

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



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

July 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 - June 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.

In their latest estimates, the international organizations made downward revisions of the forecasts for the global economic growth¹, in conditions of significant and prolonged negative effects of the COVID-19 pandemic on the global economy. Moreover, the risks regarding the revised forecasts remain downward and are mainly associated with the development of the pandemic, and the uncertainty is more pronounced than ever. The main downward risk refers to the possible longer duration of the pandemic and the adverse effects on the economic activity and labor, and the occurrence of a second wave of the infection and the re-establishing of the measures for preventing the spread of the virus. The other negative risks include the possible deterioration in the financial sector, the premature interruption of the extensive measures of the policies for preventing the crisis or the inappropriate targeting, thereby contributing to a longer undermining of the confidence of economic agents for consumption and investments, the re-escalation of the trade tensions among the countries, the longer-term reduction of the prices of primary products, as well as the occurrence of social unrests in certain regions in the world. On the other hand, the possibility for a faster normalization of the economic activity, in conditions of faster finding of adequate medical treatment or a vaccine against the coronavirus, poses a positive risk to the global economic growth. Regarding the **economic developments in the euro area**, the latest high-frequency data and household and corporate surveys indicate faster recovery of the economy than expected, but still indicate a fall in economic activity also in the second quarter. At the same time, the labor market at the beginning of the second quarter registered initial unfavorable movements, so that the average unemployment rate in the euro area in the first two months of the second quarter increased to 7.4% (7.2% in the first quarter). In terms of inflation in the euro area, the initial assessment for June 2020 shows a slight acceleration to 0.3% (0.1% in May), as a result of the smaller decline in the energy component, amid a slower growth in food and core inflation. Regarding the future movement of the **one-month EURIBOR interest rate**, no major deviations from the April forecasts are expected.

Analyzing the quantitative external environment indicators of the Macedonian economy, the latest forecasts for the foreign effective demand indicate a downward revision for 2020 and unchanged estimate for 2021 compared to the April forecasts, and the expectations for the **foreign effective inflation** in both years of forecast are also unchanged. Regarding the future movement of the **US dollar against the euro**, there are also no major changes relative to the April expectations. **The latest estimates for the changes in the prices of primary commodities in world markets**, compared to the April forecasts, show an upward revision of almost all prices in 2020 and 2021, with the exception of the prices of wheat and corn, which register a minor downward revision in 2020. 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.

¹ According to the July forecasts of the IMF, in 2020, the global economy will decline by 4.9%, while in 2021, a growth of 5.4% is expected. Regarding the April forecasts, the global growth for 2020 and 2021 has been revised downwards by 1.9 and 0.4 percentage points, respectively.

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 period April-May 2020 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 for this period show pronounced deepening of the fall in the industrial output and in the turnover in trade and catering, and after the growth in the first quarter, a double-digit fall is also registered in

construction. **In terms of consumer prices, the performance in June 2020 shows positive price changes in the economy, after the decline registered in the previous two months.** Thus, in June, the price level increased by 1.7% on an annual basis, driven by factors on the supply side mainly in fresh agricultural products. On average, the price changes in the second quarter are above the expectations with the April forecasting round. Such performances, coupled with the minor revision in different directions in the external input assumptions for the inflation forecast for by the end of the year, as well as the great volatility of the world prices of primary products particularly pronounced in conditions of the global pandemic and uncertainty about its duration, 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 June 2020 indicate an increase compared to the end of the previous quarter. Analyzing growth factors, the increase in reserves is mainly due to the transactions on behalf of the government, i.e. mostly to the issuance of the Eurobond in June and the borrowing with the International Monetary Fund in April. The analysis of the adequacy indicators shows that they are still maintained in a safe zone. External sector data for the second quarter are limited, but the available data indicate a pronounced negative impact on the domestic economy of the spread of the coronavirus. The latest foreign trade information suggest certain recovery in May, which points to the possibility that the trade deficit will be in line with that expected according to the forecast for the second quarter, although there is uncertainty. The currency exchange market data as of June suggest significantly lower net inflows from private transfers than expected for the second quarter, amid a decline in both supply of and demand for foreign currency.

Observing the monetary sector, the current data indicate more favorable movements in deposits and loans relative to the forecast for the second quarter of 2020, according to the April forecast. Thus, final data as of May show that **total deposits** registered a monthly growth of 1%, unlike the previous month when they almost registered no changes. Observed by sector, the increase is mostly a result of corporate deposits, with a positive contribution of household and 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 affected companies, in order to increase the liquidity of enterprises and support the economy. Observing by currency, the greatest contribution to the monthly growth was made by deposits in domestic currency (primarily demand deposits), with a positive contribution of foreign currency deposits. On an annual basis, total deposits in May increased by 7.8%, mostly due to the growth of household deposits, i.e. of deposits in domestic currency (entirely of demand deposits). The annual deposit growth in May is above the forecast for the second quarter of 2020 (6.3%), according to the April forecast. In May, **total private sector loans** registered a monthly growth of 0.9%, which is a moderate acceleration compared to the previous month. In order to encourage lending activity, the National Bank since the beginning of the crisis has adopted a series of measures, in order to reduce the cost of financing through loans from banks, as well as to 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. Regarding the currency structure, during May, the greatest contribution to the monthly growth was made by denar loans, with a small positive contribution of foreign currency loans. On an annual basis, total loans in May increased by 5.9%, whereby sectorally observed the growth largely results from household loans, with stronger contribution of corporate loans. Observing the currency, the annual growth of total loans was mostly driven by the growth of foreign currency loans, amid positive contribution of loans in domestic currency. The annual growth of loans in May is above the forecast for the second quarter of the year (4.3%), according to the April forecast.

In the period January-May, the Budget of the Republic of North Macedonia registered a deficit of Denar 18,903 million. The budget deficit is mostly financed by domestic government borrowing, and to a lesser extent by using foreign loans, with small part of the inflows being retained as government deposits with the National Bank. The budget deficit for the first five months of the year was 40.9% 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. The performance of the foreign reserves in the second quarter of 2020 is slightly better than expected, whereby they are still maintained in a safe zone. The economic growth in the first quarter of 2020 is only 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 for the second quarter than forecasted currently indicate certain uncertainty about the forecasted inflation rate of 0% 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 May is above the forecast for the second quarter of 2020, according to the April forecast.

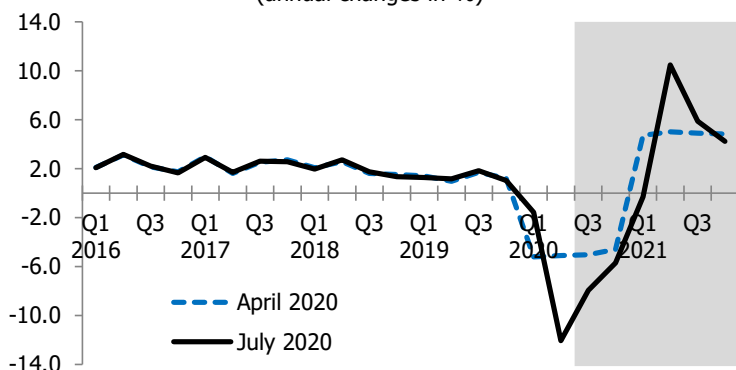
The National Bank continued to support the credit cycle and mitigate the consequences of the crisis on the economy

In conditions of significant stabilization of the expectations and confidence of economic agents in the last period, visible through the movements in the foreign exchange market and in the deposits in the banking system, as well as amid simultaneous safe level of foreign reserves and moderate inflation, and amid an assessment of adverse effects on the economic activity in the short term of the health crisis, the National Bank continued to support the economy through the monetary policy. Namely, the change in May, which meant reduction of the key interest rate to a historically lowest level of 1.5%, additional reduction of the supply of CB bills, thus releasing a total of Denar 15,000 million of liquidity to banks, as well as the expansion of the scope of securities that the National Bank may accept from domestic banks when providing denar liquidity in the banking system, indirectly opened additional room for increased credit support to the economy. These, as well as the previous monetary measures were appropriately used by banks to support the domestic economy by increasing the lending activity and mitigating the effects of the negative shock on the domestic economy, which is also visible through the data that signal positive trends in credit flows, which are higher than expected.

Selected economic indicators ¹⁾	2019			2019				2020								
	2016	2017	2018	Q1	Q2	Q3	Q4	2019	Jan.	Feb.	Mar.	Q1	Apr.	May	June	Q2
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⁾																
y-o-y	3.4	0.2	5.4	8.8	1.1	7.1	-1.3	3.7	0.3	3.5	-13.4	-3.7	-33.5	-27.0		
cumulative average	3.4	0.2	5.4	8.8	4.8	5.6	3.7	3.7	0.3	1.9	-3.7	-3.7	-11.2	-14.4		
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
CPI Inflation (cumulative average)	-0.2	1.4	1.5	1.2	1.2	1.0	0.8	0.8	0.6	0.7	0.6	0.6	0.4	0.3	0.5	0.5
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
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
Labor force																
Unemployment rate	23.7	22.4	20.7	17.8	17.5	17.1	16.6	17.3				16.2				
II. Fiscal Indicators⁶⁾ (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	15,160	46,486	14,241	12,661		
Total budget expenditures	185,407	196,561	200,071	49,243	53,915	52,085	62,202	217,445	16,807	16,825	16,264	53,896	16,968	19,427		
Overall balance (cash)	-16,051	-16,888	-11,566	-3,201	-3,839	-1,099	-5,484	-13,623	-1,208	-3,098	-3,104	-7,410	-4,727	-6,766		
Overall balance (in % of GDP) ⁷⁾	-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		
III. Financial indicators ⁸⁾																
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		
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		
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		
Total credits - enterprises	-5.3	2.3	4.5	8.2	6.4	1.7	1.9	1.9	3.2	2.8	1.8	1.8	2.0	3.3		
Total deposits (incl. demand deposits), y-o-y growth rate⁹⁾	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		
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		
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		
Interest rates ¹⁰⁾																
Interest rates of CBbills (end of month/quarter/year)	3.75	3.25	2.50	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.50	1.50	1.5
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		
f/x rates (aggregated, incl. f/x and denar with f/x clause)	5.7	5.3	4.9	4.7	4.7	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.4	4.3		
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		
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.7	0.6	0.6		
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)¹¹⁾	-1,786.2	-1,816.2	-1,811.1	-456.3	-474.5	-437.1	-646.8	-2,014.8	-134.3	-199.8	-176.9	-511.1	-162.3	-115.5		
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		
import (millions of EUR)	6,176.5	6,834.9	7,676.3	1,990.4	2,095.7	2,066.0	2,294.2	8,436.3	591.4	719.7	607.7	1,918.8	372.6	455.1		
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	339.6		
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	-36.5		
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	-39.2		
Foreign Direct Investment (millions of EUR)	316.9	180.0	603.7	40.2	11.0	62.9	176.5	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				
public sector/GDP (in %)	35.7	34.5	35.1	36.1	35.6	35.9	33.8	33.8				31.9				
private sector	3,771.2	3,910.7	4,087.5	4,454.4	4,302.1	4,506.9	4,354.6	4,354.6				4,524.3				
Gross external debt/GDP (in %)	74.7	73.4	73.3	72.7	73.5	75.7	72.2	72.2				76.3				
Gross official reserves (millions of EUR)¹²⁾	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 SSD is used. For 2020, the projected level from NBRNM'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 COXOP 2019=100.
5) The rate on an 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 NBRNM.
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.

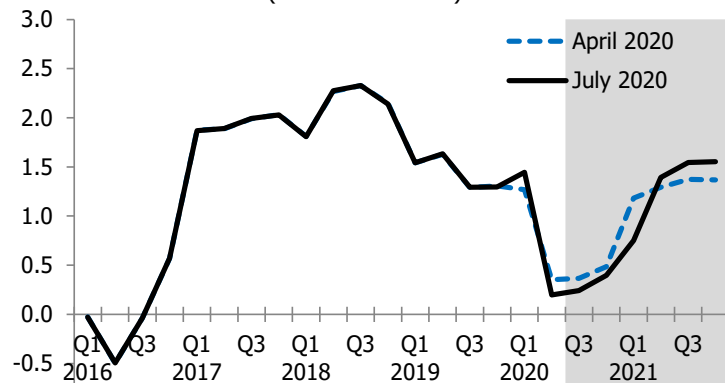
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the growth rate of the foreign effective demand has been revised downwards for 2020, and it is now assessed that it will equal -6.8% (-5% in April). The downward adjustment results from the sharper forecasted economic decline in almost all our trading partners, and especially in Germany², Greece and Italy. For 2021, the expected growth rate of foreign demand is unchanged and amounts to 4.9%.

