

National Bank of the Republic of North Macedonia
MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators
Review of the Current Situation

September 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 (July - August 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.

The estimates for the future growth of the global economy are similar to the previous ones, with the risks remaining downward and mainly related to the perseverance of the high inflation and to the possible stronger interest rate growth, and adverse effects on both indebtedness and financial stability. The other risks are related to the war in Ukraine, heightened geopolitical tensions and trade limitations, as well as climate changes.

Analyzed by quantitative indicators of the external environment significant for the Macedonian economy for the period 2023-2024, the estimated growth of the **foreign effective demand** has been revised downwards in relation to the April forecast, due to the worsened expectations for 2024, while the forecast for the **foreign effective inflation** has been corrected upwards, primarily for 2023. Depreciation of the US dollar against the euro is still expected, with the **world prices of primary commodities** been revised mostly downwards, towards a greater decrease. 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.

Regarding the assessments of the ECB's future monetary policy, the latest forecasts for the **foreign interest rate EURIBOR** with a maturity of one month for 2023 and 2024 have been revised upwards, according to the expectations for an increase in the ECB policy rates. Thus, at the September meeting, the ECB made a decision to increase interest rates by 0.25 percentage points, in accordance with the assessments of keeping inflation above the target level for a longer time. Namely, according to the latest ECB forecasts, the inflation rate in 2023 is expected to be 5.6%, followed by its slowdown to 3.2% and 2.1% in 2024 and 2025, respectively, which is an upward revision for 2023 and 2024, and a down revision for 2025 compared to June¹. In terms of economic growth forecast, they have been revised downwards, with growth of 0.7%, 1.0% and 1.5% being expected in 2023, 2024 and 2025, respectively.²

The latest indicators of the domestic economy suggest macroeconomic landscape mainly in line with the April forecasts, although certain segments register deviations. In the second quarter of 2023, real GDP growth decelerated to 1.1% on an annual basis (after growth of 2.1% in the previous quarter), which is close to the growth forecasted for this quarter according to the April forecast round. Analyzing by components, the growth results from the net exports, coupled with private consumption, which gradually decelerates. On a quarterly basis, the GDP registered minimal real increase of 0.2% (according to the seasonally adjusted data of the SSO). The currently available high frequency data for the third quarter of 2023 are insufficient to have an overall view of the situation. For now, the data for July show small negative movements in industrial output, as well as a moderate deepening of the real decline in the total trade turnover. **Regarding the changes in consumer prices, in August 2023 the annual inflation rate continued to slow**

¹ The June inflation forecast equaled 5.4%, 3.0% and 2.2% for 2023, 2024 and 2025, respectively.

² The June forecasts envisaged economic growth of 0.9% in 2023, and 1.5% in 2024 and 2025, respectively

down and it reduced to 8.3% (8.4% in the previous month), which exceeds estimates in the April forecast round, as a result of the deviation in food prices. The annual inflation rate is still mainly driven by the food component, which has the largest contribution, with the basic component also making a significant contribution.

On the other hand, the inflation spread in the euro area kept decreasing in July, with the domestic inflation registering more pronounced slowdown relative to the Euro area. In addition, also the revisions in terms of the expected movements in the external input assumptions about the inflation forecast are mainly in a downward direction. However, there is still uncertainty on the markets arising from the future dynamics of primary products prices as a result of the war in Ukraine, which does not subside.

The analysis of foreign reserves adequacy indicators shows that they remain in the safe zone. Regarding the latest available data from the external sector, the trade deficit in July 2023 is currently lower than expected in the April forecast, but the assessment period is too short to draw more precise conclusions. Currency exchange operations as of August 2023 indicate higher net inflows from private transfers, compared to the April forecast. The performance on the balance of payments in the second quarter of 2023 indicate lower current account deficit, in conditions of simultaneously lower net financial inflows than expected in April forecast.

Regarding the **developments in the monetary sector**, the total **deposits** in July 2023 increased by 11.2%, annually, amid forecasted annual growth for the third quarter of 7.4% in line with the April forecast. In July 2023, the growth of the **total loans** of the private sector decelerated to 5.8%, matching the growth forecast for the third quarter of 5.7% according to the April forecast. Survey data on the lending activity for the second quarter of 2023 point to a certain tightening of the conditions in terms of credit supply in both sectors, while demand remained small. At the same time, the number of newly approved loans has decreased. Namely, the amount of total new loans approved to the private sector in the last 12 months is lower, on average, on an annual basis, which is more pronounced in lending to the corporate sector, which is expected, due to the increased liquidity needs of the companies in the first half of last year owing to the energy crisis and increase in inventory.

In the period from January to July 2023, the Budget of the Republic of North Macedonia registered a deficit of Denar 27,033 million. Most of the budget deficit is financed by government borrowing on the foreign and domestic market, as well as by government deposits with the National Bank. The budget deficit for the period January - July 2023 accounts for 63.2% of the budget deficit forecast for 2023.

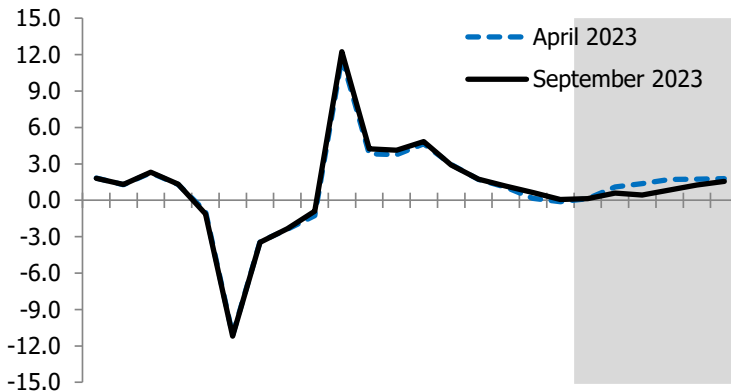
The latest available data on the key macroeconomic indicators suggest the need for further caution in conducting policies, especially pronounced as a result of the domestic inflation. Namely, domestic inflation in August 2023 kept decelerating on an annual basis, but the deceleration dynamics slowed down, so it is still relatively high, which also affects inflation expectations. In the conditions of a more significant downward adjustment in the prices of primary commodities on the stock markets, primarily of food, the transmission of the world to domestic prices is slow and less intensive. Although they are expected to decline further, the uncertainty arising from the future dynamics of commodity prices in markets is still present due to the war in Ukraine. In the second quarter of 2023, economic growth has slowed, and the GDP growth rate is close to expectations. The available high frequency data for the third quarter of the year are limited and insufficient to provide more precise perceptions. 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, according to the latest data, the deposit growth further goes beyond the expectations, while the credit growth decelerates in line with the April forecast for the third quarter of the year.

Stabilized current account balance in the first half of 2023 - gradual stabilization after the global price shocks in 2022.

For a small and open economy such as our economy, the global shocks mean fast spillover in several segments of the economy, which is especially evident in 2022. The combination of shocks, high energy and food prices and the specific characteristics of our economy, such as high energy dependence, created significant import pressures and a high trade and current account deficit in the first six months of last year (4.8% of GDP). The gradual stabilization of world import prices and generally increased confidence influenced towards normalization of the current account. The latest performance for the first half of 2023 indicate a balanced position, i.e. a small deficit of 0.1% of GDP. Lower energy prices, as well as reduced domestic demand for energy imports, led to a significant downward correction of the import component, which, in conditions of still solid export performance, led to a significant narrowing of the trade deficit (by 5.2 p.p. of GDP) compared to the first half of 2022. Favorable movements in foreign trade were followed by better performance in secondary income in the first half of 2023, compared to the same period of the previous year.

Selected economic indicators ^{/1}				2019	2020	2021	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	June	Q2	July	August
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				2.1				1.1		
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	-1.6	6.1	3.7	2.7	-1.8	
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	-0.3	1.0	1.5	1.5	1.0	
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	9.3	11.2	8.4	8.3
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	13.6	13.6	12.8	12.2
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	9.6	9.6	9.3	9.0
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	8.2	9.1	7.4	7.1
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				13.1		
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	19,277	18,756	28,005	66,038	21,210	22,349	21,656	65,215	22,715	
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	23,009	25,857	69,556	30,186	24,868	30,214	85,268	26,177	
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	-1,413	-4,253	2,148	-3,518	-8,976	-2,519	-8,558	-20,053	-3,462	
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	-0.3	-1.0	-2.3	-0.4	
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	10.5	11.4	11.4	10.6	
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	6.5	6.5	6.5	5.8	
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	6.5	6.4	6.4	6.4	
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	6.5	6.5	6.5	5.0	
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	10.7	11.6	11.6	11.2	
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	8.7	8.8	8.8	8.4	
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	17.8	19.7	19.7	18.9	
Interest rates ^{/8}																																	
Interest rates of CBills (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	5.50	5.75	6.00	6.00	6.15
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	5.2	5.3	5.2	5.6	
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	4.9	4.9	4.9	5.3	
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	1.6	1.8	1.7	1.9	
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	0.9	1.0	0.9	1.1	
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	-12.9	21.6	96.2	105.0	-91.3	26.0	-51.6	-116.9		
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	-0.1	0.2	0.7	0.7	-0.6	0.2	-0.4	-0.8		
Trade balance (millions of EUR) ^{/9}	-1,786.2	-1,816.2	-1,814.4	-2,007.7	-1,816.6	-2,715.7	-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	-228.1	-196.1	-209.3	-633.5	-195.6	-215.2	-241.9	-652.6	-201.1	
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	-1.5	-1.7	-4.6	-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	#####	#####	-1,000.9	-3,138.2	-939.0	-980.4	-1,104.9	-3,024.3	-1,108.6	-1,001.2	-1,013.8	-3123.6	-12,125.2	-849.4	-915.0	-995.2	-2,759.6	-857.3	-985.1	-935.9	-2,778.3	-897.1	
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	2142.3	8,299.6	621.4	718.9	785.9	2,126.1	661.7	769.9	694.0	2,125.7	696.0	
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	29.9	22.0	39.3	24.9	27.9	66.6	21.9	52.3	29.5	32.4	14.0	7.4	17.5	25.8	5.0	-6.9	-5.0	2.8	-21.2	-6.2	-6.5	-11.5	-4.5	
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	4.9	-6.4	-1.5	4.0	
Foreign Direct Investment (millions of EUR)	316.9	179.9	603.7	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	-14.1	-59.0	-58.4	-131.4	-65.8	-37.8	-1.7	-105.3		
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				11,079.8						
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				5,395.3						
public sector/GDP (in %)	35.7	34.5	35.1	34.2	40.4	40.9				35.6				37.9				41.4				40.4	40.4				38.0						
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				5,684.5						
Gross external debt/GDP (in %)	74.7	73.4	73.3	72.7	80.3	81.6				77.4				80.3				86.0				84.2	84.2				78.1						
Gross official reserves (millions of EUR) ^{/10}	2,613.4	2,336.3	2,863.1	3,262.6	3,359.8	3,643.3	3,465.1	3,382.4	3,272.5	3,272.5	3,240.2	3,183.5	3,116.1	3,116.1	3,196.6	3,285.7	3,753.8	3,753.8	3,752.6	3,824.3	3,862.9	3,86											

