

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



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

June 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 (March - May 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, some of the international organizations¹ made downward revisions of the forecasts for the global economic growth, in conditions of significant and prolonged negative effects of the pandemic of COVID-19 on the global economy. Moreover, the risks regarding the forecasts are significantly downward, and the uncertainty is more pronounced than ever. The main downward risk refers to the possible longer duration of the pandemic, the occurrence of a second wave of the infection and the re-tightening of the restrictive measures for preventing the spread of the virus. The other negative risks include the possibility for turning of the global health and economic crisis into a financial crisis, the possibility for a longer undermining of the confidence of economic agents for consumption and investments, the possible slowdown of the global value chains, 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 ending the pandemic earlier than expected, as a result of the faster finding of a vaccine against the coronavirus is the only positive risk to the global economic growth. Regarding the **economic developments in the euro area**, as our major trading partner, the first quarter of 2020 registered an annual fall in GDP of 3.1% (quarterly fall of 3.6%), versus the annual growth of 1% in the previous quarter. The latest high-frequency data and household and corporate surveys in May register some improvement compared to the previous month, but still indicate a fall in economic activity also in the second quarter. The latest June ECB estimates for the economic prospects of the euro area resulted in a substantial downward revision of the forecast for the GDP growth in 2020, for which it is now forecasted that it will be in a negative zone and will equal 8.7%, versus the forecast for a positive growth of 0.8% in March. On the other hand, the forecasts for 2021 and 2022 have been revised upwards, whereby the growth is expected to amount to 5.2% and 3.3%, respectively (1.3% and 1.4%, respectively, in March). The initial labor market data in the euro area indicate unfavorable movements at the beginning of the second quarter, whereby the unemployment rate in April increased to 7.3% (from 7.1% in March). In terms of inflation in the euro area, the initial assessment shows its further slowdown, from 0.3% in April to 0.1% in May. The latest ECB forecasts for the inflation have been revised downwards in the period 2020-2022, mainly due to the lower expected core inflation and the lower world oil prices². At its regular meeting in June, the ECB further relaxed the unconventional monetary policy, thus increasing the volume and duration of the urgent assets purchase program in conditions of pandemic, in order to improve the financing terms of the real economy. According to the latest estimates, the expectations for the **one-month EURIBOR interest rate** show a slightly more negative interest rate in comparison with 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 were revised upwards compared to the April forecasts. Moreover, the revisions are more pronounced on the demand side, while with the inflation, the changes are more moderate. Compared to April, the US dollar is expected to register a

¹ OECD, Economic Prospects, June 2020; the World Bank, Global Economic Prospects, June 2020.

² According to the latest forecasts, inflation of 0.3%, 0.8% and 1.3% in 2020, 2021 and 2022 is expected, contrary to the expectations in March for inflation of 1.1%, 1.4% and 1.6%, respectively, for the same period.

slightly greater appreciation in 2020 and a slightly greater depreciation in 2021. **The latest forecasts for the changes in the prices of primary commodities in world markets still indicate price decline, amid revisions in a different direction 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 significantly slowed down in the first quarter of 2020 and amounted to 0.2% on an annual basis, versus the growth of 3.4% in the previous quarter. Performances are also weaker than the expected pace of growth for the first quarter according to the April forecasts. The developments related to the new viral infection in global terms and its spread in the domestic economy, as well as the measures that were taken for prevention of its spread, during March led to a deterioration in the business activity, visible in most of the economic activities. This was also reflected on the confidence and expectations of companies, due to which the expected growth in gross investments was absent, and their slight decline mostly contributes to the weaker domestic demand. The crisis has also slowed the growth of private consumption in the first quarter. The currently available high-frequency data for the second quarter of 2020 are limited to fully grasp the situation, but indicate further and more pronounced negative effects of the health crisis on the economic activity. Namely, data as of April show pronounced deepening of the fall in the industrial output and the trade turnover. **In terms of consumer prices, the performance in May 2020 shows further negative price changes in the economy.** Thus, May registered a decrease in the price level of 0.2% on an annual basis. On average, the price changes in the period April-May are currently in line with the forecast for the second quarter. In such circumstances, as well as amid different directions of revision in the external input assumptions for the inflation forecast for the entire 2020, risks to the inflation forecast for 2020 of 0% are currently assessed as balanced. Yet, there is still great uncertainty around the future movement of world primary commodity prices, related to the new viral infection and the duration of the pandemic.