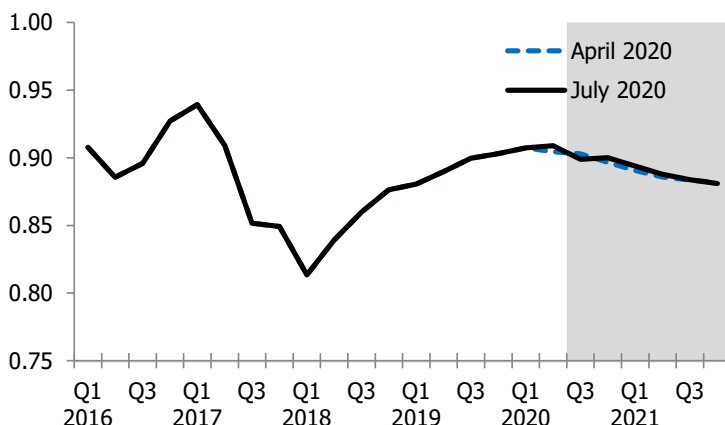
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

Regarding the foreign effective inflation, no changes in the period of forecasts were made, still expecting that it will equal 0.6% in 2020 and 1.3% in 2021.

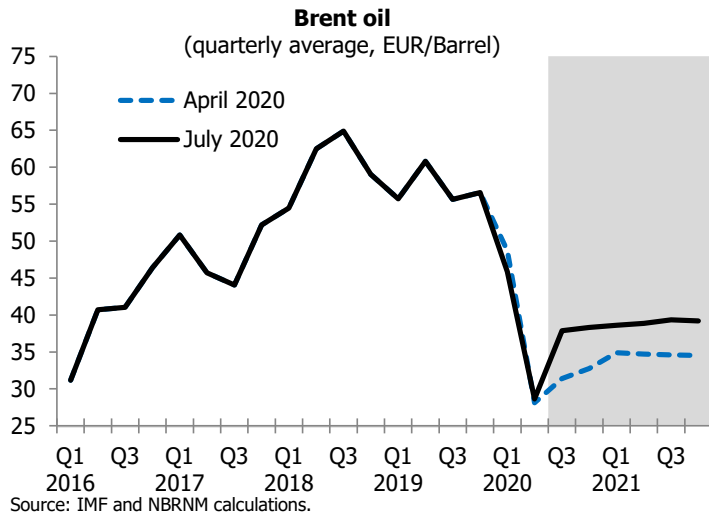
EUR/USD exchange rate



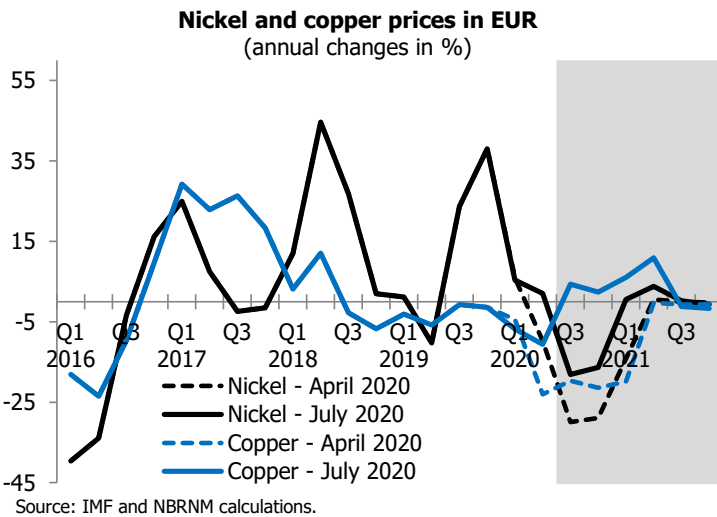
Source: Consensus forecasts and NBRNM calculations.

In terms of the euro/US dollar exchange rate, the US dollar is still expected to appreciate this year and to depreciate in 2021, at rates similar to the April forecasts.

² Forecasted fall in Germany of 6.4% in 2020, versus 5% in April and forecasted growth of 4.7% in 2021, versus 4.5% in April.



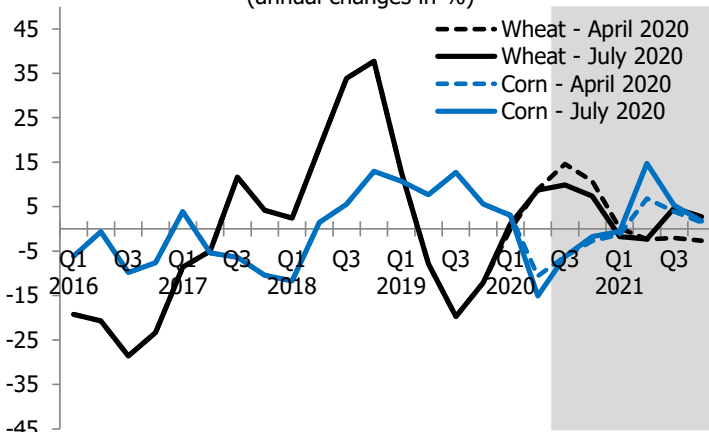
Compared to April, the oil price³ has been moderately revised upwards in the period of forecasts, now expecting a smaller decline than forecasted for 2020 and its growth, instead of fall for 2021. The upward revision is largely a result of the resumption of the agreement reached within the OPEC+ group for reduction of oil production by the end of July, the lower expected production in North America, as well as of the expectations for gradual recovery of the global demand for oil in conditions of repeal of some of the restrictive measures introduced due to the COVID-19 pandemic.



The latest estimates suggest an upward revision of the world metal prices in the period of forecasts. Thus, for 2020 it is now expected a significantly smaller decline in the copper price than estimated in April, largely due to the optimism about the recovery of the demand from China, as the greatest copper consumer, after the relaxation of the restrictive measures, and the concern about the production in Chile, as the largest copper producer, caused by the spread of the virus COVID-19 in that country. Similarly, the nickel price is also expected to register a much smaller decline than the previous estimate, which is mainly associated with the increasing demand from the industry for steel and for electric vehicles. An upward revision of the prices of both metals was also made for 2021, now expecting to register a small increase, despite the April forecasts for decline.

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.

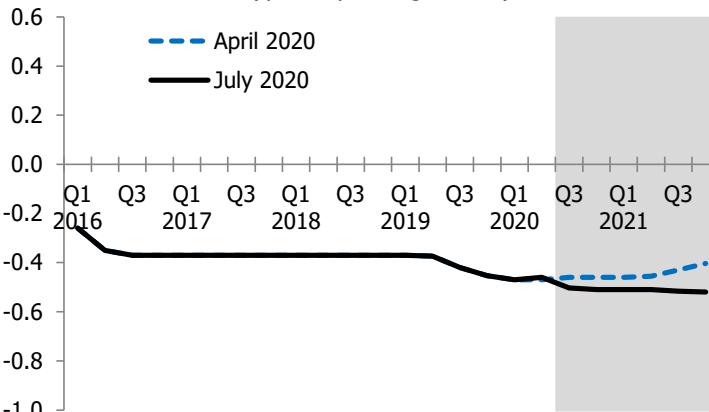
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

The prices of primary food products for 2020 have been revised downwards compared to the April forecasts. Thus, the **wheat** price is now expected to register a slightly slower growth than previously forecasted, mainly due to the estimates for larger production in the countries of the Black Sea Region and the favorable outlook for the yields in the Southern Hemisphere. Regarding the **corn** price, a slightly larger decline than the April estimate was forecasted, largely due to the more favorable expectations on the supply side, the growth of inventories and the lower industrial demand. On the other hand, the revisions for 2021 are in an upward direction, thus forecasting minimal 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 %)

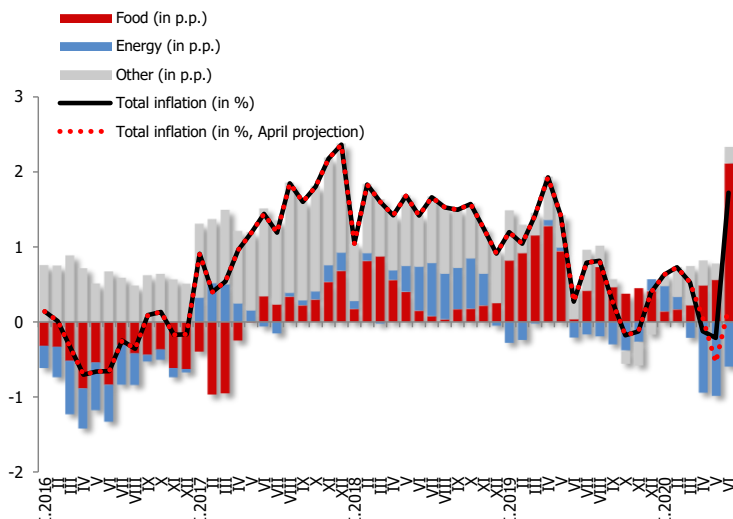


Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the forecast for the **one-month EURIBOR** for 2020 is almost unchanged relative to April (-0.49% versus -0.47% in April), while for 2021 it registers a minor downward revision (-0.51% versus -0.44% in April).

Inflation rate

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



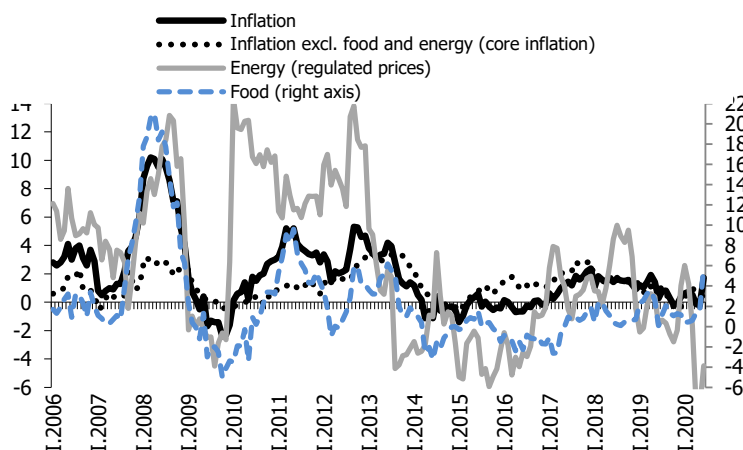
Source: SSO and NBRNM.

In June 2020, **domestic consumer prices** rose by 0.8%⁴ (in the previous month, there was a monthly growth of 0.4%), mostly due to the growth of prices within the food and energy components, and minimal growth was also registered in the prices of products and services within the core component⁵.

The annual inflation rate in June accelerated and amounted to 1.7% (-0.2% in the past month), mainly resulting from the change in the prices of **vegetables**, which rose by 13.8%. Namely, these prices registered an unusual monthly growth, amid very low base effect from June last year when an extremely significant monthly fall was registered. An additional positive contribution was also made by the prices of fruit, where there is also an acceleration in the annual growth.

Inflation and volatility of food and energy

(annual growth rates, in %)



Source: State statistical office and NBRNM calculations.

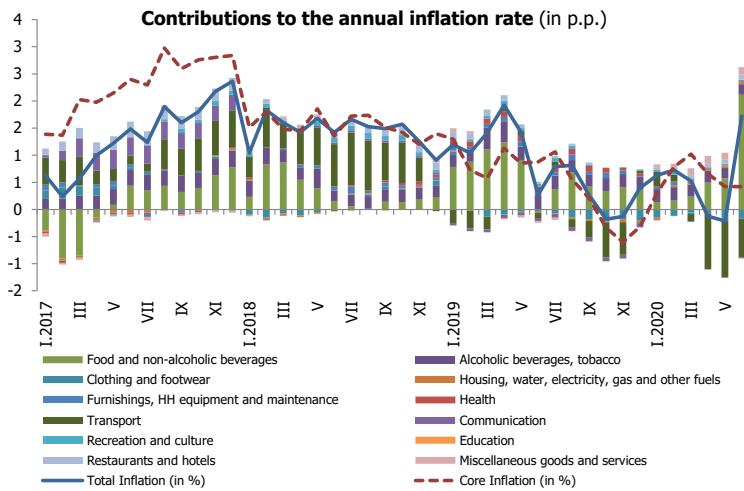
The annual growth of domestic prices in June is above the expectations with the April forecasting round. In terms of structure, an upward deviation was registered in all three components of inflation, amid a more significant deviation in food and in energy.