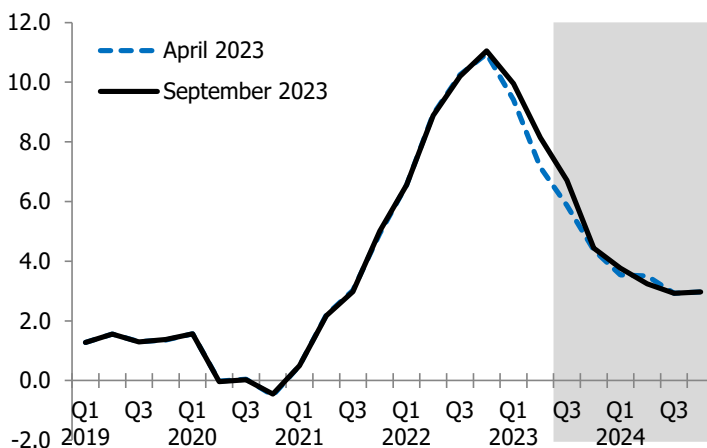
Foreign effective demand
(annual changes in %)



The expectations for the **foreign demand** growth were revised downwards, due to the worsened expectations for 2024 (increase of 1.3%, instead of 1.7%) driven by the smaller growth of the German economy.³

Source: Consensus forecasts and NBRNM calculations.

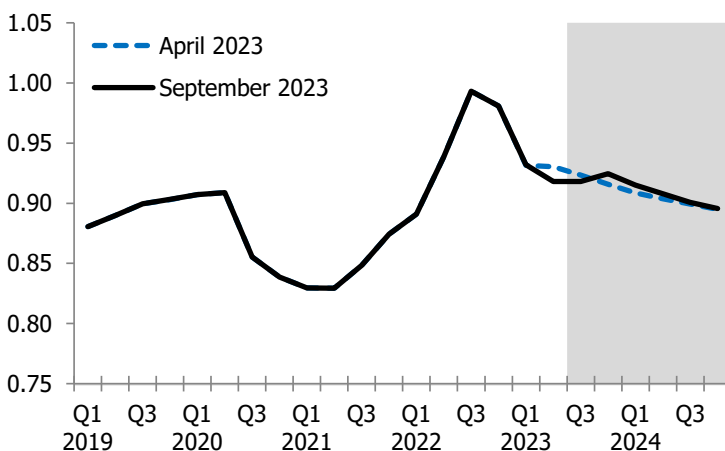
Foreign effective inflation
(annual rates in %)



Upward revisions in **foreign effective inflation**, primarily for 2023 (7.5% instead of 6.9%), whereby higher inflation among several of our import partners is expected.

Source: Consensus forecasts and NBRNM calculations.

EUR/USD exchange rate

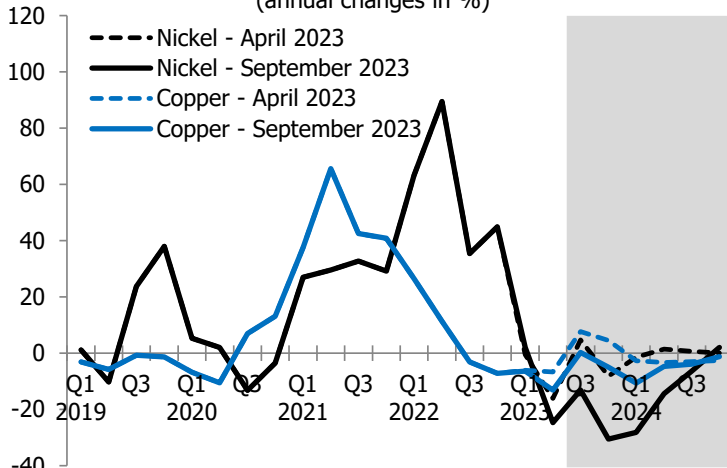


Expectations for further depreciation of the **US dollar against the euro**.

Source: Consensus forecasts and NBRNM calculations.

³ Forecasted decrease in Germany of 0.3% in 2023 and growth of 0.9% in 2024, respectively, compared to -0.1% and 1.4% in April.

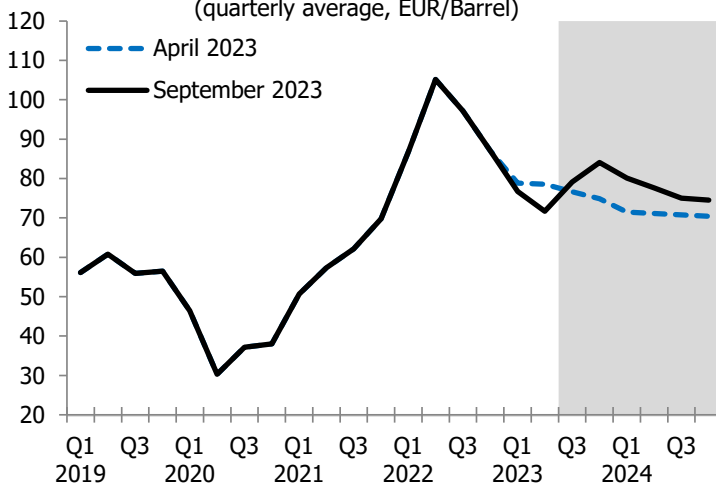
Nickel and copper prices in EUR
(annual changes in %)



Source: IMF, World Bank and NBRNM calculations.

Brent oil

(quarterly average, EUR/Barrel)

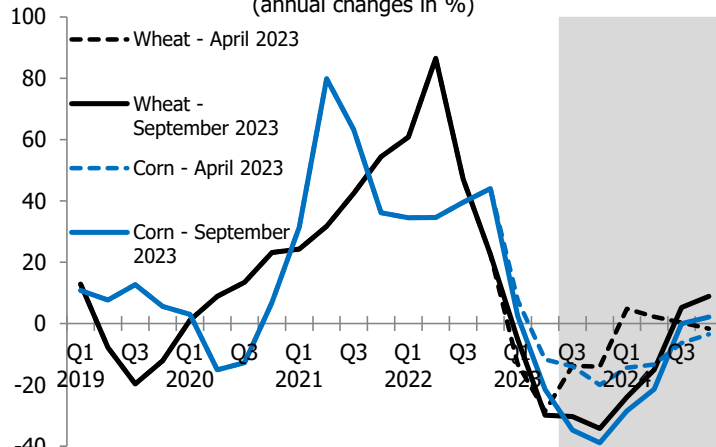


Source: IMF, World Bank and NBRNM calculations.

Mainly downward revisions with the primary commodities prices⁴, as a reflection of the expectations for weaker global economic activities (primarily due to China)...

...with the exception of the **oil** price, due to the concerns about a smaller supply than previously expected.

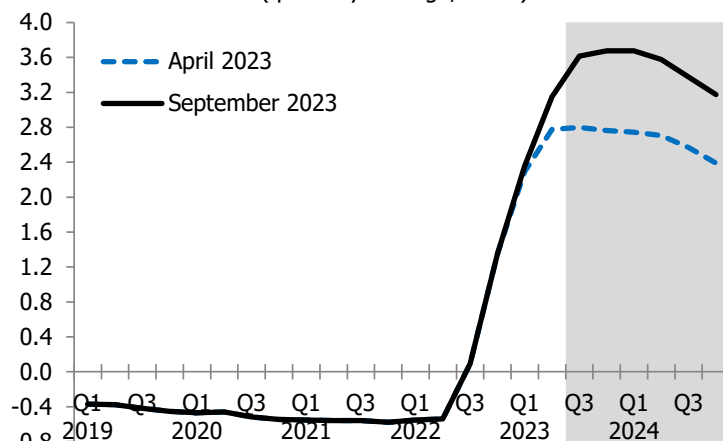
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF, World Bank and NBRNM calculations.

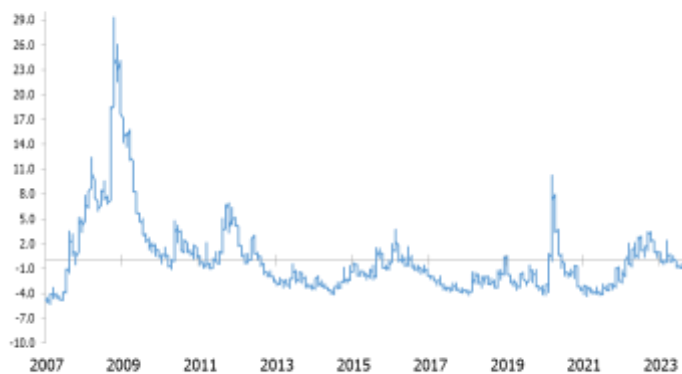
⁴ The analysis of prices of oil, metals and food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

1-month Euribor
(quarterly average, in %)



Source: Consensus forecasts and NBRNM calculations.

Upward revisions in the one-month Euribor, in line with the dynamics of monetary policy tightening by the ECB.

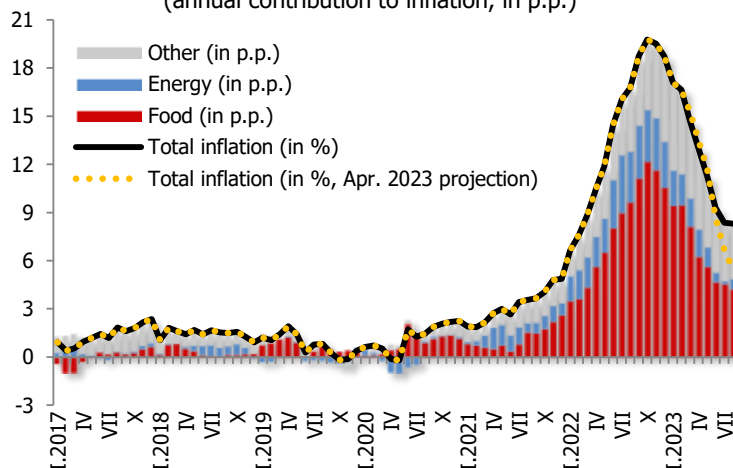


The **global financial stress indicator**, which evaluates the financial markets condition, points to low financial risks⁵.

⁵ OFR FSI) the index measures systemic financial stress - disturbances in the normal functioning of the financial markets. It is composed of 33 financial market variables, aggregated into five categories of indicators: credit, capital appreciation, financing, safe/risk-free assets and volatility. The value of the index on a given day represents a weighted average level of each variable observed in the market on that day, relative to its historical value, with the index being positive when the stress level is above the average and negative when the stress level is below the average.

