

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



**Recent Macroeconomic Indicators
Review of the Current Situation**

August 2020

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 (April - July 2020) and to make a comparison with the latest macroeconomic forecasts (April 2020). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous 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.

On completion of the April forecasting round, the international organizations made significant downward revisions of the forecasts for the global economic growth in 2020, entirely as a result of the health and economic crisis caused by the COVID-19 pandemic. Moreover, given the enormous unpredictability of the epidemiological situation worldwide, the risks regarding such forecasts are still significantly downward. The main downward risk refers to the possible longer duration of the pandemic and the possible occurrence of new waves of the infection which would impose a need for reintroduction of some of the restrictive measures for preventing the spread of the virus. The other negative risks include the possibility for re-tightening of the global financial conditions, the premature withdrawing or the inappropriate aiming of the anti-crisis measures introduced to mitigate the negative effects of the COVID-19 crisis, the re-escalation of the trade tensions between the USA and China, the possible disagreements within the OPEC+ group when making the future decisions to limit oil production, the possible further disinflation pressures, the difficulties for servicing of the public debt in some of the countries, as well as the occurrence of social unrests in certain regions in the world. On the other hand, the possibility for faster normalization of the economic activity than expected in some countries that deal with the pandemic better, the progress in the medical treatment of infected persons and the development of a vaccine against the coronavirus in the foreseeable future are positive risks to the global economic growth. Regarding the **economic developments in the euro area**, as our major trading partner, the second quarter of 2020 registered the historically largest annual decline in GDP of 15% (quarterly fall of 12.1%), versus the annual fall of 3.1% in the previous quarter. However, the latest high-frequency data and household and corporate surveys in July are more favorable compared to the previous month, but still indicate a continuation of the fall (on an annual basis) in the economic activity in the euro area also in the third quarter. In this context, also in Germany, as our most important trading partner, in June there is normalization and further growth of the industrial production, especially in the automotive industry, and there are also more favorable expectations for the volume of production in the next three months. In the second quarter, there was a deterioration of the labor market conditions in the euro area, whereby the unemployment rate increased to 7.7% (from 7.3% in the first quarter). In terms of inflation in the euro area, the initial assessment shows its minimal acceleration, from an annual rate of 0.3% in June to 0.4% in July. At its regular meeting in July, the ECB did not make changes to the existing stimulating monetary policy. Hence, according to the latest estimates, the expectations for the **one-month EURIBOR interest rate** are similar to the April forecasts.

Analyzing the quantitative external environment indicators of the Macedonian economy, the forecasts for the foreign effective demand and for the foreign effective inflation were revised downwards for 2020, while for 2021 they remained unchanged compared to the April forecasts. Compared to April, the US dollar is expected to register a lower appreciation rate in 2020 and a similar depreciation rate in 2021. **The latest forecasts for the changes in prices of primary commodities in the world stock markets primarily indicate fall in prices for 2020 and synchronized rise in 2021 with upward revisions compared to the April forecasts.** However, the movements and the assessments of the prices of primary commodities are extremely volatile, and are currently under the strong influence of the developments related to the

pandemic of the new coronavirus, which creates greater uncertainty about their future dynamics and effects on the domestic economy, in both the short and the longer term.

The comparison of the latest macroeconomic indicators of the domestic economy with their forecast dynamics within the April forecasting round indicates certain deviations in the individual segments of the economy. The growth of economic activity in the first quarter of 2020 slowed down significantly and amounted to 0.2% on an annual basis. The spread of the coronavirus globally and in the domestic economy led to a further deterioration in the business activity and affected the confidence and expectations of companies and consumers. Thus, the currently available high-frequency data for the second quarter indicate further and more pronounced adverse effects of the health crisis on the economic activity, in line with the fall expected in the second quarter of the year. Namely, the data show a double-digit fall in industrial production and total trade turnover in the second quarter, as well as in construction (in the period April-May). However, analyzing by month, most of the fall in the individual indicators is concentrated during April and May, while already in June there is a certain recovery. **Regarding the changes in consumer prices, the performance in July 2020 (annual inflation rate of 1.3%) is higher compared to the April forecast.** Such performances, coupled with the revision in different directions in the external input assumptions for the inflation forecast, as well as the great volatility of the world prices of primary products particularly pronounced in conditions of the global pandemic, indicate certain uncertainty about the inflation forecast of 0% in 2020.

The data on the foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) at the end of July 2020 indicate a decrease compared to the end of the previous quarter. Observed by growth factors, this shift is explained by the regular servicing of external liabilities of the public sector in July, as well as by the net sales of foreign currency on the foreign exchange market made by the National Bank, which are significantly lower than the interventions in the previous month. The analysis of the adequacy indicators shows that the foreign reserves are still maintained in a safe zone. Available external sector data for the third quarter of the year are limited. In the currency exchange market, data as of the end of July point to the possibility for less favorable performances than forecasted for the third quarter. The data from the foreign trade statistics for the second quarter show lower than expected trade deficit, amid simultaneously higher export and import component.

As for the monetary sector developments, final data as of June show that **total deposits** registered a monthly growth of 1.4%, which is a moderate acceleration compared to the previous month (1%). Observed by sector, the increase is equally a result of the growth of household and corporate deposits, with a positive contribution of other sectors. These shifts in deposits also correspond to the economic measures of the government for dealing with the COVID-19 crisis, in order to increase the liquidity of companies and support the income of households. Observing by currency, the greatest contribution to the monthly growth was made by deposits in domestic currency, with a positive contribution of foreign currency deposits. On an annual basis, total deposits in June increased by 8.4%, mostly due to the growth of household deposits, i.e. of deposits in domestic currency. The annual deposit growth in June is above the forecast for the second quarter of 2020 (6.3%), according to the April forecast. In June, **total private sector loans** registered a monthly growth of 1.4%, which also moderately accelerated compared to the previous month (0.9%). In order to encourage lending activity and provide additional liquidity in the banking system, the National Bank has adopted a series of measures since the beginning of the crisis. Observed by sector, the credit growth is equally a result of the increase in household and corporate loans. Regarding the currency structure, the greatest contribution to the monthly growth was made by denar loans, with a smaller positive contribution of foreign currency loans. On an annual basis, total loans in June increased by 6.6%, whereby sectorally observed the growth largely results from household loans, with stronger contribution of corporate loans. Analyzing the currency structure, there is an almost equal contribution of loans in domestic and in foreign currency to the annual growth of total loans. The annual growth

of loans in June is above the forecast for the second quarter of the year (4.3%), according to the April forecast.

In the period January-June, the **Budget of the Republic of North Macedonia** registered a deficit of Denar 25,950 million. The budget deficit is mostly financed by using foreign loans, with part of the inflows being retained as government deposits with the National Bank. At the same time, in this period, the government additionally borrowed on the domestic government securities market and with the domestic banks. The budget deficit for the first six months of the year was 56.2% of the deficit planned in the 2020 Budget Revision.

The latest macroeconomic indicators and assessments indicate certain deviations in terms of the forecasted dynamics, but the perceptions about the environment for conducting the monetary policy are mainly unchanged compared to the previous forecasts. According to all adequacy indicators, foreign reserves are maintained in a safe zone. The economic growth in the first quarter of 2020 is 0.2%, and the currently available high-frequency indicators for April and May point to a more significant reduction of the economic activity in the second quarter, according to the forecasts. Regarding the inflation, the higher performances in July than the forecast currently create greater uncertainty about the forecasted inflation rate for the entire 2020, and the movements of the prices of primary products in world markets in the next period are also uncertain. Within the monetary sector, the annual growth in deposits and loans in June is above the forecast for the second quarter of 2020, according to the April forecast.

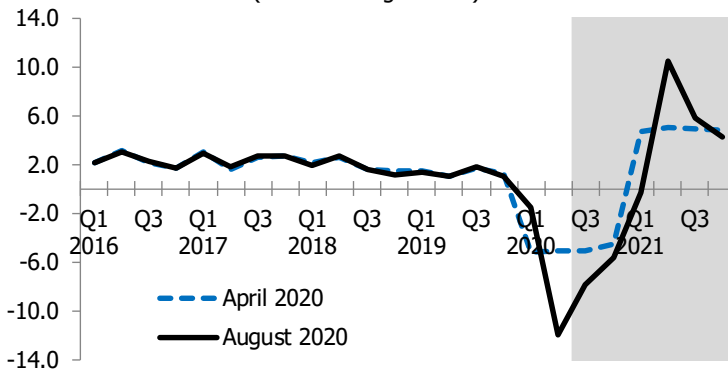
Increased credit support to the domestic economy

The banking system continued to provide credit support to the domestic economy during the second quarter of the year, thereby contributing to mitigation of the negative effects of the health crisis. In the second quarter, the total volume of the new credit flows amounted to about Denar 9 billion, whereby slightly more than half of this amount are flows realized in June 2020. Thus, the annual growth rate of loans equals 6.6% at the end of June, which is above the forecast of the National Bank. The banks' credit support is aimed at both the corporate sector and the households. The contribution of the loans to the corporate sector to the quarterly growth of total loans is slightly bigger than the contribution of the lending to households. From March onwards, the National Bank adopted several sets of measures, in order to stimulate lending activity and improve liquidity, and their effects are visible through the latest data on the dynamics of the credit market. According to the latest Bank Lending Survey, the credit support to the domestic economy is expected to continue in the third quarter, by easing the credit conditions of companies, and banks also expect an increase in the credit demand with both sectors.

Selected economic indicators ^{1/}				2019							2020						
	2016	2017	2018	Q1	Q2	Q3	Q4	2019	Jan.	Feb.	Mar.	Q1	Apr.	May	June	Q2	July
I. Real sector indicators																	
Gross domestic product (real growth rate, y-o-y)^{2/}	2.8	1.1	2.7	3.8	3.4	3.6	3.4	3.6				0.2					
Industrial production ^{3/}	3.4	0.2	5.4	8.8	1.1	7.1	-1.3	3.7	0.3	3.5	-13.4	-3.7	-33.5	-27.0	-15.1	-25.0	
y-o-y	3.4	0.2	5.4	8.8	4.8	5.6	3.7	3.7	0.3	1.9	-3.7	-3.7	-11.2	-14.4	-14.6	-14.6	
cumulative average																	
Inflation^{4/}																	
CPI Inflation (y-o-y) ^{5/}	-0.2	2.4	0.9	1.2	1.2	0.6	0.0	0.4	0.6	0.7	0.5	0.6	-0.1	-0.2	1.7	0.5	1.3
Core Inflation (cumulative average)	-0.2	1.4	1.5	1.2	1.2	1.0	0.8	0.8	0.6	0.7	0.6	0.6	0.4	0.3	0.5	0.5	0.6
Core Inflation (cumulative average)	1.3	2.3	1.5	0.9	0.9	0.8	0.5	0.5	0.3	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Core Inflation (y-o-y)	1.0	2.8	1.4	0.9	1.0	0.6	-0.4	-0.3	0.3	0.8	1.0	0.7	0.7	0.4	0.4	0.5	0.6
Labor force																	
Unemployment rate	23.7	22.4	20.7	17.8	17.5	17.1	16.6	17.3				16.2					
II. Fiscal Indicators (Central Budget and Budgets of Funds)																	
Total budget revenues	169,356	179,673	188,505	46,042	50,076	50,986	56,718	203,822	15,599	15,727	15,158	46,484	14,241	12,660	14,052	40,953	
Total budget expenditures	185,407	196,561	200,071	49,243	53,915	52,085	62,202	217,445	16,806	18,824	18,264	53,894	18,968	19,421	21,104	59,493	
Overall balance (cash)	-16,051	-16,888	-11,566	-3,201	-3,839	-1,099	-5,484	-13,623	-1,207	-3,097	-3,106	-7,410	-4,727	-6,761	-7,052	-18,540	
Overall balance (in % of GDP) ^{6/}	-2.7	-2.7	-1.8	-0.5	-0.6	-0.2	-0.8	-2.0	-0.2	-0.5	-0.5	-1.1	-0.7	-1.0	-1.0	-2.8	
III. Financial Indicators^{6/}																	
Broad money (M4), y-o-y growth rate	6.2	5.1	11.8	11.7	10.5	10.8	9.3	9.3	8.9	8.2	8.9	8.9	7.5	9.4	9.8	9.8	9.8
Total credits, y-o-y growth rate	-0.1	5.4	7.3	9.0	8.1	5.6	6.0	6.0	6.8	6.9	5.8	5.8	5.5	5.9	6.6	6.6	6.6
Total credits - households	7.0	9.2	10.3	9.7	9.9	9.5	10.5	10.5	10.6	11.1	10.1	10.1	9.4	8.6	8.8	8.8	8.8
Total credits - enterprises	-5.2	2.3	4.5	8.2	6.4	1.7	1.9	1.9	3.2	2.8	1.8	1.8	2.0	3.2	4.6	4.6	4.6
Total deposits (incl. demand deposits), y-o-y growth rate^{7/}	6.1	5.0	12.1	11.9	10.6	11.0	9.0	9.0	8.8	7.8	7.9	7.9	6.0	7.8	8.4	8.4	8.4
Total deposits - households	2.5	6.1	9.5	8.7	9.0	9.3	7.9	7.9	8.5	8.7	8.6	8.6	7.8	8.2	8.7	8.7	8.7
Total deposits - enterprises	13.4	2.1	9.5	12.1	10.1	11.1	14.6	14.6	12.2	10.2	12.5	12.5	6.5	9.8	11.2	11.2	11.2
Interest rates^{8/}																	
Interest rates of CBills (end of month/quarter/year)	3.75	3.25	2.50	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.50	1.50	1.50	1.50
Lending rates																	
denar rates	7.0	6.6	6.1	5.8	5.7	5.6	5.4	5.6	5.4	5.3	5.3	5.3	5.3	5.3	5.2	5.2	5.3
fx rates (aggregated, incl. fx and denar with fx clause)	5.7	5.3	4.9	4.7	4.7	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3
Deposit rates																	
denar rates	2.5	2.2	2.0	2.0	1.9	1.9	1.7	1.9	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5
fx rates (aggregated, incl. fx and denar with fx clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6
IV. External sector indicators																	
Current account balance (millions of EUR)	-275.5	-102.9	-14.9	-158.1	-47.0	178.5	-286.9	-313.5	-0.2	-73.9	-82.9	-157.0					
Current account balance (% of GDP)	-2.9	-1.0	-0.1	-1.4	-0.4	1.6	-2.5	-2.8	0.0	-0.7	-0.8	-1.4					
Trade balance (millions of EUR)^{9/}	-1,786.2	-1,816.2	-1,811.9	-456.3	-474.5	-437.1	-646.8	-2,014.8	-134.4	-199.9	-176.9	-511.2	-162.4	-116.1	-105.4	-384.0	
Trade balance (% of GDP)	-18.0	-18.1	-16.9	-4.0	-4.2	-3.9	-6.7	-17.8	-1.2	-1.8	-1.6	-4.7	-1.5	-1.1	-1.0	-3.5	
Import (millions of EUR)	-6,176.5	-6,824.9	-7,676.3	-1,990.4	-2,095.7	-2,066.0	-2,284.2	-8,426.3	-591.4	-719.8	-607.7	-1,918.9	-373.7	-455.4	-597.4	-1,026.5	
Export (millions of EUR)	4,390.3	5,018.7	5,872.4	1,534.0	1,621.2	1,628.9	1,637.4	6,421.6	457.0	519.9	430.8	1,407.7	211.3	339.3	492.0	1,042.6	
rate of growth of import (y-o-y)	6.5	10.7	12.3	11.6	10.9	11.9	5.9	9.9	3.7	5.9	-18.0	-3.6	-50.9	-36.4	-3.4	-31.9	
rate of growth of export (y-o-y)	7.4	14.3	17.0	17.1	11.1	10.8	0.2	9.4	10.0	-1.9	-26.8	-8.2	-60.3	-39.3	-7.3	-35.7	
Foreign Direct Investment (millions of EUR)	316.9	180.0	603.7	40.2	11.0	62.9	176.3	290.6	24.9	-49.2	-108.4	-132.7					
External debt																	
Gross external debt (in millions of EUR)	7,216.6	7,372.5	7,843.7	8,249.5	8,337.2	8,581.0	8,191.2	8,191.2				8,338.9					
public sector	3,445.3	3,461.8	3,756.2	3,797.2	4,035.1	4,074.2	3,836.6	3,836.6				3,814.7					
private sector	35.7	34.5	35.1	36.1	35.6	35.9	33.8	33.9				34.9					
private sector	3,771.2	3,910.7	4,087.5	4,154.4	4,302.1	4,506.9	4,354.6	4,354.6				4,324.3					
Gross external debt/GDP (in %)	74.7	73.4	72.7	72.7	73.5	75.7	72.2	72.2				76.3					
Gross official reserves (millions of EUR)^{10/}	2,613.4	2,336.3	2,867.1	2,866.4	2,928.2	3,127.5	3,262.6	3,262.6	3,100.6	3,084.5	3,017.3	3,017.3	3,159.6	3,079.1	3,639.7	3,639.7	