Core inflation in June registered minimal growth on a monthly basis (change of 0.1%), and on an annual basis it was 0.4% (same as in May). The structure of the annual rate of core inflation in June is similar to the previous month, where the prices of tobacco⁶ continue to make the highest positive contribution. Also, a positive contribution this month was made by the prices of electrical appliances for personal hygiene and other appliances and the prices of catering services. On the other hand, the greatest negative contribution was made by the lower prices of clothing and footwear.

⁴ 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.

⁵ Observed by group of products, the greatest positive contribution to the monthly increase in prices in June was made by the prices of fruit and vegetables, as well as the prices of liquid fuels and lubricants. On the other hand, the greatest negative contribution was made by the prices of meat, "milk, cheese and eggs", vehicles as well as the prices of computer equipment.

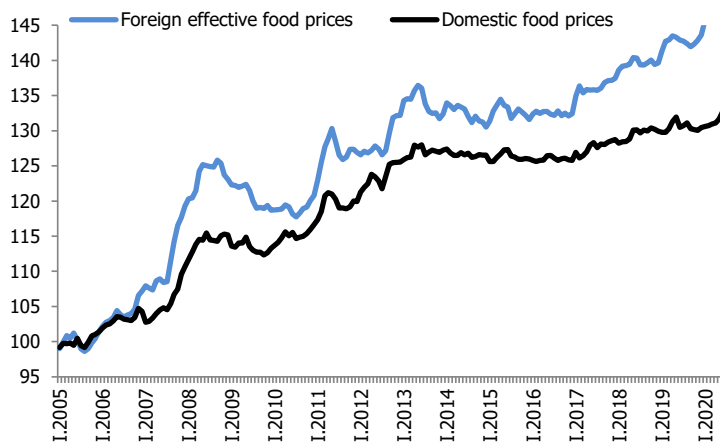
⁶ The annual growth of tobacco price in June reflects the increase in the prices of cigarettes in March 2020, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023.



Regarding the expected price movements of the external input assumptions in the inflation forecast, minor revisions have been made, in a different direction.

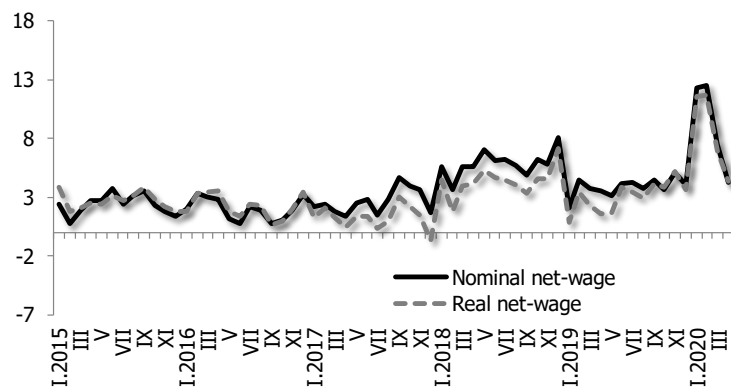
The higher inflation than forecasted with the April forecasts, as well as the revisions of external assumptions in a different direction, suggest certain uncertainty about the inflation forecast for 2020 of 0%. At the same time, the movement of world primary commodity prices remains very uncertain in 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)



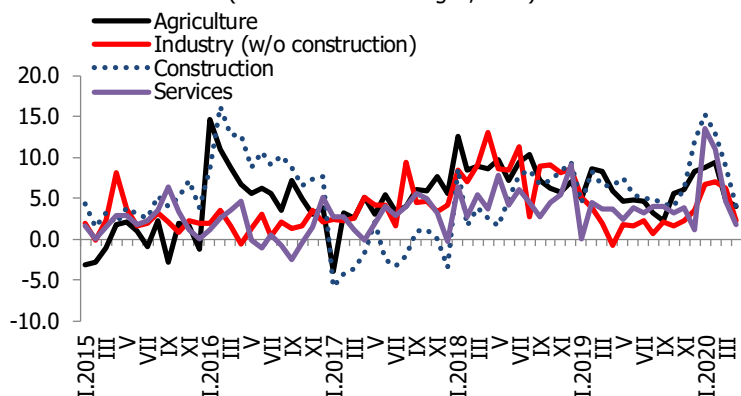
* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.

Average net-wage
(annual changes, in %)



Source: SSO.

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



Source: SSO.

In April 2020, the nominal annual growth of the average net wage was 4.2%. The growth partly reflects the increase in the minimum wage⁷, the increase in the wages in the public sector⁸, as well as the effect of the measure for subsidizing contributions due to wage increase⁹. However, this represents a significant slowdown in the growth compared with the previous month (growth of 7.4% in March) and an indication of an impact of the shock of the new viral infection on this segment of the labor market.

Annual wage growth was registered in most of the activities, with the most prominent one being registered in the activities "education", "health and social care activities", "public administration and defense", "trade" and other service activities. On the other hand, in April, there was a strong decline in wages with the most affected sectors in the economy due to the restrictive measures for dealing with COVID-19, in particular in the activities related to "accommodation facilities and catering services", "arts, entertainment and recreation", as well as in the activities related to transport and storage¹⁰.

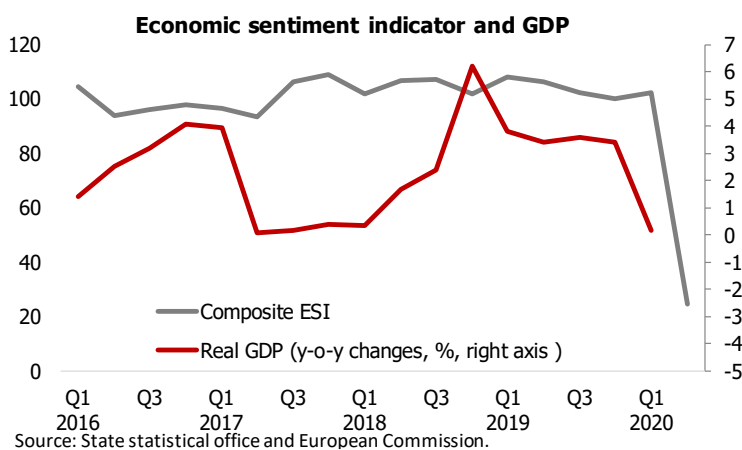
Amid minimal decline in the consumer prices on an annual level, the **real annual growth of the net wage in April was 4.3%.**

Despite the significant slowdown in the growth of wages in April, their performances are currently more favorable relative to the expectations for a fall in wages in the second quarter of the year within the April forecasting round.

⁷ 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 increase 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).

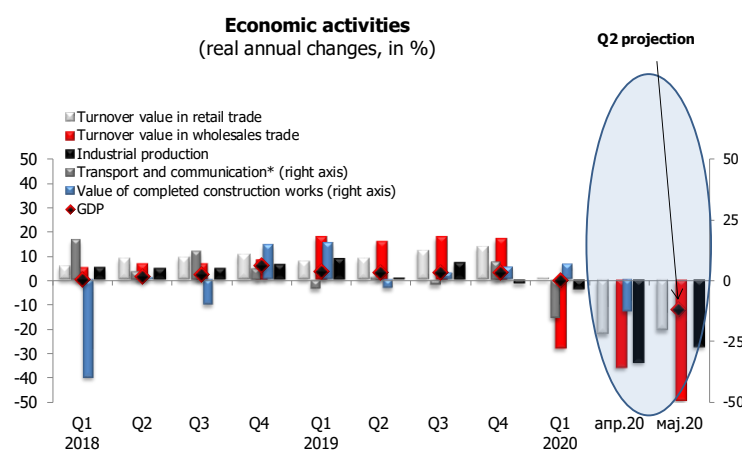
⁸ The wages of health workers were increased by 5%, starting with the payment of the September wage in 2019. Also, the Decision of the Government of the Republic of North Macedonia adopted in May 2019, leveled the wages of around 2,900 employees in the field of culture, from both the national and the 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).

⁹ 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).



High-frequency data on the supply and demand side available for the period April-May 2020 are mainly unfavorable and indicate a fall in economic activity in the second quarter of the year, which is in line with the expectations of the April forecasting round.

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 situation¹¹. 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 preventive restrictive measures imposed in the first two months of the second quarter¹² and the deteriorated perceptions of economic agents led to reduced volume of economic activity which is also perceived through the currently available high-frequency data on the supply side.

The total trade turnover registered a significant real fall of 33.6% on an annual basis in the period April-May, reflecting the unfavorable developments and the substantial fall in the turnover in all three types of trade (wholesale trade, retail trade and trade in motor vehicles).

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES											
	2018				2019				2020		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Apr	May
	<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	-33.5	-27.0
Construction	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-13.0	-
Building	3.2	6.1	-11.4	28.1	-9.3	5.1	23.7	-1.1	-8.5	-28.0	-
Civil Engineerings	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.7	11.1	21.3	-4.2	-
Retail and wholesale trade	5.8	8.2	7.3	9.2	13.9	12.8	15.3	15.5	-16.7	-30.4	-36.8
Retail trade	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-21.8	-20.4
Wholesale trade	5.2	6.8	7.0	8.6	18.0	16.0	18.1	17.3	-27.8	-35.9	-49.2

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

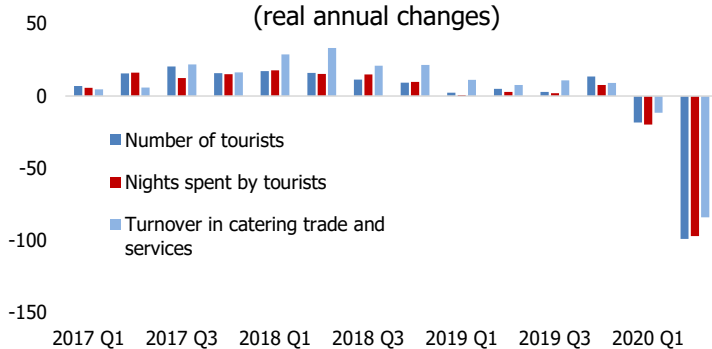
Industrial output also registered a significant real fall of 30.2% on an annual basis in the period April-May, which is a significant deterioration compared to the decline of 3.7% which was registered in the first quarter of the year. Moreover, the largest decline and consequently the highest negative contribution was registered in the manufacturing industry, amid fall in the mining and the energy sectors. The fall within the manufacturing industry is widely dispersed, and the largest negative contribution is made by the

¹⁰ 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).

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). 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

¹² The measures for preventing the spread of the virus included closure of the borders, restricted movement of people within the country, closure of accommodation facilities and closed shopping centers, complete ban on work of cafeterias, bars, clubs, as well as limited work of restaurants without a visit of consumers with a possibility for sale in an alternative manner (through Internet orders, phone orders, etc.).

Tourism indicators
(real annual changes)



Source: SSO and NBRNM calculations.

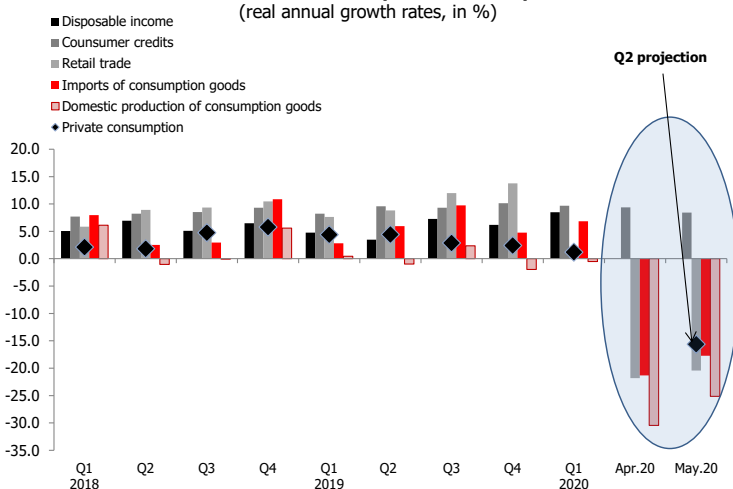
group of activities in which the foreign export facilities related to the automotive industry are active, such as the production of machines and devices, the production of motor vehicles and the production of electrical equipment¹³. When it comes to the traditional activities, a more notable negative contribution was made by the production of other non-metal mineral products, the production of clothing and textile, as well as the production of beverages. On the other hand, a small positive contribution was made only by the activities such as production of chemicals and chemical products, production of fabricated metal products, except machinery and equipment, production of basic pharmaceutical products and production of other transport equipment.