Inflation rate

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



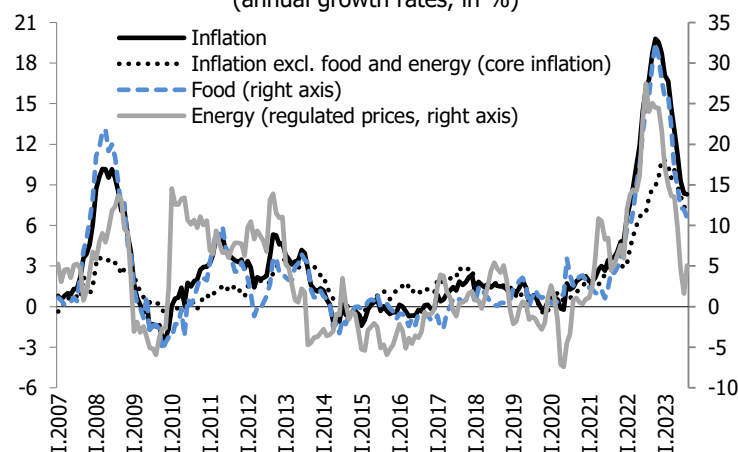
In August 2023, domestic consumer prices increased by 1.2% on a monthly basis, which was mostly due to the increase in food prices of 0.2% (primarily due to higher prices of vegetables and dairy products).

In addition, energy prices recorded a monthly growth of 1.4%, as a result of the increase in the prices of oil derivatives according to the movements of the world stock markets.

In August, the Core inflation registered a growth of 0.5% on a monthly basis, driven by the seasonal increase in air transport prices.

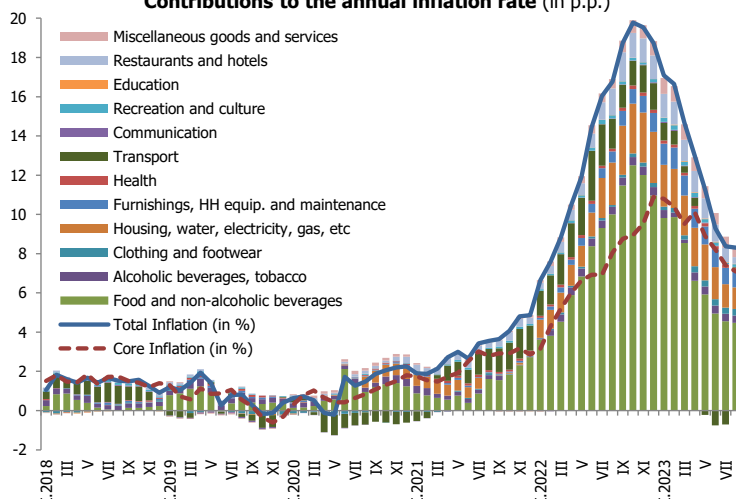
Inflation and volatility of food and energy

(annual growth rates, in %)

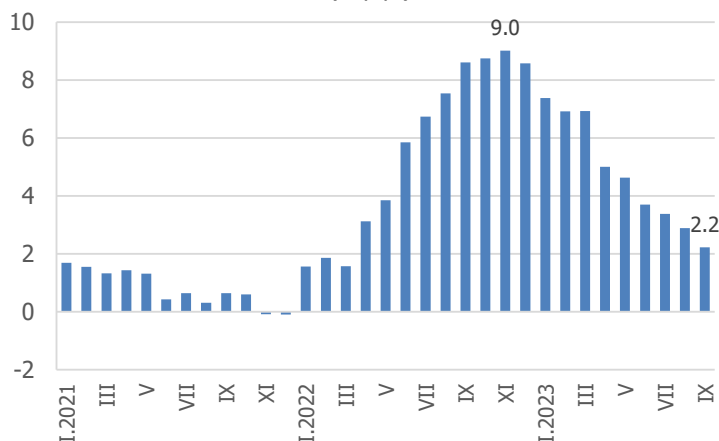


The annual inflation rate in August was 8.3% (8.4% in the previous month), with the biggest contribution still being made by the food component. The growth of the basic component decreased to 7.1% on an annual basis (7.4% in the previous month).

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



Domestic and eurozone headline inflation spread
(in p.p.)



Source: State Statistics Office and Eurostat.

The inflation spread in the euro area⁶ kept decreasing also in July, with more pronounced slowdown being registered in domestic inflation.

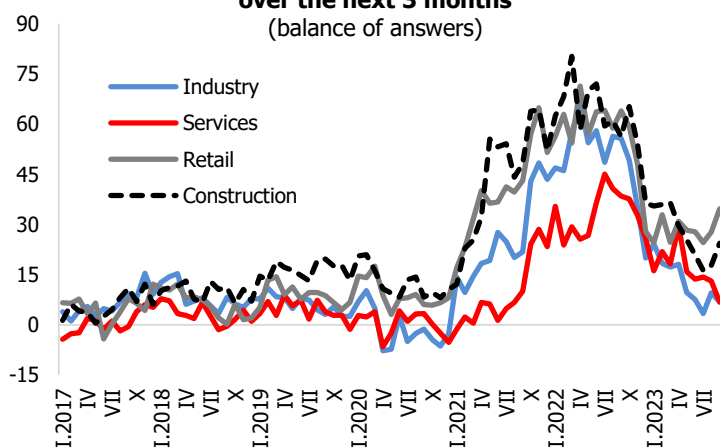
Consumer inflation expectations over next 12 months
(balance of answers)



Source: European Commission.

Consumer expectations⁷ are in the direction of a slight upward movement in prices...

Inflation expectations of managers of enterprises over the next 3 months
(balance of answers)



Source: European Commission.

... the expectations of domestic economic analysts⁸ are downward and indicate a gradual slowdown of the annual inflation rate in the next period.

Regarding the expectations of the corporate sector⁹, price growth in manufacturing industry, retail trade and construction is expected, as opposed to the decrease expected in services sector.

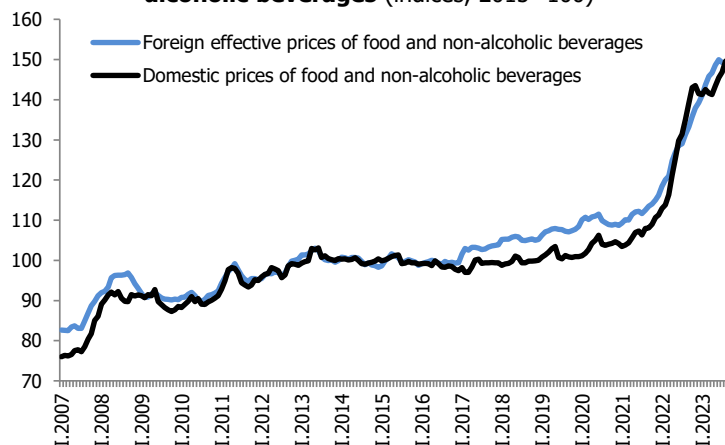
⁶ Based on the harmonized index of consumer prices, the latest published data of which for the country pertain to July.

⁷ Consumer Confidence Survey of the European Commission for August 2023 based on the question "consumers' expectations about price changes over the next 12 months".

⁸ Inflation Expectations Survey and GDP expectations, conducted by NBRNM, June 2023.

⁹ European Commission's business tendency surveys in industry, retail trade, construction and services sector.

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

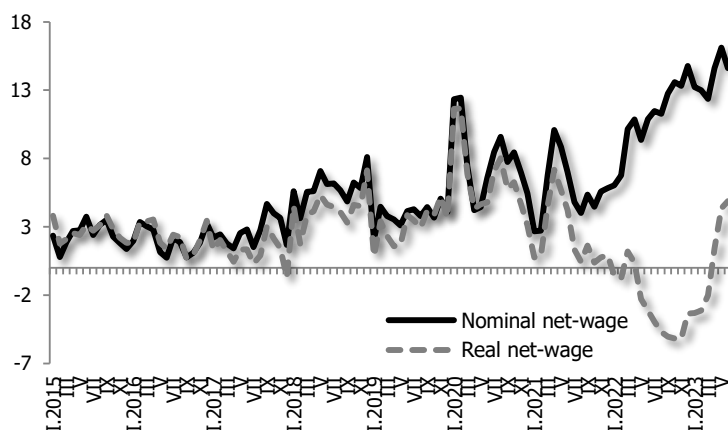


* Foreign effective food prices are calculated as weighted sum of HICP food prices in countries that are major trade partners of North Macedonia in the field of food import.
Source: State statistical office, Eurostat and NBRNM calculations.

The realized annual inflation rate in August exceeds the forecasted rate in the April forecasting round, as a result of the deviation in the food component.

The revisions of the **expected movements of the external input assumptions** in the inflation forecasts are mainly in a downward direction, with the exception of the foreign effective inflation, which has an upward change, as well as the oil price for 2024. The uncertainty arising from the future dynamics of primary products prices in markets is still present.

Average net-wage (annual changes, in %)



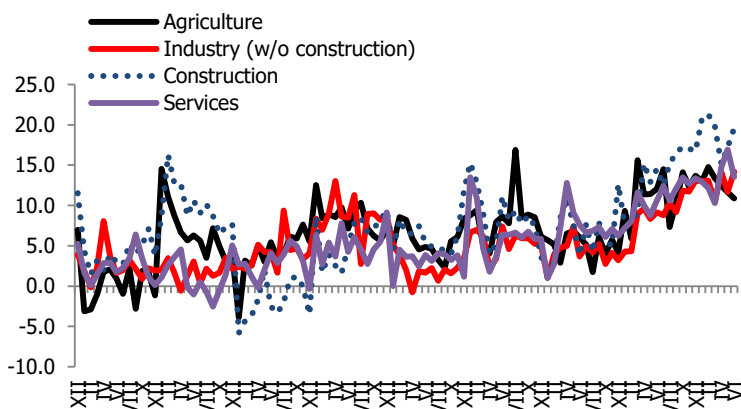
Source: SSO.

Minimal monthly growth of the nominal average net wage in June 2023 and annual growth slowdown was registered...

...while the annual wage growth in service activities and agriculture decelerates, as opposed to the industry and construction which registered accelerated wage growth...

... the real net wage accelerates, with a greater slowdown in inflation compared to the slowdown in the nominal wage growth.