^{1/} In calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2020, the projected level from NBRM's last forecasting round is used.
^{2/} The quarterly data for 2018 are preliminary, while for 2019 and 2020 are estimated (Press release for quarterly data on GDP as of 08.06.2020). The annual data for 2018 is preliminary data (Announcement for annual data for GDP from 30.09.2019).
^{3/} The changes of index of industrial production are according to base year 2015=100.
^{4/} CPI calculated according to COICOP 2019-100.
^{5/} The rate on annual basis corresponds to end-year inflation (December current year/December previous year).
^{6/} The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since June 2018).
^{7/} It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.
^{8/} As of June 2018 data for active and passive interest rates are compiled according to the new methodology of NBRM.
^{9/} Trade balance according to foreign trade statistics (on c.i.f. base).
^{10/} The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

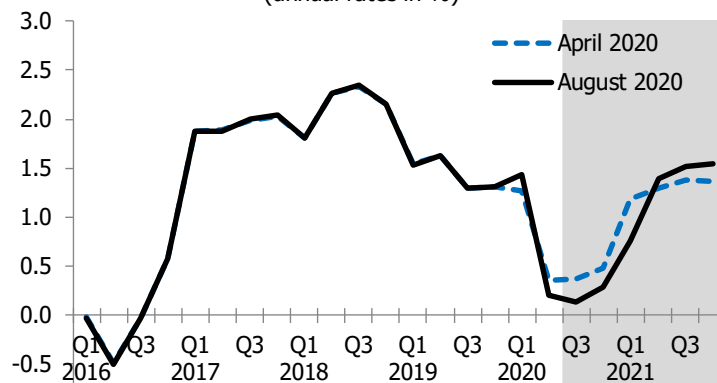
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the fall in foreign effective demand in 2020 is expected to amount to 6.7%, which is a downward revision compared to the April assessment of 5%. The revision is a result of the sharper forecasted economic decline in almost all our trading partners, and especially in Germany¹, Greece and Italy. For 2021, the expected growth rate of foreign demand is unchanged and amounts to 4.9%.

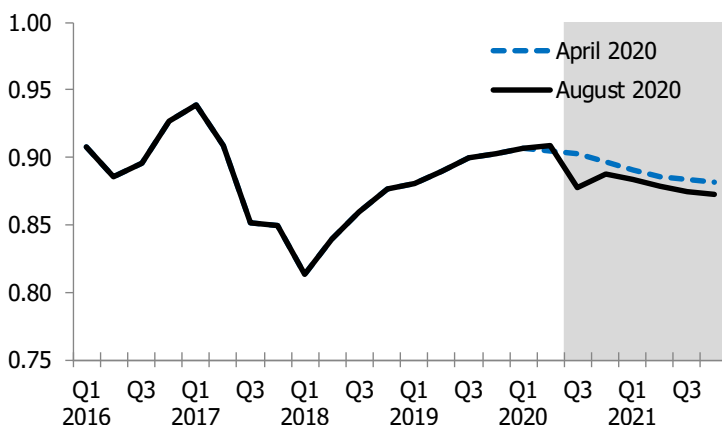
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

The forecast of the foreign effective inflation for 2020 has been minimally revised downwards compared to the April assessment, expecting to amount to 0.5% (0.6% in April), mainly due to the downward adjustment in Croatia². For 2021, no change in the assessment was made, whereby the foreign inflation is still expected to amount to 1.3%.

EUR/USD exchange rate

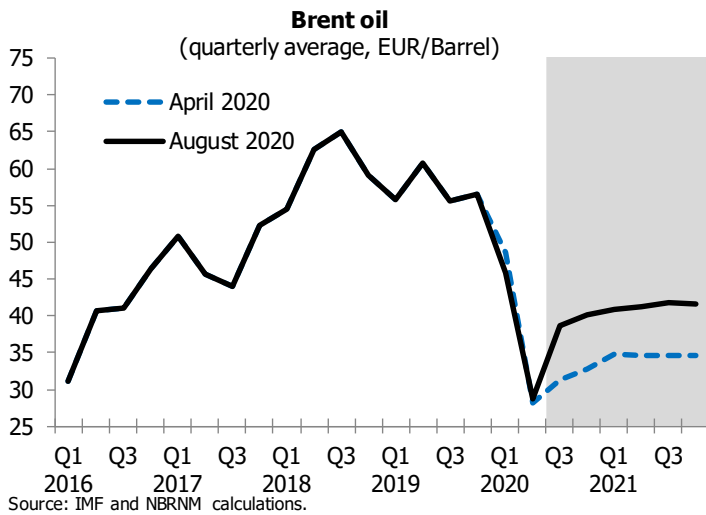


Source: Consensus forecasts and NBRNM calculations.

In 2020, the euro/US dollar exchange rate is expected to register a lower appreciation compared to the April forecasts. Such assessment is mainly due to the unfavorable economic indicators for the USA, the worsened situation with the COVID-19 pandemic in this country, the expectations for a prolonged monetary stimulus by the Fed, as well as to the agreement reached within the European Union about the pandemic recovery plan. On the other hand, the value of the US dollar is still expected to depreciate in 2021, at a similar rate as in the April forecasts.

¹ Forecasted fall in Germany of 6.3% in 2020, versus 5% in April and forecasted growth of 4.8% in 2021, versus 4.5% in April.

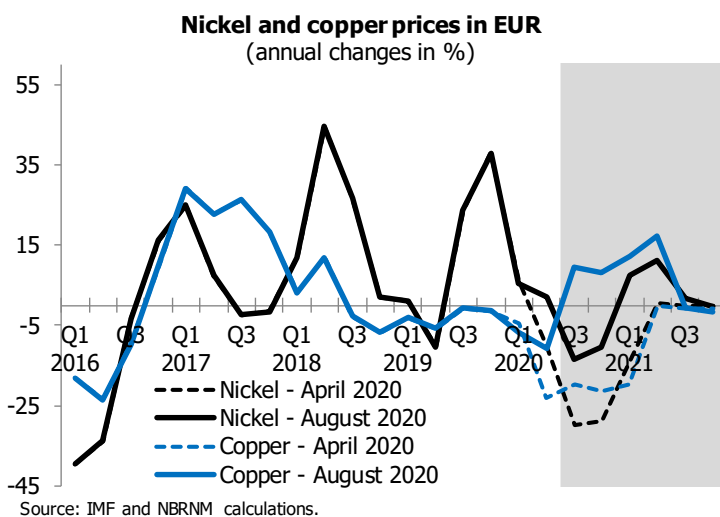
² Inflation in Croatia has been adjusted for the changes in the exchange rate.



Compared to April, the oil price³ has been moderately revised upwards in the period of forecasts, now expecting a smaller decline than forecasted for 2020 and its growth, instead of fall for 2021. The upward revision is largely a result of the resumption of the agreement reached within the OPEC+ group for reduction of oil production by the end of December, although at a slower pace⁴, the expected reduction of inventories, as well as of the signals for recovery of the global demand for oil in conditions of an improvement of the industrial activity in several parts of the world.

The latest estimates suggest an upward revision of the world metal prices in the period of forecasts. Thus, contrary to the previous expectations for a significant fall in the copper price, an almost unchanged average level is now expected in 2020, largely due to the growth of the demand from China, as the largest copper consumer, in conditions of a strong fiscal and monetary stimulus in that country, the reduction of global inventories and the concern about the production with some of the key producing countries due to the tough measures taken to prevent the spread of the COVID-19 virus. Similarly, the nickel price is also expected to register a much smaller decline than the previous assessment, due to the increasing demand from the industry for steel and for electric cars, the restart of the manufacturing industry globally, as well as the worse expectations of some of the nickel producers. A substantial upward revision of the prices of both metals was also made for 2021, now expecting to register an increase, despite the April forecasts for decline.

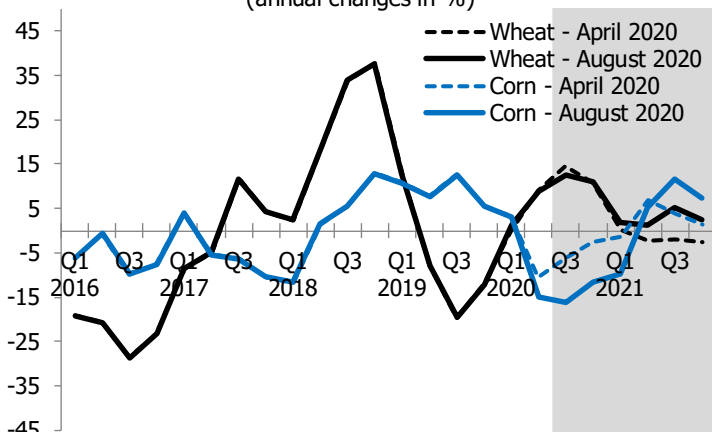
According to the latest forecasts for the market of primary food products for 2020, the wheat price has remained unchanged relative to April, while the corn price has been significantly revised downwards. Thus, the wheat price is expected to register a similar growth as in April, while the corn price is expected to register a significantly larger decline than the previous assessment. This is mainly due to the expectations for high growth of the world



³ The analysis of prices of oil, metals and primary food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

⁴ From May to July, the oil production of the OPEC+ members decreased by 9.7 million barrels on a daily basis, and from August to December the decrease will be 7.7 million barrels.

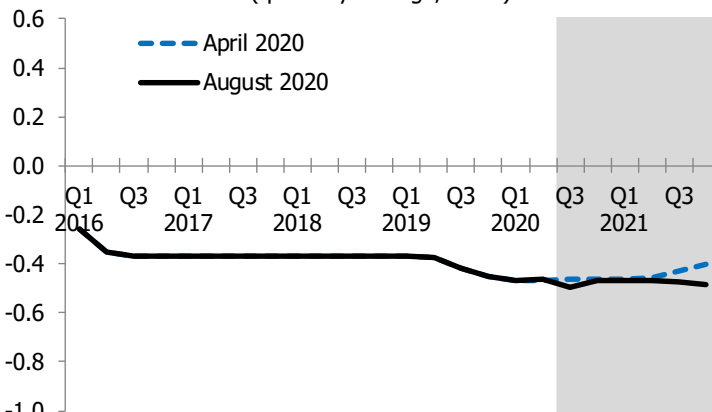
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

corn production and for slower industrial demand. On the other hand, the revisions for 2021 are in an upward direction, thus forecasting small growth, instead of a slight decline, in the wheat price and a slightly faster growth of the corn price compared to the April forecasts.

1-month Euribor
(quarterly average, in %)

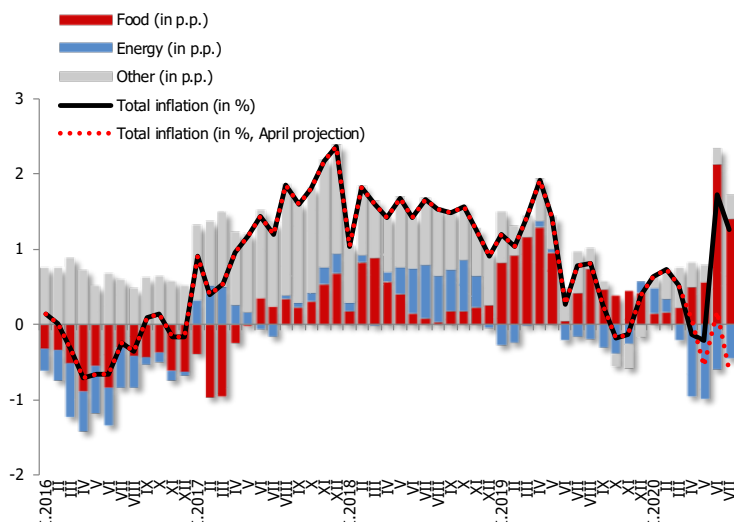


Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, it is expected that the **one-month EURIBOR** will equal -0.47% in 2020 and 2021. Compared to April, the assessment is unchanged for this year and is similar to the previous assessment for next year (-0.44%).