Construction registered a real annual fall in April, predominantly as a result of the substantial fall in building construction, but a negative contribution to the overall performance was also made by civil engineering.

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

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

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



Source: SSO and NBRNM calculations.

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

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.

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

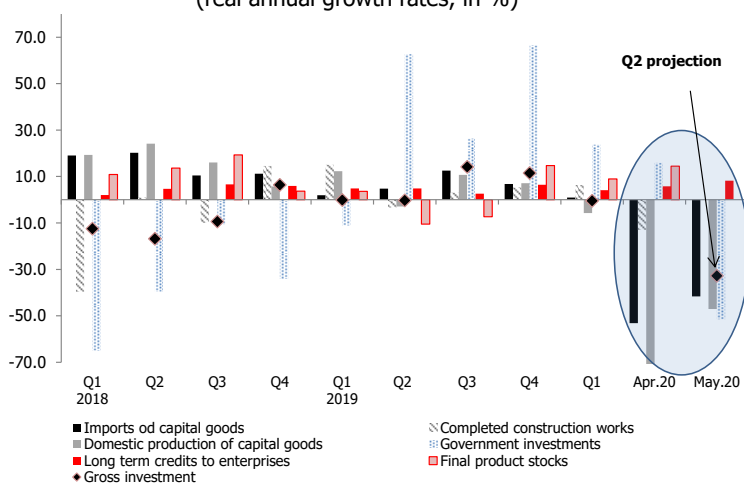
a deteriorated financial and economic situation and lower expectations for higher spendings in the next period. Regarding the funding sources of private consumption, the available data currently indicate a growth of disposable income, although it would be slower than earlier amid significant deceleration of the annual growth in wages, and a slowdown in the pace of growth is also registered in household loans. On the other hand, the growth of the pension bill continues to accelerate.

The available data on the **gross investments**¹⁵ in the period April - May 2020 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 construction and in government capital investments. Decline was recorded also in revenues from corporate income tax. 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 period April-May 2020 indicate potential deficit narrowing in the second quarter of the year compared to the same period last year amid faster fall in absolute amounts of the import than the fall in the export of goods.

The budget execution in the period April-May 2020 indicates an annual deceleration in **public consumption** in the second quarter, mainly due to the reduction in the expenditures on goods and services.

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



Source: SSO and NBRNM calculations.

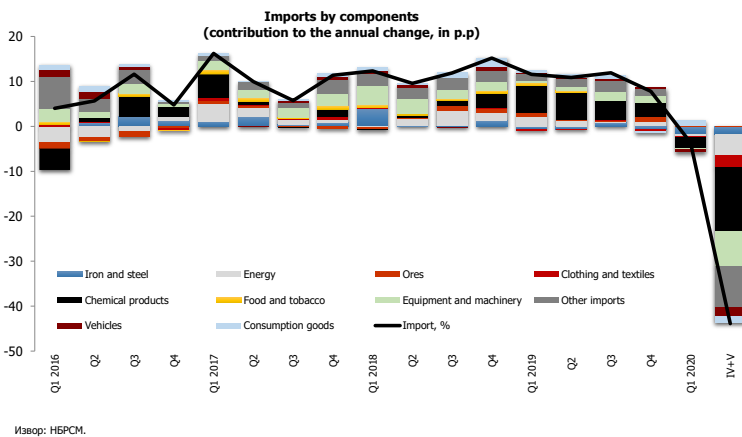
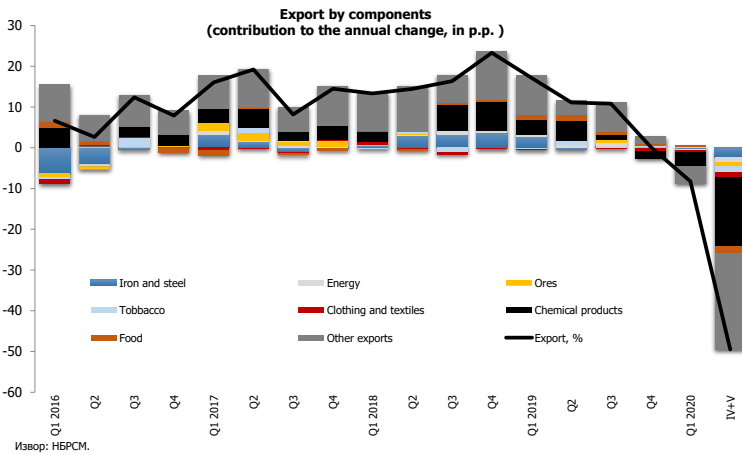
¹⁵ Data on completed construction works are as of April 2020, while data on long-term corporate loans, government capital investments, industrial production, imports of investment products and domestic production of capital goods refer to the April - May 2020 period.

In April and May 2020, the foreign trade deficit registered a more prominent narrowing of 28.1%, amid a simultaneous pronounced reduction of both the export and the import components, as a result of the consequences of the pandemic caused by the virus COVID-19.

Export of goods in April and May registered an intense annual decline of 49.5%, but the movements in May suggest a certain recovery. The largest contribution to the reduction of exports was made by the new facilities in the economy. The fall in the export activity of these companies in April and May explains as much as 78% of the reduction of total exports. Most of these export-oriented facilities were temporarily closed in April and the beginning of May. All remaining export categories also acted towards reducing the exports, but at significantly slower pace. There is a more significant negative contribution of other exports (excluding the export of the new companies), the export of iron and food.

Compared to the expectations according to the April forecast, the performances in April and May 2020 are close to the export forecasted for the second quarter of 2020. Significant downward deviations were registered in the export of food and other exports, while the performances in the export of iron and steel and in some of the new facilities are better.

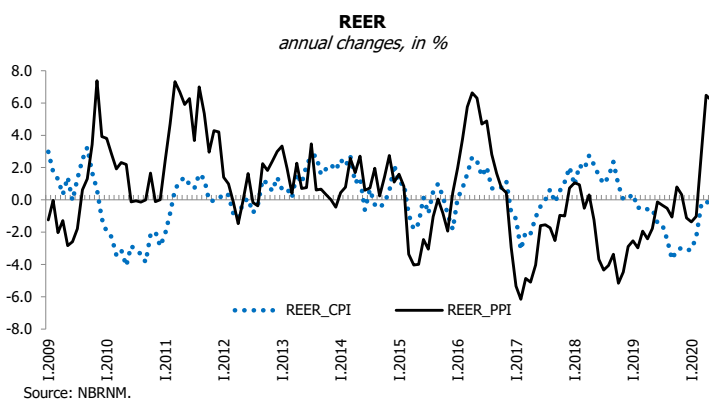
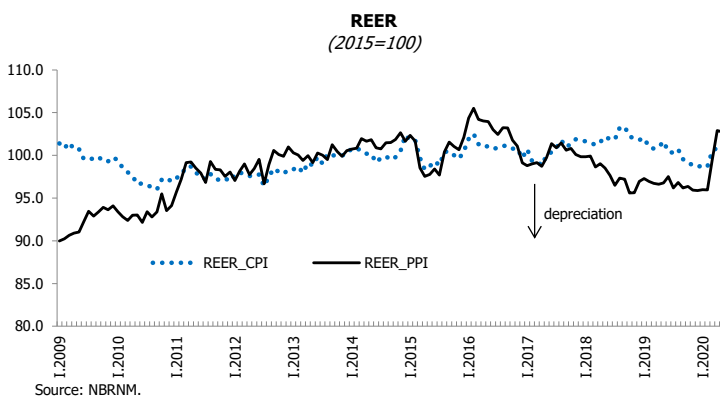
In April and May 2020, the import of goods also registered a sharp annual decline of 43.9%. The decline in exports was also reflected on the import side through reduced import of raw materials, especially in the new export-oriented companies, which mostly contributed to the reduction of imports on an annual basis. The lower import of raw materials of these companies, coupled with the slower investment activity, was reflected as lower import of equipment and machinery and other imports. In addition, the substantial fall in the price of crude oil on world markets also caused a reduction in energy imports. From the remaining import categories, vehicles, textile and clothing and the import of iron and steel significantly reduced total imports on an annual basis.

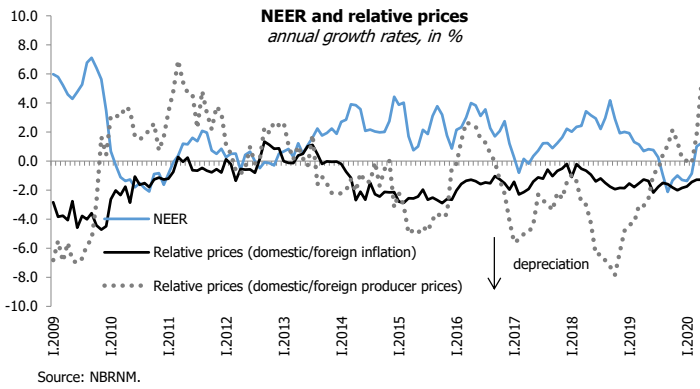


The performance of the import of goods in April and May 2020, is currently lower than expected for the second quarter of the year according to the April forecasts, as a result of the lower import of textile and clothing, vehicles, equipment and machinery and lower import of raw materials with some of the new export capacities. On the other hand, higher import than forecasted was registered in other imports and food.

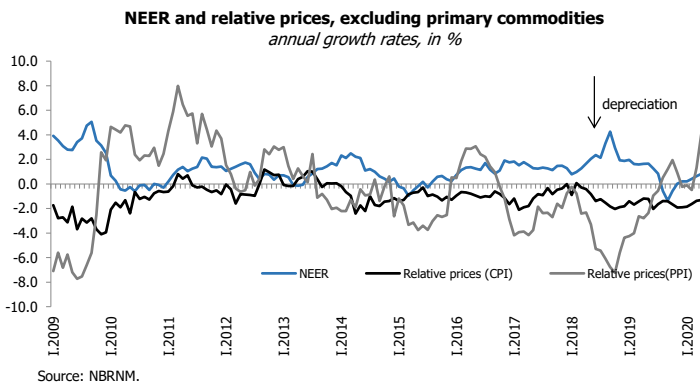
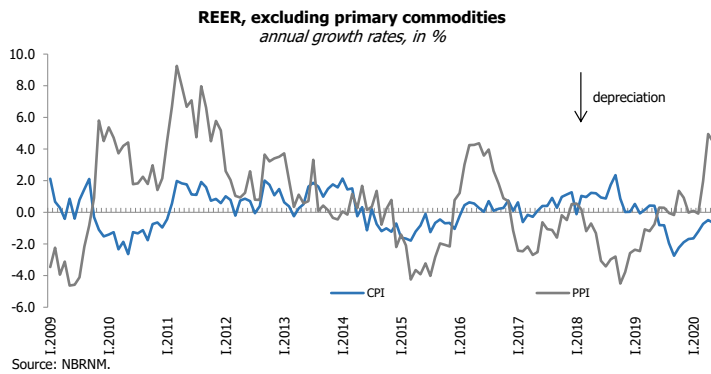
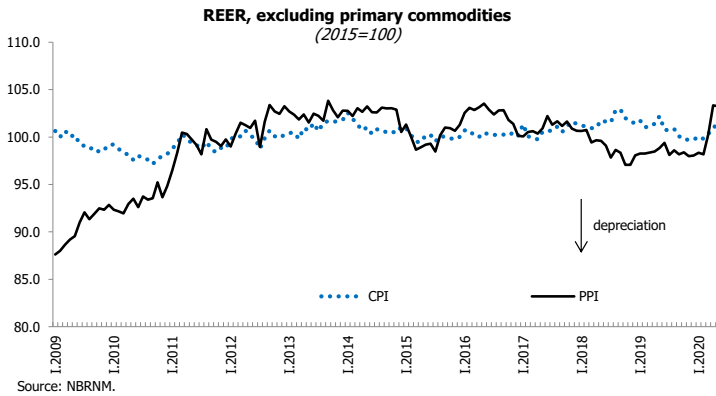
The performance of the trade deficit in April and May 2020 is currently in line with the expectations for the second quarter of the year according to the April forecast. However, in conditions of great uncertainty and the major variations on a monthly basis, it is difficult to draw reliable conclusions.