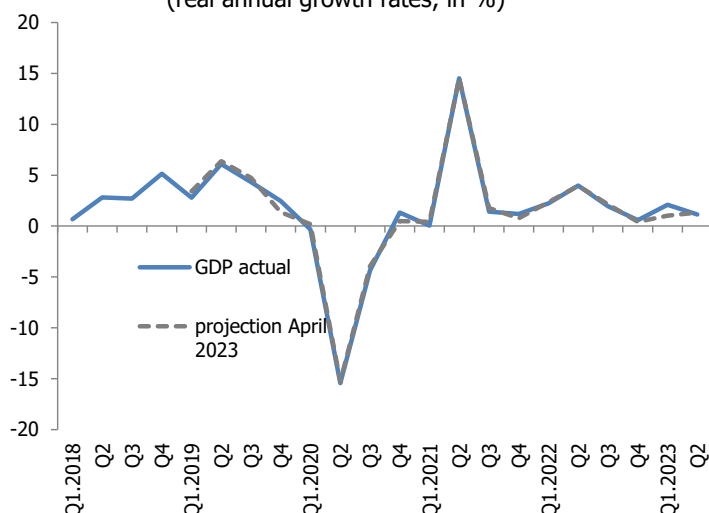
Average monthly net wage paid by sectors (nominal annual changes, in %)



Source: SSO.

The realized nominal and real annual change in wages in the second quarter of 2023 is generally in line with the April forecast.

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.

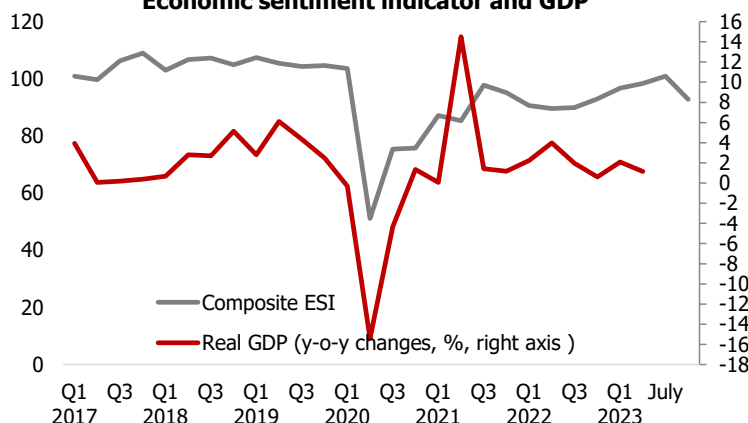
In the second quarter of 2023, the real GDP growth decelerated slightly to 1.1% on an annual basis which is close to the growth forecasted for this quarter according to the April forecast round.

Analyzed from the production side of the GDP, the growth is further driven by the positive contribution of the group of activities "trade, transport and hospitality".

Observed from the expenditure side of the GDP, the growth results from the net exports, supplemented by the contribution of private consumption. The growth slowdown is due to the lower contribution of the net exports (mainly due to the drop in exports after the growth in the previous quarters, and partly to the slow decline in imports), as well as to the slowdown in the growth of private consumption.

The GDP registers marginal real increase of 0.2% on a quarterly basis¹⁰.

Economic sentiment indicator and GDP



Source: State statistical office and European Commission.

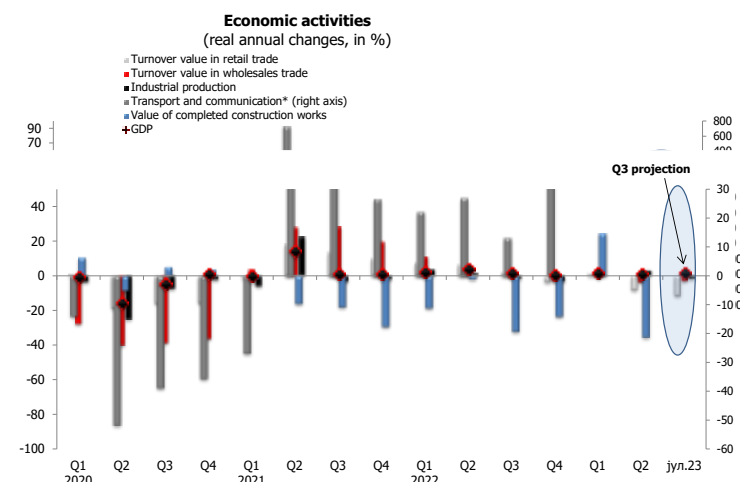
Having a limited scope of available data, it is difficult to provide precise assessment of the overall condition of the economy in the third quarter of 2023.

The results of the surveys for the period July-August 2023 point to more favorable perceptions in relation to the third quarter of 2022, while in relation to the previous quarter they are slightly less favorable¹¹.

In July, in the **total trade turnover**, moderate deepening in the real decrease on an annual basis was registered, driven by retail trade and wholesale trade.

¹⁰ According to the seasonally and calendar adjusted data of the SSO.

¹¹ 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).



In July, a more pronounced seasonal effect was observed in **industrial output**, which resulted in a small real drop on an annual basis, as opposed to the growth in the previous quarter. By activities, the decline is dispersed.

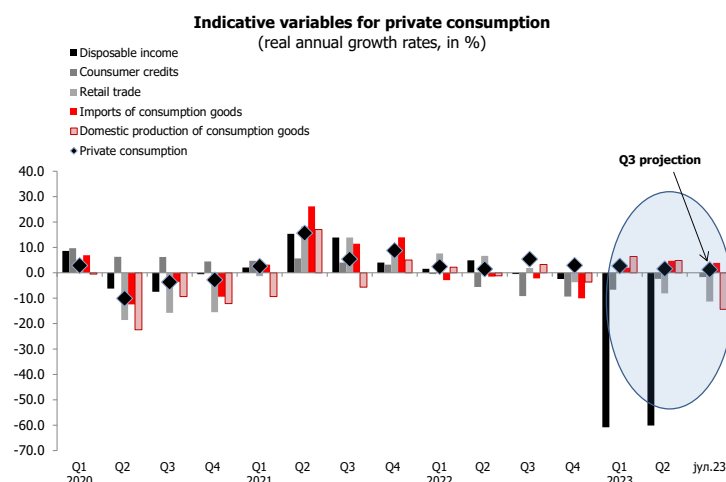
*Simple average of annual growth rates of the different types of transport and the telecommunications.
Source: SSO and NBRNM calculations.

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES												
	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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
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
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
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
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
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
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
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

* 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 more accurate assessment of the movement of individual demand components in the third quarter of 2023.

The available data on the movements in **private consumption** for July 2023 mainly point to a growth slowdown during the third quarter of 2023, led primarily by the relatively substantial decrease in the domestic production of consumer goods, retail trade and gross income based on VAT.



Source: SSO and NBRNM calculations.

Relative to the July high frequency data on the **gross investments**, there are different signals...

...at a decline in total industrial output, import of working capital and profit tax, and positive movements in domestic production of capital goods, state capital investments (related to advance payments for infrastructure projects) and credit support to enterprises.

In July 2023, the **foreign trade** data indicate potential deficit narrowing compared to the same period last year, in conditions of nominal growth of the export and decrease in the import of goods.

According to the fiscal data on July 2023, the budget performance suggests real annual growth of **public consumption**.

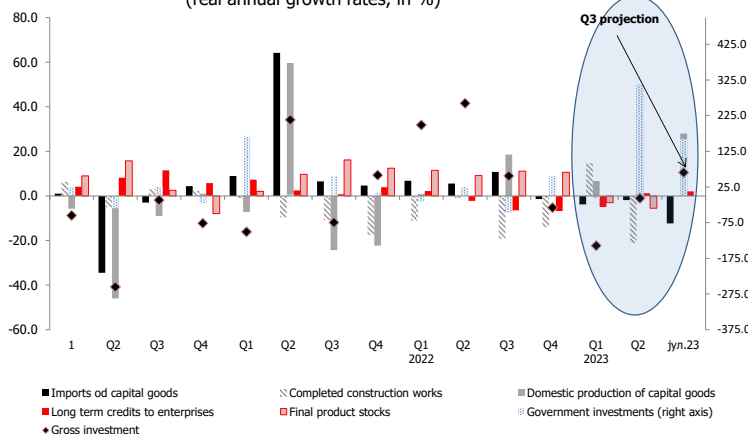
In the second quarter, the labour market¹² registered positive developments on a quarterly basis...

...**the employment rate** increased by 0.4 p.p. and is 45.5%, in conditions of growth of 0.9% in the number of employees compared to the previous quarter...

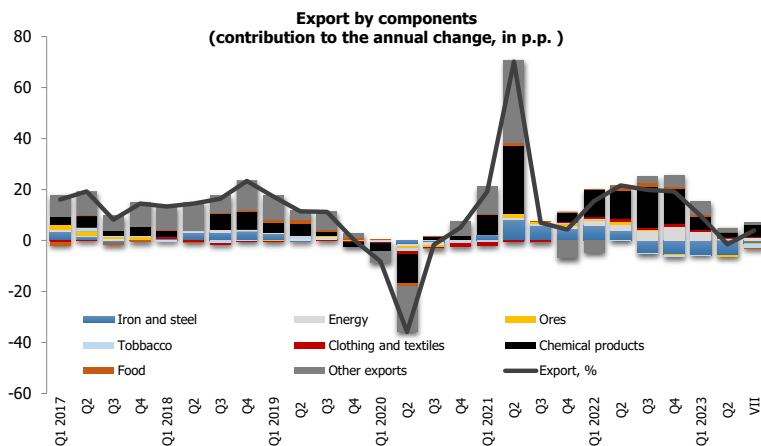
... **the unemployment rate** registered a further decrease and reduced to 13.1% at a decline in the number of unemployed of 0.5%.

From the aspect of labor supply, the second quarter registered an increase in the active population (by 0.8%), at the expense of a decrease in the inactive population (by 0.7%).

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



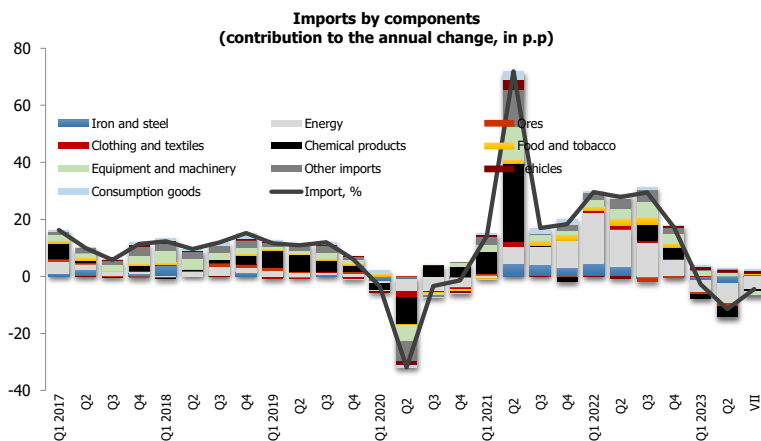
¹² The results of the Labor Force Survey (LFS) for the first and second quarters of 2023 are not comparable with the data from the previous quarters of other years, because in 2023 the new Regulation (EU) no. 2019/1700 of the European Parliament and the Council for Social Statistics and the corresponding executive regulation of the Commission (EU) no. 2019/2240 for the area of the workforce, while the previous Regulation (EC) no. 577/98 has been repealed. The implementation of the new regulation caused changes in the research, starting from the changes in the design of the questionnaire, changes in the order of the questions, modifying and removing current and adding new questions, changes in the scope and definition of employment and unemployment. Therefore, in this information, we do an analysis based only on the comparable data from 2023, that is, an analysis of quarterly changes.



