

National Bank of the Republic of North Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

June 2023

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 (March 2023 - May 2023) and to make a comparison with the latest macroeconomic forecasts (April 2023). 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.

In the latest global economy forecasts from June, international organizations¹ made upward revisions of the estimates for the global economic growth in 2023, while the expectations for 2024 are similar to the previous estimates. Moreover, risks surrounding the forecasts for the future global growth remain downward and are mainly associated with the maintenance of higher inflation rates longer than expected and the tighter financial conditions, with an impact on the stability of financial markets and the vulnerability of fast-growing high indebted countries. The other risks are associated with the higher energy prices than expected and with several socio-economic risks (aging of the population, possibly lower growth rates of investments and productivity, climate changes, increased geopolitical tensions and trade restrictions), with an adverse effect on the expected global long-term growth. On the other hand, the faster growth of demand than expected and the sharper decline in inflation in the large economies are stated as **positive risks**. Regarding the economic developments in the **euro area**, as our major trading partner, the economic activity has been registering a minimal quarterly decline of 0.1% for the second consecutive quarter, indicating technical recession at the beginning of the year. Also, the GDP annual growth rate in the first quarter of 2023 again slowed down to 1% (1.8% in the previous quarter). Hence, in the June forecasts, the ECB made a minor downward revision for 2023 and 2024, while for 2025 the forecast remained unchanged, so that it is expected that the growth will equal 0.9%, 1.5% and 1.6% in 2023, 2024 and 2025, respectively². The developments in the labor market in the euro area remain favorable, whereby the number of employees in the first quarter of 2023 increased by 1.6% on an annual basis (1.5% in the previous quarter), while the unemployment rate in April is at its lowest historical level and equals 6.5%³ (6.6% on average in the first quarter). Inflation in the euro area registered a stronger deceleration, reducing to 6.1% on an annual basis (7% in April), amid fall in energy prices and slower growth in food prices and core inflation. Moreover, the latest ECB forecasts show a minimal upward correction of the future path of inflation, i.e. it is expected that inflation will equal 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025⁴. Regarding the **foreign interest rate EURIBOR** with one-month maturity, the latest estimates for 2023 and 2024 have been revised upwards, which is in line with the decision of the ECB at the June meeting to increase the policy rates by 25 basis points and with the expectations for their further increase.

Observed by individual quantitative indicators of the external environment important for the Macedonian economy, the growth of the **foreign effective demand** has been revised upwards for 2023, and downwards for 2024 compared to the April forecasts, while the assessment of the **foreign effective inflation** for 2023 has been corrected upwards, without changes in the assessment for 2024. Regarding the **euro/US dollar exchange rate**, the US dollar is again expected to depreciate against the euro, but at stronger pace in 2023 and at slightly weaker pace in 2024 than the April forecasts. The estimates for the **world prices of primary products** for 2023 and 2024 have been revised downwards relative to April, with expected price fall in both years.

¹ OECD, Economic Prospects, June 2023; the World Bank, Global Economic Prospects, June 2023.

² In the March forecasts, the forecasted GDP growth was 1% in 2023 and 1.6% in 2024 and 2025.

³ It refers to the period of April 1998, since the publication of the monthly data on the unemployment rate in the euro area.

⁴ The March inflation forecast equaled 5.3%, 2.9% and 2.1% for 2023, 2024 and 2025, respectively.

The movements and the assessments of the prices of primary commodities remain extremely volatile and strongly influenced by the developments related to the war in Ukraine, which creates great uncertainty about their future dynamics and effects on the global and domestic economy, primarily in the short term.

The latest indicators of the domestic economy suggest macroeconomic landscape mainly in line with the April forecasts, although certain segments register some deviations. In line with the published estimated GDP data, in the first quarter of 2023, the real GDP growth accelerated to 2.1% on an annual basis (following the growth of 0.6% in the previous quarter), at a slightly stronger pace than the growth acceleration forecasted for this quarter in the April forecasting round. Analyzed by components, the growth in the first quarter is entirely due to the positive contribution of net exports, amid solid growth of exports and fall in imports. Domestic demand makes a negative contribution, as a result of the substantial drop in gross investments (due to the lower inventories amid high base effect from last year, affected by the adverse influence of the war in Ukraine and deterioration in the energy market) and the fall in public consumption, amid slower growth in private consumption. The currently available high frequency data for the second quarter of 2023 are insufficient to have an overall view of the situation. April data currently show moderate negative developments in industrial production, versus the minimal growth in the previous quarter, as well as real annual fall in total trade turnover, following the growth in the previous quarter. **Regarding the changes in consumer prices, in May 2023 the annual inflation rate continues to slow down, reducing to 11.3% (13% in the previous month), in accordance with the estimates for a slowdown in the inflation rate within the April forecasting round.** The slowdown in the annual inflation rate is conditioned by the slower growth of the prices in all three components. The revisions in terms of the expected movements in the external input assumptions about the inflation forecast are mainly in a downward direction. The high uncertainty is still pronounced in the movement of world prices of primary products in the following period, amid uncertain economic effects of the war in Ukraine.

The analysis of foreign reserves adequacy indicators shows that they are still within the safe zone. Regarding the latest available data from the external sector, the foreign trade data in April 2023 currently indicate a lower trade deficit than expected for the second quarter of the year according to the April forecast, but the assessment period is too short to draw more precise conclusions. Currency exchange operations data as of the end of May 2023 point to the possibility for net inflows from private transfers that are higher than expected for the second quarter of 2023 according to the April forecast. The balance of payments for the first quarter of 2023 points to current account surplus contrary to the expectations for a small deficit according to the April forecast, amid net financial inflows lower than expected.

As for the **monetary sector developments**, total **deposits** in April 2023 increased by 1.4% on a monthly basis. Observed by sector, the increase results from the positive contribution of all sectors, especially in corporate deposits, accompanied by the growth of household and other sectors deposits. Observing by currency, growth was registered in denar deposits (including demand deposits), amid lower positive contribution of foreign currency deposits. On an annual basis, total deposits in April 2023 increased by 8.7%, amid forecasted annual growth for the second quarter of 7.6% in line with the April forecast. In April 2023, **total private sector loans** registered a monthly growth of 0.6%, largely due to corporate loans, amid smaller positive contribution of the household sector. Analyzing the currency structure, the increase mostly results from the growth of loans in domestic currency, amid lower positive contribution of foreign currency loans. On an annual basis, the growth of total loans in April 2023 was 6.3%, amid forecasted growth for the second quarter of 2023 of 6.2%, according to the April forecast.

In the period from January to April 2023, the Budget of the Republic of North Macedonia registered a deficit of Denar 12,490 million. The budget deficit is financed by government borrowing on the foreign and domestic market, amid simultaneous growth of government deposits with the

National Bank. The budget deficit for the period January - April 2023 accounts for 29.2% of the budget deficit forecast for 2023.

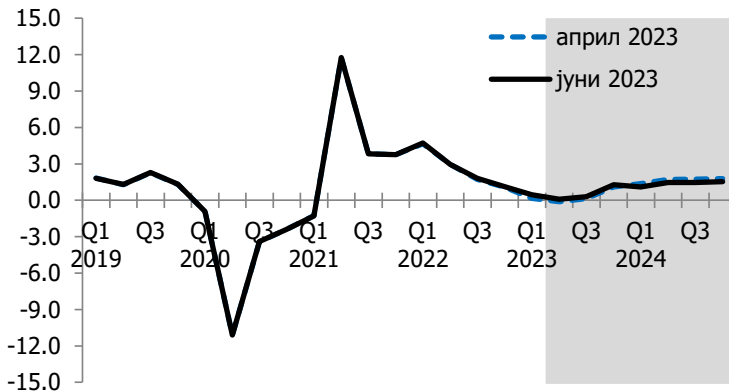
According to the latest estimates and perceptions, the performances in the key macroeconomic indicators are mainly in line with the expectations, but there is a need for further precaution in the policy conduct. In line with the expectations, in May 2023, the annual growth in domestic prices continues to slow down, and core inflation also slowed down, which, although it reduced to a one-digit level, remains high. The uncertainty arising from the future dynamics of primary products prices in markets is still present due to the war in Ukraine, which does not subside. Regarding the economic growth, the performances in the first quarter of 2023 point to an acceleration in the GDP growth, at a slightly stronger pace than expected according to the latest forecasts, and from the few available high-frequency data on the domestic economic activity for the second quarter of this year, one cannot draw more precise conclusions for the time being. Foreign reserves remain at the appropriate level, amid favorable developments on the foreign exchange market and further high inflow of foreign currency on the currency exchange market. In the monetary sector, the latest data are currently in line with the forecasts for rapid growth in deposits, and more moderate growth in loans in the second quarter of the year.

In May 2023, the domestic inflation rate continued to slow down and the world prices of food and energy went down.

The gradual slowdown in the annual growth of domestic consumer prices that started in November last year, continued also in May 2023. The slowdown in the annual inflation rate in May comes in circumstances of slower growth in the prices in all three components. The slower annual growth of domestic food prices was influenced by the substantial drop of the prices of primary food products in world markets (expressed in euros), for four months in a row, primarily oil, cereals and milk products. Also, during April and May, the measures for reducing and freezing some of the primary food products also had a certain influence, coupled with the previously adopted measures for mitigating price pressures. Besides the food component, downward pressure on domestic inflation was also exerted by the slower annual growth of energy prices, which reflects the domestic prices of oil derivatives, in conditions of a downward trend of the price of crude oil on world markets. Significant slowdown was observed in the core component of inflation in conditions of weaker direct and indirect pressures from the energy and food prices, amid significantly slower growth of the prices of air traffic and more moderate growth of the prices of services in restaurants and hotels.

Selected economic indicators ^{/1}														2022												2023					
	2016	2017	2018	2019	2020	2021	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sept.	Q3	Oct.	Nov.	Dec.	Q4	2022	Jan.	Feb.	March	Q1	April	May		
I. Real sector indicators																															
Gross domestic product (real growth rate, y-o-y) ^{/2}	2.8	1.1	2.9	3.9	-4.7	3.9				2.2				4.0				2.0				0.6	2.1								
Industrial production ^{/3}																															
y-o-y	3.4	0.2	5.4	3.7	-9.5	1.4	0.7	6.2	3.2	3.4	-3.8	8.6	-0.2	1.3	-5.0	0.2	-0.5	-1.8	-5.2	-3.7	-1.3	-3.4	-0.2	-2.3	1.0	1.2	0.1	13.0	11.3		
cumulative average	3.4	0.2	5.4	3.7	-9.5	1.4	0.7	3.6	3.4	3.5	1.5	2.9	2.3	2.3	1.2	1.1	0.9	0.9	0.3	-0.1	-0.2	-0.2	-0.2	-2.3	-0.5	0.1	0.1	-1.6	-0.3		
Inflation ^{/4}																															
CPI Inflation (y-o-y) ^{/5}	-0.2	2.4	0.9	0.4	2.3	4.9	6.7	7.6	8.8	7.7	10.5	11.9	14.5	12.3	16.0	16.8	18.7	17.2	19.8	19.5	18.7	19.3	18.7	17.1	16.7	14.7	16.1	13.0	11.3		
CPI Inflation (cumulative average)	-0.2	1.4	1.5	0.8	1.2	3.2	6.7	7.1	7.7	7.7	8.4	9.1	10.0	10.0	10.9	11.6	12.4	12.4	13.2	13.8	14.2	14.2	14.2	17.1	16.9	16.1	16.1	15.3	14.5		
Core inflation (cumulative average)	1.3	2.3	1.5	0.5	0.9	2.4	2.6	3.3	3.8	3.8	4.3	4.8	5.2	5.2	5.5	5.8	6.2	6.2	6.5	6.8	7.1	7.1	7.1	10.8	10.6	10.2	10.2	10.2	9.9		
Core inflation (y-o-y) ^{/5}	1.0	2.8	1.4	-0.3	1.9	2.9	2.6	3.9	4.9	3.8	5.8	6.6	7.3	6.6	7.3	8.1	8.9	8.1	9.2	9.8	10.8	9.9	10.8	10.8	10.4	9.5	10.2	10.1	8.9		
Labor force																															
Unemployment rate ^{/11}	23.7	22.4	20.7	17.3	16.4	15.7				14.7				14.5				14.3				14.0	14.4					13.3			
II. Fiscal Indicators□ (Central Budget and Budgets of Funds)																															
Total budget revenues	169,356	179,673	188,505	203,822	189,554	218,021	16,761	18,844	21,501	57,106	21,745	16,890	20,572	59,207	21,225	19,308	21,739	62,272	21,838	18,958	23,704	64,500	243,085	19,278	18,758	28,005	66,041	21,211			
Total budget expenditures	185,407	196,561	200,071	217,445	243,421	256,906	20,220	22,241	21,316	63,777	19,753	20,647	22,483	62,883	21,051	20,264	26,694	68,009	22,108	26,456	35,363	83,927	278,596	20,690	23,008	25,858	69,556	30,186			
Overall balance (cash)	-16,051	-16,888	-11,566	-13,623	-53,867	-38,885	-3,459	-3,397	185	-6,671	1,992	-3,757	-1,911	-3,676	174	-956	-4,955	-5,737	-270	-7,498	-11,659	-19,427	-35,511	-1,412	-4,250	2,147	-3,515	-8,975			
Overall balance (in % of GDP) ¹	-2.7	-2.7	-1.8	-2.0	-8.0	-5.4	-0.4	-0.4	0.0	-0.8	0.3	-0.5	-0.2	-0.5	0.0	-0.1	-0.6	-0.7	0.0	-0.9	-1.5	-2.4	-4.5	-0.2	-0.5	0.2	-0.4	-1.0			
III. Financial indicators ^{/6}																															
Broad money (M4), y-o-y growth rate	6.2	5.1	11.8	9.3	6.9	7.0	6.5	5.3	2.8	2.8	3.0	1.8	1.4	1.4	1.9	1.3	2.9	2.9	3.5	4.6	5.1	5.1	5.1	4.5	5.7	6.9	6.9	8.6			
Total credits, y-o-y growth rate	-0.1	5.4	7.3	6.0	4.7	8.3	8.4	8.9	9.8	9.8	10.0	9.9	10.0	10.0	9.7	9.7	9.9	9.9	10.1	9.6	9.4	9.4	9.4	8.5	7.7	6.6	6.6	6.3			
Total credits - households	7.0	9.2	10.3	10.5	8.0	7.8	7.8	7.8	7.9	7.9	7.8	8.0	7.7	7.7	7.6	7.7	7.6	7.6	7.5	7.5	7.3	7.3	7.3	7.4	7.2	6.8	6.8	6.7			
Total credits - enterprises	-5.3	2.3	4.5	1.9	1.1	8.7	9.0	10.0	11.9	11.9	12.3	11.9	12.4	12.4	12.1	11.9	12.6	12.6	12.9	12.1	11.5	11.5	11.5	9.7	8.2	6.2	6.2	5.9			
Total deposits (incl. demand deposits), y-o-y growth rate ^{/7}	6.1	5.0	12.1	9.0	5.7	7.5	7.2	5.8	3.2	3.2	3.4	2.1	1.5	1.5	2.0	1.4	3.2	3.2	4.1	4.9	4.9	4.9	4.9	4.5	5.9	6.9	6.9	8.7			
Total deposits - households	2.5	6.1	9.5	7.9	4.6	7.1	6.8	6.0	3.9	3.9	4.6	4.5	5.2	5.2	5.2	4.6	5.3	5.3	5.6	5.3	5.8	5.8	5.8	5.9	6.3	8.4	8.4	8.3			
Total deposits - enterprises	13.4	2.1	9.5	14.6	10.1	11.6	11.5	8.3	3.9	3.9	1.7	-1.6	-4.8	-4.8	-2.9	-3.8	0.4	0.4	1.5	4.3	3.7	3.7	3.7	2.6	5.7	5.9	5.9	12.0			
Interest rates ^{/8}																															
Interest rates of CBBills (end of month/quarter/year)	3.75	3.25	2.50	2.25	1.50	1.25	1.25	1.25	1.25	1.25	1.50	1.75	2.00	2.00	2.50	2.50	3.00	3.00	3.50	4.25	4.75	4.75	4.75	4.75	5.25	5.50	5.50	5.50	5.75		
Lending rates																															
denar rates	7.0	6.6	6.1	5.6	5.2	4.9	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.6	5.1	5.1	5.2	5.1	5.2			
f/x rates (aggregated, incl. f/x and denar with f/x clause)	5.7	5.3	4.9	4.6	4.3	4.1	4.0	4.0	4.0	4.0	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.1	4.0	4.9	4.9	4.9	4.9	4.9			
Deposit rates																															
denar rates	2.5	2.2	2.0	1.9	1.5	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.0	1.1	1.2	1.3	1.2	1.1	1.3	1.4	1.5	1.4	1.6			
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1.0	0.9	0.8	0.8	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.5	0.4	0.6	0.7	0.8	0.7	0.9			
IV. External sector indicators																															
Current account balance (millions of EUR)	-252.5	-78.3	22.4	-334.7	-318.0	-366.4	-2.6	-254.5	-131.7	-388.8	-165.3	-68.3	-0.4	-234.0	76.6	53.9	-33.9	96.6	-55.1	-30.1	-161.0	-246.2	-772.4	-5.3	25.8	102.0	122.5				
Current account balance (% of GDP)	-2.6	-0.8	0.2	-3.0	-2.9	-3.1	0.0	-2.0	-1.0	-3.0	-1.3	-0.5	0.0	-1.8	0.6	0.4	-0.3	0.7	-0.4	-0.2	-1.2	-1.9	-6.0	0.0	0.2	0.7	0.9				
Trade balance (millions of EUR) ^{/9}	-1,786.2	-1,816.2	-1,811.4	-2,007.7	-1,816.6	-2715.7	-262.7	-312.3	-324.8	-899.8	-404.6	-315.8	-259.6	-980.0	-269.4	-350.8	-344.3	-964.5	-333.9	-283.8	-363.6	-981.3	-3,825.6	-228.3	-196.2	-209.4	-633.8	-194.7			
Trade balance (% of GDP)	-18.0	-18.1	-16.9	-17.8	-16.7	-23.2	-2.0	-2.4	-2.5	-7.0	-3.1	-2.4	-2.0	-7.6	-2.1	-2.7	-2.7	-7.5	-2.6	-2.2	-2.8	-7.6	-29.7	-1.6	-1.4	-1.5	-4.5	-1.4			
import (millions of EUR)	-6,176.5	-6,834.9	-7,676.3	-8,441.0	-7,594.5	-9,638.3	-808.8	-982.7	-1,047.7	-2,839.1	-1,087.3	-1,050.0	-1,000.9	-3,138.2	-939.0	-980.4	-1,104.9	-3,024.3	-1,108.6	-1,001.2	-1,013.8	-3,123.6	-12,125.2	-849.4	-915.0	-995.2	-2,759.6	-856.0			
export (millions of EUR)	4,390.3	5,018.7	5,872.4	6,433.3	5,777.9	6,922.6	546.0	670.3	722.9	1,939.3	682.7	734.2	741.3	2,158.2	669.5	629.6	760.6	2,059.8	774.7	717.4	650.2	2,142.3	8,299.6	621.1	718.9	785.8	2,125.8	661.3			
rate of growth of import (y-o-y)	6.5	10.7	12.3	10.0	-10.0	26.9	29.7	31.6	27.7	29.6	22.0	39.3	23.9	27.9	16.6	21.9	52.3	29.5	32.4	14.0	7.4	17.5	25.8	5.0	-6.9	-5.0	-2.8	-21.3			
rate of growth of export (y-o-y)	7.4	14.3	17.0	9.6	-10.0	19.8	3.6	23.0	22.8	16.7	10.7	34.2	27.0	23.5	14.0	11.2	34.8	19.9	31.6	16.8	9.7	19.3	19.9	13.8	7.2	8.7	9.6	-3.1			
Foreign Direct Investment (millions of EUR)	316.9	179.9	60.3	363.3	154.7	387.5	50.1	8.7	52.9	111.7	71.7	61.5	4.5	137.7	90.3	85.5	6.0	181.8	73.3	87.2	78.5	239.0	670.2	-10.0	-49.9	-53.8	-113.7				
External debt																															
Gross external debt (in millions of EUR)	7,216.6	7,372.5	7,843.7	8,154.4	8,536.1	9,576.6				9,980.9				10,361.9				11,096.6				10,855.8	10,855.8								
public sector	3,445.3	3,461.8	3,756.2	3,836.6	4,301.5	4,802.0				4,589.7				4,883.6				5,344.0				5,205.5	5,205.5								
public sector/GDP (in %)	35.7	34.5	35.1	34.2	40.4	40.9				37.9				41.4				47.9				44.4	44.4								
private sector	3,771.2	3,910.7	4,087.5	4,317.8	4,234.6	4,774.6				5,391.2				5,478.3				5,752.6				5,650.3	5,650.3								
Gross external debt/GDP (in %)	74.7	73.4	73.3	72.7	80.3	81.6				77.4				80.3				86.0													