In May 2020, price competitiveness indicators of the domestic economy registered divergent movements analyzed on an annual basis. The REER index deflated by consumer prices depreciated by 0.4%, while the REER index deflated by producer prices appreciated by 6.2%. Moreover, the relative consumer prices decreased by 1.2%, while the relative producer prices increased by 5.3%, amid a decline in foreign prices and a small increase in domestic prices compared to the same month last year. The NEER acted towards reducing the competitiveness, registering an appreciation of 0.9%, which is largely due to the depreciation of the Russian ruble and the Turkish lira.

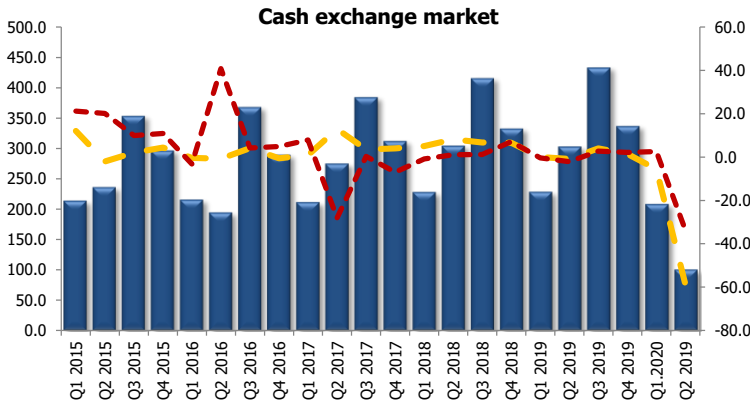




REER indices, as measured using weights based on the foreign trade without primary commodities, in May 2020, also registered divergent movements. Thus, the REER index deflated by consumer prices depreciated by 0.7%, while the REER deflated by producer prices appreciated by 4.5%. Moreover, the divergent movements result from the relative prices, i.e. from the fall in the relative consumer prices of 1.3%, as opposed to the increase in the relative producer prices of 3.8%. The nominal effective exchange rate slightly appreciated by 0.6% on an annual basis.



The net purchase on the currency exchange market in the second quarter of 2020 was Euro 100.6 million, which is an annual decrease of 66.8%. Such performances are driven by the more substantial fall in the supply of than the decrease in the demand for foreign currency (by 58.9% and 33.8%, respectively).



*Last available data 31 05 2020

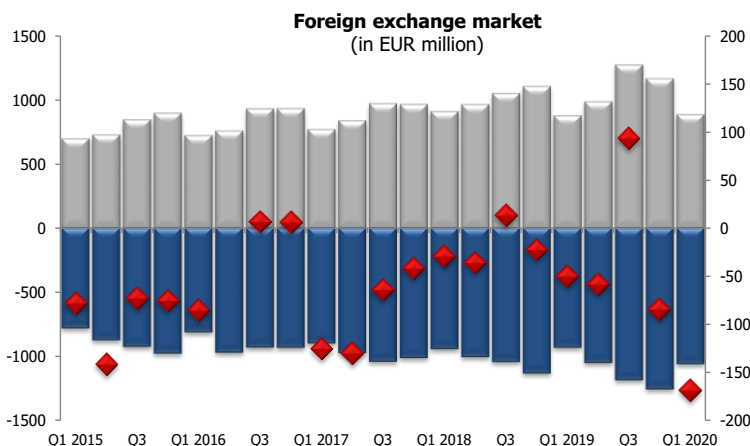
Legend:
 - Net-purchase (in EUR million)
 - Supply of cash exchange (annual changes, in %) - right scale
 - Demand of cash exchange (annual changes, in %) - right scale

Source: NBRNM.

As of 30 June 2020, gross foreign reserves stood at Euro 3,639.7 million, which is an increase of Euro 622.4 million compared to the end of the first quarter of 2020. The main factor for such change are the transactions on behalf of the government (inflow from an IMF loan and a Eurobond issue). The National Bank interventions on the foreign exchange market acted in the opposite direction. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.



Source: NBRNM.

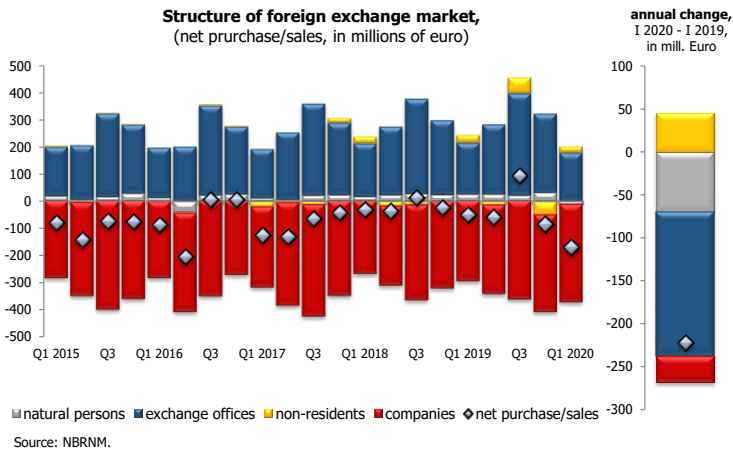


Legend:
 - Forex purchase (left scale)
 - Forex sales (left scale)
 - Net-sales (right scale)

Source: NBRNM.

In the second quarter of 2020, the banks' foreign exchange market reported a higher net sale of foreign currency compared to 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.

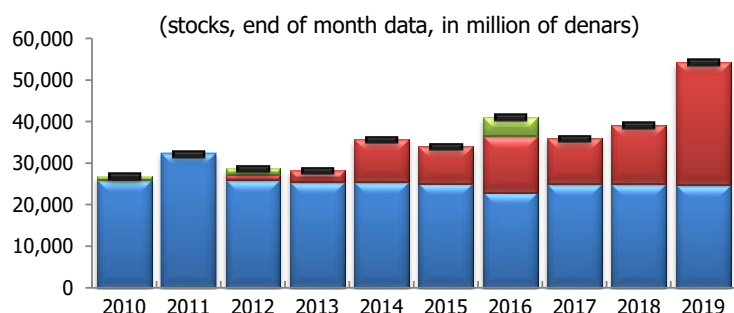
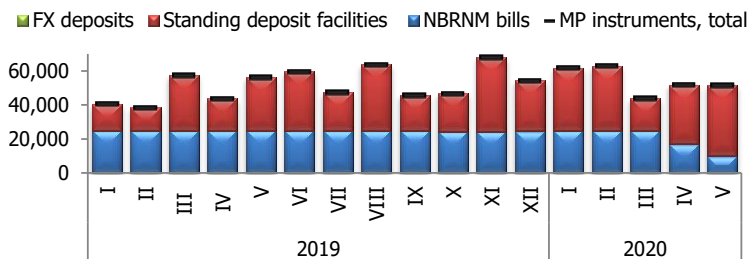
EXTERNAL SECTOR



Sector-by-sector analysis shows that such movements mostly result from exchange offices, and to a lesser extent from natural persons.

Monetary policy instruments

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



Source: NBRNM

At the end of May, the monetary instruments remained almost at the same level as in the previous month, in conditions of an increase in the amount of banks' assets placed in deposits with the National Bank, amid simultaneous reduction of the stock of CB bills¹⁶. The stock of monetary instruments at the end of May is still higher than forecasted for the end of the second quarter of 2020¹⁷.

The net foreign assets of the National Bank at the end of May are currently lower than forecasted for the end of the second quarter of 2020.

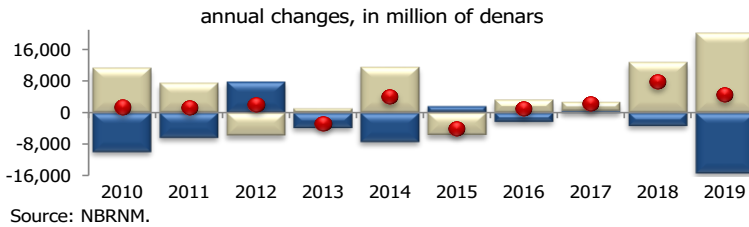
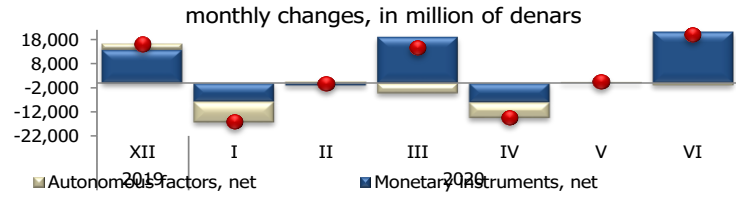
In May, the total government deposits with the National Bank registered a monthly fall, and their stock at the end of May is lower than forecasted for the end of the second quarter of 2020.

Reserve money in May registered a monthly growth, as a result of the simultaneous growth of the banks' total reserves with the National Bank as well as of the currency in circulation. Moreover, the reserve money stock is lower compared to the forecast for the end of the second quarter of 2020.

¹⁶ At the CB bills auction of the National Bank held on 13 May 2020, Denar 10,000 million (or by Denar 7,000 million lower amount than the due amount) of CB bills was offered and sold at an interest rate of 1.5% and maturity of 35 days.

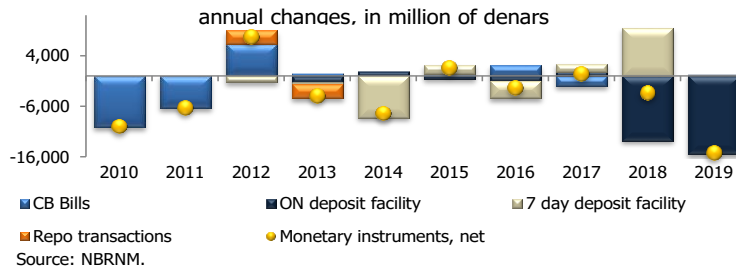
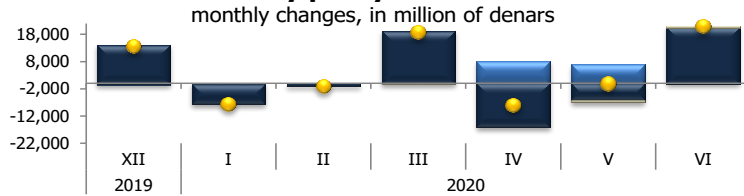
¹⁷ The performance comparisons are against the April forecasts of the National Bank.

Banks liquidity*

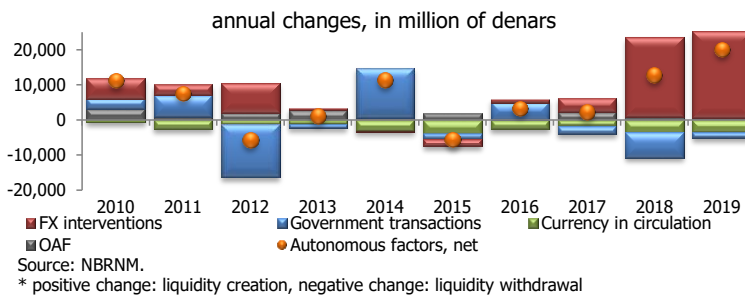
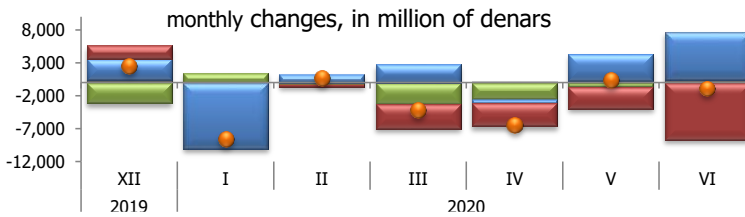


According to the operational data on liquidity flows, **in June, the liquidity of the banking system registered a monthly increase.** The change entirely results from the lower amount of the banks' placements in short-term deposits (mainly in overnight deposits), amid unchanged stock of CB bills¹⁸. The 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, while government transactions and currency in circulation acted towards increasing the liquidity.