Source: NBRNM.

In July 2023, the foreign trade deficit decreased by 25.4% on an annual basis, driven by the lower import of goods, at smaller growth in export of goods.

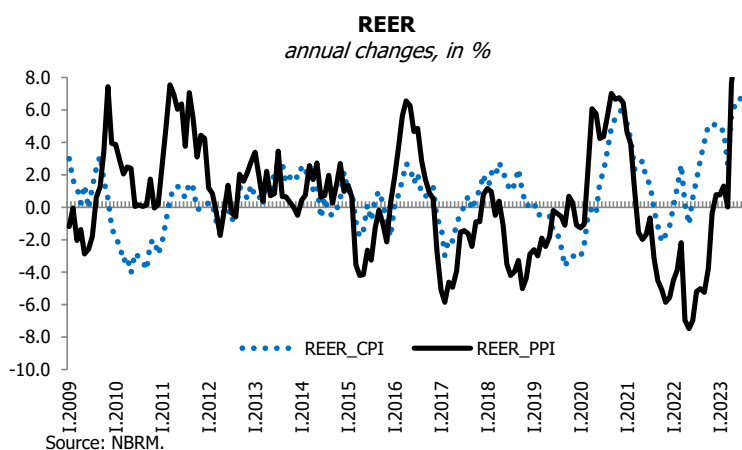
The export of goods in July 2023 recorded a growth of 4% on an annual basis, with higher exports of the automotive industry companies and higher exports of electricity being registered. Export performance currently matches the April forecast.



Source: NBRNM.

The import of goods in July 2023 recorded a drop of 4.5% on an annual basis, at reduced import of energy and equipment and machinery. Compared to the April forecast, the achievements in imports are lower.

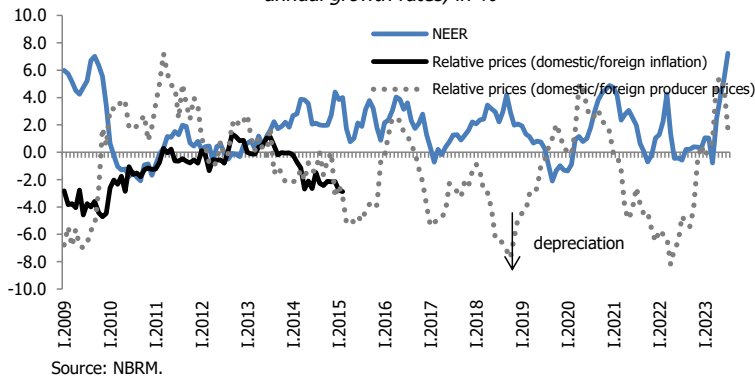
The trade deficit in July 2023 is currently lower than expected for the third quarter of the year according to the April forecast.



Source: NBRM.

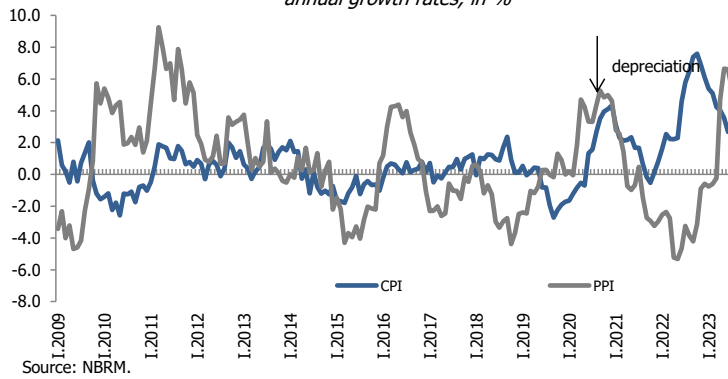
In July 2023, the REDK indices appreciated on an annual basis, mainly influenced by the appreciation of the NEER (depreciation of the Turkish lira against the domestic currency), with unchanged relative consumer prices and small growth in the relative prices of industrial products.

NEER and relative prices
annual growth rates, in %

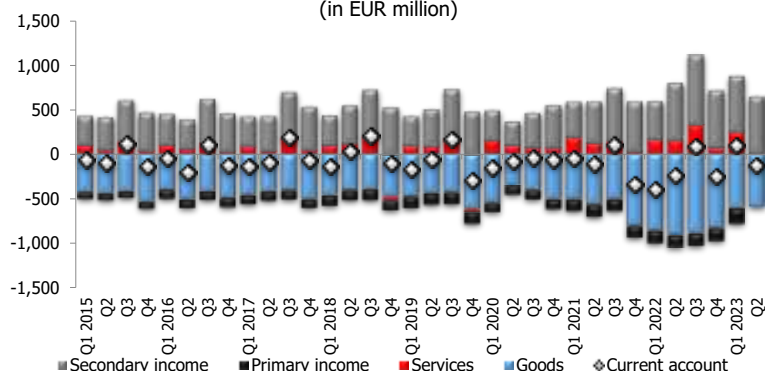


Similar appreciative movements in the REER indices are also observed according to the calculation with weights based on foreign trade without primary products, with a slightly more moderate intensity.

REER, excluding primary commodities
annual growth rates, in %



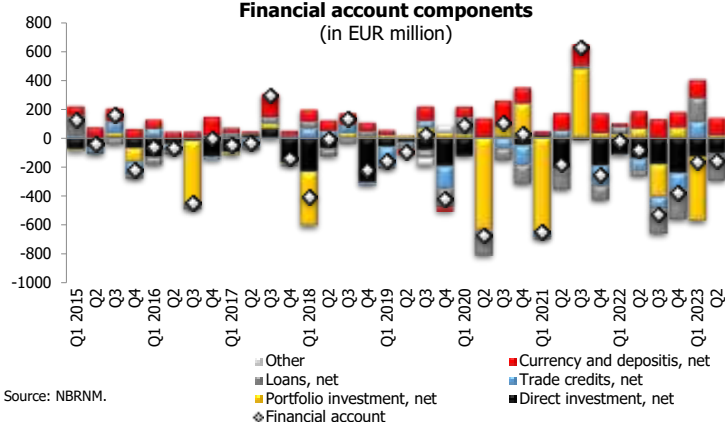
Main components of the current account
(in EUR million)



In the second quarter of the year, the current account registered a deficit of Euro 116.9 million, or 0.8% of GDP, which is higher than expected according to the April forecast...

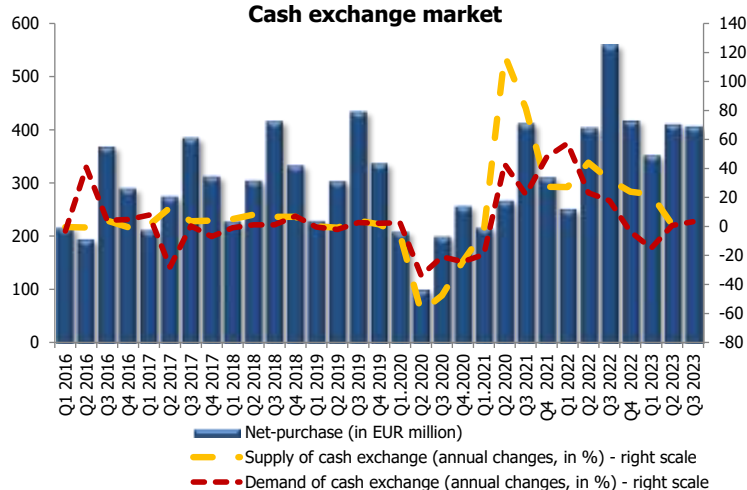
...at registered lower trade deficit than expected (lower import of goods) and higher surplus in the secondary income (higher private transfers).

Financial account components
(in EUR million)



The financial account registered net inflows¹³ of Euro 152.6 million (or 1.1% of GDP), which are lower than the net inflows expected in the April forecast.

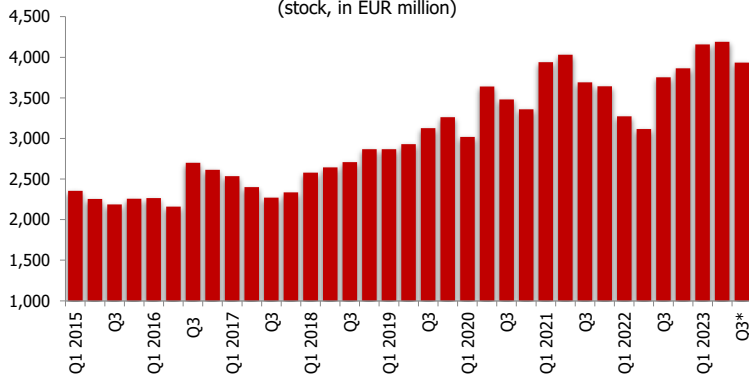
Cash exchange market



On the currency exchange market, within 1.7 - 31.8,2023 period, the net purchase is approximately at the same level of the previous year, with the performance so far indicating favorable performance with the private transfers compared to the April forecast.

¹³ 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.

Foreign exchange reserves
(stock, in EUR million)

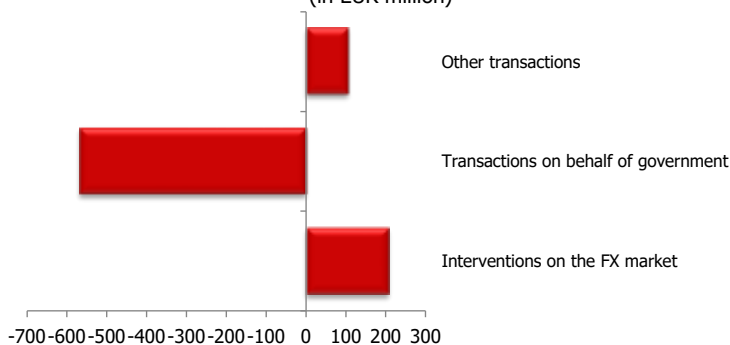


*Last data available: 31.08.2023
Source: NBRNM.

At the end of August 2023, the gross foreign reserves stood at Euro 3,934.2 million.