Inflation rate

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



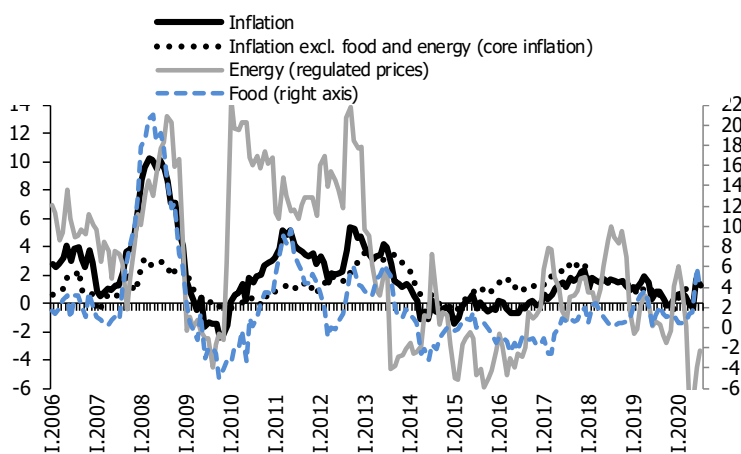
Source: SSO and NBRNM.

In July 2020, **domestic consumer prices** registered a slight monthly decline of -0.3% (the previous month registered a monthly growth of 0.8%) due to the reduction of food prices, while the core and energy component⁵ made a positive contribution⁶.

The annual inflation rate equaled 1.3% in July (1.7% in the past month), which is a stronger intensity of price growth than expected with the April forecasting round. In terms of the structure, regarding the forecast, an upward deviation was registered in all three components, amid a higher growth in the food and core component, as well as a smaller decline in the energy component than expected.

Inflation and volatility of food and energy

(annual growth rates, in %)



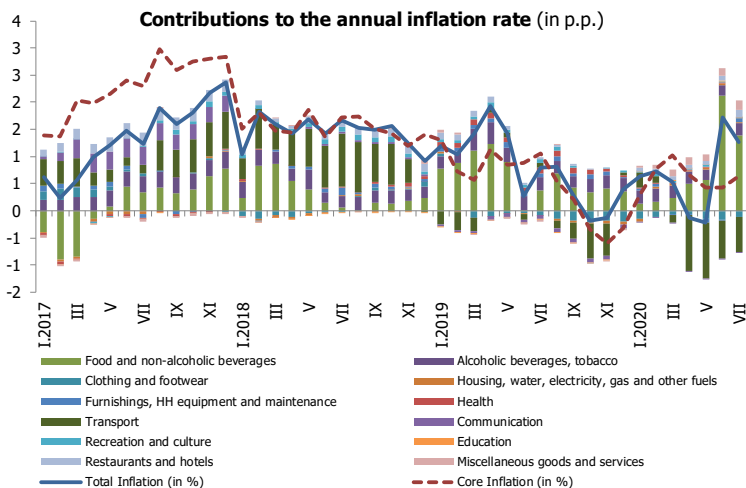
Source: State statistical office and NBRNM calculations.

Core inflation in July grew by 0.9% on a monthly basis, and on an annual basis the growth amounts to 0.6%. The structure of the annual rate of core inflation in July is similar to the previous month, i.e. the prices of tobacco⁷ continue to make the highest positive contribution. Also, a slightly more significant positive contribution this month was made by the prices of electrical appliances for personal hygiene and other appliances, as well as the prices of catering services and accommodation. On the other hand, the greatest negative contribution was made by the lower prices of clothing and footwear and the prices of computer equipment.

⁵ Observed by group of products, the largest positive contribution to the monthly increase in prices in July was made by the prices of liquid fuels and lubricants, the prices of household products-non-durable and the prices of accommodation services. On the other hand, the largest negative contribution was made by the prices of vegetables (and to a much smaller extent the prices of fruit), the prices of vehicles, the prices of computer equipment and the prices of ready-to-wear clothing.

⁶ On 16 March 2020, the Government made a decision to freeze the prices of basic products - bread, salt, vegetable oil, sugar, milk and milk products, eggs, flour, meat, pasta, medicines and disinfectants, as of the day of the declaring of the pandemic by the WHO (i.e. on 11 March 2020), except for those for which there is evidence that the entry invoices have been increased. Moreover, high fines were also introduced for those who will groundlessly increase the prices of basic products, in order to prevent an insubstantial increase in profits in times of crisis.

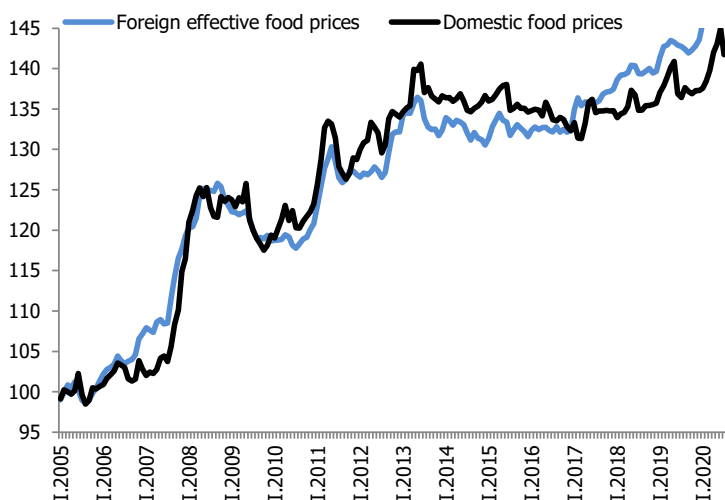
⁷ The annual growth of tobacco price in July reflects the increase in the prices of cigarettes in March 2020, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023.



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

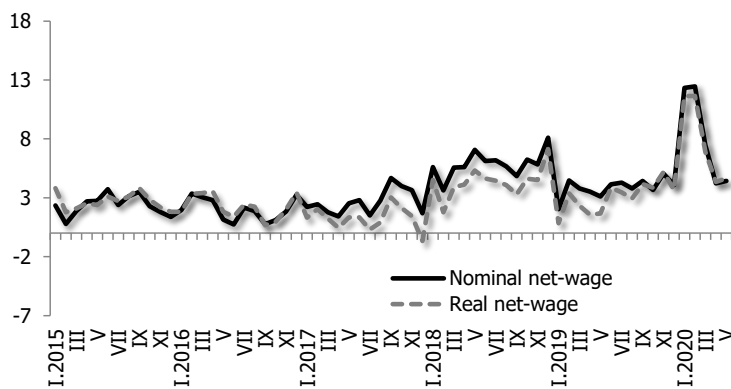
The higher inflation than forecasted in April, as well as the revisions of external assumptions in a different direction, suggest certain uncertainty about the inflation forecast for 2020 of 0%. Yet, the movement of world primary commodity prices remains very uncertain in the next period, according to the uncertain economic effects of the global pandemic and its duration.

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



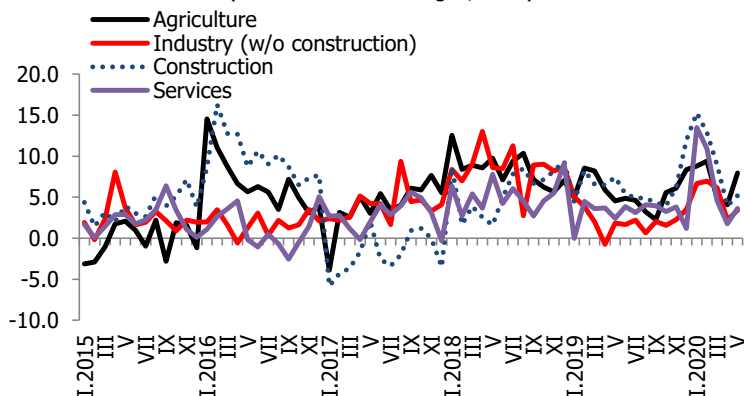
* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.

Average net-wage
(annual changes, in %)



Source: SSO.

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



Source: SSO.

In May 2020, the nominal annual growth of the average net wage remained at a similar level as the previous month, and amounted to 4.4%. The growth partly reflects the increase in the minimum wage⁸, the increase in the wages in the public sector⁹, as well as the effect of the measure for subsidizing contributions due to wage increase¹⁰.

Annual wage growth was registered in most of the activities, with the most pronounced growth being registered in the activities "information and communication" and in "education". On the other hand, May also registered a continuation of the reduction in the wages paid in the sectors that were most affected by the current health and economic crisis - "accommodation facilities and catering services", "arts, entertainment and recreation", as well as in transport and storage¹¹, and a decline was also registered in financial activities and insurance.

Amid minimal decline in the consumer prices in May, the **real annual growth of the net wage in May was 4.7%.**

Compared to the expectations of the April forecast, the current performances are currently more favorable compared with the forecast.

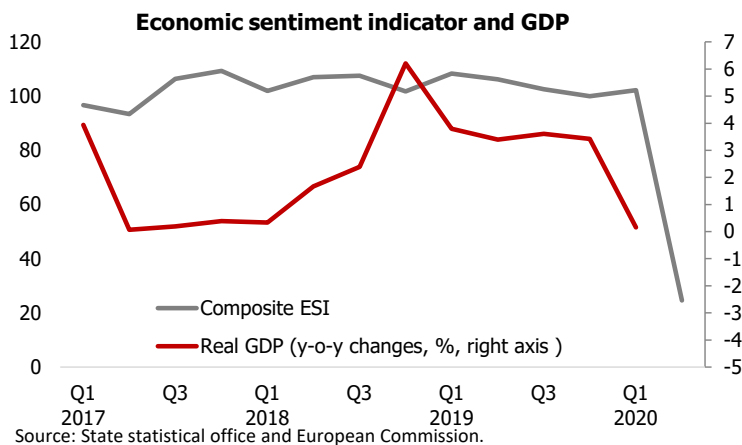
High-frequency data on the supply and demand side are generally unfavorable and point to a fall in the economic activity in the second quarter of the year. However, analyzing by month, most of the fall in the individual indicators is concentrated during April and May, while already in June there is a more significant recovery.

⁸ During 2019, the minimum wage was increased twice, in April and December. In April, the minimum wage was increased from Denar 12,165 to Denar 12,507 net wage (gross from Denar 17,370 to Denar 17,943) in accordance with the adjustment with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth (with one third of the growth of each indicator, respectively, Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 59/19). With the additional increase in December (of around Denar 2000 net), the amount of minimum wage which is paid for the period from December 2019 to March 2020 is Denar 14,500 in net amount (Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 239/19).

⁹ The wages of health workers were increased by 5%, starting with the payment of the September wage in 2019. Also, the Decision of the Government of the Republic of North Macedonia adopted in May 2019, leveled the wages of around 2,900 employees in the field of culture, from both the national and the local institutions, starting from the April wage for 2019. In addition, the amendments to the Law on Protection of Children increase the wages of educators, carers/nurses, professional workers and associates by 16%, starting with the June wage in 2019, and the Labor Agreement increases the wages of ancillary-technical staff. The wages of social workers were also increased by 22% with the payment of the June wage, and with the payment of the September wage they also received an additional increase of 5%. In addition, there was 5% salary increase for employees in education, police, defense and the entire public sector, starting with the September wage in 2019. In January 2020, the wages in education were additionally increased by 10%, and from February 2020, the wages of employees in health were additionally increased (growth of 25% for specialists, 15% for general practitioners, 10% for nurses, and by 5% for health associates and ancillary-technical staff).

¹⁰ According to the Law on subsidizing contributions from compulsory social insurance due to wage increase, which started to be enforced with the payment of the November wage (Official Gazette of the Republic of North Macedonia No. 239/19), whereby the subsidizing of contributions is approved if the increase in the net wage is in the amount of at least Denar 600 up to Denar 6000 per month by insuree (Official Gazette of the Republic of North Macedonia No. 239/19, Articles 2 and 3).

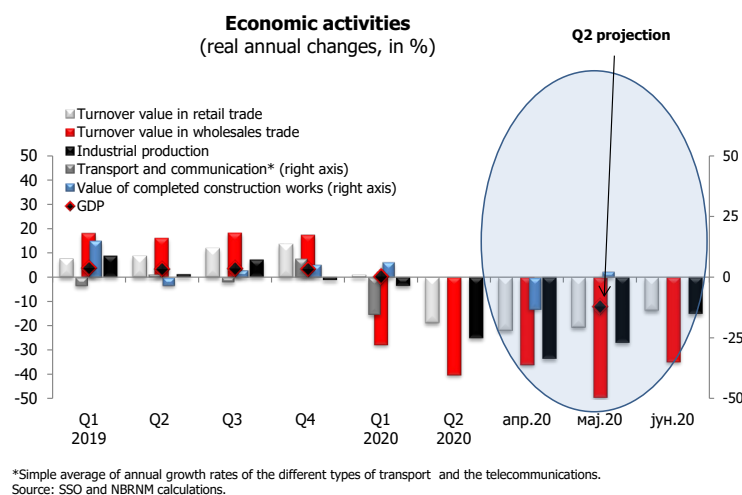
¹¹ In order to continue to pay wages, the Government introduced financial support to private sector employers affected by the health and economic crisis caused by the virus COVID-19, Denar 14,500 per employee/per month for April and May 2020 (Official Gazette of the Republic of North Macedonia No. 93/20).



The situation related to the new viral infection and the measures taken for dealing with such infection were reflected on the economic agents' perceptions for the economic situation¹². Thus, the results of the surveys for the second quarter of the year indicate significantly worsened perceptions compared to the last quarter, as well as compared to the same quarter last year.

The total trade turnover registered a significant real fall of 30.6% on an annual basis in the period April-June, reflecting the unfavorable developments and the substantial fall in the turnover in wholesale and retail trade, while a slight decline was registered in the trade in motor vehicles.

Industrial output also registered a significant real fall of 25% on an annual basis in the second quarter. Moreover, the largest decline and consequently the highest negative contribution was registered in the manufacturing industry, amid fall in the energy and the mining sectors. The fall within the manufacturing industry is widely dispersed, and the largest negative contribution is made by the group of activities in which the foreign export facilities related to the automotive industry are active, such as the production of machines and devices, the production of motor vehicles and the production of electrical equipment¹³. When it comes to the traditional activities, a more notable negative contribution was made by the production of clothing and textile. On the other hand, a small positive contribution was made only by a few activities (production of basic pharmaceutical products, production of rubber and plastic products, production of chemicals and chemical products and production of other transport equipment).