Monetary policy instruments*



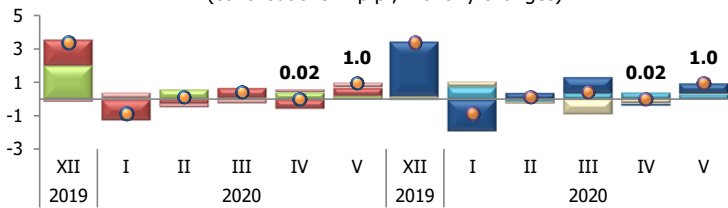
Autonomous factors*



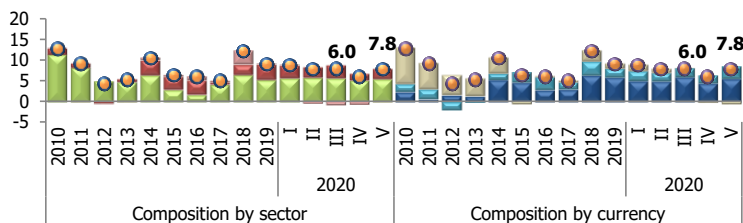
¹⁸ At the CB bills auction of the National Bank held on 17 June 2020, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.5% and maturity of 29 days.

Total Deposits

(contributions in p.p., monthly changes)

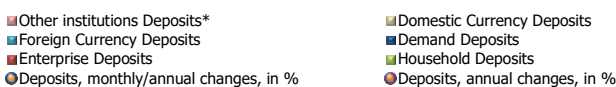


(contributions in p.p., annual changes)



Composition by sector

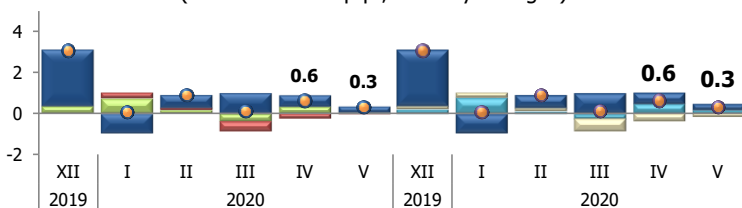
Composition by currency



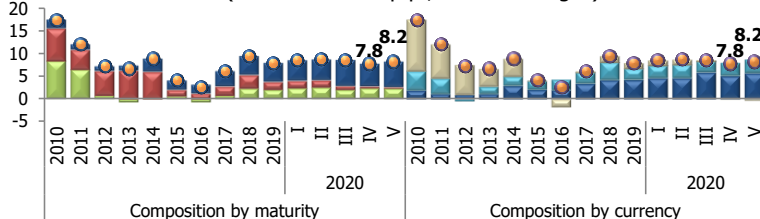
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the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

Household Deposits

(contributions in p.p., monthly changes)

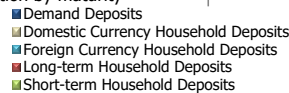


(contributions in p.p., annual changes)



Composition by maturity

Composition by currency



Source: NBRNM.

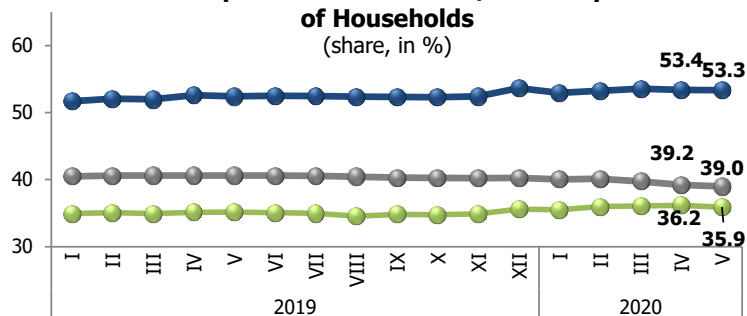
Total deposits¹⁹ in May registered a monthly growth of 1.0%, unlike the previous month when they almost registered no changes. Observed by sector, the increase is mostly a result of corporate deposits, with a positive contribution of household and other sectors deposits. In this period, the government adopted a package of economic measures to deal with the COVID-19 crisis and paid funds to the affected companies, in order to increase the liquidity of enterprises and support the economy. According to the currency structure, the greatest contribution to the monthly growth was made by deposits in domestic currency (primarily demand deposits), with a positive contribution of foreign currency deposits. In the period April - May, 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 May, the annual growth rate of total deposits was 7.8%, 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).

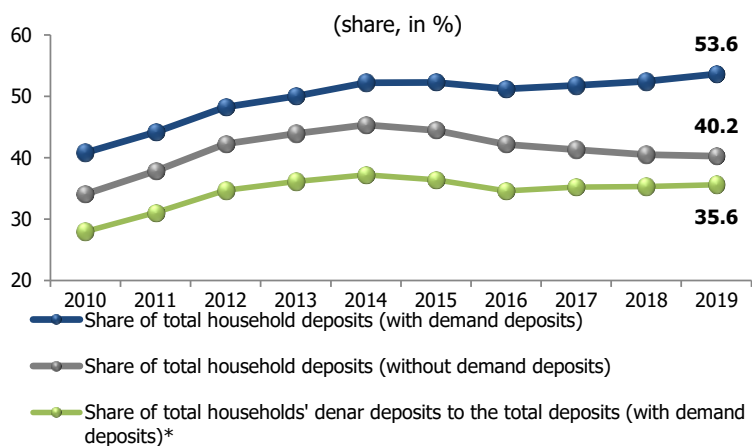
Household deposits in May registered monthly increase of 0.3%, which is largely driven by denar deposits (entirely as a result of demand deposits), amid moderate growth of foreign currency deposits. **The annual increase in household deposits in May was 8.2%.**

¹⁹ Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspj.

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



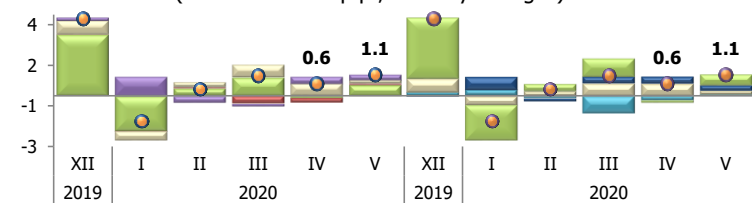
The share of denar deposits (including demand deposits) in total household deposits remained stable and at the end of May was 53.3% (53.4% in the previous month).



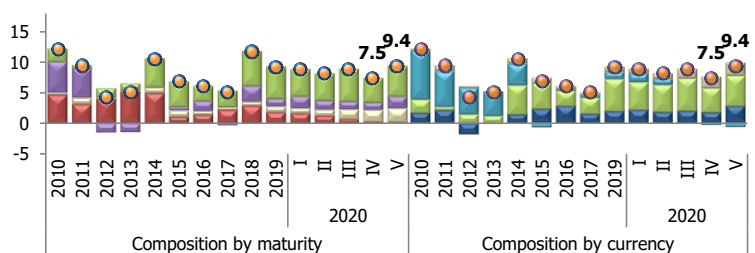
* Includes deposits at Banks and Saving Houses
Source: NBRNM.

Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity

Composition by currency

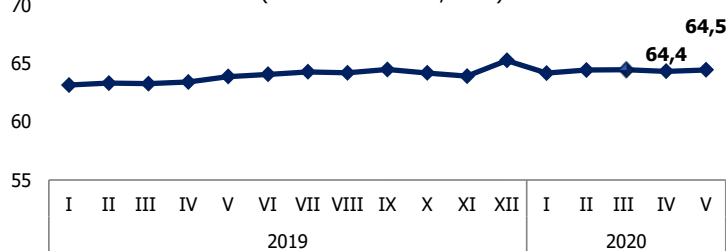
- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits

Source: NBRNM.

In May, broad money, measured through M4, registered a monthly increase of 1.1%. The increase is a result of the most liquid money supply components, primarily of demand deposits, amid growth of currency in circulation. An additional contribution to the growth was also made by the other components in terms of the currency and maturity structure, primarily short-term and foreign currency deposits. **In May, broad money increased by 9.4% annually, exceeding the annual growth of 7.3% forecasted for the second quarter of 2020.**

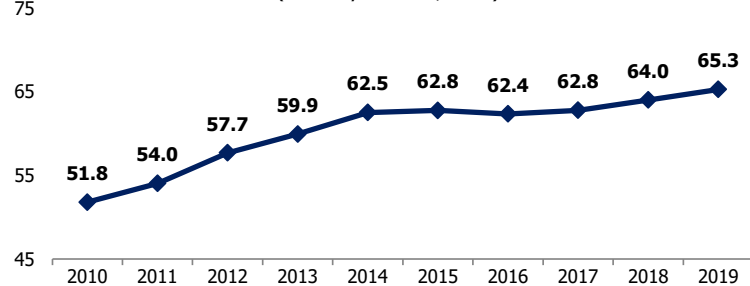
Share of Denar M4 in total M4

(end of month data, in %)



At the end of May, the denar share in total broad money M4 was 64.5% (64.4% in the previous month).

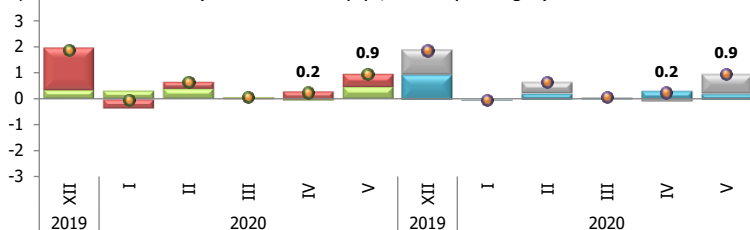
(end of year data, in %)



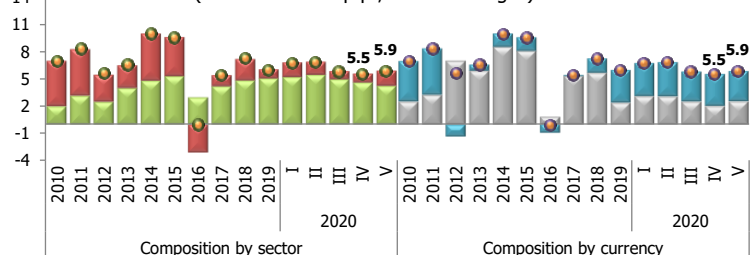
Source: NBRNM.

Total loans

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by sector

Composition by currency

- Foreign Currency Loans
- Enterprise Loans
- Loans, monthly/annual changes, in %
- Domestic Currency Loans
- Household Loans
- Loans, annual changes, in %

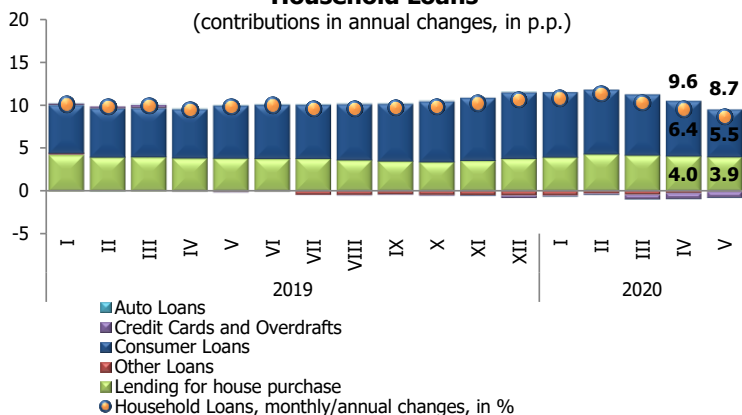
Source: NBRNM.