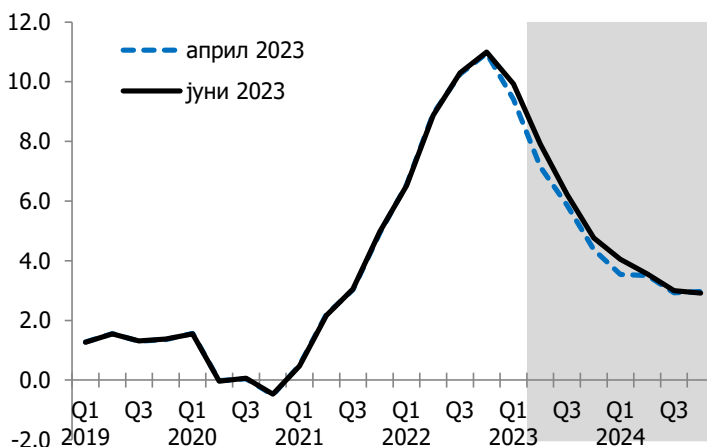
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

The latest forecasts for the **foreign effective demand** resulted in an upward correction of the estimates for 2023, and a downward correction for 2024. Namely, it is now expected that the growth of foreign effective demand in 2023 will equal 0.5% (0.3% in April), while in 2024 the growth will equal 1.4% (1.7% in April). Such revisions are largely the result of estimates for higher economic activity in Germany⁵ in 2023 and lower in 2024 compared to April.

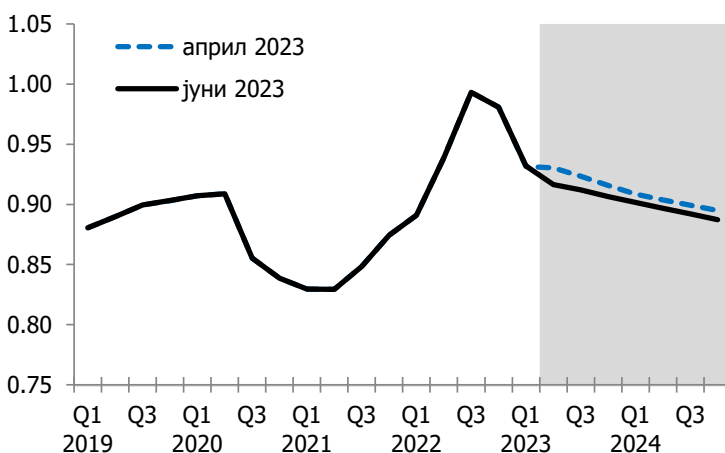
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

Regarding the **foreign effective inflation**, the estimate for 2023 has been revised upwards, and the expectations for 2024 are almost the same. Thus, the growth of the foreign effective inflation is currently expected to amount to 7.4% and 3.4% in 2023 and 2024, respectively (6.9% and 3.3% in April, respectively). The corrections for 2023 are the result of the expectations for higher inflation with several of our import partners, with the largest contribution being made by Serbia and Poland.

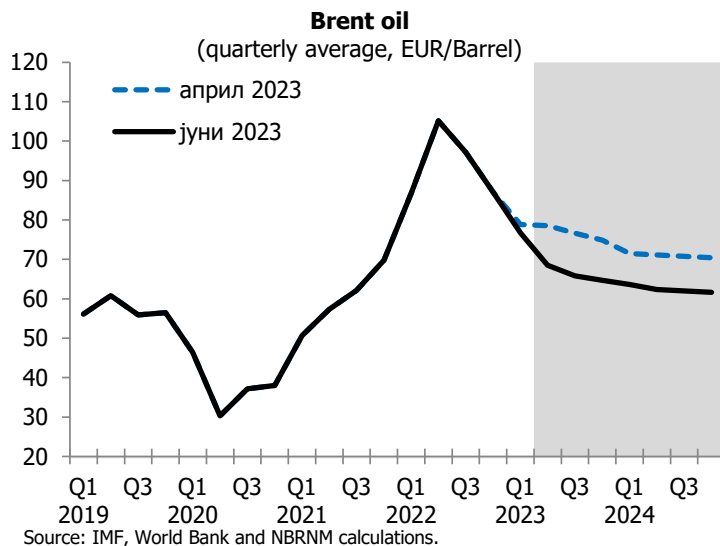
EUR/USD exchange rate



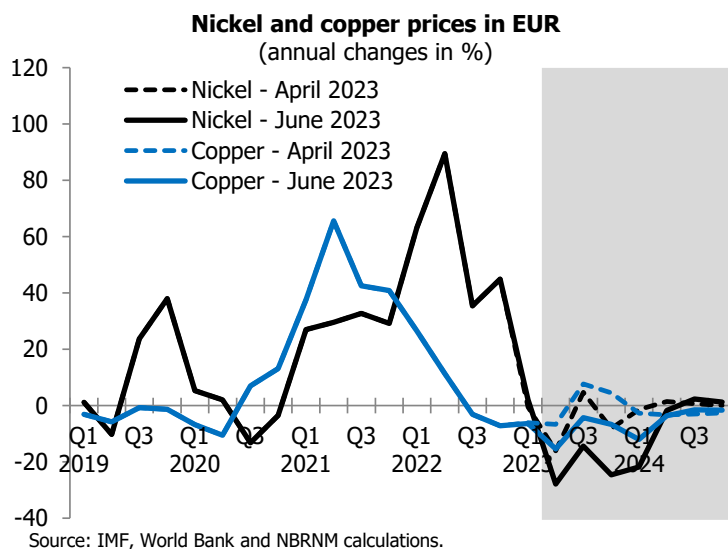
Source: Consensus forecasts and NBRNM calculations.

The latest **euro/US dollar exchange rate** estimates point to a larger depreciation of the US dollar against the euro in 2023 than previously expected in April. These developments mostly reflect the investors' perceptions that the probability of further tightening of the monetary policy by the ECB is stronger compared to the Fed, where the interest rates are expected to stabilize in the forthcoming period.

⁵ Forecast for growth in Germany of 0.1% and 1.1% in 2023 and 2024, respectively, compared to -0.1% and 1.4%, in October.



The expectations for the **price of oil**⁶ **expressed in euros**, for 2023 and 2024 have been revised downwards, now expecting sharper decline than previously forecasted in April. Such movements are largely due to the prevalence of investors' concern about lower demand for oil due to the weak economic activity, despite the OPEC+ countries' measures to further reduce oil production⁷.

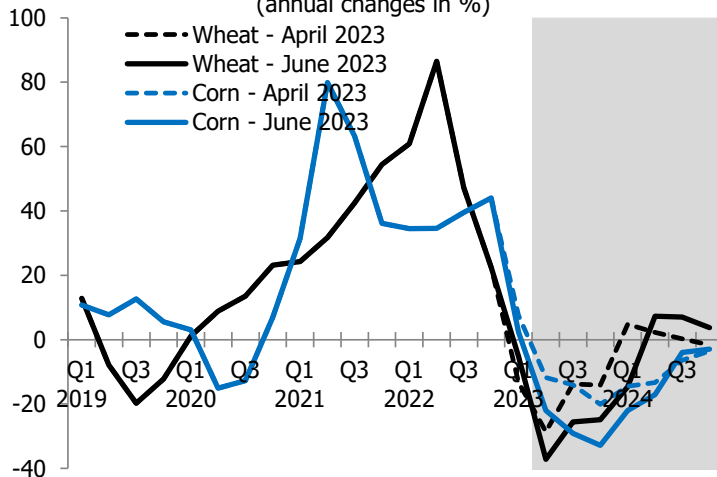


In metal prices, the revisions are downward for the entire period of forecasts, especially in nickel. Namely, the latest forecasts point to sharper decline in the prices of copper and nickel in 2023 and 2024 compared to the April forecasts, which is largely due to the expectations for reduced demand for these metals, mainly from China.

⁶ The analysis of prices of oil, metals and food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

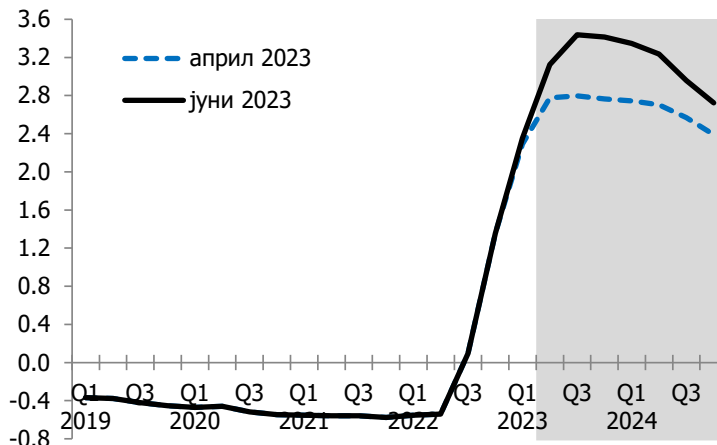
⁷ At their regular meeting held on 4.6.2023, the OPEC+ countries decided to reduce oil production by additional 800 thousand barrels per day, starting from July in the current year. This was mainly a result of Saudi Arabia's decision to voluntarily reduce oil production by additional 1 million barrels per day, while the UAE was allowed to increase oil production by 200 thousand barrels per day.

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



The prices of **wheat and corn denominated in euros** have also been corrected downwards, especially for 2023, when the latest forecasts are expected to result in a significant decrease in prices. The downward correction in wheat is mostly a result of the expectations for a reduced demand for wheat by China and the EU, while the corrections in corn are the result of the expectations for larger global production and higher inventories.

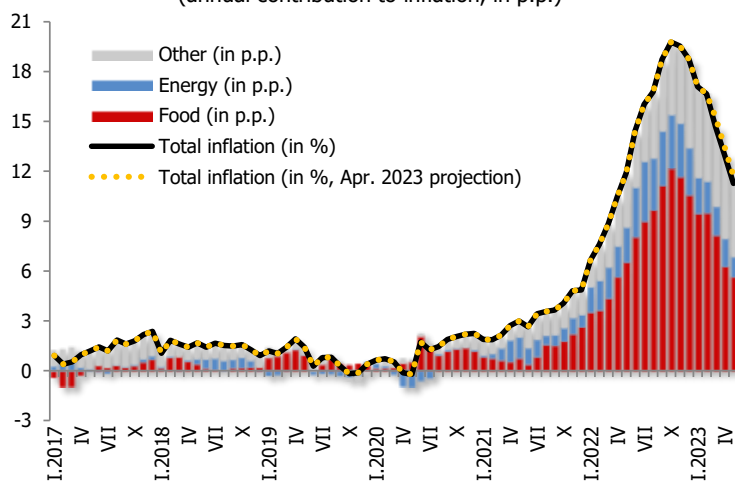
1-month Euribor
(quarterly average, in %)



Regarding the one-month EURIBOR, the revisions go upwards for the entire forecast round, now expecting that it will average 3.08% and 3.07% in 2023 and 2024, respectively (2.66% and 2.60% in April, respectively). Such movements are in line with the expectations for further tightening of the monetary policy by the ECB.

