing of the budget balance



The budget deficit in 2020 of Denar 53,866 million (or 8.0% of the nominal GDP²⁷) is mostly financed by foreign borrowing²⁸, 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.

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

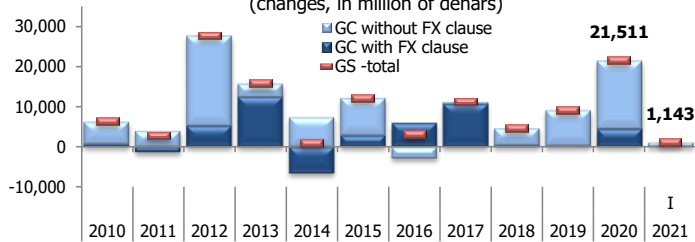
²⁶ "On 4 November 2020, the second Budget Revision for 2020 (Official Gazette of the Republic of North Macedonia No. 262 of 4 November 2020) was adopted."

²⁷ The analysis uses the National Bank's October forecasts for the nominal GDP for 2020.

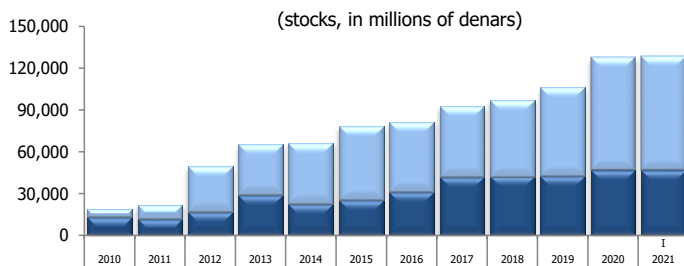
²⁸ At the beginning of April, the International Monetary Fund confirmed financial support for our country, through the Rapid Financing Instrument, in the amount of around Euro 176 million. In addition, an inflow of funds from the newly issued Eurobond was registered in June, while in October there was an inflow on the government account of Euro 83 million, in the form of a loan with in the macro-financial assistance from the European Commission.

Government securities

(changes, in million of denars)



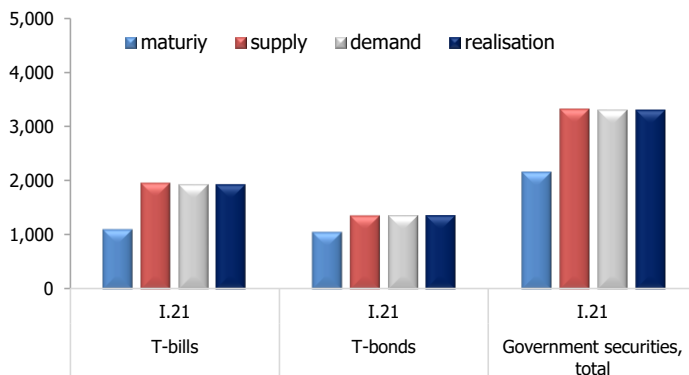
In January 2021, the stock of issued government securities²⁹ in the primary market increased on a monthly basis by Denar 1,143 million and at the end of the month amounted to Denar 129,008 million. The increase in government securities in January results from the growth in the twelve-month and the fifteen-year government bonds.



Source: MoF.

Government securities auctions

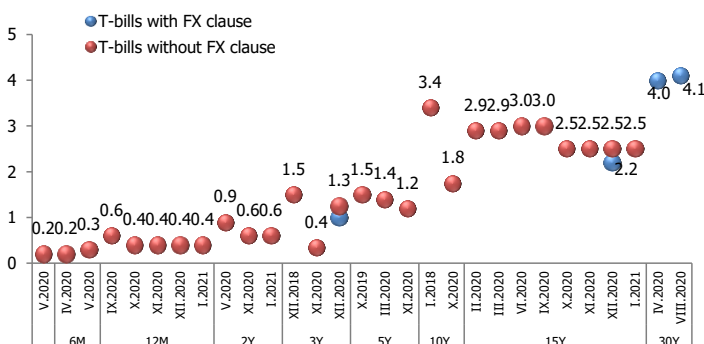
in million of denars



The new issues of government securities in January³⁰ 2021 were with twelve-month, two-year and fifteen-year maturity, whereby the market participants' interest was almost the same to the offered amount. Amid issue of government securities in a higher amount than the amount due, their stock increased at the end of January.