Construction registered a real annual fall in the period April-May contrary to the growth registered in the previous quarter, entirely as a result of the substantial fall in building construction, while civil engineering increased. However, observed by months, in May the

¹² It refers to the surveys conducted by the European Commission to measure the economic confidence of agents in an economy. The composite indicator of economic confidence is a weighted average of the consumer confidence indicators and economic sectors confidence indicators (construction, industry, retail trade and services). Starting from January 2019, the European Commission revised the structure of consumer confidence indicator, and accordingly, the composite indicator of economic confidence. For more information on the new methodological changes visit: https://ec.europa.eu/info/files/revised-consumer-confidence-indicator_en

¹³ Since mid-March and during April, most of the new industrial facilities temporarily interrupted the production process as a reflection of the broken global value and logistics chains.

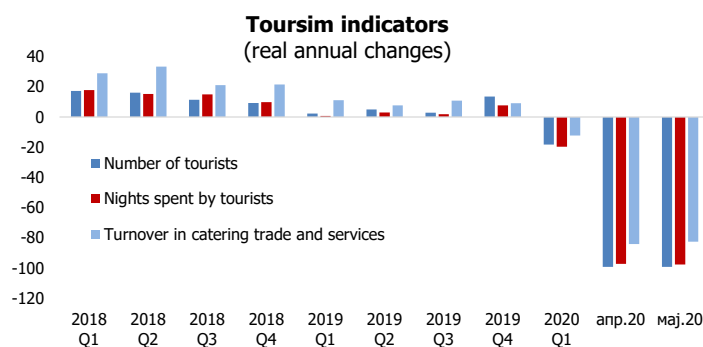
INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2018				2019				2020					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Apr	May	Jun	
	<i>real annual changes in %</i>													
Gross domestic product	0.3	1.7	2.4	6.2	3.8	3.4	3.6	3.4	0.2	-	-	-	-	
Industrial output*	5.2	4.9	5.1	6.4	8.8	1.1	7.1	-1.3	-3.7	-25.0	-33.5	-27.0	-15.1	
Construction	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-	-13.0	2.5	-	
Building	3.2	6.1	-11.4	28.1	-9.3	5.1	23.7	-1.1	-8.5	-	-28.0	-17.2	-	
Civil Engineerings	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.7	11.1	21.3	-	-4.2	16.0	-	
Retail and wholesale trade	5.8	8.2	7.3	9.2	13.9	12.8	15.3	15.5	-16.7	-30.6	-30.4	-36.8	-24.3	
Retail trade	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-18.6	-21.8	-20.5	-13.6	
Wholesale trade	5.2	6.8	7.0	8.6	18.0	16.0	18.1	17.3	-27.8	-40.1	-35.9	-49.2	-34.7	

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

construction activity grew, although minimally, as a result of civil engineering.

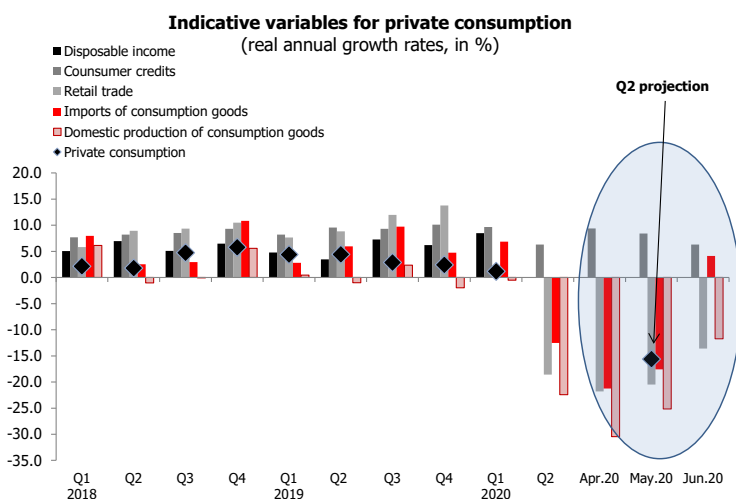
Catering is the sector that was most directly hit by the current health crisis. Data for the period April-May indicate a sharp annual decline in the number of tourists, overnight stays and total turnover.



Source: SSO and NBRNM calculations.

Also, the available aggregate demand indicators are mostly unfavorable and point to a fall in the economic activity in the second quarter of the year.

Indicators of the movements in **private consumption**¹⁴ currently indicate a decrease in consumption in the second quarter of the year, in part due to the presence of the restrictive measures, but also due to the uncertainty and the delay of part of the consumption in conditions of further spread of the virus COVID-19. Thus, the short-term indicators of private consumption dynamics are generally unfavorable, given the double-digit fall in retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT. The consumer confidence indicator also points to the same direction, which is significantly reduced, according to the perceptions and expectations for a deteriorated financial and economic situation and lower expectations for higher spendings in the next period. Regarding the funding sources of private consumption, the available data



Source: SSO and NBRNM calculations.

¹⁴ Data on wages are as of May 2020, while data on household loans, pensions, retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT are as of June 2020.

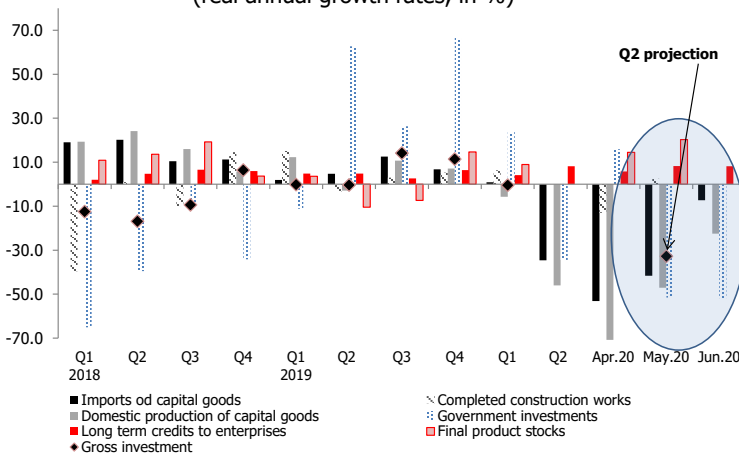
currently indicate a growth of disposable income, although it would be slower than earlier, amid significant deceleration of the annual growth in wages, and reduction in the growth is also registered in household loans. On the other hand, the solid growth of the pension bill continued also in the second quarter.

The high-frequency data on the **gross investments**¹⁵ available for the second quarter are mainly unfavorable. Thus, a double-digit fall was registered in total industrial output, domestic production of capital goods, import of capital goods, as well as in government capital investments and in the revenues from corporate tax. The available data for construction for the period April-May 2020 currently indicate a decline in the construction activity in the second quarter. The fall in investments in the second quarter is also indicated by the assessments of the managers of companies from construction and industry for decrease in their activity/production in this period. On the other hand, faster growth was registered in long-term corporate lending by banks, which was also due to the series of measures taken in order to improve the liquidity conditions and ease the financing conditions.

Foreign trade data in the second quarter of 2020 indicate a narrowing of the deficit on an annual basis, amid a nominal decline in both the export and the import of goods.

Budget performances in the second quarter of the year point to a slight slowdown in the annual growth of **public consumption** in the second quarter, mainly due to the lower expenditures on goods and services.

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



Source: SSO and NBRNM calculations.

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

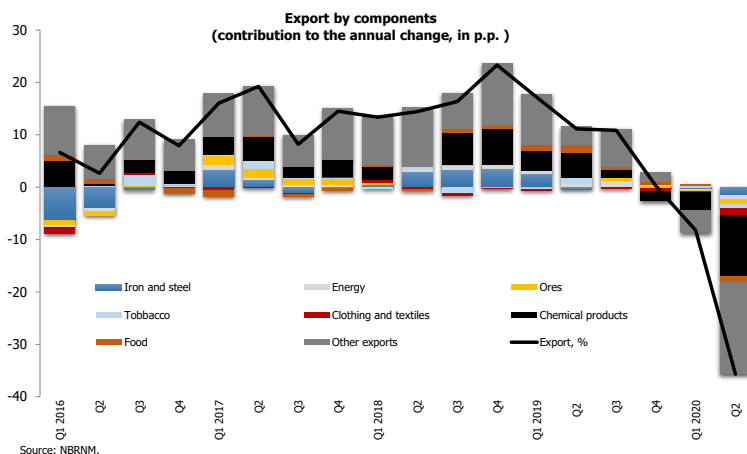
In the second quarter of 2020, the trade deficit in goods narrowed by 19.1% on an annual basis, in conditions of a double-digit fall in both the export and the import component, caused by the negative effects of the COVID-19 pandemic.

In the second quarter of 2020, the export of goods fell by 35.7% on an annual basis.

However, analyzing by month, most of the fall is concentrated in the first two months of the quarter¹⁶, while June registered significant slowdown in the fall in exports. In terms of the structure, the annual fall is mostly driven by the lower export of the new capacities in the economy (a share of around 75% in the total fall in exports in the second quarter), which had an interruption in the activity or operated at reduced capacity during April and May. All remaining export categories also acted towards reducing the exports, although at significantly slower pace. The negative contribution in the second quarter is more pronounced in other exports (excluding the new export-oriented companies), export of iron, as well as textile and food.

Compared to the April expectations, the performances in the second quarter of 2020 are better than the export forecasted for this period. Significant upward deviation is registered in the export of the new capacities in the economy, due to the favorable export performances in June. An additional upward deviation is also registered in the export of iron and steel, tobacco and ores, while the export of food registered in the second quarter is lower than expected according to the April forecast.

Import of goods in the second quarter fell by 31.9% on an annual basis. Moreover, in accordance with the export performances, imports significantly dropped during April and May, while June registered a slowdown in the fall. The reduced import of raw materials by the new export-oriented companies is the driving factor for the fall in the import component, reflecting the lower export performances of these companies. This factor, coupled with the lower investment activity, led to lower import of equipment and machinery and other imports.



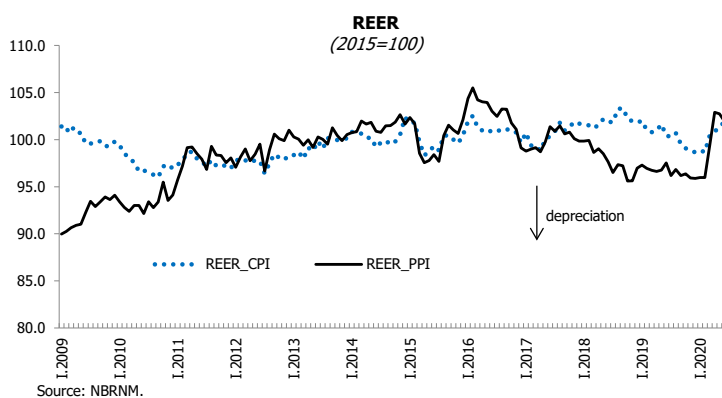
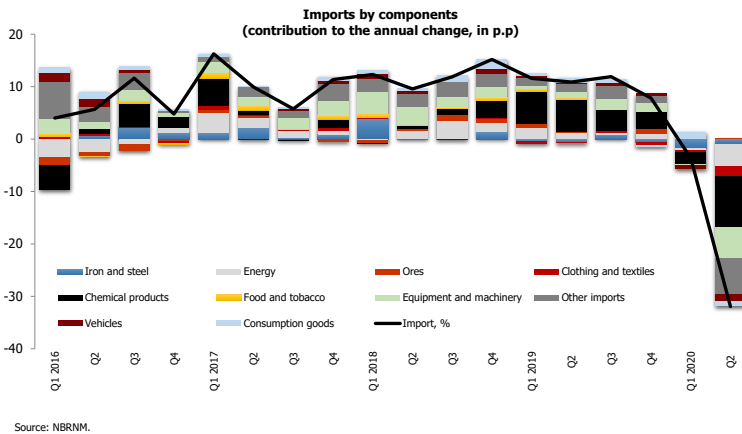
¹⁶ The annual decline in exports in June amounts to 7.3%, which is a more significant slowdown in the decline compared to the rates of 60.3% in April and 39.3% in May 2020.

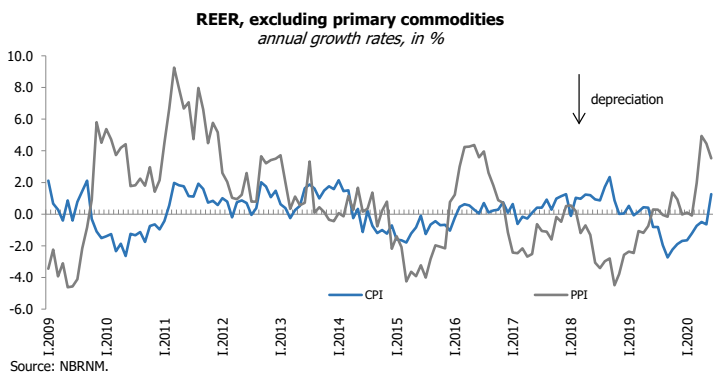
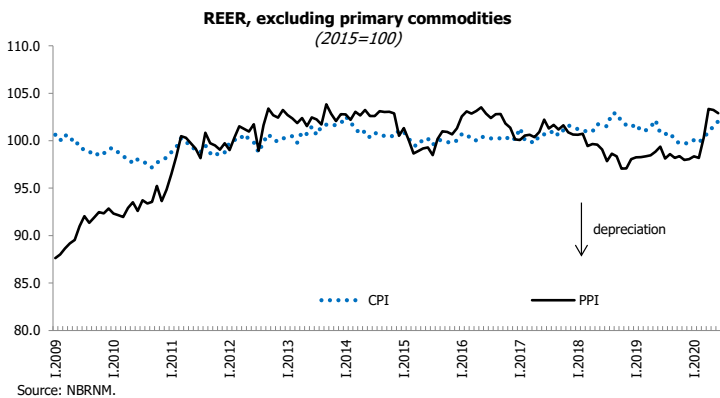
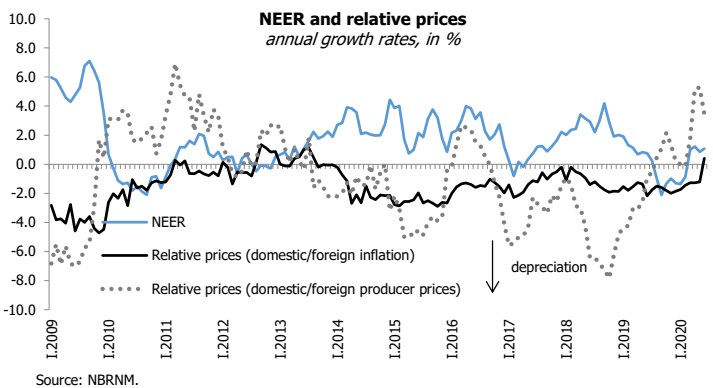
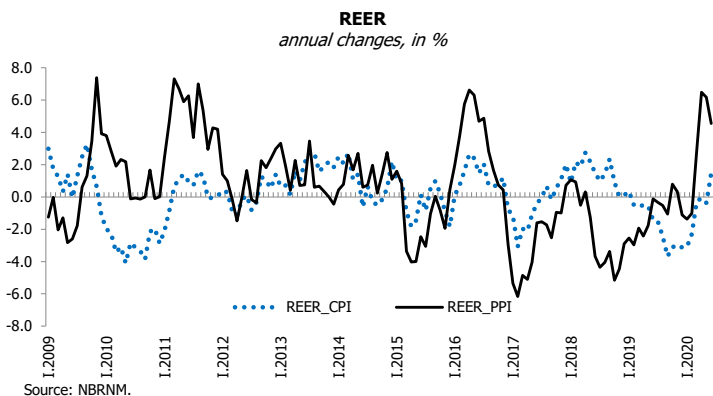
The fall in energy imports in the second quarter is mostly driven by price factors, i.e. the significant fall in the price of crude oil on world markets in April, and to a lesser extent by the lower quantity imports of oil derivatives. From the remaining import categories, textile and clothing, vehicles and iron and steel also acted towards reducing the total imports on an annual basis, but at significantly slower pace.