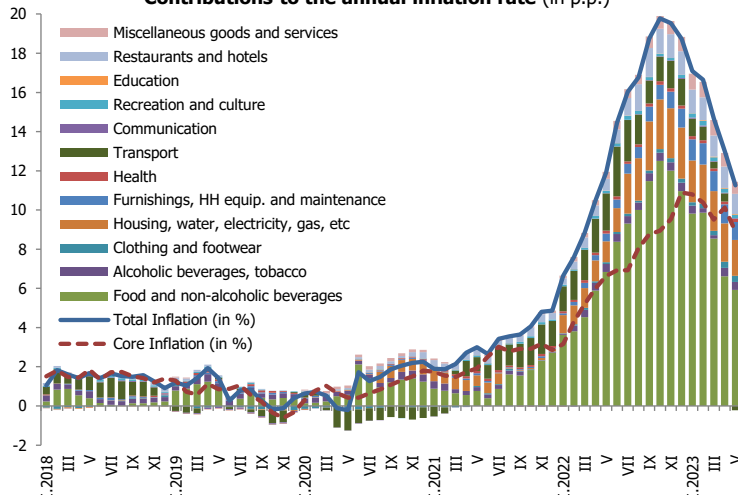
Inflation rate

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



Source: SSO and NBRNM.

Contributions to the annual inflation rate (in p.p.)



Source: SSO and NBRNM.

In May 2023, domestic consumer prices increased by 0.4% on a monthly basis (0.7% in April), due to the increased food prices, while energy prices and core inflation decreased.

Food prices increased by 1.6%, after the fall in March and April, which is mainly a result of the increase in the prices of vegetables, and to a lesser extent in the prices of fruit (partially due to seasonal effects). The growth of the prices in the food component is mitigated by the reduction of the prices in the category bread and cereals, which have been falling for three months in a row, amid a decline in the prices of cereals in the international market, accompanied by the measures for mitigating price pressures⁸. In this regard, an additional contribution was also made by the reduced oil prices, which have been registering steady decline since July last year, amid mainly downward trend of the price in world markets.

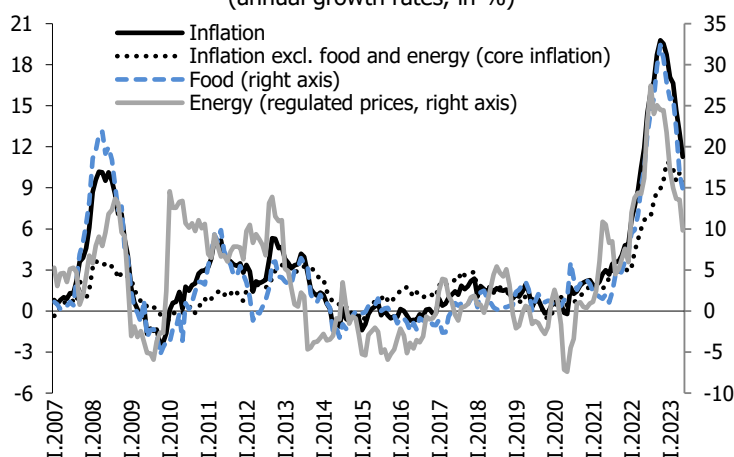
The monthly decline in **energy prices** continued with increased intensity in May (-1.6%), and results from the fall in the prices of oil derivatives and solid fuels.

Core inflation in May registered a monthly fall of 0.1%, as a result of the reduced prices of air transport, after the strong growth in April, which is largely a consequence of seasonal effects. This effect was largely offset by the growth of the prices of footwear and services in restaurants and hotels.

In May, the inflation rate continues to register slower annual growth, reducing to 11.3% (13.0% in April), amid slower growth of the prices in all three components. Most of the

⁸ On 28 February 2023, the Government of the RNM adopted a decision on freezing the price of bread in the period from 1 March to 31 May 2023. Thus, the price of white and semi-white bread of 450 grams and more is frozen at the level of Denar 33, i.e. up to Denar 33 for white and semi-white bread below 450 grams, in relation to the bread weight. At the same time, the Government adopted a decision on abolishing the subsidized price of electricity for food industry companies ([link](#)). On 10 March, the Government adopted a decision on reducing, i.e. freezing the prices of part of the pastas and some of the milk products in the period from 16 March to 31 May 2023. Thus, the prices of macaroni and spaghetti are reduced by 15% relative to those applied in retail trade on 1 March and they will be frozen at that level until the measure is in effect. In addition, the Government also adopted a decision on abolishing the customs duties on pastas for the period from 13 March to 31 May 2023, whereby in accordance with the assessments presented, the effect of abolishing the customs duties coincides with the amount of the reduction of the prices of pastas. The prices of milk products, such as: pasteurized cow's milk (with 2.8%, 3.2% and 3.5% fat), curd, cow's / mixed white cheese, cow's yellow cheese, sour milk, cream and yogurt, are reduced by 10% relative to the prices valid in retail trade on 1 March, and they will be frozen at that level while the measure applies ([link](#)). On 21 March, the Government adopted a decision on freezing the prices of fresh chicken eggs and rice at the level valid on 15 March in retail trade, which will apply until 30 April 2023 ([link](#)). Also, on 3 April the Government adopted a decision ([link](#)), and on 11 April it amended the decision ([link](#)) on setting the highest prices of fruit and vegetables in retail trade, including tomatoes, cucumbers, onion, cauliflower, pepper, bean, lentil, bananas, oranges, mandarins and lemon. This measure was initially in effect for the period from 5 to 30 April, and then the Government decided to apply the measure until 31 May 2023 ([link](#)). Besides the interventions in the prices of food products, on 29 March the Government adopted a decision on reducing, i.e. freezing the prices of some hygienic products for the period from 1 April to 31 May 2023. Thus, the prices of toilet paper, wet wipes, diapers and sanitary napkins are reduced by 13% relative to those applied in retail trade on 20 March and they will be frozen at that level until the measure is in effect ([link](#)). In addition, on 25 April, the Government adopted a decision on extending the application of the already determined highest trade margins in wholesale and retail trade for certain food products until 30 June 2023 ([link](#)).

Inflation and volatility of food and energy (annual growth rates, in %)



Source: State statistical office and NBRNM calculations.

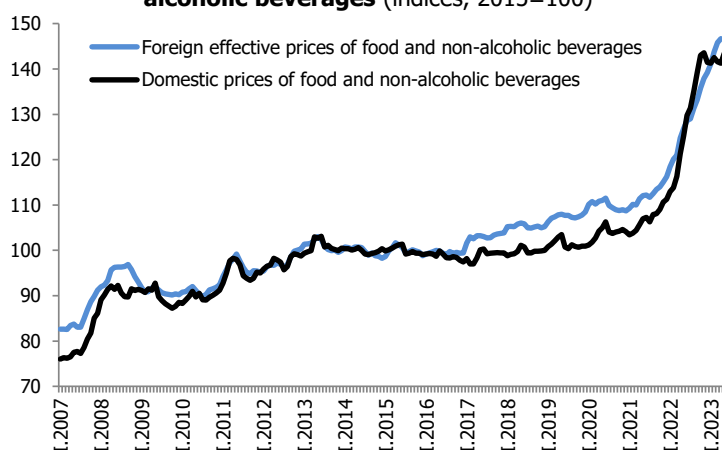
annual inflation rate in May results from the higher prices of meat and the categories “bread and cereals” and “milk, cheese and eggs”. Most of the growth of energy prices is a transmission effect of the increase in the previous year, coupled with the moderate increase in the regulated price of electricity for households in January this year⁹.

Core inflation in May slowed down to a one-digit level of 8.9% on an annual basis (10.1% in the previous month). The highest contribution is still that of the prices of catering services, coupled with the prices of products for routine maintenance of households and personal hygiene, non-alcoholic beverages, tobacco and clothing.

In May, the annual inflation rate is in line with the estimates for a slowdown in the inflation rate within the April forecasting round.

Regarding the expected movements of the external input assumptions, the inflation forecast resulted in a downward revision of the prices of oil, wheat and corn, which are expected to decrease at a higher rate compared to the April 2023 expectations, while the foreign effective inflation forecast registered an upward change. The high uncertainty is still pronounced in the movement of world prices of primary products in the following period, amid uncertain economic effects of the war in Ukraine.

Foreign effective* and domestic prices of food and non-alcoholic beverages (indices, 2015=100)



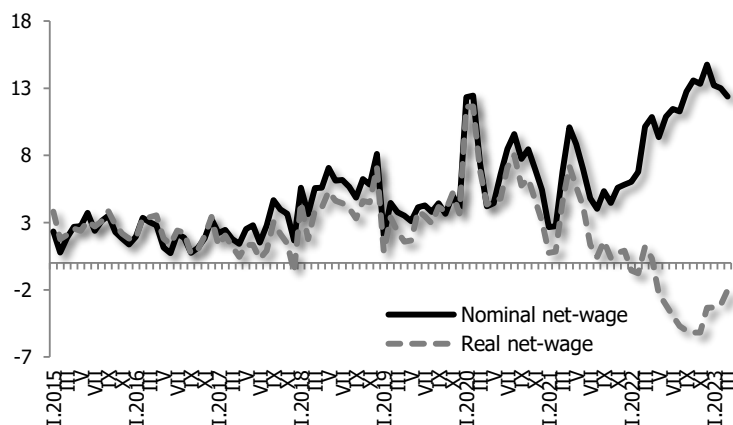
* Foreign effective food prices are calculated as weighted sum of HICP food prices in countries that are major trade partners of North Macedonia in the field of food import.
Source: State statistical office, Eurostat and NBRNM calculations.

In March 2023, the nominal annual growth of the average net wage was 12.4% (13% in the previous month). The annual wage growth reflects the increase in the minimum wage of 12.6% in March 2023¹⁰ and consequently the linear growth of Denar 2,175 of the wages in the

⁹ In accordance with the decision of the Energy Regulatory Commission (ERC), in January 2023 the following changes have been made to the price of electricity for the universal supplier, as follows: the price in the first and second block went down by 4.11% and 2.95% respectively, while the price in the third and fourth block increased by 0.85% and 7.65% respectively ([press release](#)), and the price of the low tariff increased to Denar 1.3183/kWh from Denar 0.6193/kWh earlier ([prices](#)). In addition, from January 2023 the tax rate for the turnover of electricity to households is 10%, instead of 5% as was in the past year and a half. In July last year, when the four block tariff model was introduced, the price of electricity for the universal supplier increased on average by 9.9% (the low tariff by 8.8%, while the high tariff by 10.4% on average).

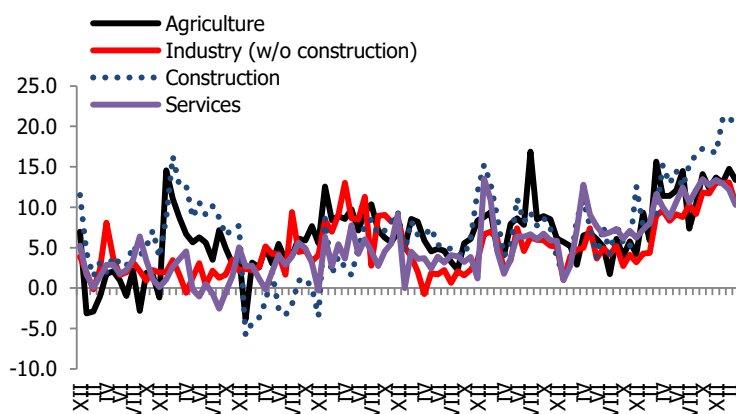
¹⁰ In accordance with the latest amendments to the growth of the minimum wage (Official Gazette of the Republic of North Macedonia No. 58/23) from March 2023, the minimum net wage increased by Denar 2,175. The minimum gross wage, from March 2023 to February 2024, is Denar 29,739 (previously Denar 26,422), i.e. the minimum net wage is Denar 20,175 (previously Denar 18,000). This increase is calculated in accordance with last year's methodology, which will adjust the minimum wage, and is calculated in accordance with the increase of the average wage paid in the RNM for the previous year and the consumer price index - 50% of the increase of each indicator, respectively. Moreover, it is defined that the minimum wage cannot be lower than 57% of the average net wage paid in the RNM for the previous year.

Average net-wage
(annual changes, in %)



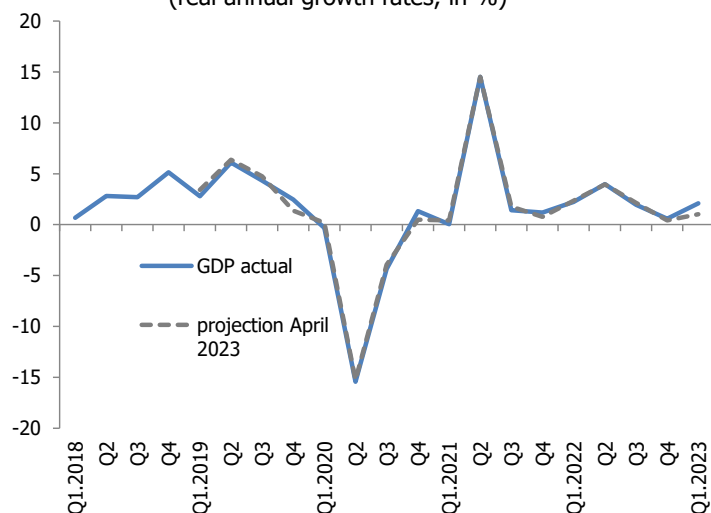
Source: SSO.

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



Source: SSO.

Gross domestic product
(real annual growth rates, in %)



Source: SSO and NBRNM projections.

The differences in the series in the realized period are due to regular revisions of the SSO.

government administration in order to adjust wages relative to the minimum wage, as well as the transmission effect of the increase in part of the wages in the public sector¹¹ in September 2022. However, despite all mentioned factors, the annual nominal growth slowed down, due to the more moderate growth this year of the minimum wage compared to last year. Otherwise, the wage growth is still widely dispersed and registered almost in all activities¹², with the highest one being observed in the activities "construction", "education", "hotels and restaurants", "water supply", "manufacturing industry", "mining", "trade" and "public administration".

Amid decelerated growth of consumer prices on an annual level, the **reduction of the real net wage in March was more moderate, i.e. it registered an annual decline of 2%** (fall of 3.1% in the previous month).

In the first quarter of 2023, the nominal and real annual wage growth (of 12.9% and -2.8%, respectively) mainly corresponds to the rates that were expected for the same quarter within the April forecast.

In the first quarter of 2023, the real GDP growth accelerated, reaching 2.1% on an annual basis (after the growth of 0.6% in the previous quarter), at a slightly stronger pace than the forecasted acceleration in the growth for this quarter of the April forecasting round.

Analyzing the expenditure side of GDP, the growth in the first quarter is entirely due to the positive contribution of net exports, amid solid growth of exports and fall in imports. Domestic demand made a negative contribution, predominantly as a result of the substantial drop and the negative contribution of gross investments, and fall was also registered in public spending, amid slower growth in private consumption.

¹¹ In accordance with the Budget revision, the September wage rose by 15% for the judiciary employees, secondary and primary education and child care, by 7% for the employees in higher education, and by 5% for the MOI and health employees.

¹² A decrease in wages is registered only in financial and insurance activities.