In May, total loans registered a monthly growth of 0.9%, which is a moderate acceleration compared to the previous month. In order to encourage lending activity, the National Bank since the beginning of the crisis has adopted a series of measures, in order to reduce the cost of financing through loans from banks, as well as to 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 small positive contribution of foreign currency loans. In the period April - May, 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 May, the annual growth rate of total loans equaled 5.9%, 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, the positive contribution of foreign currency loans (including denar loans with

Household Loans*

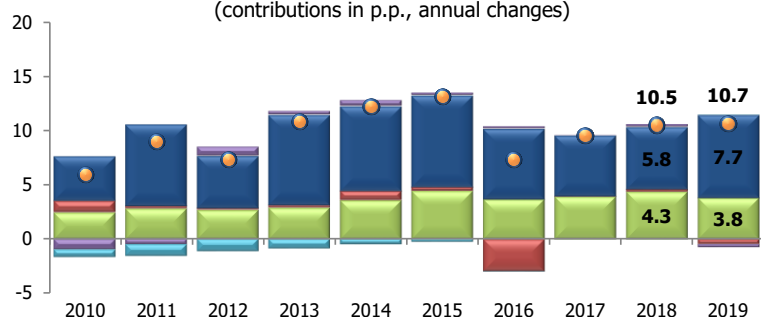
(contributions in annual changes, in p.p.)



currency clause) dominates, but loans in domestic currency also grow.

The annual growth of household loans²⁰ in May amounted to 8.7%, and was still largely driven by consumer loans that contributed with 5.5 percentage points.

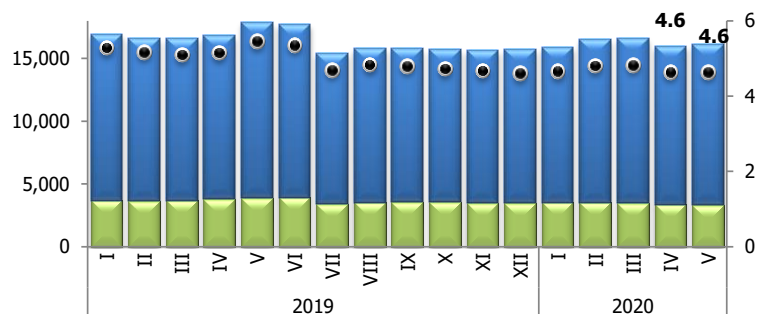
(contributions in p.p., annual changes)



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

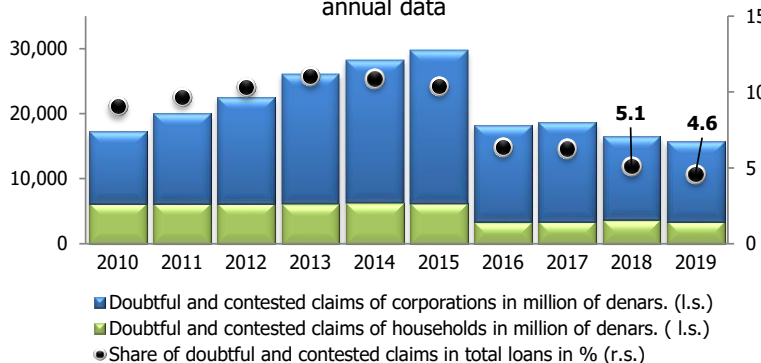
Doubtful and contested claims

(composition by sector and share in total loans)



The share of doubtful and contested claims in total loans in May 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.

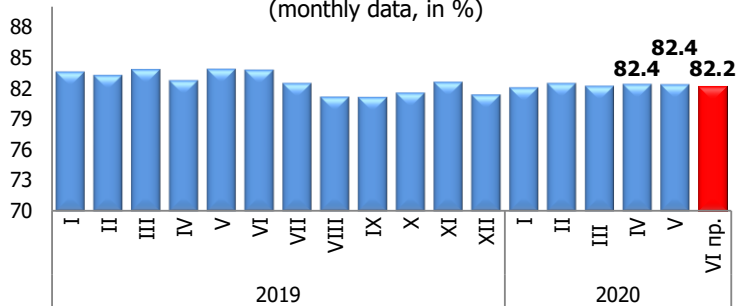
annual data



Source: NBRNM.

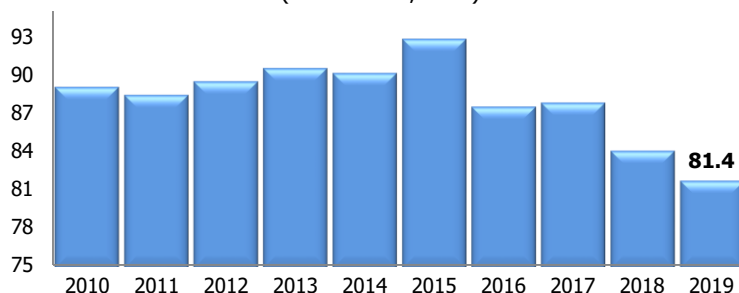
²⁰ Excluding loans of self-employed individuals.

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



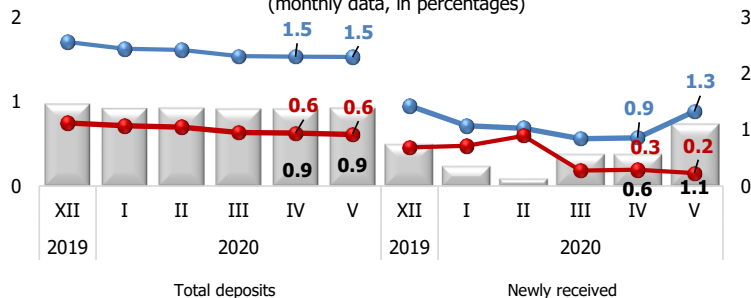
The indicator for the utilization of banks' deposit potential for lending to the private sector in May is at the same level as in the previous month (82.4%), whereby it is slightly above the forecasted value of this indicator for the end of the second quarter of 2020 (82.2%), according to the April forecast.

(annual data, in %)



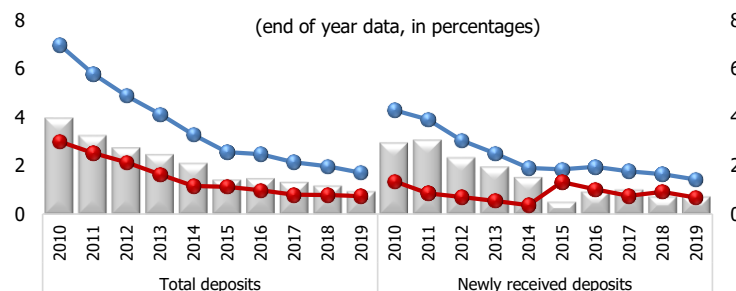
Source: NBRNM.

Total deposits interest rates
(monthly data, in percentages)



In May, interest rates on total deposits (denar and foreign currency)²¹ 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 deposits²²**, the interest rate spread expanded by 0.5 percentage points, as a result of the increase in the interest rate on denar deposits and a slight decrease in the interest rate on foreign currency deposits.

(end of year data, in percentages)



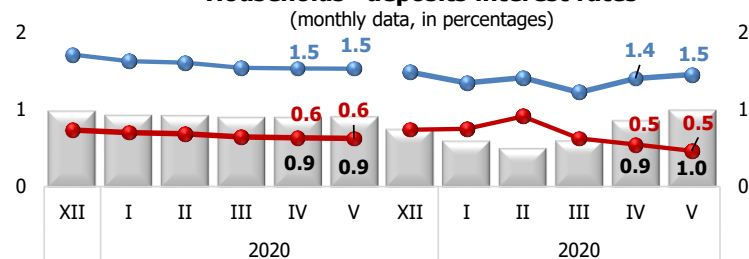
Legend:
 Interest rate spread
 Interest rate of foreign currency deposits
 Interest rate of denar deposits

Source: NBRNM.

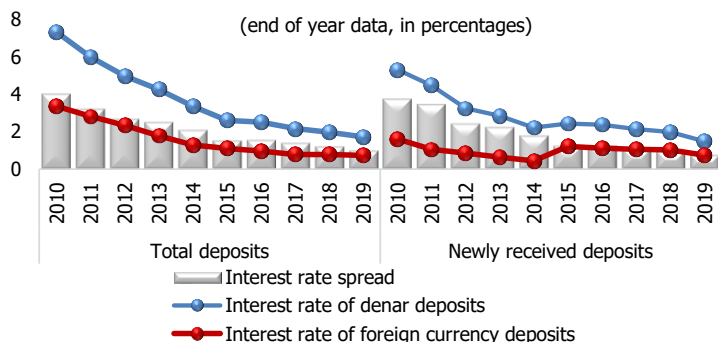
²¹ Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.

²²Regarding 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.

Households` deposits interest rates

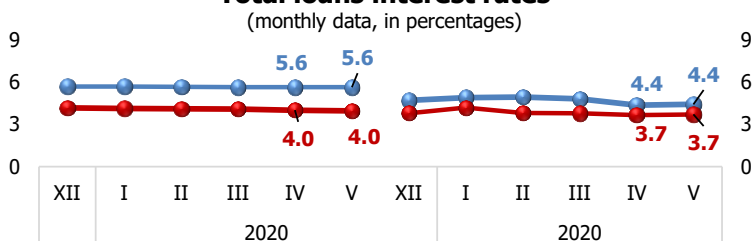


The interest rates on **total household deposits** (denar and foreign currency) registered no changes compared to the previous month and the interest rate spread remained at 0.9 percentage points. **For the newly accepted household deposits**, the interest rate spread expanded slightly by 0.1 percentage point, amid increased interest rate on denar deposits by 0.1 percentage point and unchanged interest rate on foreign currency deposits compared to the previous month.

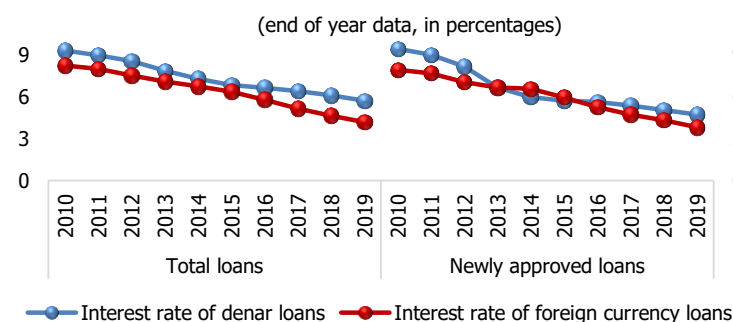


Source: NBRNM.

Total loans interest rates



In May, the interest rates on **total corporate and household loans** registered no changes compared to the previous month and amounted to 4.0% and 5.6%, respectively. For the **newly approved loans**²³ in May, 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.

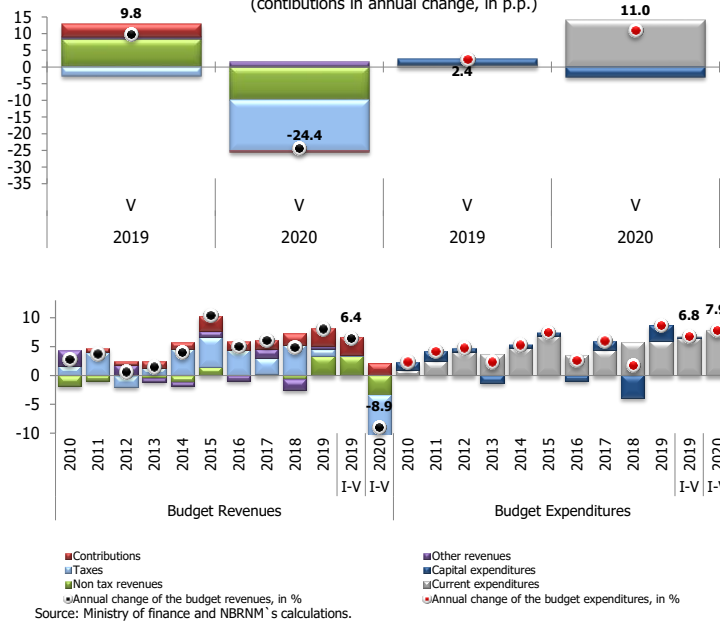


Source: NBRNM.