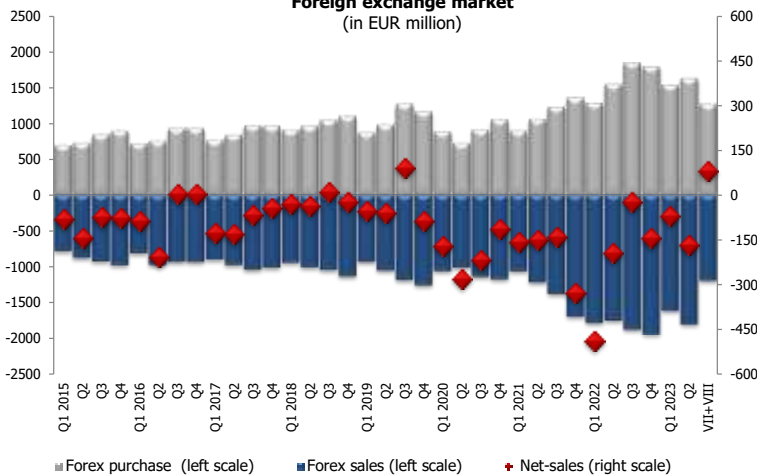
The decrease compared to the end of the second quarter is due to the transactions on behalf of the Government (repayment of the Eurobond).

Factors of change of the foreign reserves in July and August 2023
(in EUR million)



Source: NBRNM.

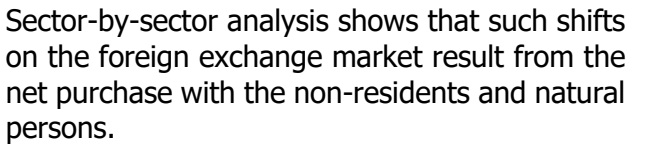
Foreign exchange market
(in EUR million)



Source: NBRNM.

Annual growth of the banks' net purchase on the foreign exchange market of 91.9% in the period July-August 2023, in conditions of growth in supply and decline in demand for foreign exchange.

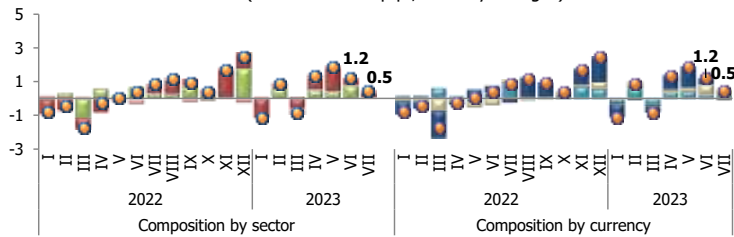
EXTERNAL SECTOR



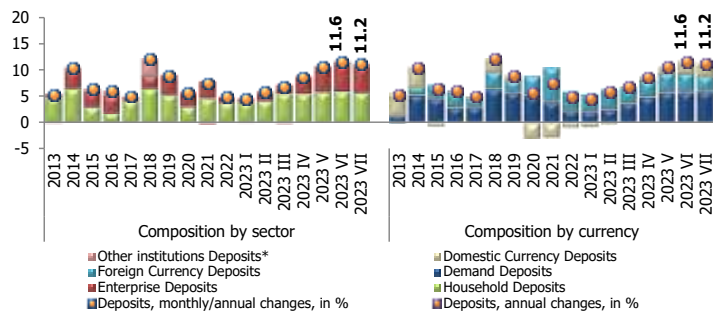
The level of monetary instruments is lower at the end of July compared to the forecasted level for the end of the third quarter of 2023, in conditions of a lower net foreign exchange asset of the National Bank and a greater downward deviation in the total deposits of the Government, while the realizations in reserve money are close to the forecasts.

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

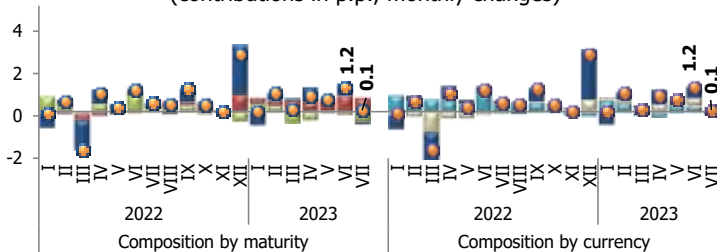
Slight monthly growth of the **total deposits¹⁴ in the financial system** in July 2023, driven by the corporate deposits and equal contribution in both domestic and foreign currency.

In July 2023, the total deposits registered an increase compared to the second quarter, which is currently within the expected growth for the third quarter according to the April forecast.

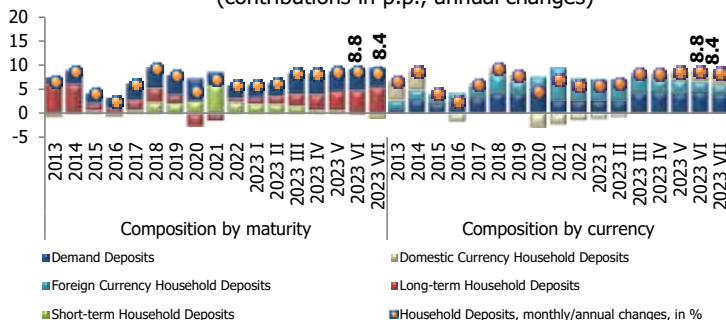
In July 2023, the annual growth rate of total deposits was 11.2%, given the forecasted rate for the third quarter of 2023 of 7.4%.

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)

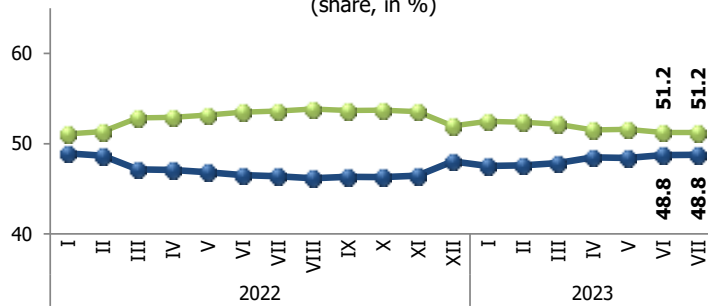


Source: NBRNM.

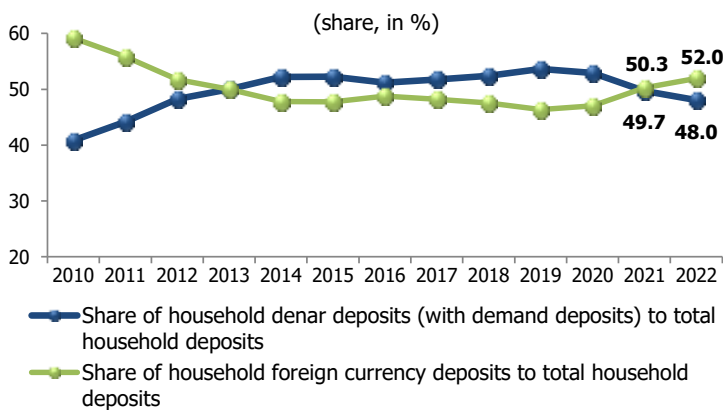
Minimum monthly growth of **household deposits** in July 2023, with further increase in long-term deposits and domestic currency deposits. In July, the household deposits are higher by 8.4% on annual basis.

¹⁴ 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.

Share of Denar and Foreign Currency Deposits of Households/Total Deposits of Households
(share, in %)



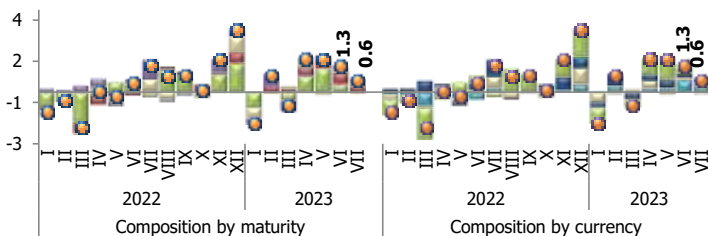
Movements in the currency structure of total household deposits since December 2022 point to a strengthening of the denarization.



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

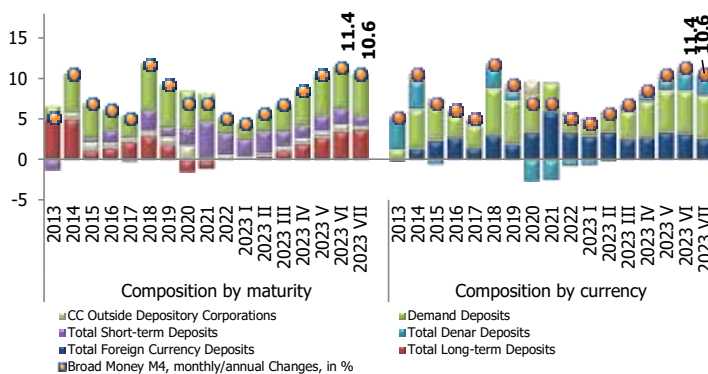
Broad Money M4

(contributions in p.p., monthly changes)



The money supply, presented through the broadest monetary aggregate M4, recorded a small monthly growth of 0.6% in July 2023, in conditions of increase in all components of the broad money term and currency structure, with the exception of the decrease in demand deposits.

(contributions in p.p., annual changes)

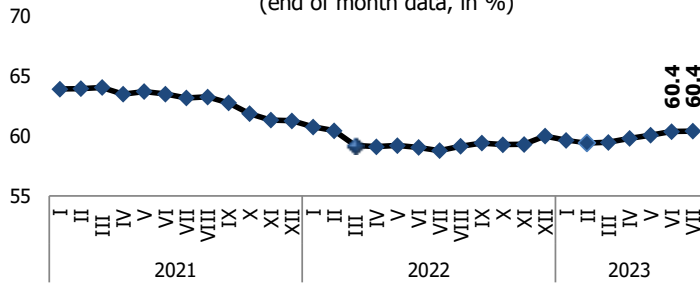


In July, the annual increase in the money supply registered slight deceleration and equaled 10.6%, amid forecasted annual growth of 7.3% for the third quarter of 2023, according to the April forecast.

Source: NBRNM.

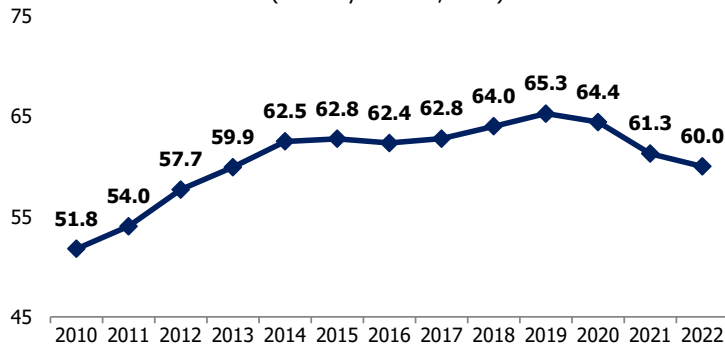
Share of Denar M4 in total M4

(end of month data, in %)



At the end of July 2023, the denar share in total broad money M4 was 60.4%.