Analyzing the production side of GDP, the growth in the first quarter is largely due to the positive contribution of the group of activities trade, transport and catering, with additional positive contribution being made by construction, information and communications, industry and financial activities. On the other hand, negative contribution was registered in agriculture, public administration and defense; education; health and social work and arts.

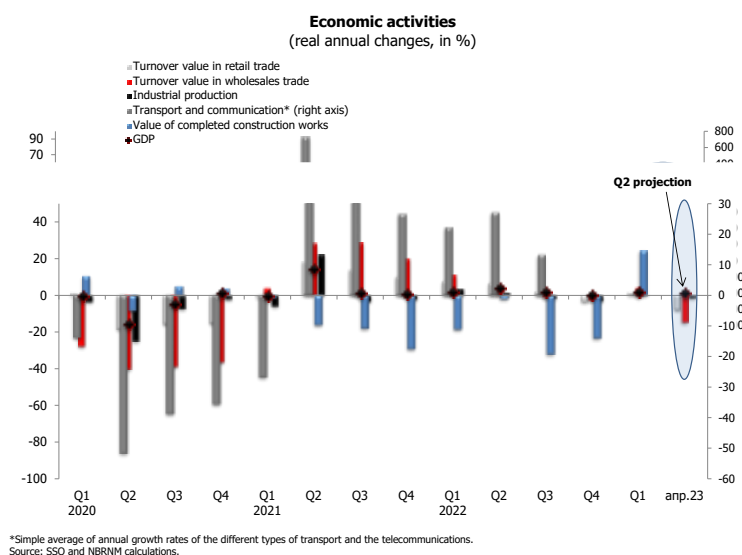
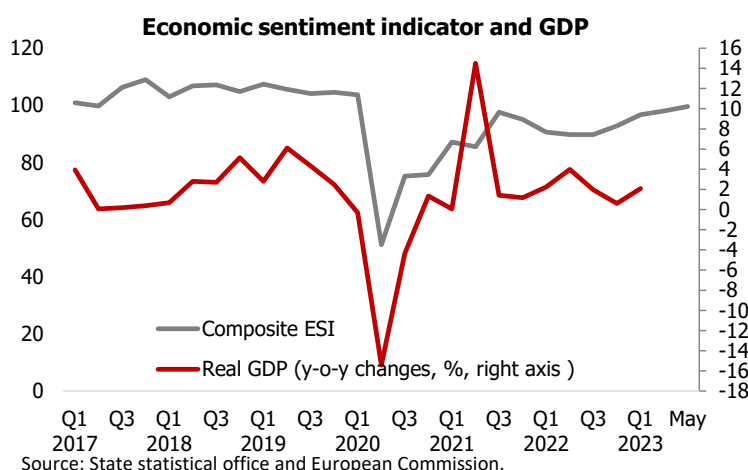
Having a limited scope of available data, it is difficult to provide precise assessment of the overall condition of the economy in the second quarter of 2023. The surveys on the economic agents' perceptions for the economic situation¹³, for the April - May 2023 period, indicate more favorable perceptions compared to the second quarter of 2022, as well as in the preceding quarter.

As for the high-frequency data on the supply side, data on trade and industry for April 2023 are available.

In April, **total trade turnover** registered a substantial real annual fall, contrary to the growth registered in the

previous quarter, in conditions of a relatively significant drop in wholesale and retail trade, with a slight decline in the trade in motor vehicles.

Amid stronger seasonal effect this year and several non-working days due to holidays, in April 2023, the **industrial output** registered a slight real decline on an annual basis of 1.6% (minor growth of 0.1% in the previous quarter), as a result of the fall in the manufacturing industry and the mining sector, while the energy production made a positive production. Within the manufacturing industry, the largest negative contribution was registered in the production of metals and metal products, the production of food products, the production of electrical equipment, of other non-metal mineral products and of clothing and textile.



¹³ 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).

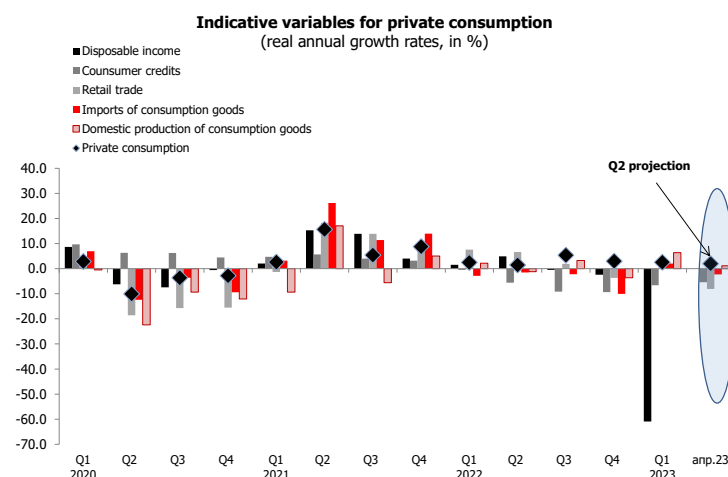
INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES																	
	2020				2021				2022				2023				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar	Apr
	real annual changes in %																
Gross domestic product	-0.3	-15.4	-4.3	1.3	0.1	14.5	1.4	1.2	2.2	4.0	2.0	0.6	2.1	-	-	-	-
Industrial output*	-3.7	-25.0	-7.5	-2.3	-6.1	22.3	-3.5	-2.3	3.4	1.3	-1.8	-3.4	0.1	-2.3	1.0	1.2	-1.6
Construction	6.3	-5.1	3.0	2.3	-1.1	-9.6	-10.8	-17.5	-11.1	-1.2	-19.2	-14.0	14.7	50.9	8.9	-0.9	-
Building	-8.5	-20.4	17.9	-8.6	18.5	5.3	-20.2	-20.9	-26.0	15.2	-8.8	6.7	15.6	58.2	12.0	-6.7	-
Civil Engineerings	21.3	4.7	-6.2	11.1	-16.1	-16.9	-3.5	-15.2	5.1	-11.3	-25.9	-26.9	13.9	45.1	6.5	3.3	-
Retail and wholesale trade	-16.7	-30.6	-26.1	-24.3	0.9	22.5	16.9	10.4	9.7	4.0	0.4	-2.7	3.7	11.7	0.5	-0.2	-11.2
Retail trade	1.0	-18.6	-15.7	-15.5	-1.3	18.3	13.9	10.0	7.6	6.7	1.9	-3.7	1.4	2.5	-4.5	5.8	-8.1
Wholesale trade	-27.8	-40.1	-38.7	-36.3	3.7	27.9	28.4	19.6	11.0	2.4	-1.3	-3.0	3.8	17.0	4.3	-6.6	-14.8

* Real growth rates are calculated by the NBRNM, by dividing nominal growth rates with annual inflation, measured by CPI. The data for trade in 2020, 2021, 2022 and 2023 is previous data, whereas data for GDP in 2021 is previous data, while for 2022 and 2023 it is estimated data.
Source: SSO and NBRNM staff calculations.

The available **aggregate demand** indicators are also relatively limited, which hinders the establishment of a more accurate assessment of the movement of the individual components of demand in the second quarter of 2023. Risks to growth are still mainly downward, influenced by the prolonged unfavorable effects of the war in Ukraine, as well as amid pronounced volatility and uncertainty of the external economic and financial conditions.

The available data for the movements in **private consumption** for April 2023 mainly suggest a slowdown in the growth also during the second quarter of 2023. Namely, in terms of the sources of financing of private consumption, the available data are limited, so there are available data only on pensions, which continue to register a real annual decline (milder than the fall in the previous quarter), amid further real annual decline in household loans (milder than the fall in the previous quarter). Short-term indicators of the dynamics of private consumption move in different directions. Thus, gross revenues from VAT and retail trade registered a relatively significant fall, with a moderate decrease in import of consumer goods, while domestic production of consumer goods registered a small increase. The consumer confidence indicator¹⁴ points to more favorable perceptions in the period April - May 2023 compared to the previous quarter, as well as compared to the same period last year.

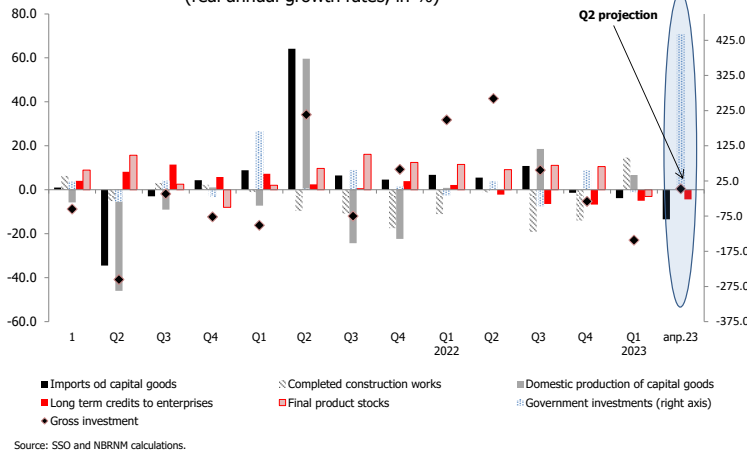
Regarding the high frequency data on the **gross investments**, in April 2023 there is a slight decline in total industrial output, with real fall in long-term corporate loans, corporate tax and import of means of work. On the other hand, in this period there was a small increase in domestic production of capital products and significantly high growth in government capital investments (related to the advance payments for



Source: SSO and NBRNM calculations.

¹⁴ In accordance with the European Commission surveys.

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

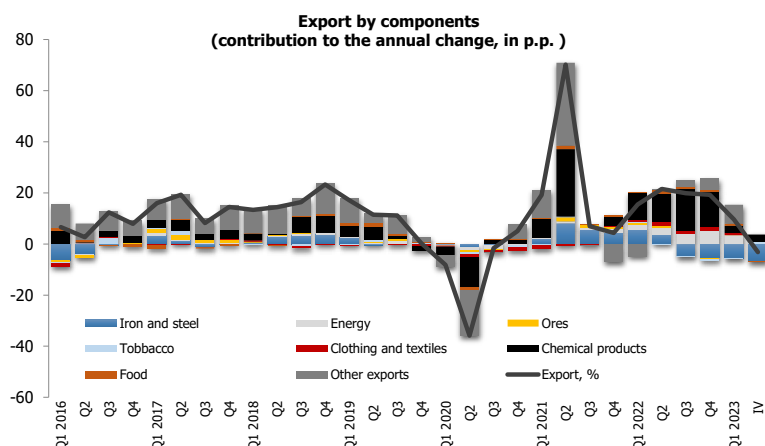


infrastructure projects). The confidence indicators of industry and construction for the period April - May 2023 indicate slightly less

favorable movements in industry, but more favorable in construction, compared to the previous quarter. Compared to the same period last year, they are more favorable in industry, and less favorable in construction.

Foreign trade data in April 2023 indicate deficit narrowing in the second quarter of the year compared to the same period last year, amid larger nominal decline in imports relative to the fall in exports of goods.

In accordance with the fiscal data for April 2023, budget performances point to a small real annual growth of **public consumption**, amid high growth in other transfers, and growth was registered in the costs for the Health Insurance Fund, the Employment Service Agency, as well as the transfers to the local authorities, while the other categories registered a decline.

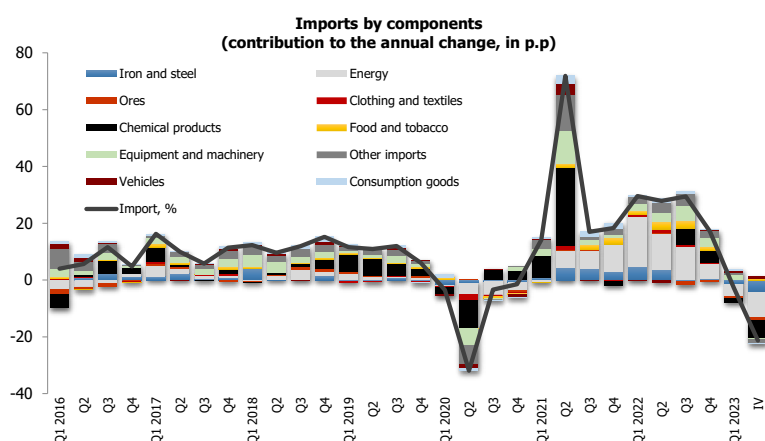


Source: NBRNM.

In April 2023, the foreign trade deficit significantly decreased by 51.9% on an annual basis, primarily as a result of the fall in the import component. Moreover, the total foreign trade decreased by 14.3% compared to the same month last year.

Export of goods in April 2023 registered an annual decline of 3.1%, which is mostly a result of the lower export of iron and steel, and to a lesser extent of the lower exports of food. On the other hand, the export of the companies in foreign ownership related to the automotive industry, as well as the export of tobacco and other exports had a positive impact on exports.

Compared to the April forecast, the export performances in April 2023 are currently slightly lower than expected for the second quarter of the year. Significant downward deviations were registered in other exports, including the exports of the companies in foreign ownership from the automotive industry, as well as in the exports of iron and steel. Upward deviations were registered in energy exports, and the movements in other export categories are mainly within the expectations according to the April forecast.



Source: NBRNM.

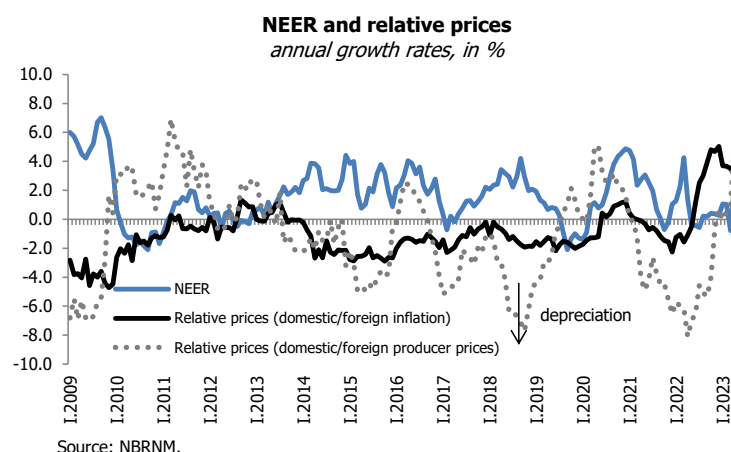
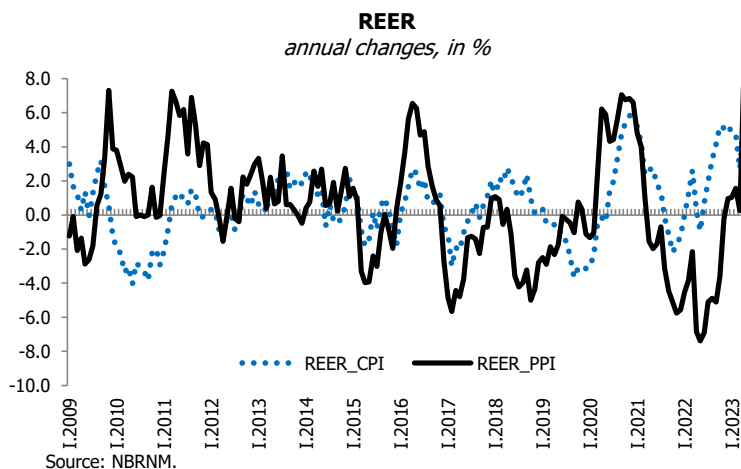
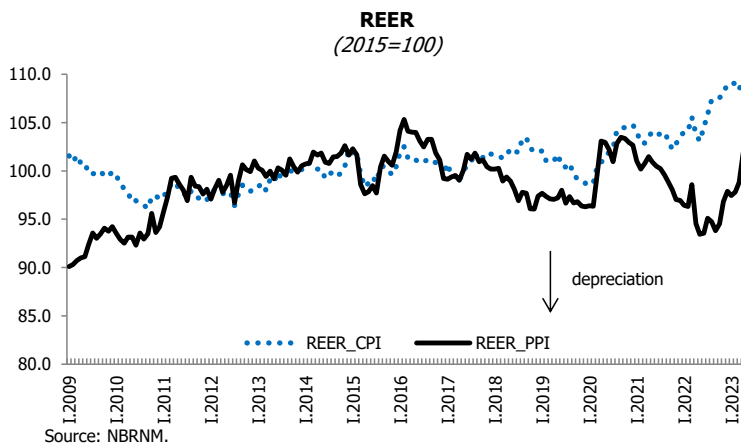
Import of goods in April 2023 registered a substantial drop of 21.3% on an annual basis. Such performances are mostly a result of the lower energy imports, which is primarily due to the lower stock exchange prices of energy in this period. Lower import of raw materials by some of the companies in foreign ownership related to the automotive industry, as well as imports of iron and steel and ores, had a similar impact. On the other hand, there is an annual growth in the import of vehicles, as well as in the import of food.