The performance of the import of goods in the second quarter of 2020, is higher than expected according to the April forecasts, largely due to the higher imports of some of the new export capacities, the higher imports of equipment and machinery and other imports, and to a lesser extent due to the imports of food, energy and iron and steel. On the other hand, there are weaker import performances in textile and clothing, vehicles and consumer goods.

The performance of foreign trade components during the second quarter of 2020 results in a trade deficit, which is lower than expected in the April forecast.

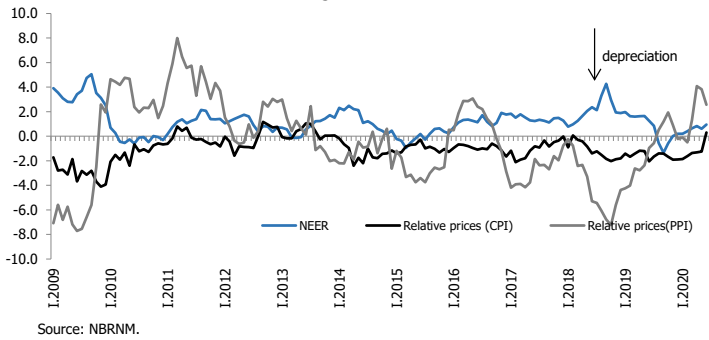
In June 2020, the REER indices appreciated on an annual basis. Thus, the REER index deflated by consumer prices appreciated by 1.5%, while the REER index deflated by producer prices appreciated by 4.6%. The relative consumer prices went up by 0.4%, while the relative producer prices rose by 3.5%. The NEER appreciated by 1.1%, mostly as a result of the depreciation of the Russian ruble and the Turkish lira.



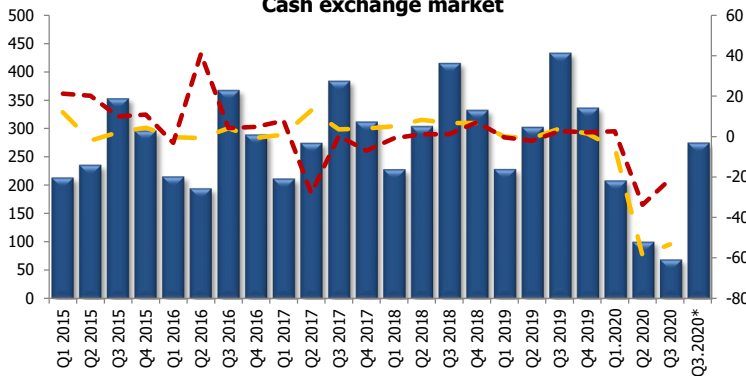


The movements of the REER indices, as measured using weights based on the foreign trade without primary commodities, are also in the same direction. Thus, the REER index deflated by consumer prices appreciated by 1.3%, while the REER deflated by producer prices appreciated by 3.5%. Moreover, the relative consumer prices increased by 0.3%, and the relative producer prices rose by 2.6%. The nominal effective exchange rate slightly appreciated by 0.9% on an annual basis.

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

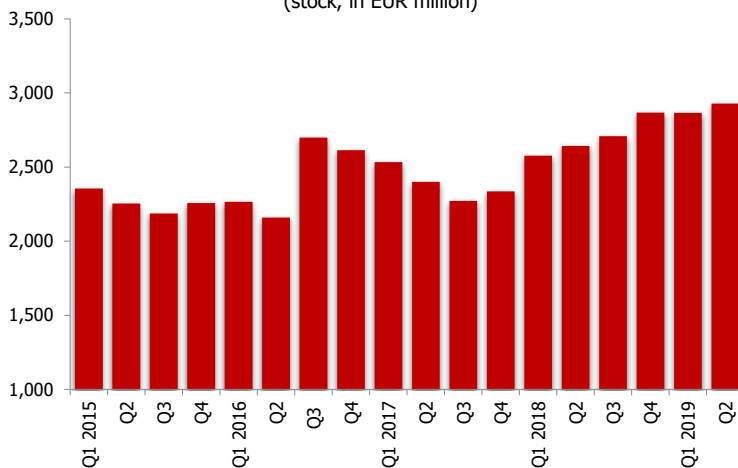


Cash exchange market



The net purchase on the currency exchange market registered in July 2020 equaled Euro 69.4 million, which is annual decrease of 58.3%. Such performances are driven by the decline in the supply of, which is sharper relative to the reduction of the demand for foreign currency (by 51.6% and 21.5%, respectively).

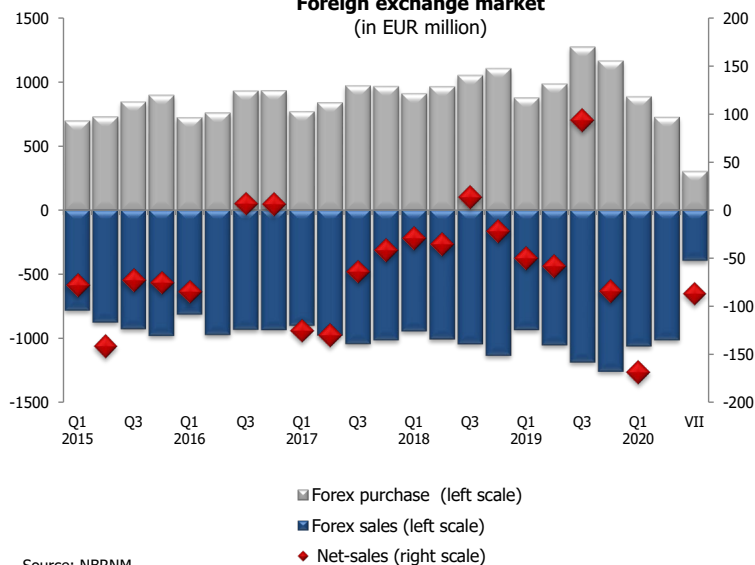
Foreign exchange reserves
(stock, in EUR million)



As of 31 July 2020, gross foreign reserves stood at Euro 3,512.7 million, which is a decrease of Euro 126.9 million compared to the end of the second quarter of 2020. The main factor for such change are the transactions on behalf of the government¹⁷ as well as the interventions on the foreign exchange market by the National Bank. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.

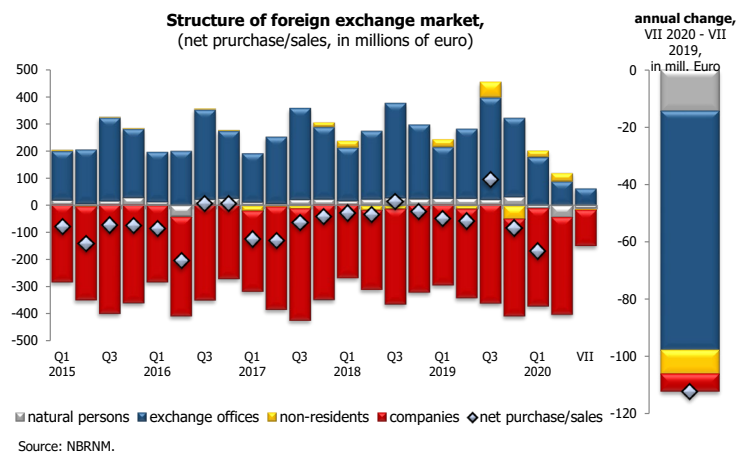
¹⁷ During July, regular payments of principal and interest on public debt were made.

Foreign exchange market
(in EUR million)



In July 2020, the foreign exchange market of banks reported a net sale of foreign currency, as opposed to a low net purchase made in the same period last year. This annual change is a result of the more substantial fall in the supply of relative to the fall in the demand for foreign currency.

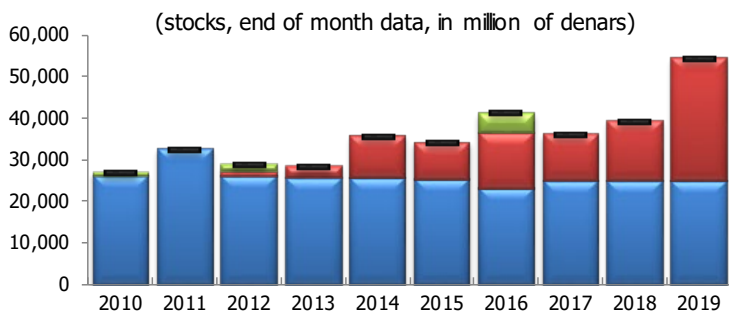
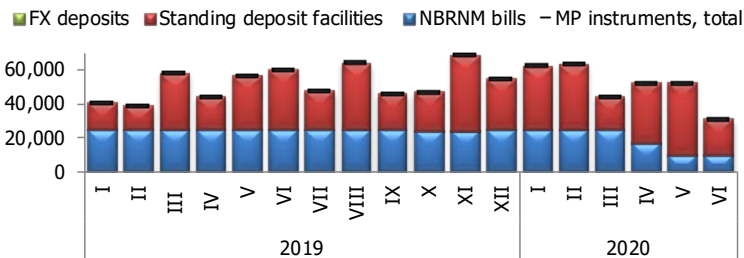
Structure of foreign exchange market,
(net purchase/sales, in millions of euro)



Sector-by-sector analysis shows that such movements mostly result from exchange offices.

Monetary policy instruments

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



Source: NBRNM

At the end of June, the monetary instruments reduced compared to the previous month, due to the reduction in the amount of banks' assets placed in deposits with the National Bank, amid an unchanged amount of the stock of CB bills¹⁸. The level of monetary instruments at the end of June is slightly lower than forecasted for the end of the second quarter of 2020¹⁹.

The net foreign assets of the National Bank at the end of June are moderately higher than forecasted for the end of the second quarter of 2020.

In June, the total government deposits with the National Bank registered a monthly growth, and their stock at the end of June is almost in line with the forecast for the end of the second quarter of 2020.

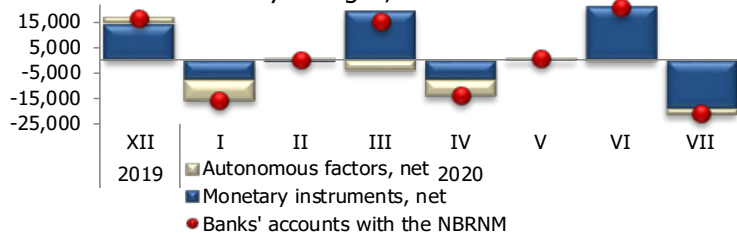
Reserve money in June registered a monthly growth, as a result of the growth of the banks' total reserves with the National Bank, amid almost unchanged currency in circulation. Moreover, the reserve money stock is higher compared to the forecast for the end of the second quarter of 2020.

¹⁸ At the CB bills auction of the National Bank held on 17 June 2020, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.5% and maturity of 29 days.

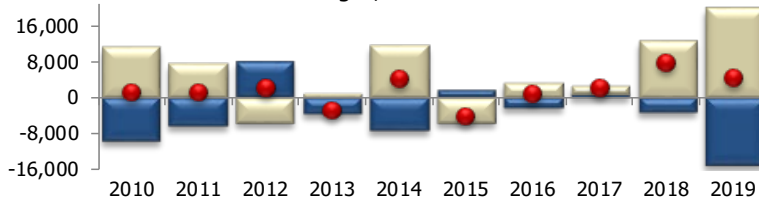
¹⁹ The performance comparisons are against the April forecasts of the National Bank.

Banks liquidity*

monthly changes, in million of denars



annual changes, in million of denars

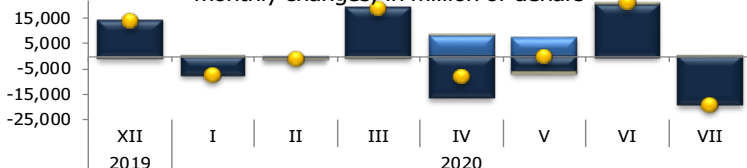


Source: NBRNM.

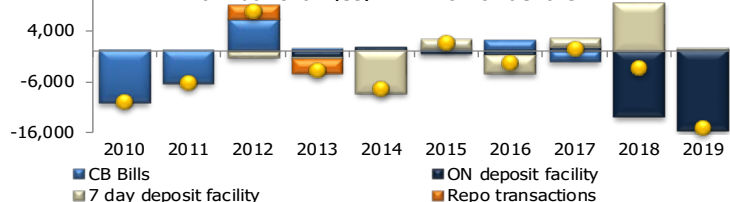
According to the operational data on liquidity flows, **in July, the liquidity of the banking system registered a monthly decrease.** The change results from the higher amount of the banks' placements in short-term deposits (mainly in overnight deposits), amid unchanged stock of CB bills²⁰. The autonomous factors, net, contributed towards reducing the liquidity in the banking system, which was entirely due to the foreign currency interventions of the National Bank and currency in circulation, while government transactions acted towards increasing the liquidity.

Monetary policy instruments*

monthly changes, in million of denars



annual changes, in million of denars

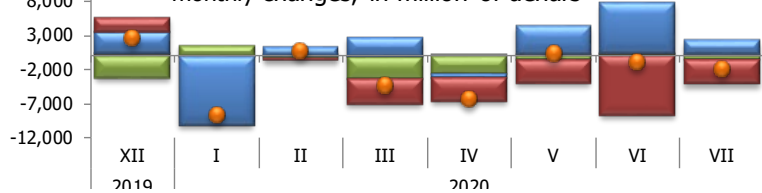


Source: NBRNM.