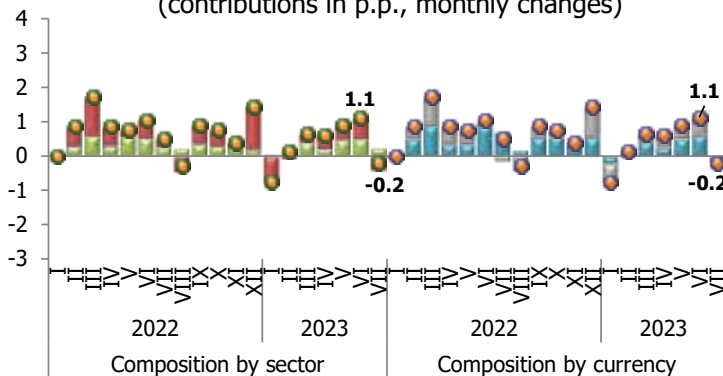
(end of year data, in %)



Source: NBRNM.

Total loans

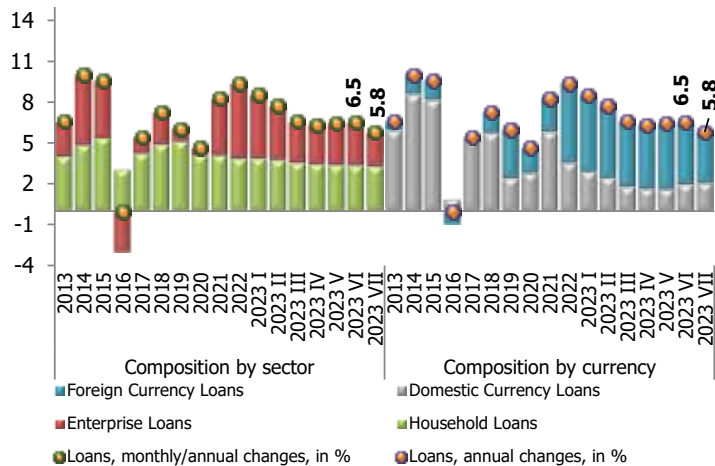
(contributions in p.p., monthly changes)



The total loans decreased by 0.2% in July, at negative contribution of the corporate loans, as well as loans in domestic and foreign currency.

In July 2023, the change in the total loans, compared to the end of the second quarter, is currently smaller than the increase expected for the third quarter of 2023, according to the April forecast.

(contributions in p.p., annual changes)

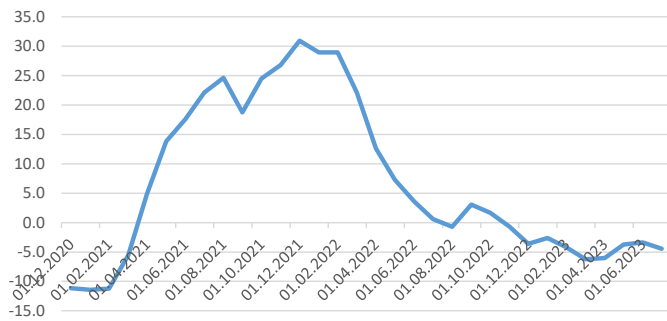


In July, the annual growth rate of total loans equaled 5.8%, which is in line with the annual growth forecasted for the third quarter of 2023 of 5.7% according to the April forecast.

Source: NBRNM.

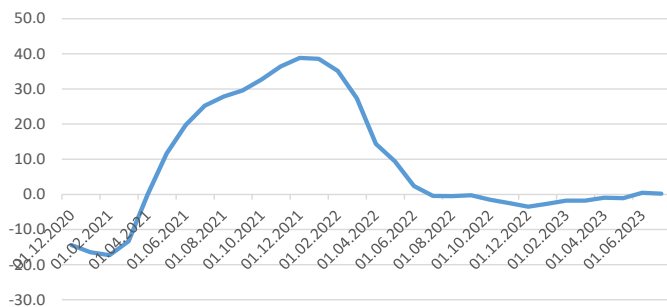
MONETARY SECTOR

Newly granted loans to private sector, 12-month moving average

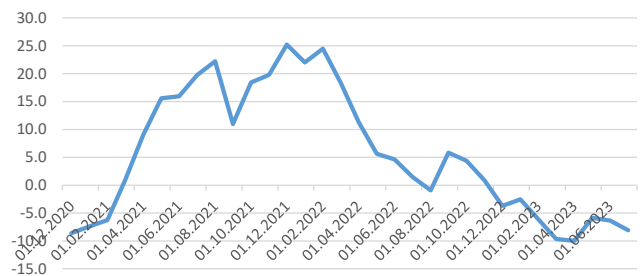


The amount of total new loans approved to the private sector in the last 12 months is lower, on average, on an annual basis, which is more pronounced in lending to the corporate sector, which is expected, due to the increased liquidity needs of the companies in the first half of last year owing to the energy crisis and increase in inventories.

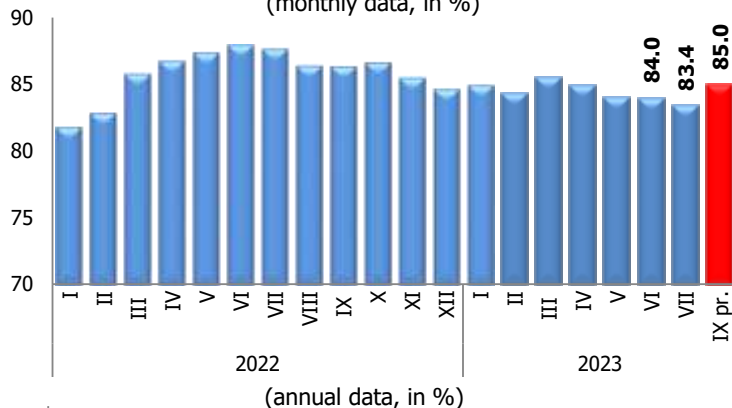
Newly granted loans to households, 12-month moving average



Newly granted loans to non-financial corporations, 12-month moving average

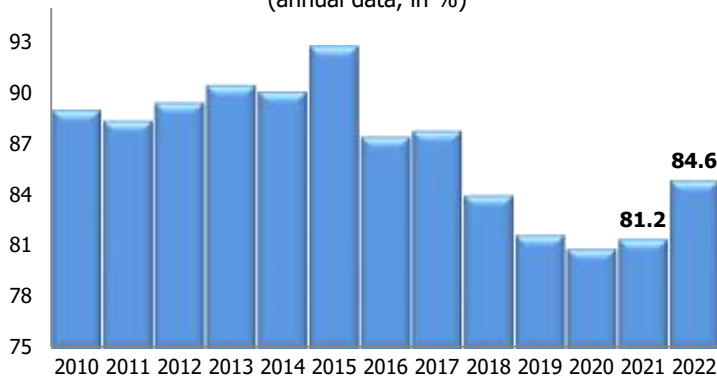


Total credits/total deposits (monthly data, in %)



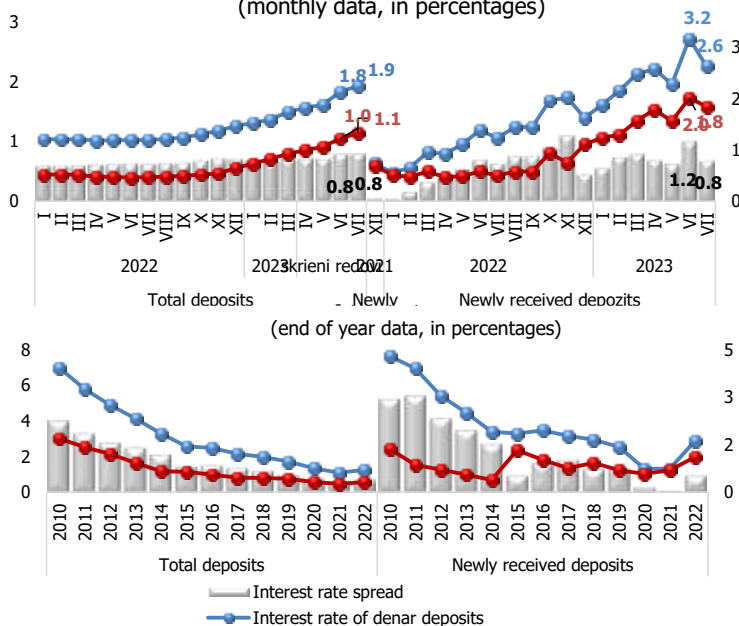
The utilization of the deposit potential for lending to the private sector is slightly smaller in July, which is below the value of this indicator forecasted for the end of the second quarter of 2023 according to the April forecast.

(annual data, in %)



Source: NBRNM.

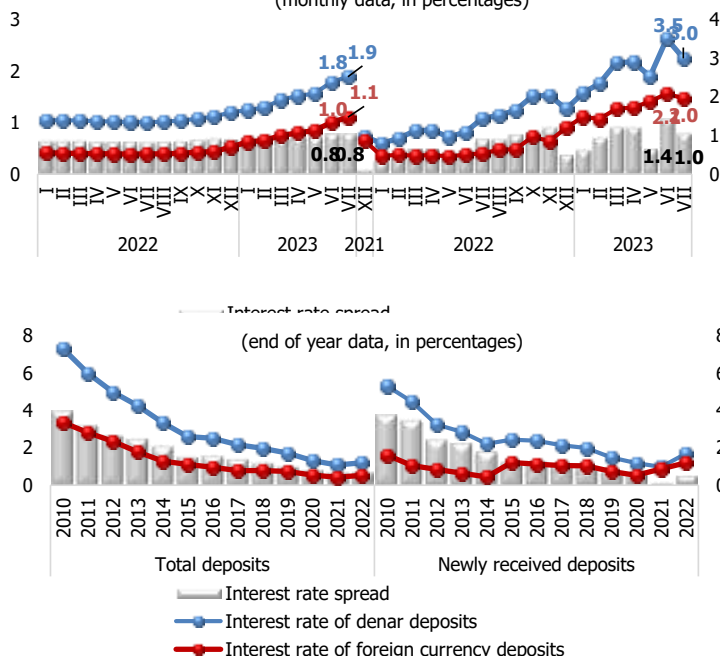
Total deposits interest rates
(monthly data, in percentages)



Source: NBRNM

In July 2023, the interest rates on the total deposits (denar and foreign currency)¹⁵ moved upwards, while the interest rate spread remained stable. After the high growth in June, the movements in the interest rates with the **newly received total deposits**¹⁶ are downward, while the interest rate spread narrowed...

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



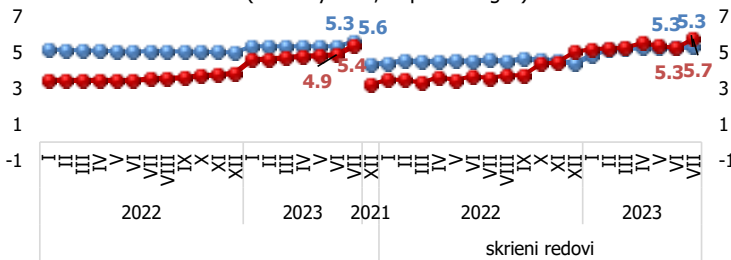
Source: NBRNM.