The performances of the imports of goods in April 2023 are currently lower than expected for the second quarter according to the April forecast, mainly as a result of the downward deviations in other imports, including the imports of raw materials for some of the companies in foreign ownership related to the automotive industry, as well as the imports of iron and steel. The lower imports of equipment and machinery also had a similar effect, while

the movements in other import categories are within the expectations according to the April forecast.

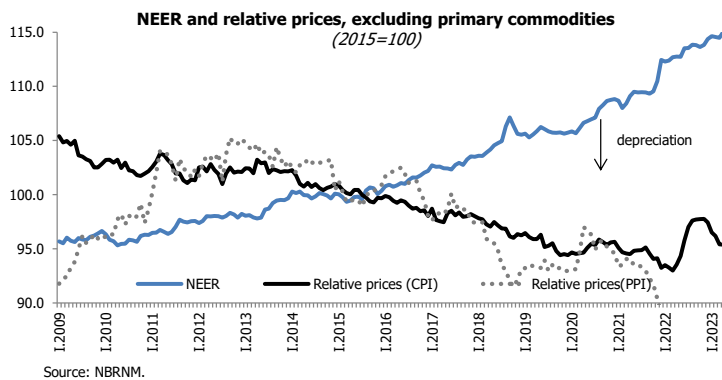
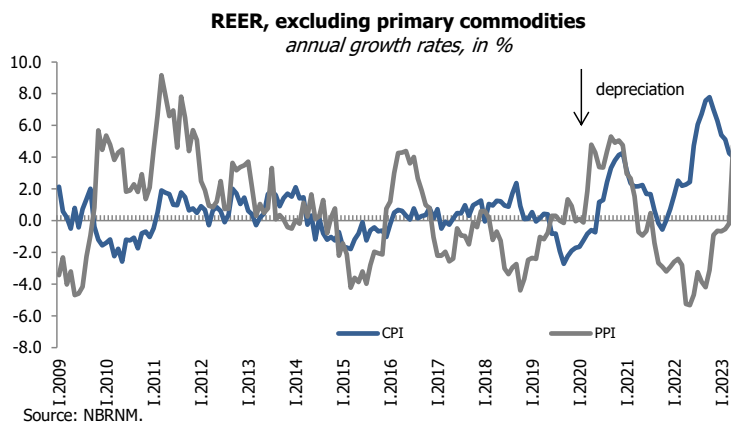
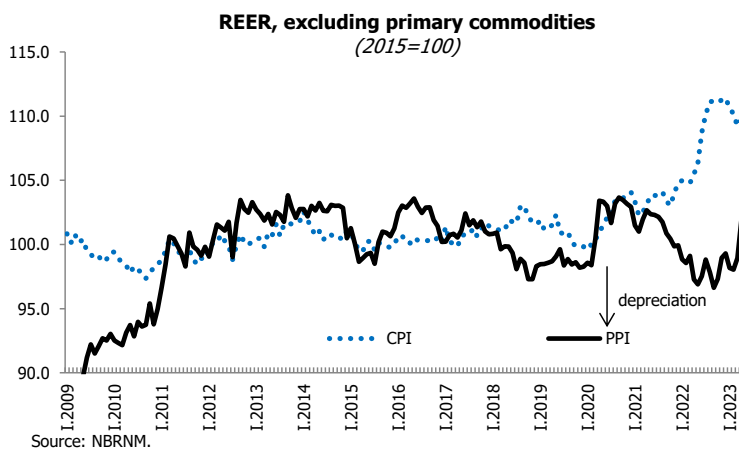
The performances in foreign trade in April 2023 suggest a lower trade deficit than expected for the second quarter of the year according to the April forecast, but the assessment period is too short to draw more precise conclusions.

In April 2023, the REER index deflated by consumer prices appreciated by 5.6%, while the REER index deflated by producer prices appreciated by 7.8%. Namely, the relative consumer prices increased by 3.1%, and the relative prices of industrial products grew by 5.2% annually. At the same time, the NEER appreciated by 2.4%, which is mostly due to the depreciation of the Turkish lira, and to a lesser extent to the depreciation of the Ukrainian hryvnia, the Russian ruble and the British pound, against the domestic currency.

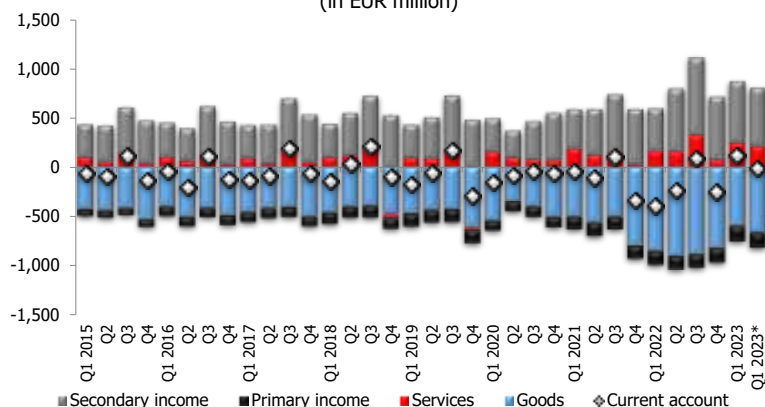


On the basis of the calculation by using weights based on the foreign trade without primary products, the REER index deflated by consumer prices in April 2023 appreciated by 4%, while the REER index deflated by producer prices appreciated by 4.7%. Moreover, the relative consumer prices increased by 2%, while the relative producer prices rose by 2.7%. On the other hand, the NEER appreciated by 2%,

mostly as a result of the depreciation of the Turkish lira against the domestic currency.



Main components of the current account
(in EUR million)

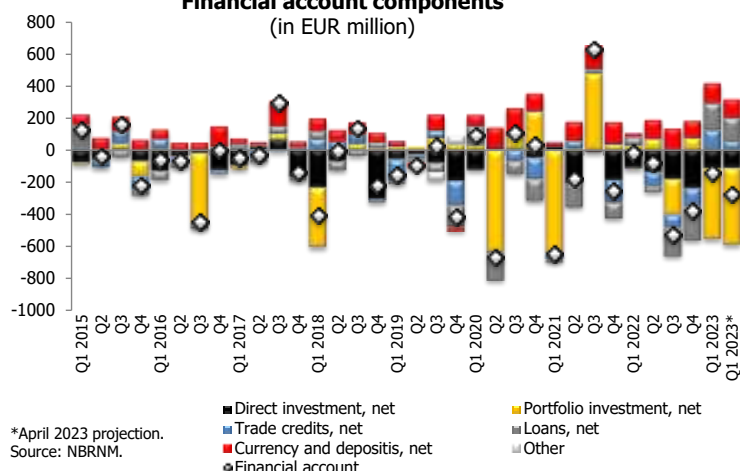


*April 2023 projection.
Source: NBRNM.

In the first quarter of 2023, the current account in the balance of payments registered a surplus of Euro 122.5 million, or 0.9% of GDP¹⁵, despite the small deficit expected for the first quarter according to the April forecast.

In terms of the current account components, favorable developments were registered in almost all components. Most of the positive deviation in this period results from the lower trade deficit than expected, the higher surplus in services (as a result of the improved performances in other services), and the higher surplus in secondary income (as a result of the higher private transfers). The primary income deficit is in line with the expectations.

Financial account components
(in EUR million)



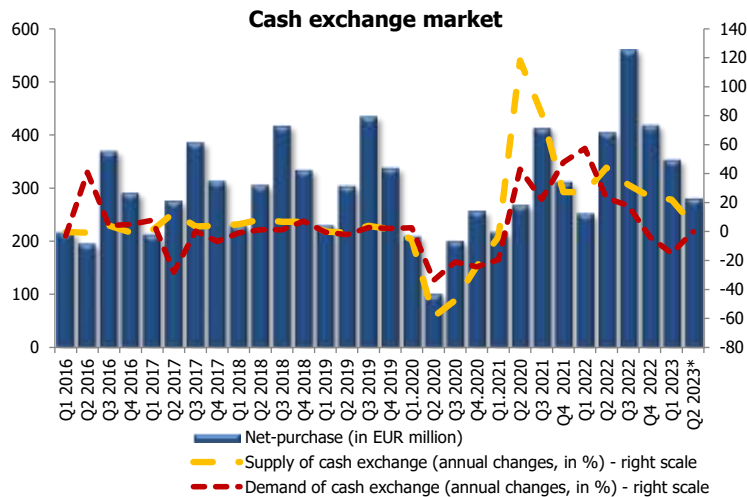
*April 2023 projection.
Source: NBRNM.

In the first quarter of 2023, the financial account registered net inflows¹⁶ of Euro 138.1 million (or 1% of GDP), which are lower than the net inflows expected for the first quarter according to the April forecast.

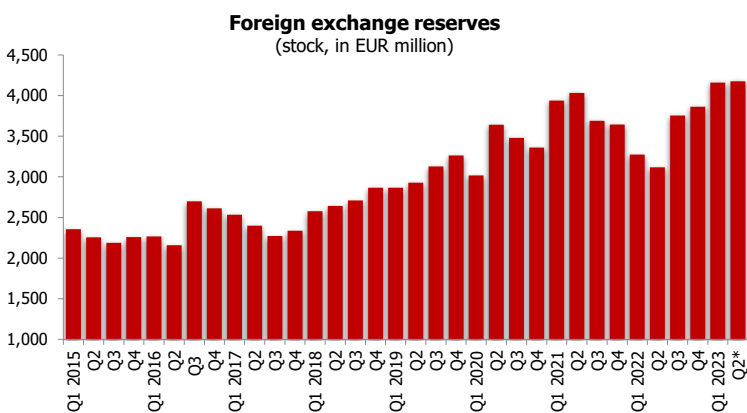
Analyzed by components, there were higher net outflows in trade credits and in loans than expected (as a result of the higher net outflows in long-term loans), and to a lesser extent in currency and deposits. At the same time, the first quarter registered lower net inflows in portfolio investments relative to the April forecast. On the other hand, the net inflows based on FDIs are at a level of the expectations.

¹⁵ The calculations use the projected amount of the nominal GDP for 2023 according to the April 2023 forecast.

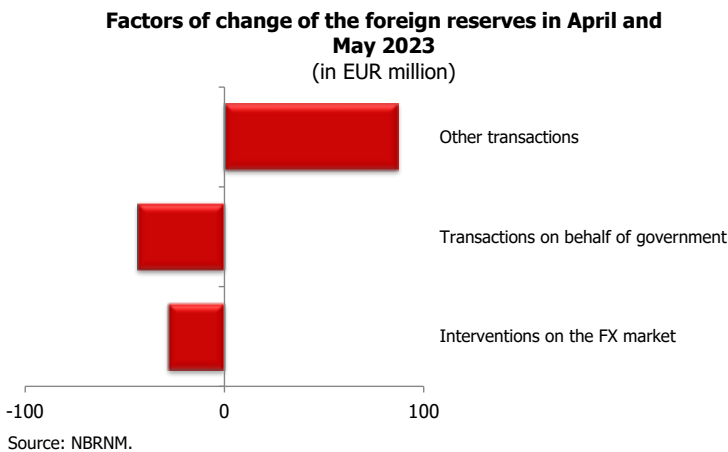
¹⁶ According to the new methodology for compiling the balance of payments (BPM6), the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.



* Last data available: 31.05.2023
Source: NBRNM.



*Last data available: 31.05.2023
Source: NBRNM.

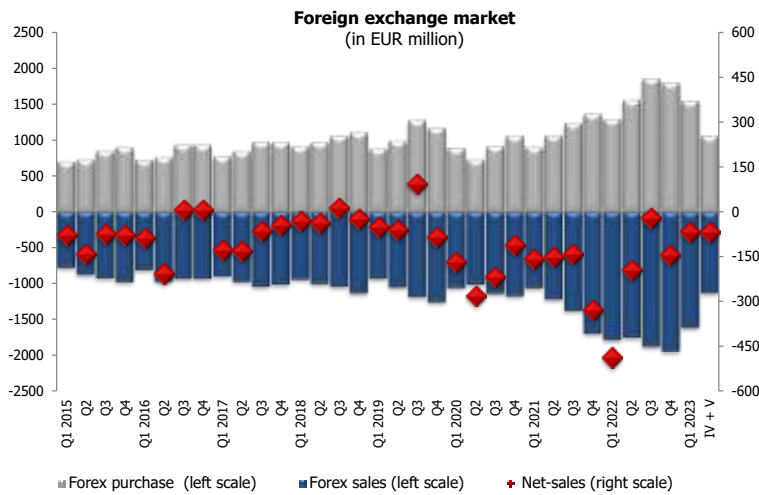


Source: NBRNM.

The net purchase on the currency exchange market registered in the period April - May 2023 was Euro 279.9 million, which is an annual increase of 5.8%, caused by the growth of the supply of foreign currency (of 4.5%), amid a slight decline in the demand for foreign currency (of 0.2%).

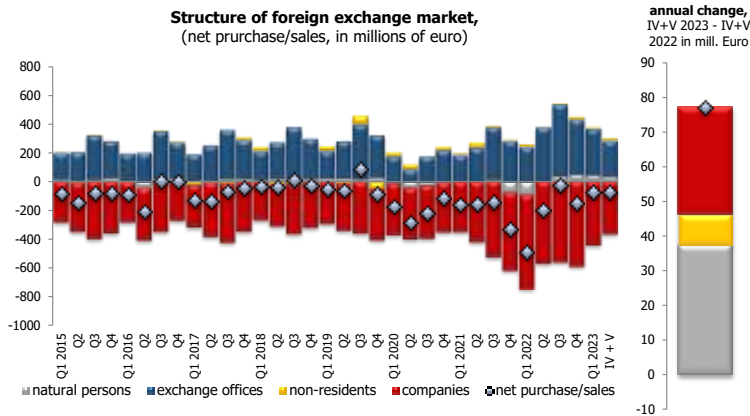
At the end of May 2023, the gross foreign reserves stood at Euro 4,174.7 million, which is an increase compared to the end of the first quarter. Observed by growth factors, this mainly results from the National Bank's foreign reserves management operations.

EXTERNAL SECTOR



Source: NBRNM.

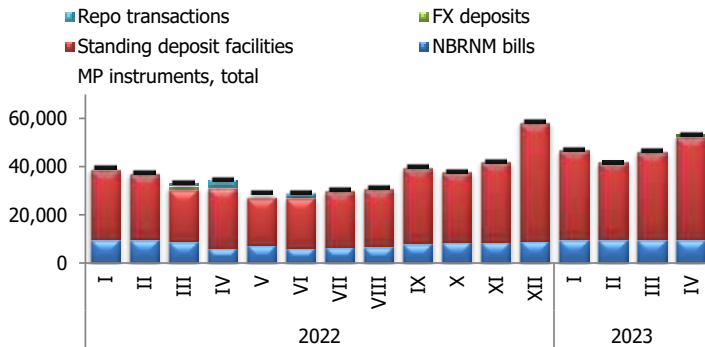
In the period April - May 2023, the banks' foreign exchange market reported a net sale of foreign currency which is significantly lower compared to the same period last year, amid growth in the supply of, and fall in the demand for foreign currency.