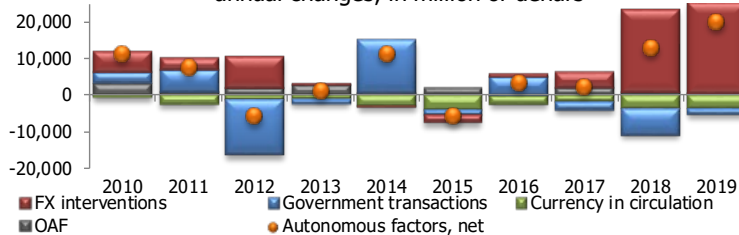
* positive change: liquidity creation, negative change: liquidity withdrawal

Autonomous factors*

monthly changes, in million of denars



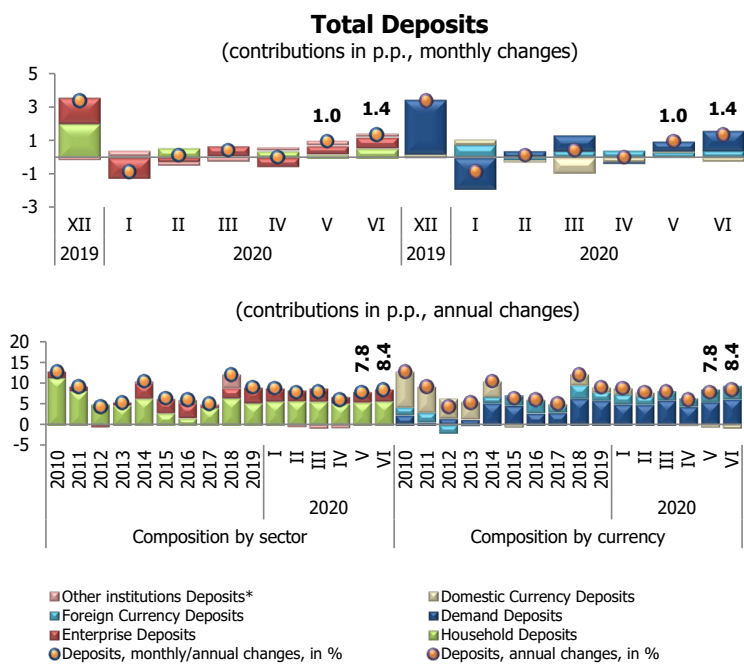
annual changes, in million of denars



Source: NBRNM.

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

²⁰ At the CB bills auction of the National Bank held on 16 July 2020, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.5% and maturity of 27 days.



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

In June, total deposits²¹ registered a monthly growth of 1.4%, which is a moderate acceleration compared to the previous month. Observed by sector, the increase is a result of the equal contribution of corporate and household deposits, amid a moderate positive contribution of other sectors deposits. In this period, the government adopted a package of economic measures to deal with the COVID-19 crisis and paid funds to the private sector, in order to increase the liquidity of companies and support the income of households. According to the currency structure, the greatest contribution to the monthly growth of total deposits was made by denar deposits (entirely as a result of demand deposits), with a positive contribution of foreign currency deposits. In the second quarter of 2020, total deposits registered an increase which is higher compared to the forecasted quarterly growth of the April forecast for the second quarter of the year.

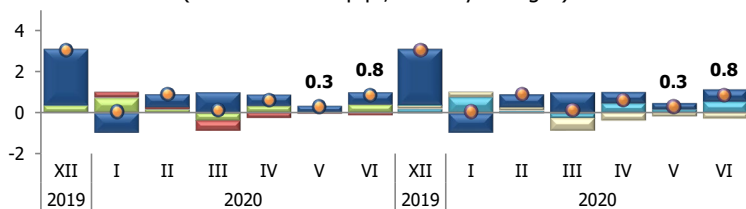
In June, the annual growth rate of total deposits was 8.4%, exceeding the annual growth forecasted for the end of the second quarter of 2020 (of 6.3%). From sectoral and currency aspect, the growth mostly emanates from household deposits, i.e. from deposits in domestic currency (entirely as a result of demand deposits).

Household deposits in June registered a monthly growth of 0.8%, which is an acceleration compared to the previous month. The largest contribution to the monthly growth of household deposits was made by demand deposits, amid solid growth of foreign currency deposits. An additional contribution to the growth was also made by short-term deposits, amid a slight decline in long-term deposits. **On annual basis, the increase in the household deposits in June amounts to 8.7%.**

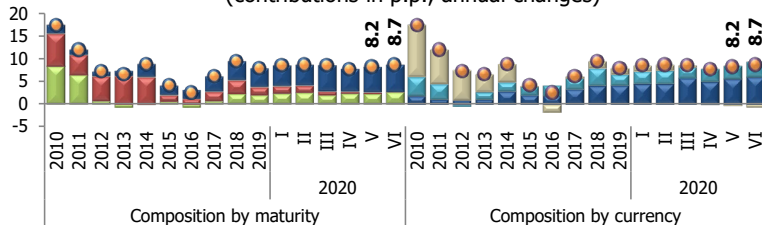
²¹ Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspj.

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity

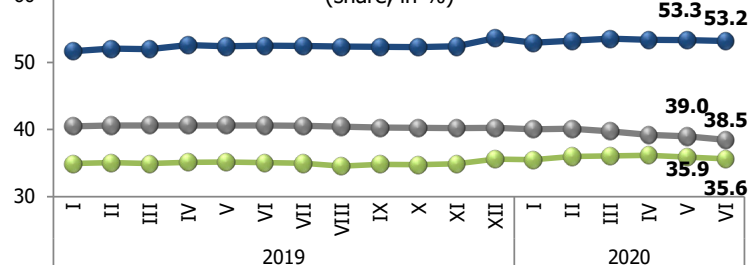
- Demand Deposits
- Domestic Currency Household Deposits
- Foreign Currency Household Deposits
- Long-term Household Deposits
- Short-term Household Deposits

Composition by currency

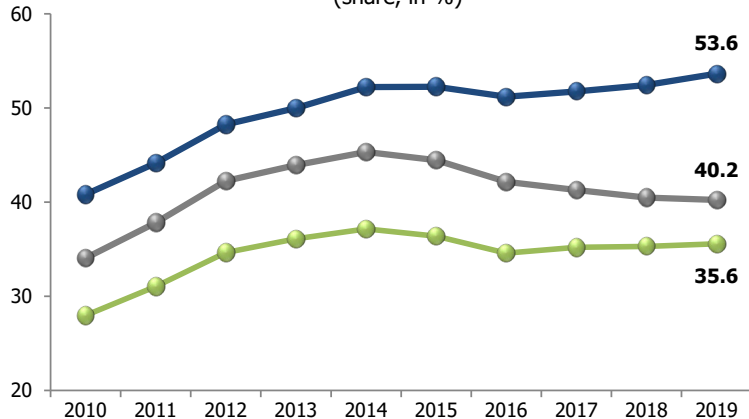
Source: NBRNM.

Denar Deposits of Households/Total Deposits of Households

(share, in %)



(share, in %)



- Share of total household deposits (with demand deposits)
- Share of total household deposits (without demand deposits)
- Share of total households' denar deposits to the total deposits (with demand deposits)*

* Includes deposits at Banks and Saving Houses

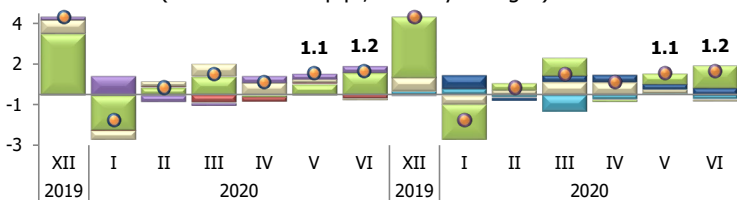
Source: NBRNM.

The share of denar deposits (including demand deposits) in total household deposits remained stable and at the end of June was 53.2% (53.3% in the previous month).

In June, broad money, measured through M4, registered a monthly increase of 1.2%. The increase is a result of the most liquid money supply component, i.e. of demand deposits, amid a slight decline in currency in circulation. An additional contribution to the growth was also made by the other components, primarily short-term deposits and foreign currency deposits, amid a moderate decline in long-term deposits. In June, broad money increased by 9.8% annually, exceeding the annual growth of 7.3% forecasted for the second quarter of 2020.

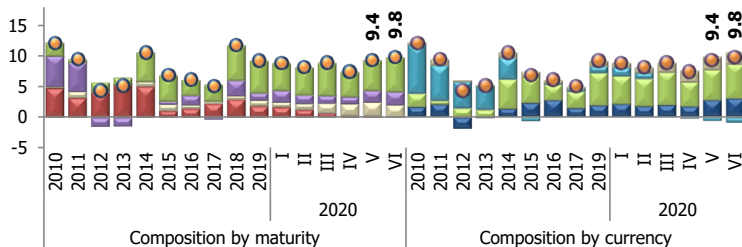
Broad Money M4

(contributions in p.p., monthly changes)



At the end of June, the denar share in total broad money M4 was 64.6% (64.5% in the previous month).

(contributions in p.p., annual changes)

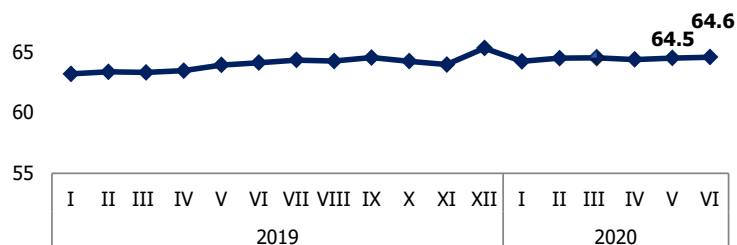


- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits

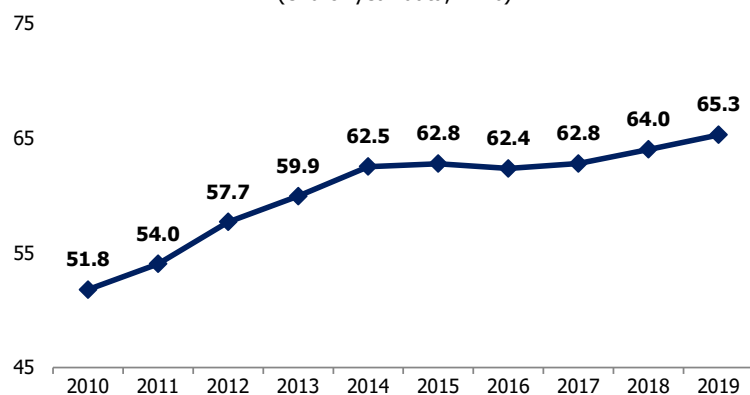
Source: NBRNM.

Share of Denar M4 in total M4

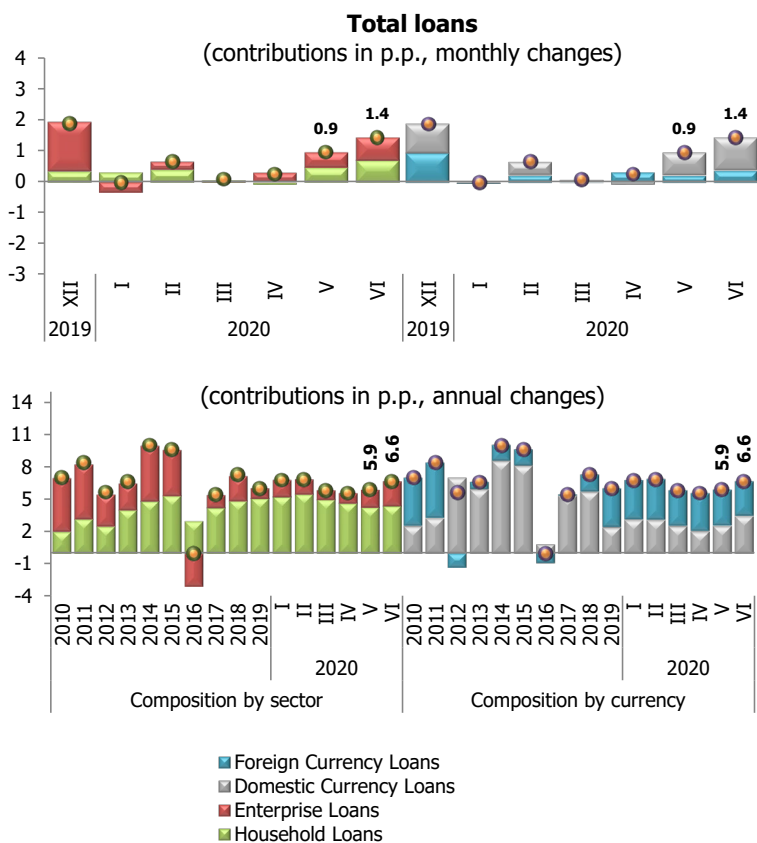
(end of month data, in %)



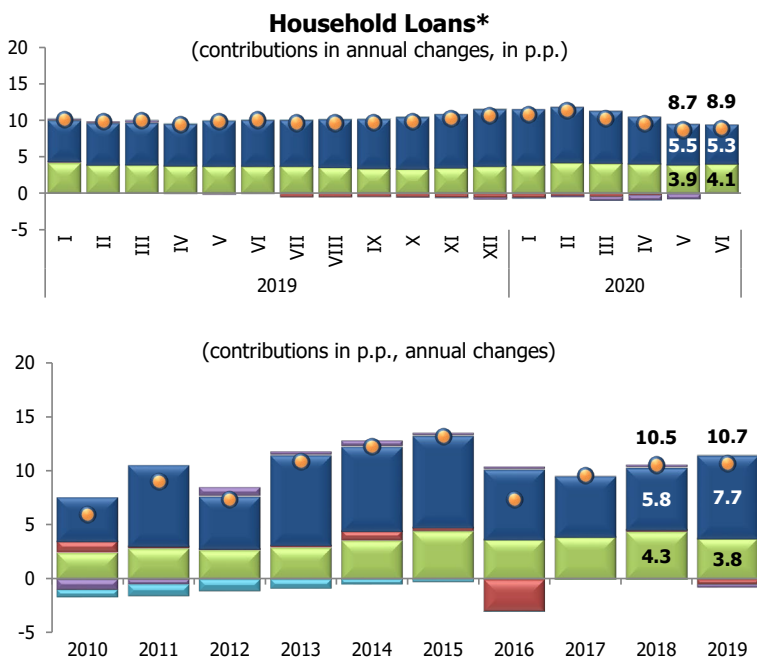
(end of year data, in %)



Source: NBRNM.