²³ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures

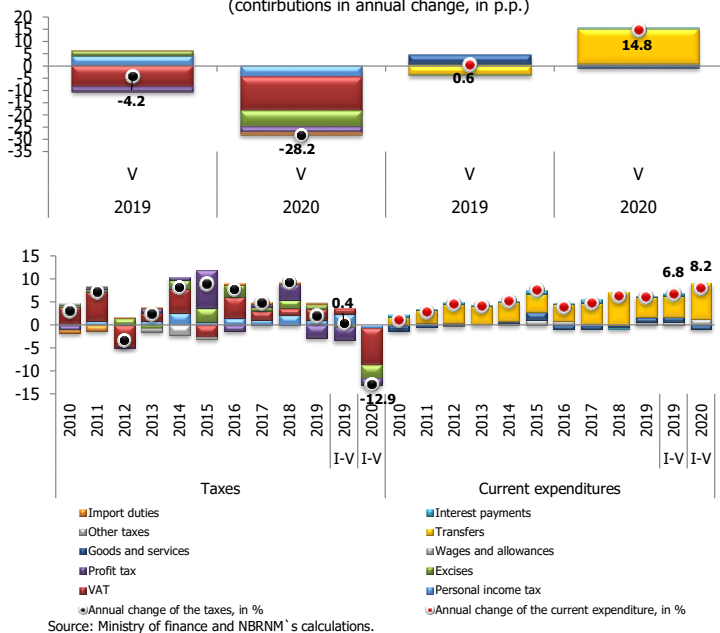
(contributions in annual change, in p.p.)



The deteriorated situation in the economy due to the health crisis also had an appropriate effect on the Budget of the Republic of North Macedonia (central budget and budgets of funds). Namely, in May 2020, there was a significant annual reduction of budget revenues, amid simultaneous increase in total budget expenditures. The reduction of revenues of 24.4% entirely results from the lower tax revenues, non-tax revenues²⁴ and contributions (negative contributions of 15.3 percentage points, 10.0 percentage points and 0.3 percentage points, respectively), amid an increase in other revenues²⁵ (contribution of 1.4 percentage points). Tax revenues in May were lower by 28.2% on an annual basis, as a result of the lower inflows in all items²⁶. **Budget expenditures** were higher by 11.0% on an annual basis, entirely as a result of the higher current expenditures (contribution of 14.0 percentage points), amid reduced capital expenditures (negative contribution of 3.0 percentage points). Current expenditures in May increased by 14.8% on an annual level, mostly due to the growth of transfers²⁷, while the only item that is reduced are the expenditures on goods and services.

Taxes and current expenditures

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



In the period January - May 2020, total budget revenues went down by 8.9% compared to the same period last year. The reduction in the first five months is mostly due to the lower performances in tax and non-tax²⁸ revenues (contribution of 7.3 and 3.4 percentage points, respectively), while contributions²⁹ increased (2.2 percentage points). On the other hand, total budget expenditures increased by 7.9%, primarily due to the higher current expenditures (mainly due to the increased transfers), and a smaller positive contribution was also made by capital expenditures.

²⁴ The reduction is a result of the high base from May 2019, when non-tax revenues were increased due to the transfer of the funds to the Pension and Disability Insurance Fund's account from private pension funds.

²⁵ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

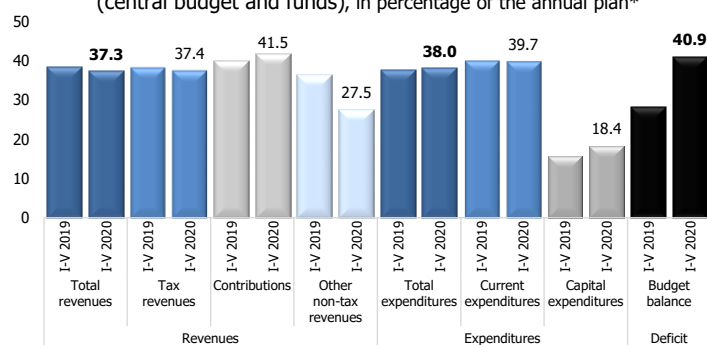
²⁶ Decrease was registered in all types of taxes in May 2020 compared to the same month last year. The largest decline was registered in net VAT of 33.1% on an annual basis, where gross revenues went down by 30.8% on an annual level, whereby the weaker collection of gross revenues was also reflected on the VAT refund, i.e. it went down by 27.5% on an annual level.

²⁷ The 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 and the health care costs.

²⁸ The decrease is a result of the high base in the period from January to May 2019. Namely, in January and May 2019, non-tax revenues were increased due to the higher inflows to the Pension and Disability Insurance Fund's account from private pension funds.

²⁹ The 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.

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

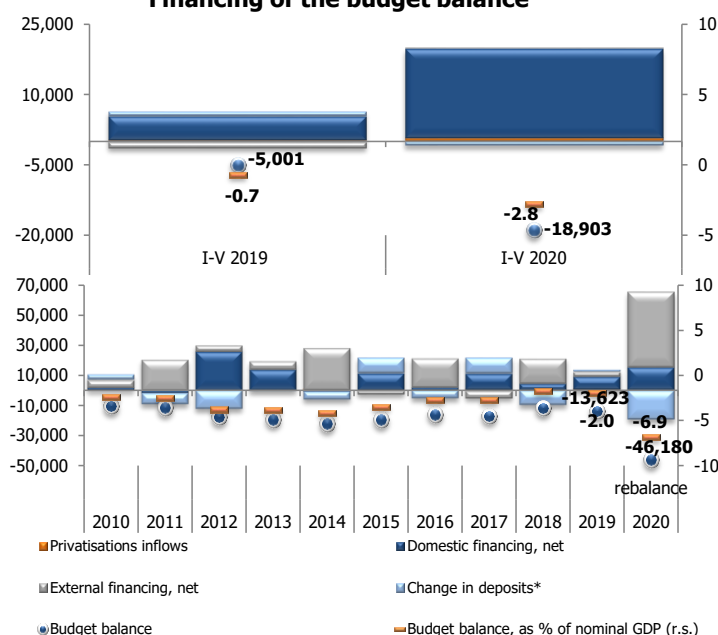


*for 2019 and 2020, figures are calculated compared to the Budgete rebalance for 2019 and 2020, respectively.

Source: Ministry of Finance and NBRNM's calculations.

In comparison with the Budget Revision³⁰ for 2020, the budget revenues in the period January-May 2020 amounted to 37.3% (38.3% in 2019), while the budget expenditures amounted to 38.0% (37.5% in 2019). The budget deficit in the amount of Denar 18,903 million was 40.9% of the Revision for 2020 (execution of 28.3% 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-May 2020 of Denar 18,903 million (or 2.8% of the nominal GDP³¹) is mostly financed by domestic government borrowing³², and to a lesser extent by using foreign loans³³, with small part of the inflows being retained as government deposits with the National Bank.

³⁰At 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).

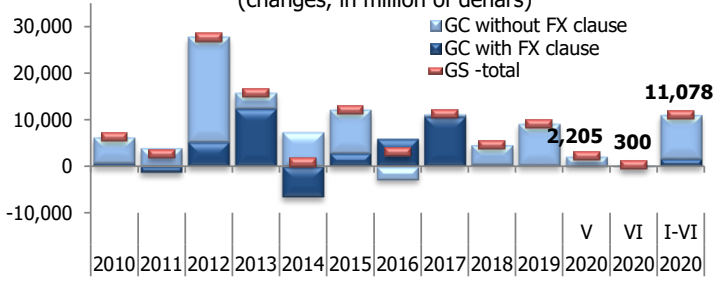
³¹The analysis uses the National Bank's April forecasts for the nominal GDP for 2020.

³²Besides the issuance of government securities, domestic government borrowing was also made with the domestic commercial banks by around Euro 135 million, i.e. Denar 8,172.5 million, intended for repayment of a loan whose term fell due on 29 January 2020. It concerns repayment of second installment in the amount of Euro 158 million, from a PBG loan concluded in 2013.

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.

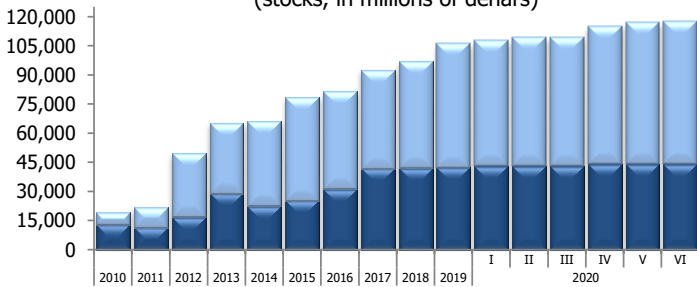
Government securities

(changes, in million of denars)



In June 2020, the stock of issued government securities³⁴ in the primary market increased on a monthly basis by Denar 300 million and at the end of the month reached Denar 117,431 million. The monthly increase completely derives from the increase in government securities without currency clause. Compared to the end of 2019, the stock of government securities at the end of June increased by Denar 11,078 million.

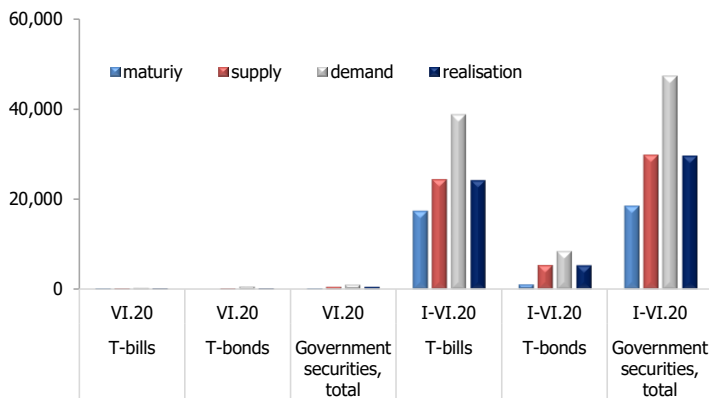
(stocks, in millions of denars)



Source: MoF.

Government securities auctions

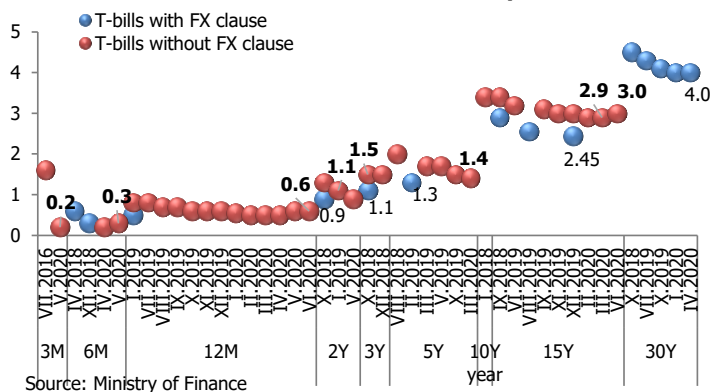
in million of denars



Source: Ministry of finance.

The new issues of government securities in June³⁵ 2020 were with twelve-month and fifteen-year maturity, whereby the market participants' interest was higher than the offered amount.

Interest rates of T-Securities in percent



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	March	April	May
	<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	-9.9	-21.8	-20.4
VAT revenues*	3.9	6.5	7.5	6.9	3.5	1.4	7.5	6.6	1.8	-8.2	-23.7	-30.7
Imports of consumption goods*	8.0	2.5	3.0	10.9	2.8	5.9	9.7	4.8	6.8	-4.8	-21.3	-17.7
Domestic production of consumption goods	6.1	-1.0	-0.1	5.6	0.5	-1.0	2.4	-2.0	-0.5	-10.8	-30.5	-25.2
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	9.7	9.7	9.4	8.4
Average net wage*	3.4	4.7	3.9	5.4	2.2	2.4	3.5	4.2	10.0	6.9	4.3	-
Private net transfers*	5.6	9.1	4.3	2.0	-2.2	-4.7	5.7	2.1	-2.9	-21.0	-	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	5.7	7.4	5.7	8.1

* 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	March	April	May
	<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	-11.6	-53.2	-41.6
Completed construction works**	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-19.2	-13.0	-
Domestic production of capital goods	19.3	24.2	16.0	5.7	12.3	-2.9	10.7	7.1	-5.7	-20.1	-70.8	-47.1
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	23.7	24.0	15.9	-51.5
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-12128.9	-3653.4	4093.0	-7892.4	5671.8	6696.9	-	-
Long term credits to enterprises*	2.0	4.7	6.6	5.9	4.9	4.8	2.6	6.4	4.1	4.1	5.8	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.