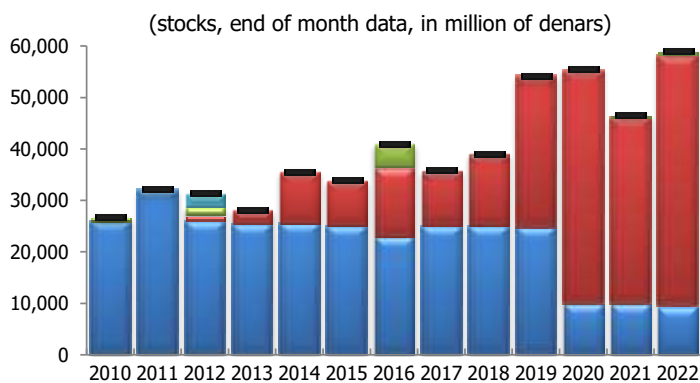
Source: NBRNM.

The sector-by-sector analysis shows that these developments in the foreign exchange market mostly result from the net purchase by natural persons, as opposed to the net sales in the same period last year, as well as from the lower net sales by the companies.

Monetary policy instruments (stocks, end of month data, in million of denars)



At the end of April 2023, the monetary instruments registered an increase compared to the previous month, due to the increased amount of banks' assets placed in deposits with the National Bank. The stock of monetary instruments at the end of April was higher compared to the level forecasted for the end of the second quarter of 2023, mainly as a result of the lower level of the total government deposits.

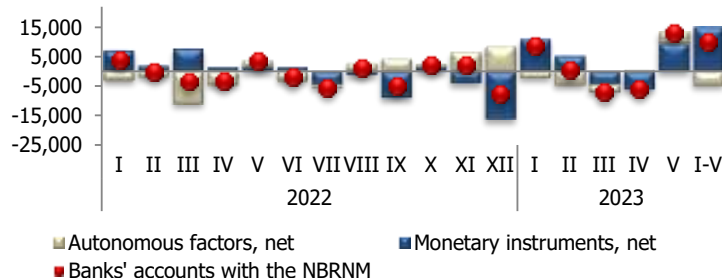


Source: NBRNM

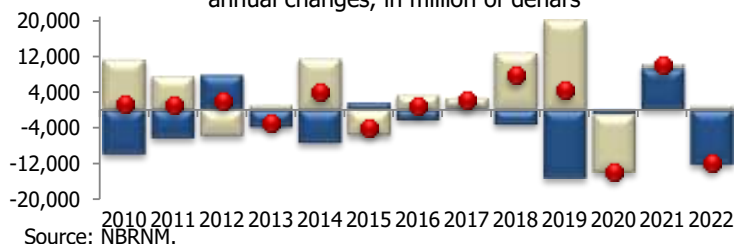
Reserve money in April 2023 registered a monthly decrease, as a result of the decrease in the banks' total reserves with the National Bank, with a moderate increase in the currency in circulation. Moreover, the reserve money stock is lower compared to the forecast for the end of the second quarter of 2023.

Banks liquidity*

monthly changes, in million of denars



annual changes, in million of denars

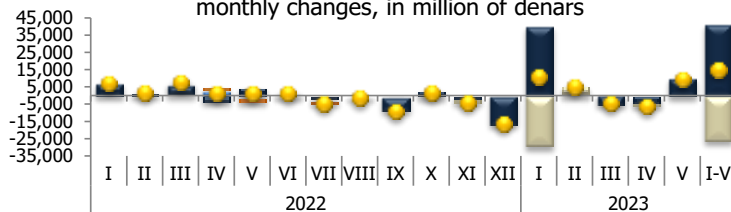


* positive change: liquidity creation, negative change: liquidity withdrawal

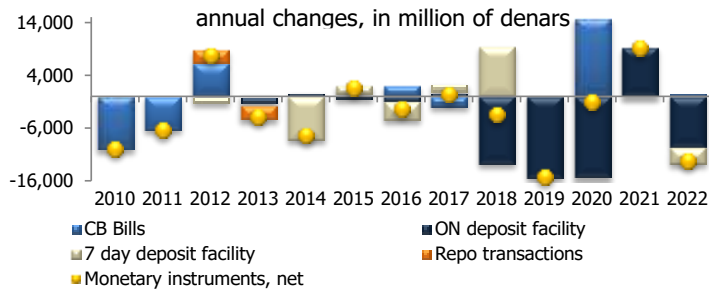
According to the operational data on liquidity flows, the **liquidity¹⁷ of the banking system in the period January - May 2023 increased**. Monetary instruments, mainly reduced banks' placements in overnight deposits, created liquidity in the banking system for the period January - May. The autonomous factors reduced the liquidity of the banking system in this period, which was solely due to the foreign currency interventions.

Monetary policy instruments*

monthly changes, in million of denars



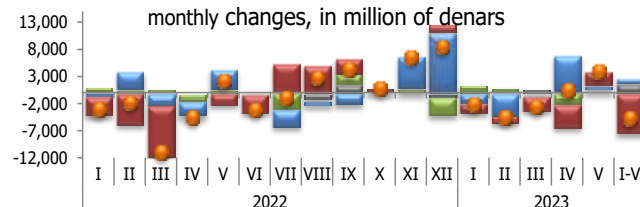
annual changes, in million of denars



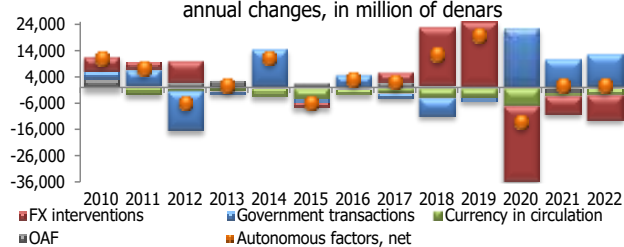
* positive change: liquidity creation, negative change: liquidity withdrawal

Autonomous factors*

monthly changes, in million of denars



annual changes, in million of denars

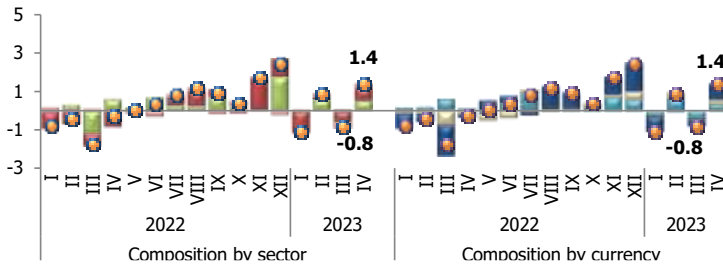


* positive change: liquidity creation, negative change: liquidity withdrawal

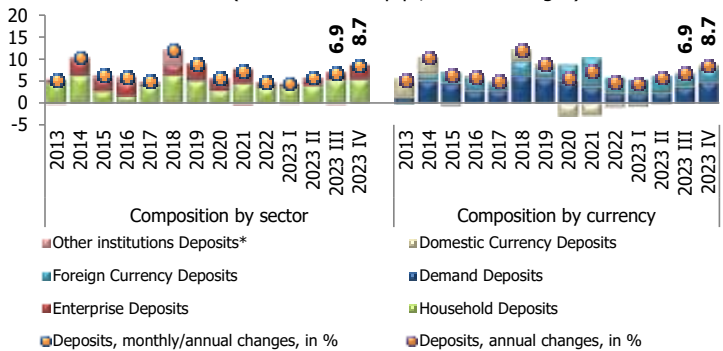
¹⁷ The data refer to banks' liquid assets in denars on the accounts with the National Bank.

Total Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)

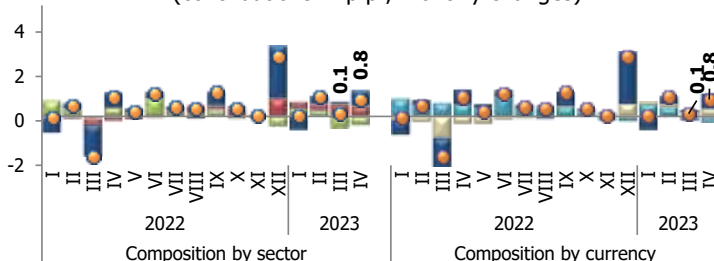


* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the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

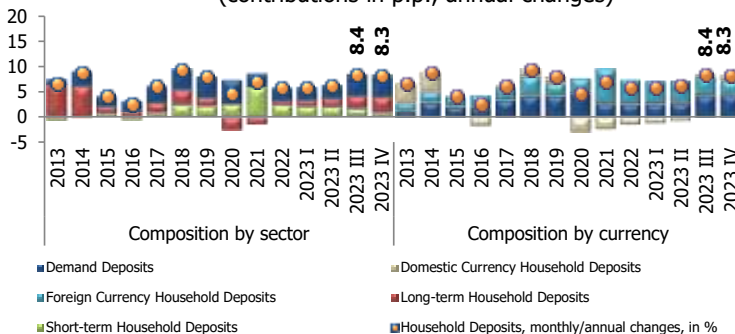
Source: NBRNM.

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Source: NBRNM.

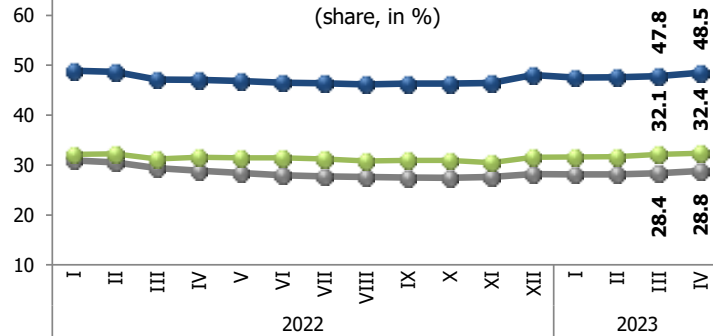
Total financial system deposits¹⁸ in April 2023 registered a monthly growth of 1.4%, after the decline of 0.8% registered in the previous month. Observed by **sector**, the increase results from the positive contribution of all sectors, especially in corporate deposits, accompanied by the growth of household and other sectors deposits. Observing by **currency**, growth was registered in denar deposits (including demand deposits), amid lower positive contribution of foreign currency deposits. Total deposits in April 2023 registered a growth compared to March, which is currently higher than the increase expected for the second quarter of the year, according to the April forecast.

In April 2023, the annual growth rate of total deposits was 8.7%, given the forecasted rate for the end of the second quarter of 2023 of 7.6%. Observed by **sector**, the increase in total deposits is mainly a result of the positive contribution of household and corporate deposits, amid stagnation in the other sectors deposits. Observing by **currency**, there is an increase in denar deposits (including demand deposits), amid smaller positive contribution of foreign currency deposits.

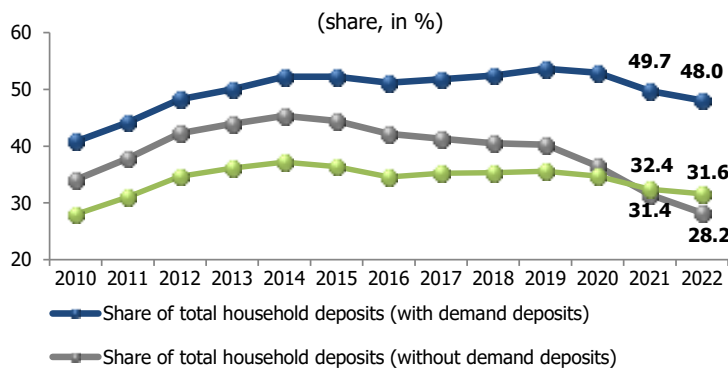
In April 2023, household deposits registered a rapid monthly growth of 0.8% (0.1% in March), amid favorable developments from currency and maturity aspect. Observing by **currency**, growth was registered in denar deposits (including demand deposits), amid reduction of foreign currency deposits. Observing by **maturity**, in April there is an increase in long-term household deposits, amid reduction in short-term household deposits. **On an annual basis, the growth of household deposits in April 2023 reached 8.3%.**

¹⁸ 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.

Denar Deposits of Households/Total Deposits of Households



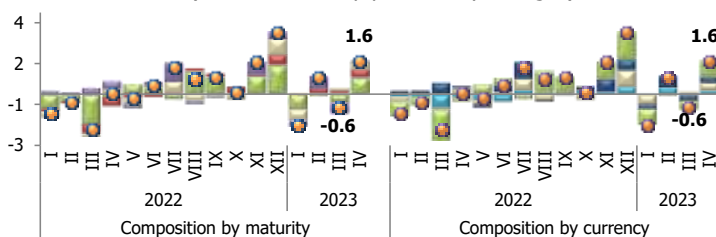
At the end of April 2023, the share of denar deposits (including demand deposits) in total household deposits increased on a monthly basis and amounted to 48.5% (47.8% in the previous month).



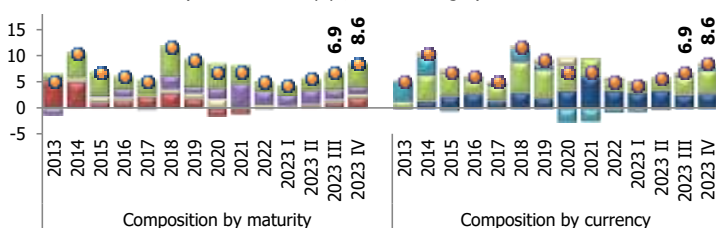
* Includes deposits at Banks and Saving Houses
Source: NBRNM.

Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



CC Outside Depository Corporations
Total Short-term Deposits
Total Foreign Currency Deposits
Broad Money M4, monthly/annual Changes, in %
Demand Deposits
Total Denar Deposits
Total Long-term Deposits

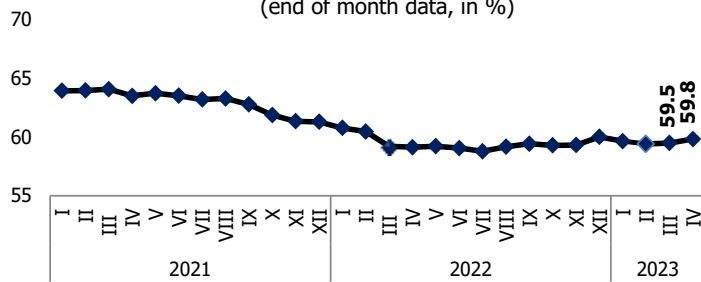
Source: NBRNM.

In April 2023, broad money, measured through M4, registered a monthly increase of 1.6% (after the decrease of 0.6% in the previous month). The growth results from the increase in all components in the structure of the money supply, largely due to demand deposits, currency in circulation and deposits over two years. Analyzed by **maturity**, the growth is due to long-term and short-term deposits, and from **currency aspect**, a monthly increase is registered in both foreign currency and denar deposits.

In April 2023, broad money increased by 8.6% annually, amid annual growth of 7.5% forecasted for the second quarter of 2023, according to the April forecast.

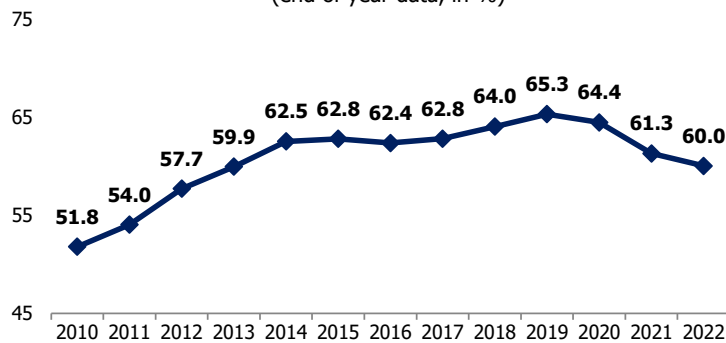
Share of Denar M4 in total M4

(end of month data, in %)



At the end of April 2023, the denar share in total broad money M4 was 59.8% (59.5% in the previous month).