Source: NBRNM.



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

In June, total loans registered a monthly growth of 1.4%, which is a moderate acceleration compared to the previous month. These developments in part reflect the measures of the National Bank, which aimed to support lending activity and provide additional liquidity in the banking system. Observed by sector, the credit growth is equally a result of the increase in household and corporate loans. Observing by currency, the greatest contribution to the monthly growth was made by denar loans, with a smaller positive contribution of foreign currency loans. In the second quarter of 2020, total loans registered an increase, which is above the forecasted increase in loans in the second quarter of the year, according to the April forecast.

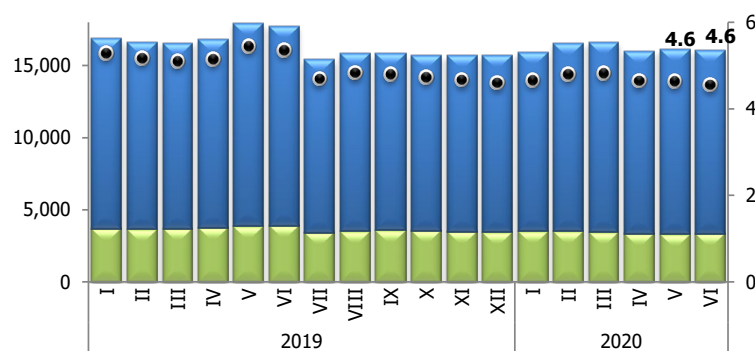
In June, the annual growth rate of total loans equaled 6.6%, exceeding the annual growth of 4.3% forecasted for the second quarter of 2020, according to the April forecast. Observed by sector, the growth still largely results from the household loans, with a growing positive contribution of corporate loans. Regarding the currency structure, an almost equal contribution was made by loans in domestic and in foreign currency (including denar loans with currency clause).

The annual growth of household loans²² in June amounted to 8.9%, and was still largely driven by consumer loans that contributed with 5.3 percentage points, with a solid positive contribution of housing loans (of 4.1 percentage points).

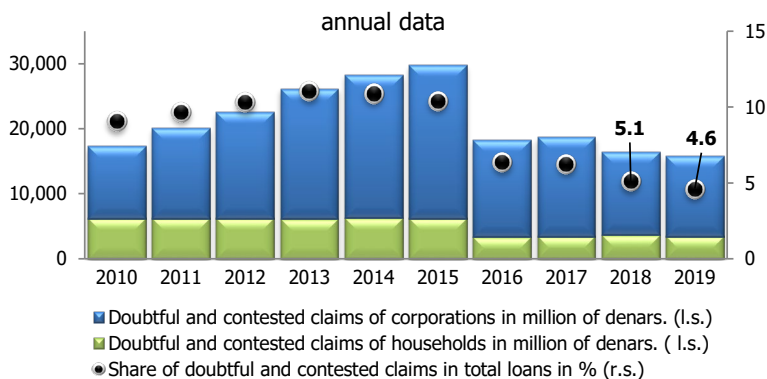
²² Excluding loans of self-employed individuals.

Doubtful and contested claims

(composition by sector and share in total loans)



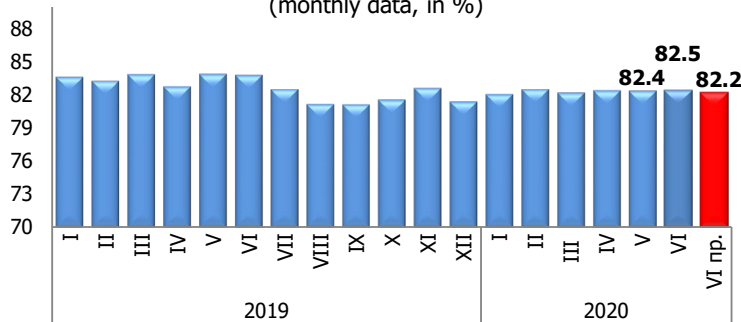
The share of doubtful and contested claims in total loans in June was 4.6%, and is at the same level as in the previous month. In terms of sector, most of the total amount of non-performing loans still results from the corporate sector, while the share of non-performing loans of the household sector is significantly lower.



Source: NBRNM.

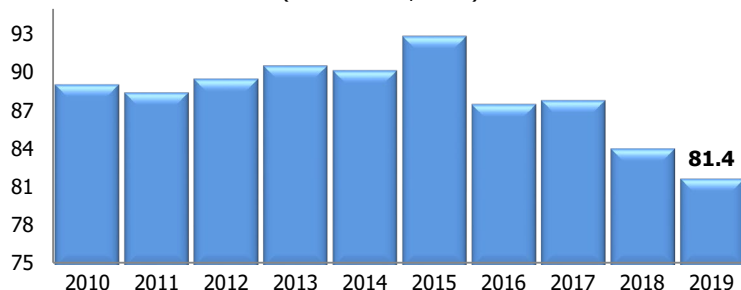
Total credits/total deposits

(monthly data, in %)



The indicator for the utilization of banks' deposit potential for lending to the private sector in June equals 82.5%, whereby it is almost at the forecasted value of this indicator for the end of the second quarter of 2020 (82.2%), according to the April forecast.

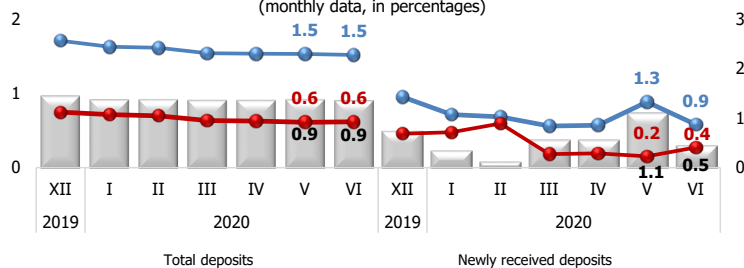
(annual data, in %)



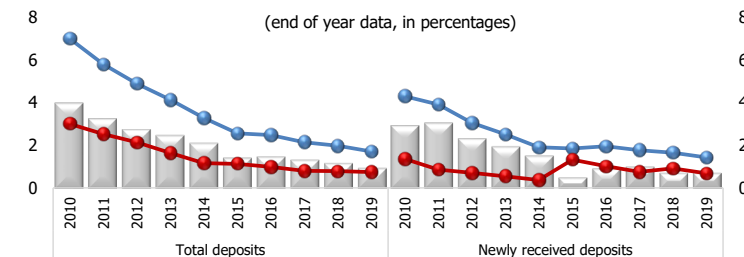
Source: NBRNM.

Total deposits interest rates

(monthly data, in percentages)



(end of year data, in percentages)



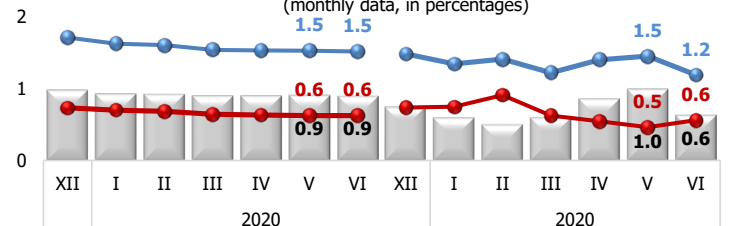
Legend: Interest rate spread (grey bar), Interest rate of foreign currency deposits (red line), Interest rate of denar deposits (blue line)

Source: NBRNM.

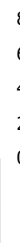
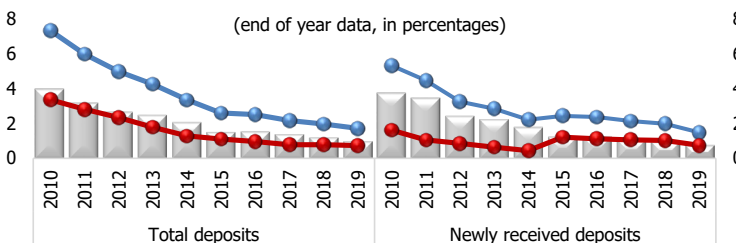
In June, interest rates on total deposits (denar and foreign currency)²³ registered no changes compared to the previous month, so that the spread between these two interest rates is still 0.9 percentage points. For **total newly accepted deposits**²⁴, the interest rate spread narrowed by 0.6 percentage points, as a result of the decrease in the interest rate on denar deposits of 0.4 percentage points, amid slight increase in the interest rate on foreign currency deposits of 0,2 percentage points.

Households` deposits interest rates

(monthly data, in percentages)



(end of year data, in percentages)



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

Source: NBRNM.

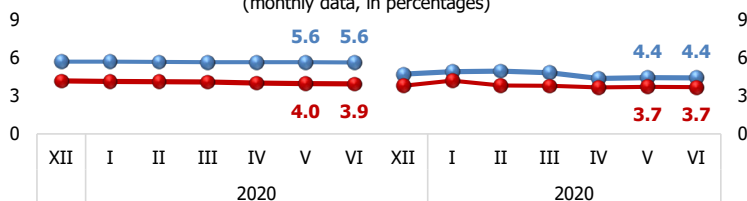
The interest rates on total household deposits (denar and foreign currency) registered no changes compared to the previous month and the interest rate spread remained at 0.9 percentage points. For the newly accepted household deposits, the interest rate spread narrowed slightly by 0.4 percentage points, as a result of the reduction of the interest rate on denar deposits of 0.3 percentage points amid slight increase in the interest rate on foreign currency deposits of 0.1 percentage point.

²³ 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.nspix.

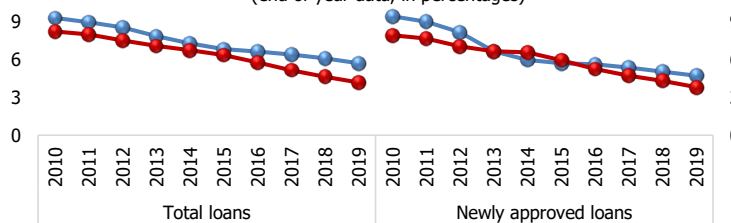
²⁴Regarding the interest rates on the newly accepted deposits, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from month to month) and their interest rate.

Total loans interest rates

(monthly data, in percentages)



(end of year data, in percentages)



● Interest rate of denar loans ● Interest rate of foreign currency loans

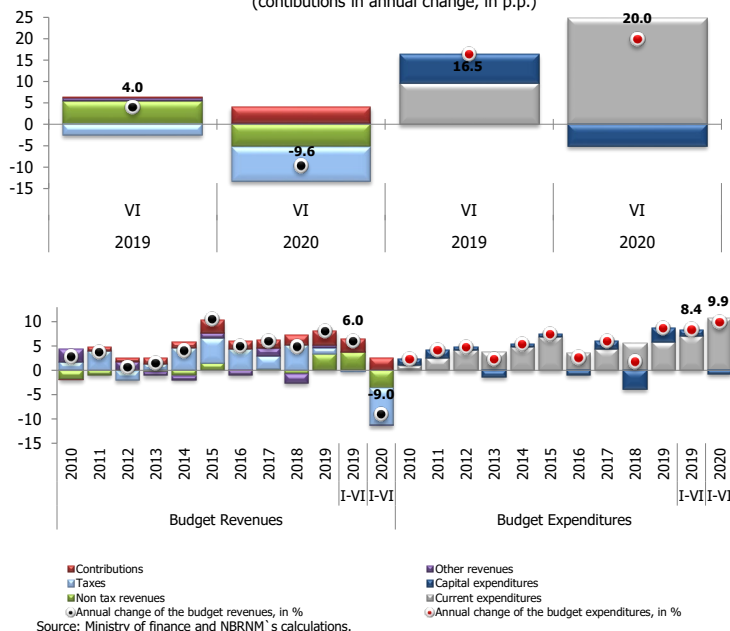
Source: NBRNM.

In June, the interest rate on **total corporate loans** decreased slightly by 0.1 percentage point (from 4.0% to 3.9%), while the interest rate on total household loans registered no changes compared to the previous month and amounted to 5.6%. For the **newly approved loans**²⁵ in June, the interest rates on corporate and household loans amounted to 3.7% and 4.4%, respectively and registered no changes compared to the previous month.

²⁵ 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

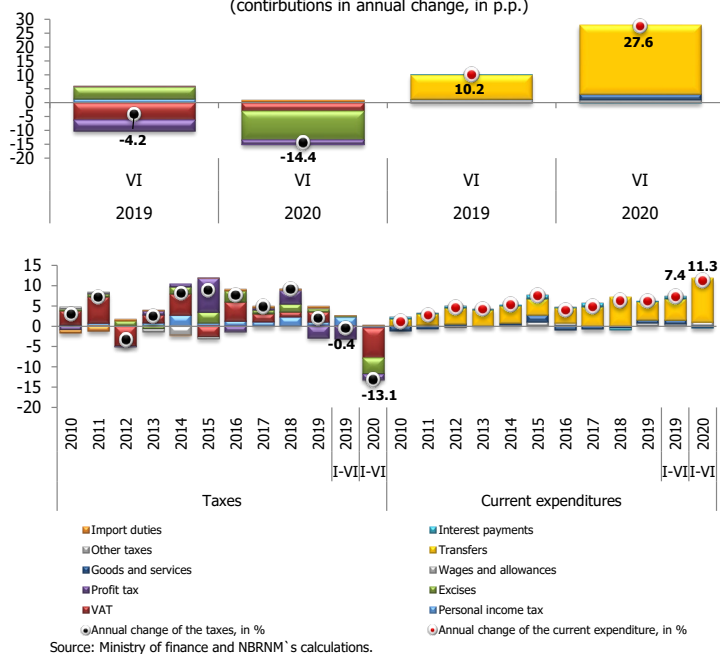
(contributions in annual change, in p.p.)



The negative economic effects of the health crisis during June also had a certain impact on the budget of the Republic of North Macedonia (central budget and budgets of funds). Namely, in June 2020, total budget revenues decreased on an annual basis, amid simultaneous increase in total budget expenditures. The decrease in budget revenues in June was significantly mitigated, unlike the more significant decrease in the previous two months. Moreover, it should be emphasized that the better performance of budget revenues in June, is due to the economic revival and corresponds to the better economic performance in June. The reduction of **revenues** of 9.6% results from the lower tax revenues and non-tax revenues (negative contributions of 8.0 and 5.2 percentage points, respectively), amid an increase in contributions²⁶ and other revenues²⁷ (contributions of 3.8 and 0.3 percentage points). Tax revenues in June went down by 14.4% on an annual basis, as a result of the lower inflows in most items²⁸, with the exception of import duties and personal income tax²⁹. **Budget expenditures** were higher by 20% on an annual basis, entirely as a result of the higher current expenditures (contribution of 24.9 percentage points), amid reduced capital expenditures (negative contribution of 5.0 percentage points). Current expenditures in June increased by 27.6% annually, mainly due to the growth of transfers³⁰.