... with similar developments being registered also in the respective interest rates and spreads in the household sector.

¹⁵ Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.

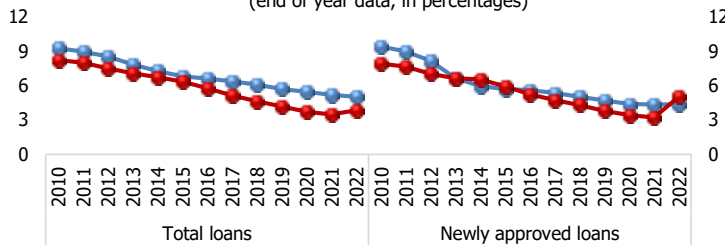
¹⁶One should have in mind that the interest rates on the newly accepted deposits are volatile. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.

Total loans interest rates
(monthly data, in percentages)



In July 2023, an upward movement in the interest rates on the **total household loans and total corporate loans** is registered. Upward movement has been registered also in the interest rates of the **newly extended corporate loans**¹⁷, without changes with households.

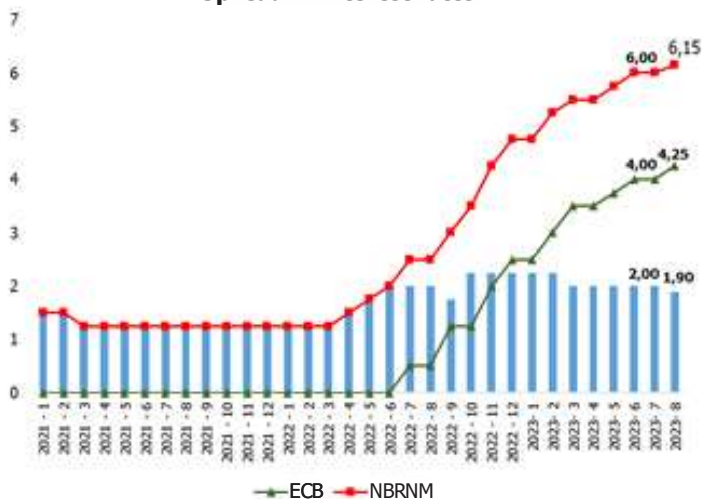
(end of year data, in percentages)



— Interest rate of denar loans — Interest rate of foreign currency loans

Source: NBRNM.

Spread in interest rates

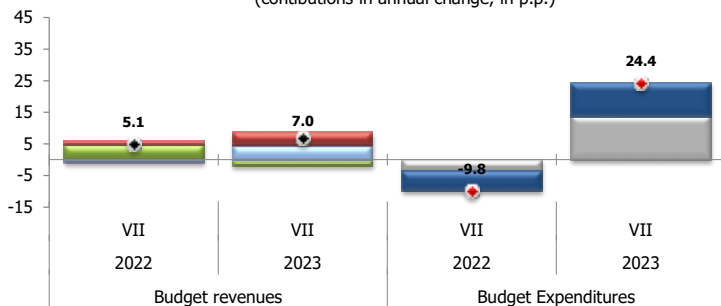


The tightening of the domestic monetary policy in the last period follows the tightening dynamics of the ECB, while the spread in interest rates remains stable.

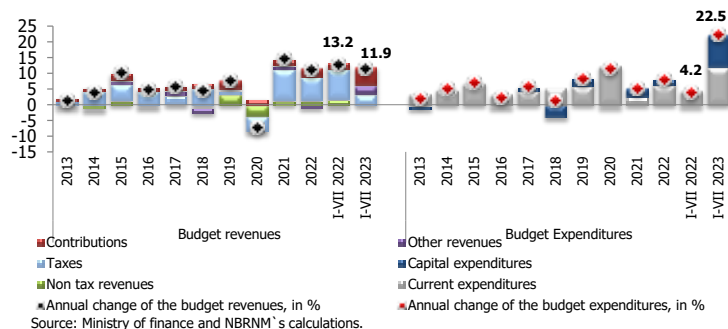
¹⁷ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures

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



Significantly larger increase in the expenditures than increase in revenues in the Budget of the Republic of North Macedonia (central budget and funds' budgets) in July 2023, at high capital costs.

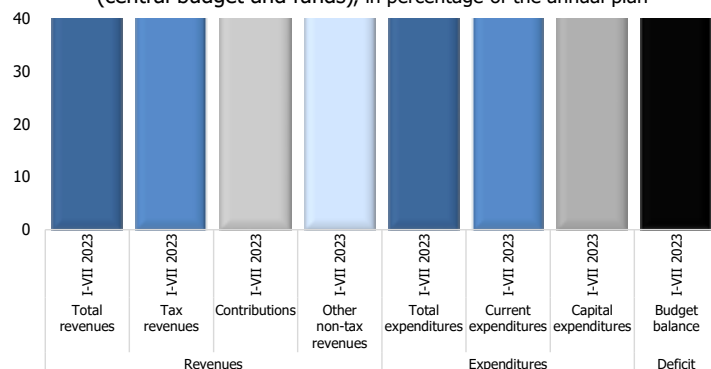


In the period January - July 2023, total budget revenues went down by 11.9% compared to the same period last, while the total budget expenditures were higher by 22.5%...

... while the realized budget deficit in the amount of Denar 27,033 million accounts for 63.2% of the deficit planned for 2023 according to the Budget¹⁸...

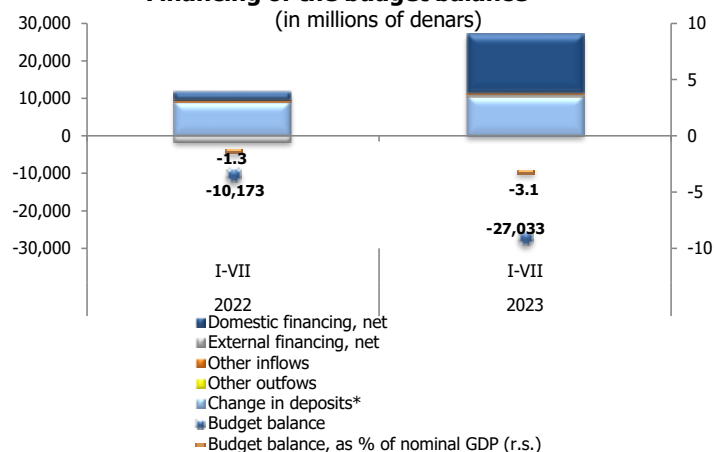
¹⁸ Official Gazette of the Republic of North Macedonia No. 282 of 7.12.2022.

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

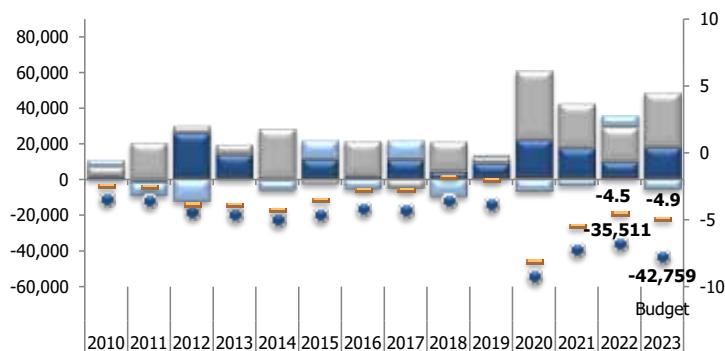


Source: Ministry of Finance and NBRNM's calculations.

Financing of the budget balance
(in millions of denars)



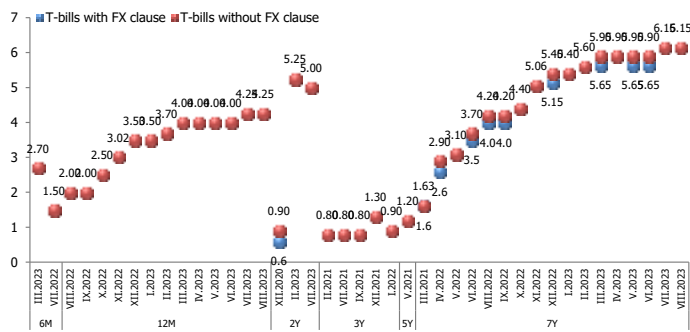
... which is financed through government borrowing on the foreign¹⁹ and domestic market, as well as by government deposits with the National Bank.



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

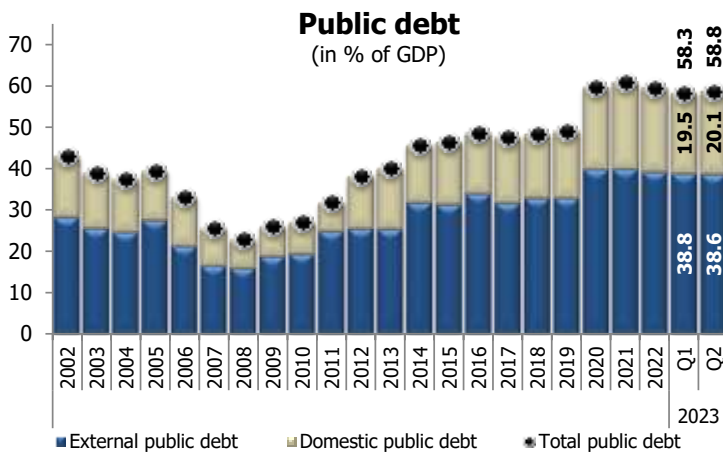
¹⁹ In March, the ninth Eurobond in the amount of Euro 500 million was issued, at a coupon rate of 6.96% and with a maturity of four years. In July, the Eurobond issued in July 2016, in the amount of Euro 450 million, with a 7-year maturity and an interest rate of 5.625%, was fully paid.

Interest rates of T-Securities in percent



Source: Ministry of Finance

In July 2023, at the regular auctions, the Ministry of Finance did not change the interest rates on newly issued securities, with a two-year civil bond without a currency clause was issued for the first time, at an interest rate of 5%.



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

At the end of the second quarter of 2023, **the public debt**²⁰ registered slight increase influenced by higher domestic public debt.

²⁰ The public debt is defined under the Law on Public Debt (Official Gazette of the RM No. 62/2005, 88/2008, 35/2011, 139/2014 and 98/2019) as the sum of government debt and public debt 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.

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	Q2	July
	<i>real annual growth rates in %</i>														
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	-8.1	-11.3
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	-9.5	-7.64
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	4.7	3.9
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	4.9	-14.4
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	-2.4	-1.7
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	3.6	-
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	11.3	-9.2	-
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	1.3	10.4

* 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	Q2	July
	<i>real annual growth rates in %, except for FDI in million denars</i>														
Imports of 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	-1.9	-12.3
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	-21.2	-
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	8.2	28.0
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	313.1	159.5
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	97.6	-2799.8	-
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	1.2	2.1
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	-5.5	-

* 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.