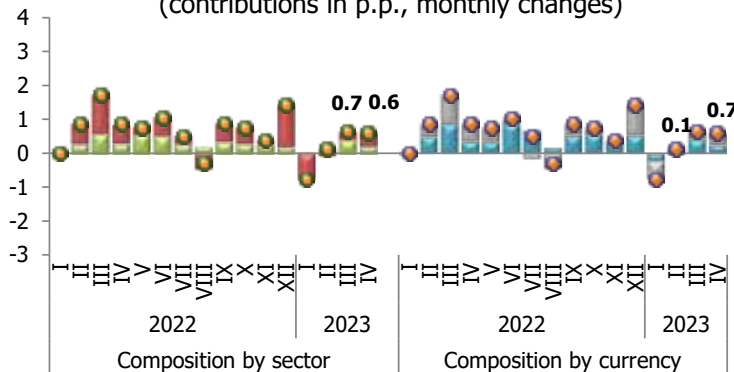
(end of year data, in %)



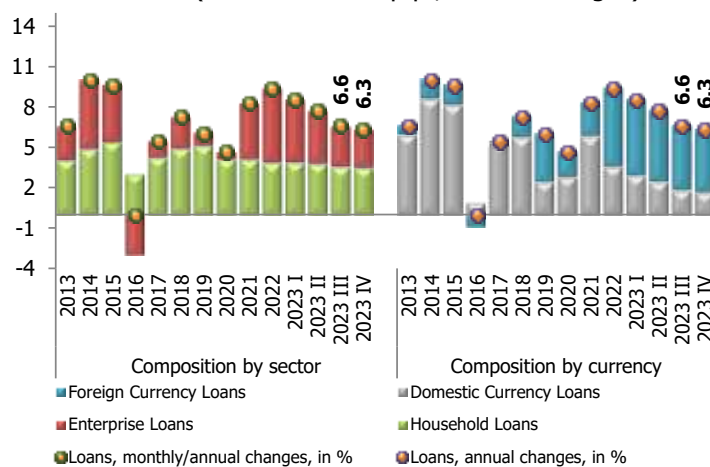
Source: NBRNM.

Total loans

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Source: NBRNM.

In April, total loans increased by 0.6% (increase of 0.7% in the previous month).

Observed by **sector**, the credit growth is primarily due to the increase in corporate loans, and to a lesser extent to household loans. Regarding the **currency structure**, growth was registered in denar and foreign currency loans. In April 2023, total loans registered a growth compared to March, which is within the increase expected for the second quarter of 2023, according to the April forecast.

In April, the annual growth rate of total loans equaled 6.3%, amid annual growth forecasted for the second quarter of 2023 of 6.2%, according to the April forecast.

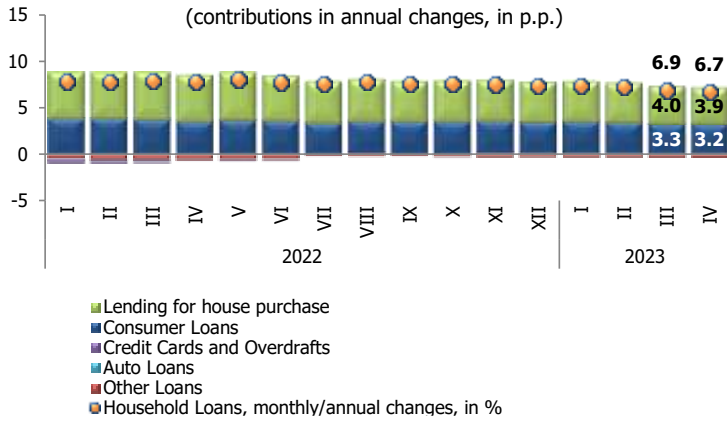
Observed by **sector**, there is an annual growth in both sectors. Regarding the **currency structure**, both foreign currency and denar loans made a positive contribution.

In April 2023, household loans¹⁹ registered slower growth of 6.7%, compared to March (6.9%), which is a result of the more moderate growth in consumer and housing loans and the reduction of other loans.

¹⁹ Excluding loans of self-employed individuals.

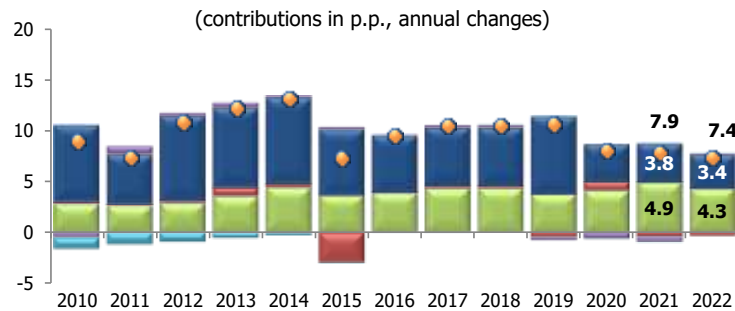
Household Loans*

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



The share of doubtful and contested claims in total loans in April 2023 remained at the same level of 2.8% as in March.

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 lower.

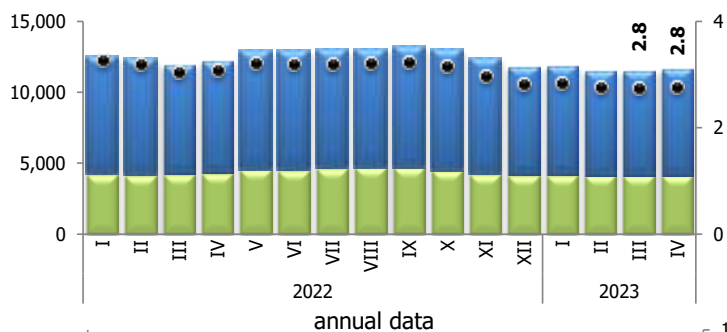


* Self-employed individuals are not included.

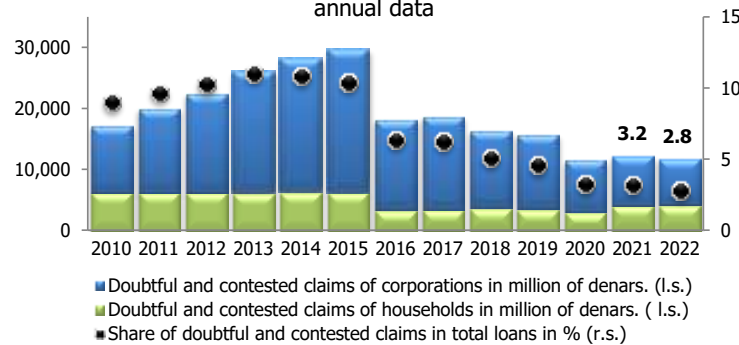
Source: NBRNM.

Doubtful and contested claims

(composition by sector and share in total loans)



annual data



Source: NBRNM.

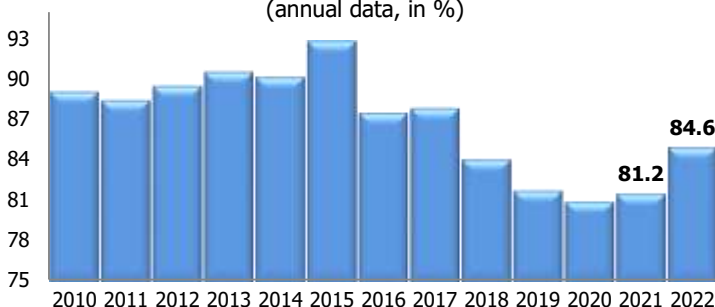
Total credits/total deposits

(monthly data, in %)



The indicator for the utilization of banks' deposit potential for lending to the private sector in April equals 84.9%, which is below the value of this indicator forecasted for the end of the second quarter of 2023 (86.8%), according to the April forecast.

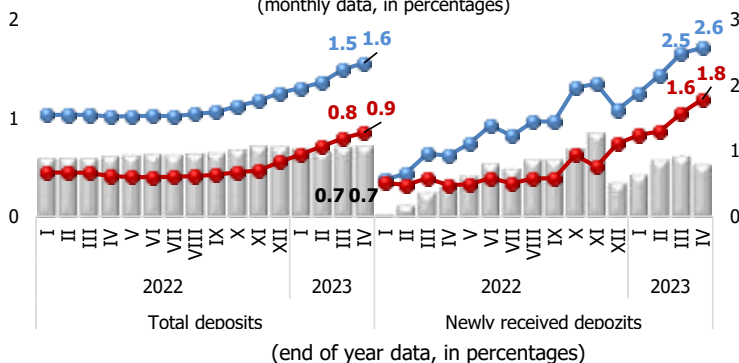
(annual data, in %)



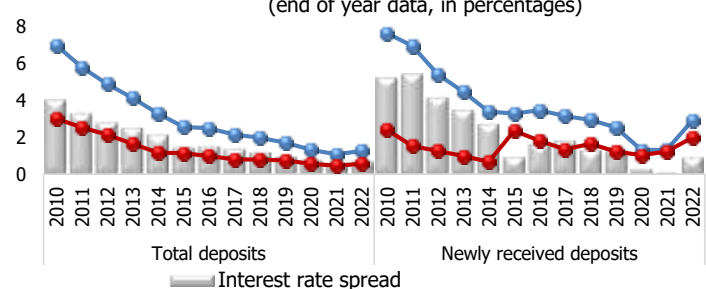
Source: NBRNM.

Total deposits interest rates

(monthly data, in percentages)



In April 2023, interest rates on total deposits (denar and foreign currency)²⁰ increased on a monthly basis. Namely, the interest rates on denar and foreign currency deposits increased by 0.1 percentage points, whereby the interest rate spread remained stable at 0.7 percentage points. In total newly accepted deposits²¹, there is a smaller interest rate spread of 0.8 percentage points compared to March (0.9 percentage points), due to the faster increase in the interest rates on newly accepted foreign currency deposits by 0.2 percentage points relative to the increase in the interest rates on denar deposits by 0.1 percentage points.



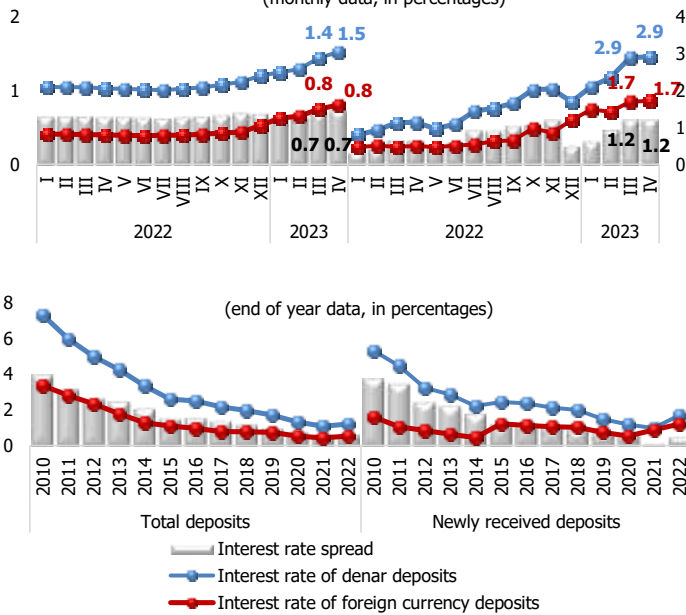
Source: NBRNM

— Interest rate spread
— Interest rate of denar deposits
— Interest rate of foreign currency deposits

²⁰ Data on interest rates are in accordance with the methodological changes of the NBRNM from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.

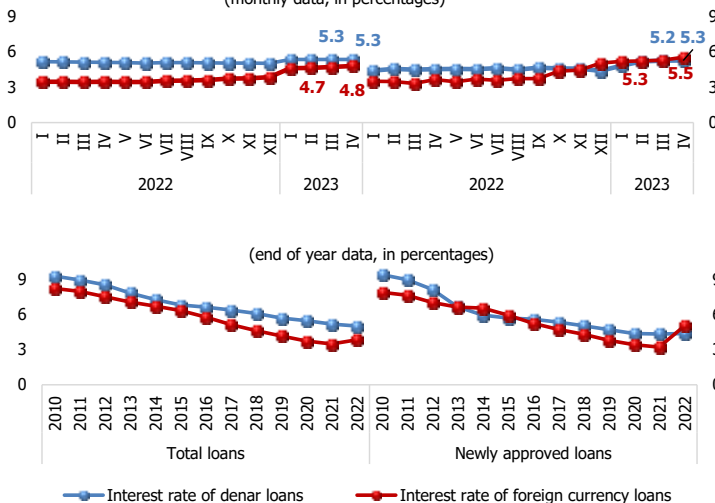
²¹ Note that the interest rates on newly accepted deposits typically vary. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.

Households` deposits interest rates
(monthly data, in percentages)



Source: NBRNM.

Total loans interest rates
(monthly data, in percentages)



Source: NBRNM.

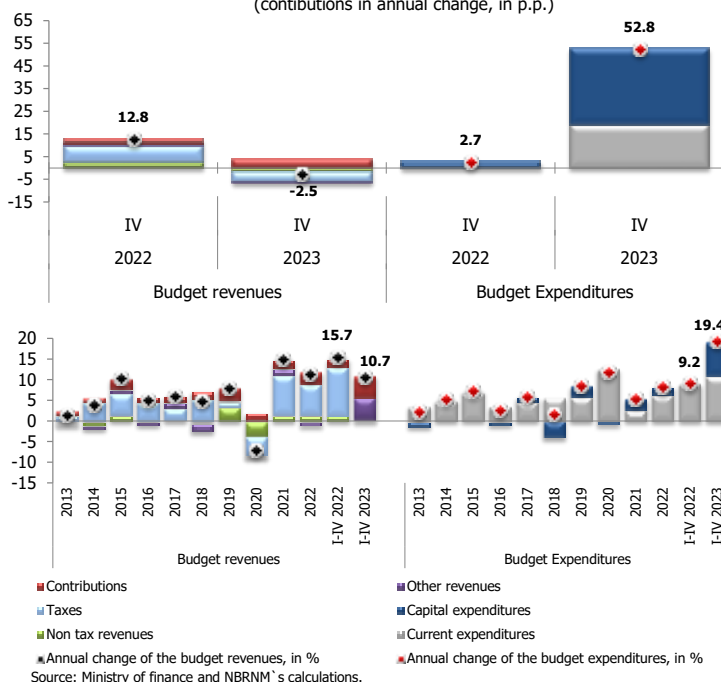
In households, in April 2023, the spread between the interest rates on total denar and foreign currency deposits remained at a stable level of 0.7 percentage points, amid slight increase in the interest rates on denar and foreign currency deposits. **The interest rate spread of the newly accepted household deposits** registered no changes on a monthly basis and equaled 1.2 percentage points, amid unchanged interest rates on newly accepted denar and foreign currency deposits.

Compared to March, in April 2023, the interest rates on **total household loans** remained at the same level, i.e. 5.3%, while the interest rates on **total corporate loans** increased by 0.1 percentage points and reached 4.8%. In the **newly approved loans**²², the interest rates on corporate loans increased by 0.2 percentage points and amounted to 5.5%, while the interest rates on household loans increased by 0.1 percentage points and reached 5.3%.

²² 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.)