Taxes and current expenditures

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



In the period January - June 2020, total budget revenues went down by 9.0% compared to the same period last year. The reduction in the first half of the year is mostly due to the lower performances in tax and non-tax revenues (contribution of 7.4 and 3.7 percentage points, respectively), while contributions increased (2.4 percentage points). On the other hand, total budget expenditures increased by 9.9%, which was entirely due to the higher current expenditures

²⁶The growth of the income from contributions is associated with the increased rates for compulsory pension and disability insurance (from 18.4% in 2019 to 18.8% in 2020) and for compulsory health insurance (from 7.4% in 2019 to 7.5% in 2020). In addition, the increase in contributions is also associated with the increased base as a result of the increased minimum net wage to Denar 14,500 in December 2019, the increase in the wages in the public sector, as well as the effect of the measure for subsidizing contributions due to wage increase.

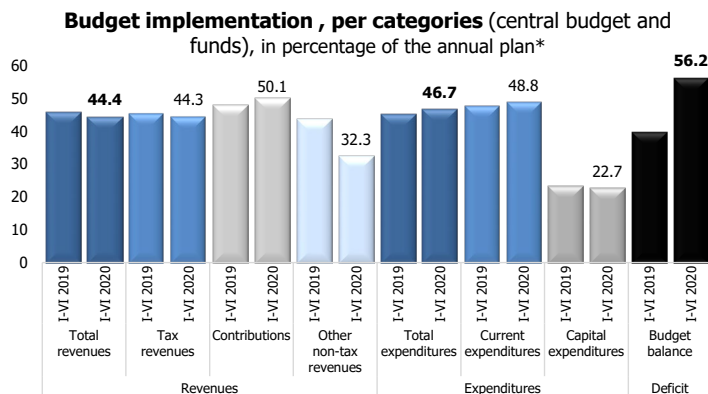
²⁷ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

²⁸Decrease was observed in excise duties, VAT and corporate tax. Excise duties registered an annual decline of 35.7% while the decline in net revenues from VAT slowed down to -7.5%. The VAT refund in June 2020 increased by 7.4% compared to June 2019, in order to support the liquidity of companies. The mitigation of the decline in revenues from VAT, among other things, is also due to the conducted measures for support of private consumption. Regarding the corporate tax, the reduction can be related to the measure for release from payment of the amount of the corporate tax advances during April, May and June.

²⁹The positive contribution is associated with the increased minimum net wage to Denar 14,500 in December 2019, the increase in the wages in the public sector, as well as the effect of the measure for subsidizing contributions due to wage increase.

³⁰The growth of transfers is mostly associated with the payment of the subsidies in agriculture, the subsidies of the wages of the companies hit by the crisis with the coronavirus, the pension costs and the health care costs.

(mainly due to the increased transfers), while capital expenditures made a small negative contribution.

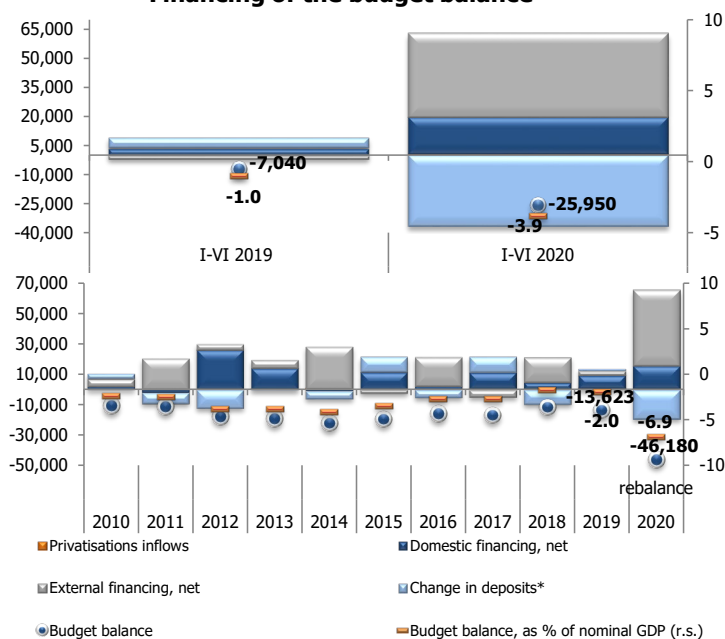


*for 2019 and 2020, figures are calculated compared to the Budgete rebalance for 2019 and 2020, respectively.

Source: Ministry of Finance and NBRNM's calculations.

In comparison with the Budget Revision³¹ for 2020, in the period January - June 2020, 44.4% of the planned budget revenues (45.7% in 2019) were realized, while the budget expenditures amounted to 46.7% (45.2% in 2019). The budget deficit in the amount of Denar 25,950 million was 56.2% of the Revision for 2020 (execution of 39.8% in the same period of 2019).

Financing of the budget balance



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

The budget deficit in the period January - June 2020 of Denar 25,950 million (or 3.9% of the nominal GDP³²) is mostly financed by foreign³³ and domestic government borrowing³⁴, with large part of the inflows being retained as government deposits with the National Bank.

³¹At its session held on 15 May 2020, the Government of the Republic of North Macedonia adopted a decree with legal force on amending the Budget of the Republic of North Macedonia for 2020 during a state of emergency (Official Gazette of the Republic of North Macedonia No. 126 of 15 May 2020).

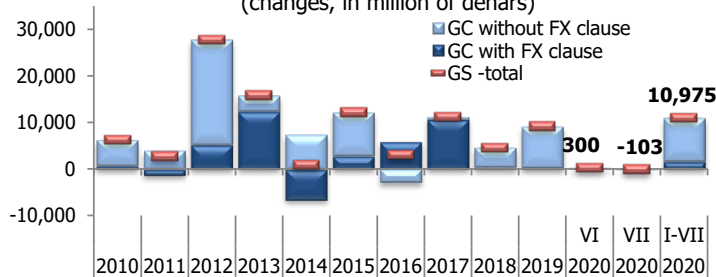
³²The analysis uses the National Bank's April forecasts for the nominal GDP for 2020.

³³At the beginning of April, the International Monetary Fund confirmed financial support for our country, through the Rapid Financing Instrument, in the amount of around Euro 176 million. In addition, an inflow of funds from the newly issued Eurobond was registered in June.

³⁴Besides the issuance of government securities, domestic government borrowing was also made by the domestic commercial banks by around Euro 135 million, i.e. Denar 8,172.5 million, intended for repayment of a loan that fell due on 29 January 2020. It is a repayment of the second installment in the amount of Euro 158 million from the PBG loan concluded in 2013.

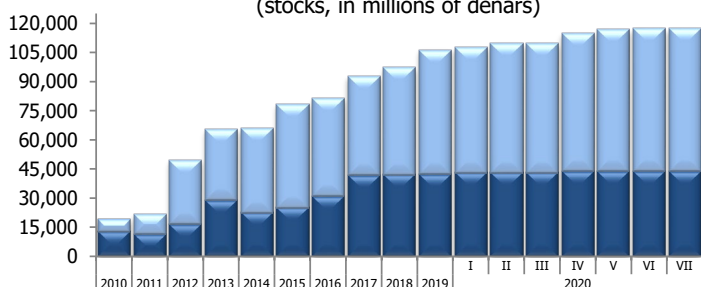
Government securities

(changes, in million of denars)



In July 2020, the stock of issued government securities³⁵ in the primary market decreased on a monthly basis by Denar 103 million and at the end of the month reached Denar 117,328 million. The monthly fall completely derives from the decrease in government securities without currency clause. Compared to the end of 2019, the stock of government securities at the end of July increased by Denar 10,975 million.

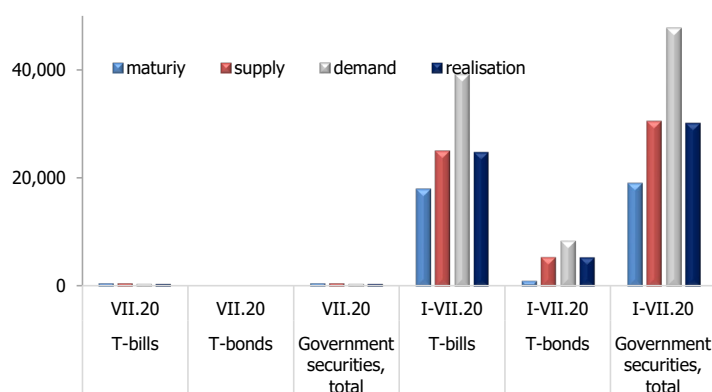
(stocks, in millions of denars)



Source: MoF.

Government securities auctions

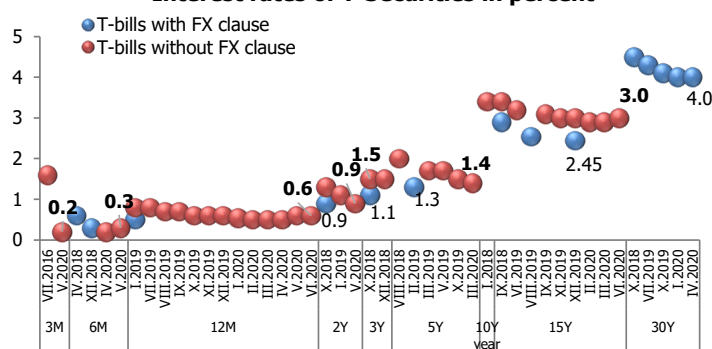
in million of denars



Source: Ministry of finance.

In July 2020, there were no new issues of government securities³⁶.

Interest rates of T-Securities in percent



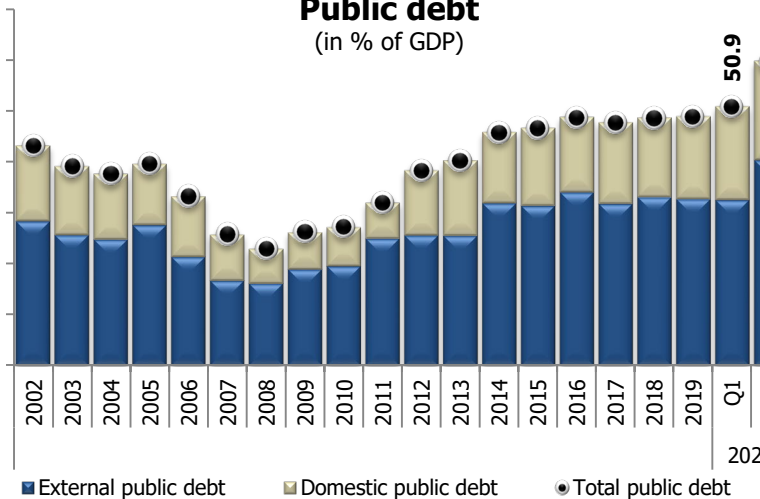
Source: Ministry of Finance

In July, the Ministry of Finance did not issue government securities and there was no change in interest rates.

³⁵ The Budget Revision plans a net domestic borrowing (continuous government securities) of the government of Denar 15,375 million for 2020, i.e. increase in the stock of government securities to Denar 121,729 million.

³⁶ The last auction of government securities with maturity of 12 months was held on 30 June, whereby the inflow from the auction in the amount of Denar 517 million was realized in July. At the same time, an amount of previously issued government securities in the amount of Denar 620 million fell due in July, which contributed to the reduction of total government securities in July.

Public debt
(in % of GDP)



At the end of the second quarter of 2020, public debt³⁷ equaled 59.7% of GDP³⁸, which is a higher level by 8.8 percentage points compared to the end of the previous quarter. This change results from external public debt, which increased by 7.8 percentage points and equaled 40.3% of GDP at the end of the quarter, amid a slower growth in internal public debt, which equals 19.5% of GDP. Total government debt in the second quarter of the year increased by 9.0 percentage points compared to the end of the previous quarter and accounted for 50.9% of GDP, while the debt of public enterprises (guaranteed and non-guaranteed)³⁹ equaled 8.8% of GDP at the end of the quarter.

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

³⁷The 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.

³⁸ The analysis uses the National Bank's April forecasts for the nominal GDP for 2020.

³⁹According to the amendments to the Law on Public Debt from May 2019, the non-guaranteed debt of public companies and joint stock companies established by the state or municipalities, municipalities within the City of Skopje and the City of Skopje is calculated in public debt (Official Gazette of the Republic of Macedonia No. 62/2005, 88/2008, 35/2011, 139/2014 and 98/2019).

Box 1: Indicative private consumption and gross capital formation categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION													
	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	April	May	June
	<i>real annual growth rates in %</i>												
Retail trade*	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-18.6	-21.8	-20.5	-13.6
VAT revenues*	3.9	6.5	7.5	6.9	3.5	1.4	7.5	6.6	1.8	-20.0	-23.7	-30.7	-3.4
Imports of consumption goods*	8.0	2.5	3.0	10.9	2.8	5.9	9.7	4.8	6.9	-12.5	-21.3	-17.6	4.1
Domestic production of consumption goods	6.1	-1.0	-0.1	5.6	0.5	-1.0	2.4	-2.0	-0.5	-22.4	-30.5	-25.2	-11.7
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	9.7	6.3	9.4	8.4	6.3
Average net wage*	3.4	4.7	3.9	5.4	2.2	2.4	3.5	4.2	10.0	-	4.3	4.7	-
Private net transfers*	5.6	9.1	4.3	2.0	-2.2	-4.7	5.7	2.1	-2.9	-	-	-	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	5.7	6.2	5.7	7.9	5.1

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

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

INDICATIVE VARIABLES FOR INVESTMENTS													
	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	April	May	June
	<i>real annual growth rates in %, except for FDI in million denars</i>												
Imports of capital goods*	19.1	20.2	10.5	11.2	2.0	4.8	12.5	6.8	0.9	-34.6	-53.2	-41.6	-7.3
Completed construction works**	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-	-13.0	2.5	-
Domestic production of capital goods	19.3	24.2	16.0	5.7	12.3	-2.9	10.7	7.1	-5.7	-46.0	-70.8	-47.1	-22.5
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	23.7	-34.4	15.9	-51.5	-51.8
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-12128.9	-3653.4	4093.0	-7892.4	5671.8	-	-	-	-
Long term credits to enterprises*	2.0	4.7	6.6	5.9	4.9	4.8	2.6	6.4	4.1	8.2	5.8	8.2	8.2

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

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

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

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