Source: Ministry of finance.

Interest rates of T-Securities in percent

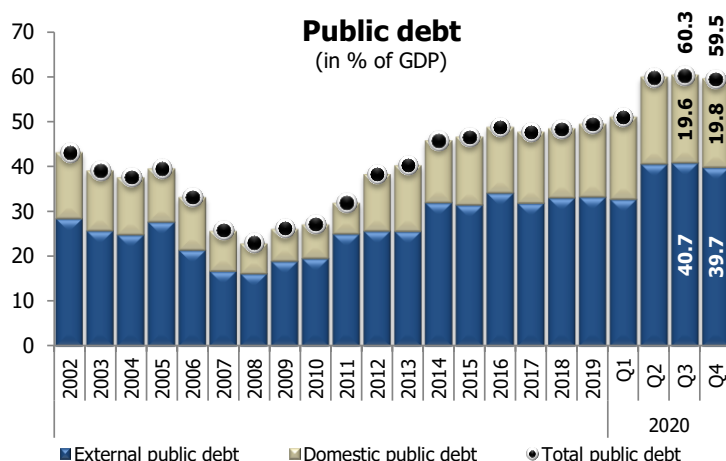


In January, at the regular auction, the Ministry of Finance kept the interest rates on the newly issued twelve-month, two-year and fifteen-year government securities without currency clause at the same level (0.4%, 0.6% and 2.5%, respectively).

Source: Ministry of Finance

²⁹ The Budget plans a net domestic borrowing (continuous government securities) of the government of Denar 18,448 million for 2021, i.e. increase in the stock of government securities to Denar 146,313 million.

³⁰ In January 2021, the twelve-month treasury bills, the two-year and the three-year government bonds fell due.



Source: NBRNM's calculations based on data from the Ministry of Finance.

At the end of the fourth quarter of 2020, public debt³¹ equaled 59.5% of GDP³², which is lower by 0.8 percentage points compared to the end of the previous quarter. This change results from external public debt³³, which decreased by 1.0 percentage points and equaled 39.7% of GDP at the end of the quarter, amid an insignificant change in internal public debt, which equals 19.8% of GDP. Total government debt in the fourth quarter of the year decreased by 0.5 percentage points compared to the end of the previous quarter and accounted for 50.6% of GDP, while the debt of public enterprises (guaranteed and non-guaranteed)³⁴ equaled 8.9% of GDP at the end of the quarter.

³¹The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 62/2005, 88/2008, 35/2011, 139/2014 and 98/2019) as the sum of the government debt and the debt of public companies established by the state or municipalities, municipalities within the City of Skopje and the City of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the City of Skopje and the City of Skopje.

³² The analysis uses the National Bank's October forecasts for the nominal GDP for 2020.

³³ In November 2020, payment of the remaining part of the Eurobond issued in 2015 was made.

³⁴According to the amendments to the Law on Public Debt from May 2019, the non-guaranteed debt of public companies and joint stock companies established by the state or municipalities, municipalities within the City of Skopje and the City of Skopje is calculated in public debt (Official Gazette of the Republic of Macedonia No. 62/2005, 88/2008, 35/2011, 139/2014 and 98/2019).

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	Q4	October	November	December
	<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	-15.5	-13.4	-17.1	-15.9
VAT revenues*	3.9	6.5	7.5	6.9	3.5	1.4	7.5	6.6	1.8	-20.0	-10.8	-4.2	-9.9	-4.3	2.1
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	-9.4	-13.6	-5.8	-8.2
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	-12.1	-14.1	-17.2	-4.6
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	9.7	6.3	6.2	4.5	5.6	4.8	4.5
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	-	6.3	4.7	-
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	-	-	-	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	5.7	6.2	5.3	5.4	4.7	6.0	5.5

* 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	Q4	October	November	December
	<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	4.5	-0.5	-1.1	14.9
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	-	7.4	18.7	-
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	1.0	1.3	0.8	1.0
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	23.8	-34.4	26.0	-20.7	-8.9	-19.6	-22.3
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-10950.9	-2541.5	5284.4	-6903.5	4212.6	-2604.5	-6127.0	-	-	-	-
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	5.8	7.7	6.2	5.8

* 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.