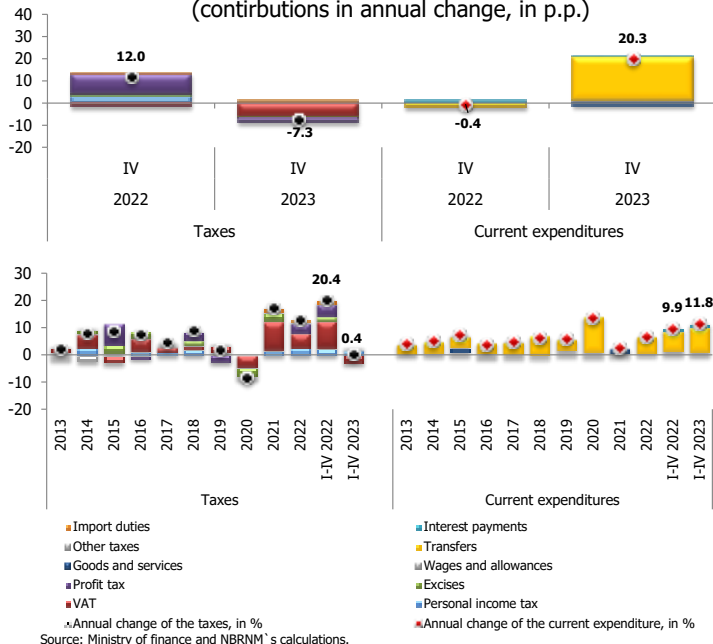


In April 2023, in the Budget of the Republic of North Macedonia (central budget and budgets of funds), total budget revenues decreased by 2.5%, and expenditures increased by 52.8%, on an annual basis. The reduction of **budget revenues** results from the negative contribution of tax revenues, non-tax revenues and other revenues²³ (negative contributions of 4.4 percentage points, 1.7 percentage points and 0.4 percentage points, respectively), amid growth in contributions (positive contribution of 4.1 percentage points). In April 2023, tax revenues decreased by 7.3% on an annual basis, entirely as a result of the reduced inflows from VAT, corporate tax and excises. The increase in **budget expenditures** in April 2023 is mostly due to the increase in capital expenditures²⁴, but also in current expenditures (mostly due to the higher transfers²⁵).

In the period January - April 2022, total budget revenues increased by 10.7% compared to the same period last year, mostly due to the growth of other revenues and contributions²⁶. On the other hand, total budget expenditures increased by 19.4%, as a result of the higher current and capital expenditures.

Taxes and current expenditures

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



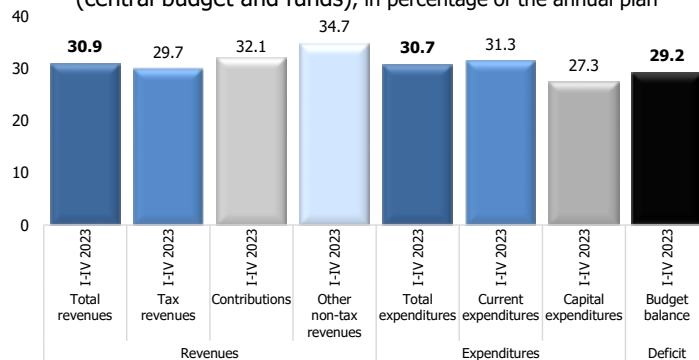
²³ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

²⁴ The increase in capital expenditures is due to the transfer of financial assets in the amount of Denar 7,254 million, in late April, to the Public Enterprise for State Roads, to start to build and modernize the road infrastructure for corridor 8 and corridor 10d.

²⁵ The growth of transfers in April is mostly associated with the payment of agricultural subsidies.

²⁶ The increase in other revenues is due to the inflow of the grant from the European Union in the amount of about Euro 72 million in March 2023, while the increased inflows from contributions are partially associated with the increased minimum wage in March, in accordance with the Law on Minimum Wage.

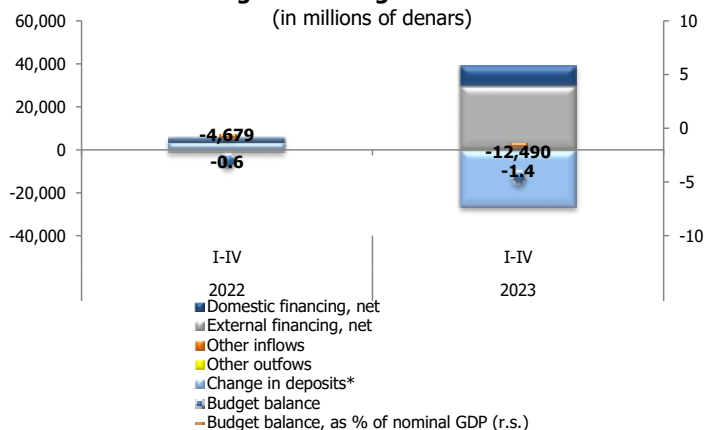
Budget implementation, per categories
(central budget and funds), in percentage of the annual plan



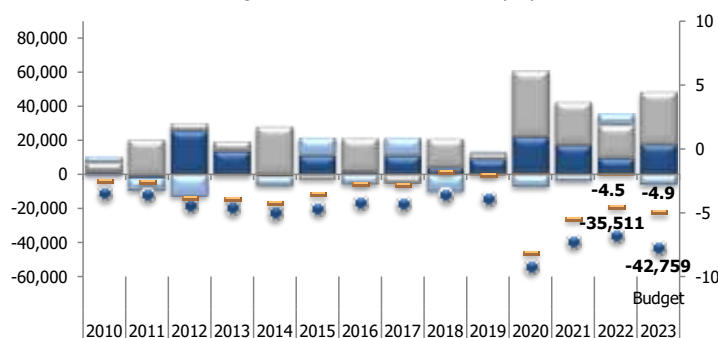
Source: Ministry of Finance and NBRNM's calculations.

Compared to the 2023 Budget²⁷, the budget revenues and expenditures in the period from January to April 2023 amounted to 30.9% and 30.7%, respectively. The budget deficit in the amount of Denar 12,490 million accounts for 29.2% of the deficit planned for 2023.

Financing of the budget balance
(in millions of denars)



In the period from January to April 2023, the budget deficit in the amount of Denar 12,490 million (or 1.4% of GDP²⁸) was entirely financed by the net government borrowing on the foreign²⁹ and domestic market, amid growth of government deposits with the National Bank.



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

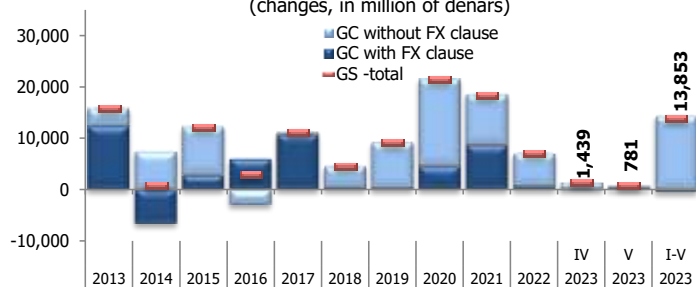
Source: MoF.

²⁷ Official Gazette of the Republic of North Macedonia No. 282 of 27.12.2022.

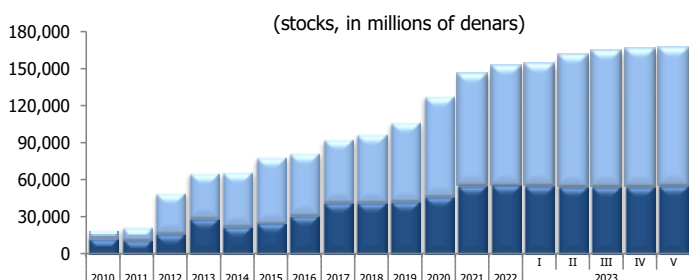
²⁸ The analysis uses the National Bank's April forecasts for the nominal GDP for 2023.

²⁹ In March, the ninth Eurobond in the amount of Euro 500 million was issued, at a coupon rate of 6.96% and with a maturity of four years.

Government securities (changes, in million of denars)

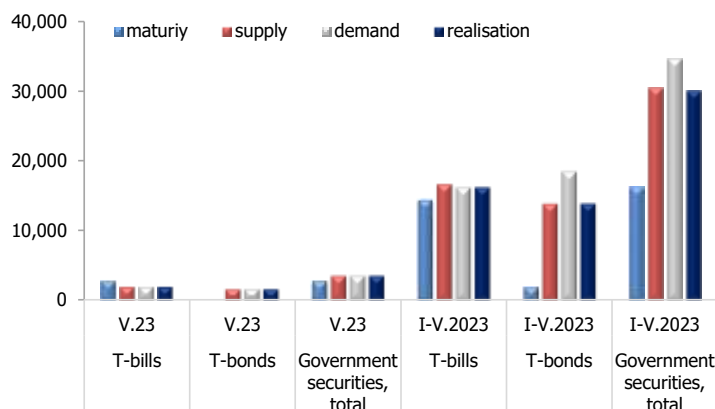


In May 2023, the stock of issued government securities³⁰ in the primary market registered a monthly growth of Denar 781 million. The stock of government securities at the end of May 2023 amounted to Denar 167,175 million. The monthly increase is entirely due to the growth of the fifteen-year government bonds (with and without currency clause), amid reduction of the twelve-month treasury bills.



Source: MoF.

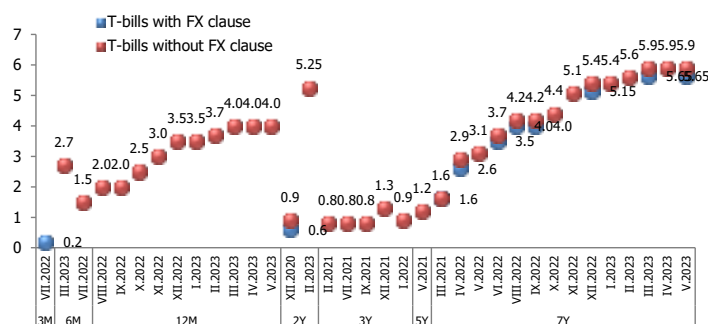
Government securities auctions in million of denars



Source: Ministry of finance.

The new issues of government securities in May 2023 were with twelve-month maturity without currency clause and fifteen-year government bonds (with and without currency clause). In May 2023, the previously issued twelve-month treasury bills without currency clause fell due.

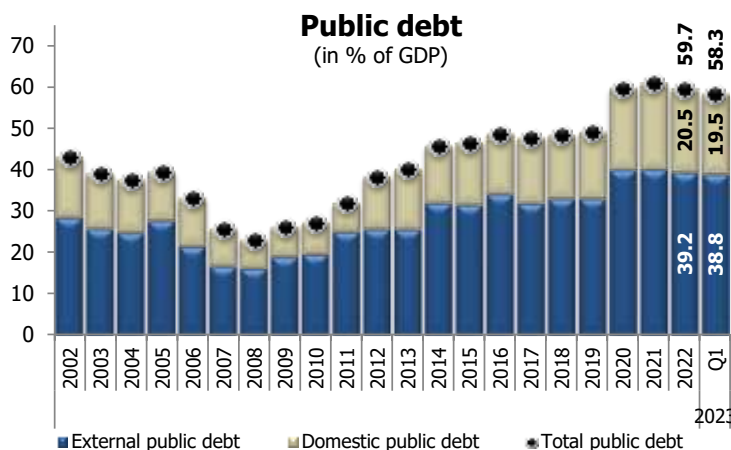
Interest rates of T-Securities in percent



Source: Ministry of Finance

In May 2023, at the regular auctions, the Ministry of Finance kept the same interest rates on the newly issued securities, namely on the twelve-month treasury bills without currency clause at the level of 4.0% and on the fifteen-year government bonds, without and with currency clause, at the level of 5.9% and 5.65%, respectively.

³⁰ The Budget plans a net domestic government borrowing (continuous government securities) of Denar 21,535 million for 2023, i.e. increase in the stock of government securities to Denar 174,857 million.



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

At the end of the first quarter of 2023, public debt³¹ equaled 58.3% of GDP³² (59.7% of GDP at the end of the previous quarter). Moreover, the external and the internal public debt equaled 38.8% and 19.5% of GDP, respectively. Total government debt at the end of the first quarter of 2023 accounted for 50.8% of GDP, while the debt of public enterprises (guaranteed and non-guaranteed)³³ equaled 7.6% of GDP at the end of the first quarter.

³¹ The 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 April forecasts for the nominal GDP for 2023.

³³ According 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 government or municipalities, municipalities within the City of Skopje and the City of Skopje is included in public debt (Official Gazette of the RM No. 62/2005, 88/2008, 35/2011, 139/2014 and 98/2019).

Box 1: Indicative private consumption and gross investment categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION																	
	2020				2021				2022				2023				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	January	February	March	April
	real annual growth rates in %																
Retail trade*	1.0	-18.6	-15.7	-15.5	-1.3	18.3	13.9	10.0	7.6	6.7	1.9	-3.7	1.4	2.5	-4.5	5.8	-8.1
VAT revenues*	1.8	-20.0	-10.8	-4.2	2.9	36.6	21.1	20.6	29.2	9.5	3.7	-7.7	-15.0	-10.8	-16.5	-17.7	-16.2
Imports of consumption goods*	6.9	-12.4	-3.6	-9.4	3.2	26.2	11.4	13.9	-2.9	-1.5	-2.2	-10.1	2.0	-1.6	4.5	2.9	-2.3
Domestic production of consumption goods	-0.5	-22.4	-9.3	-12.1	-9.4	17.1	-5.6	5.1	2.2	-1.2	3.3	-3.6	6.4	6.6	6.3	6.3	1.2
Consumer credits*	9.7	6.3	6.2	4.5	4.7	5.7	4.0	3.2	-0.5	-5.6	-9.2	-9.3	-6.6	-8.1	-7.9	-6.6	-5.4
Average net wage*	10.0	4.6	7.0	4.7	2.0	5.7	1.1	0.7	0.0	-1.7	-4.6	-4.6	-2.8	-3.3	-3.1	-2.0	-
Private net transfers*	-2.0	-38.0	-34.9	-10.2	9.5	66.5	55.5	14.2	9.8	25.1	11.8	4.8	10.9	6.2	10.7	15.6	-
Pensions*	5.7	6.2	5.3	5.4	2.3	0.3	0.0	-1.8	-3.4	-1.0	-10.4	-4.9	-2.5	-2.3	-3.6	-1.7	-0.3

* 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																	
	2020				2021				2022				2023				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
	real annual growth rates in %, except for FDI in million denars																
Imports od capital goods*	1.0	-34.5	-3.0	4.4	8.9	64.2	6.5	4.7	6.8	5.5	10.8	-1.4	-3.8	4.3	-5.3	-8.3	-13.5
Completed construction works**	6.3	-5.1	3.0	2.3	-1.1	-9.6	-10.8	-17.5	-11.1	-1.2	-19.2	-14.0	14.7	50.9	8.9	-0.9	-
Domestic production of capital goods	-5.7	-46.0	-9.0	1.0	-7.3	59.6	-24.3	-22.3	0.9	3.3	18.6	3.7	6.7	-2.5	9.0	11.8	1.5
Government investments*	23.8	-34.4	26.0	-20.7	166.5	3.7	56.2	9.3	-16.4	25.0	-47.3	55.6	-6.8	-45.4	55.6	-1.9	442.6
Direct Investments***	4668.1	-2737.5	-6616.2	-10681.2	-10610.7	15231.4	1550.0	9560.3	9032.6	-5832.2	9936.2	763.8	-923.7	575.0	2867.3	3096.3	-
Long term credits to enterprises*	4.1	8.2	11.5	5.8	7.3	2.5	0.7	3.9	2.2	-2.2	-6.5	-6.7	-5.0	-5.6	-5.6	-5.0	-4.4
Final product stocks	9.0	15.7	2.6	-8.0	2.0	9.7	16.1	12.4	11.5	9.2	11.1	10.5	-3.1	3.3	-7.4	-5.0	-

* 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: 2022=100).

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