The data on the foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) at the end of May 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. to the government 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 show a more significant negative impact on the domestic economy of the spread of the virus COVID-19, in line with the expectations that the negative effects will be strongest in April, with gradual recovery in the remaining part of the second quarter. The latest information from foreign trade for April 2020 points to the possibility that the trade deficit will be in line with that expected according to the forecast, but still one month is a short period for drawing reliable conclusions in this domain. Currency exchange market data as of May currently indicate possibility for lower net inflows of private transfers than expected for the second quarter. The balance of payments in the first quarter of 2020 indicates a current account deficit which is in line with the April forecast. The financial account registered no major deviations from the forecast.

As for the monetary sector developments, final data as of April show that **total deposits remained at an almost same level as in the previous month.** Household and other sectors deposits registered a monthly growth, amid a moderate decline in corporate deposits. Observing by currency, foreign currency deposits increased during April, amid a moderate decline in deposits in domestic currency (including demand deposits). On an annual basis, total deposits in April increased by 6.0%, mostly due to the growth of household deposits, i.e. of deposits in domestic currency (mostly

of demand deposits). The annual deposit growth in April is slightly below the forecast for the second quarter of 2020 (6.3%), according to the April forecast. In April, **total private sector loans** registered a small monthly growth of 0.2%, entirely as a result of the increase in corporate loans, amid a moderate decline in household loans. Observing the currency structure, during April, there was an increase in foreign currency loans (including denar with currency clause), amid a small decline in loans in domestic currency. On an annual basis, total loans in April increased by 5.5%, whereby, sectorally observed, the growth largely results from the increase in household loans, amid simultaneous growth 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 April is above the forecast for the second quarter of the year (4.3%), according to the April forecast.

In the period January-April, the Budget of the Republic of North Macedonia registered a deficit of Denar 12,125 million. The budget deficit is mostly financed by domestic government borrowing, and to a lesser extent by using foreign loans, with part of the inflows being retained as government deposits with the National Bank. The deficit in the Budget of the Republic of North Macedonia for the first four months of the year was 26.3% 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 remained unchanged compared to the previous forecasts. The performance of the foreign reserves in April-May 2020 is in line with the expectations, whereby they are still maintained in a safe zone. The economic growth achieved in the first quarter of 2020 of 0.2% is below the expectations for the corresponding period of the year, amid forecasts for a more significant reduction of the economic activity in the second quarter, which is also perceived through the currently available high-frequency indicators for April. Regarding prices, risks to the forecasted inflation rate for 2020 are currently assessed as balanced, but are still mainly associated with the movement of the prices of primary products in world markets, which are very uncertain and volatile. Observing the monetary sector, the movements of deposits and loans are currently in line with the April forecast.

The growth of the economic activity in the first quarter of 2020 decelerates

According to the estimated SSO data, the economic activity in the first quarter of 2020 slowed down, and the real GDP growth rate was 0.2% (after the growth of 3.4% in the fourth quarter of 2019), as a result of the negative effects on the economy of the measures taken for dealing with the virus COVID-19. Observing the manufacturing industry, the largest positive contribution to the growth was made by the activities "information and communications" and the activities related to real estate. However, most of the activities registered downward adjustments, and the highest negative contribution was made by the industry and the activities of the group "trade, transport and hotels and restaurants". On the expenditure side, the growth was driven by domestic demand, amid growth of private and public consumption, while gross investments registered a small decline. Although there is a narrowing, net exports also in this quarter made a negative contribution to the growth, amid larger decline in the exports relative to the decline in the imports of goods and services.

Selected economic indicators ¹	2019								2020					
	2016	2017	2018	Q1	Q2	Q3	Q4	2019	Jan.	Feb.	Mar.	Q1	Apr.	May
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 production³														
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	
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	
Inflation⁴														
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
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
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
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
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	46,039	50,075	51,036	56,761	203,911	15,598	15,727	15,160	46,485	14,241	
Total budget expenditures	185,407	196,561	200,071	49,244	53,917	52,131	62,250	217,542	16,811	18,820	18,263	53,894	18,957	
Overall balance (cash)	-16,051	-16,888	-11,566	-3,205	-3,842	-1,095	-5,489	-13,631	-1,213	-3,093	-3,103	-7,409	-4,716	
Overall balance (in % of GDP) ¹	-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	
III. Financial indicators⁶														
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	
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	
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	
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	
Total deposits (incl. demand deposits), y-o-y growth rate⁷	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	
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	
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	
Interest rates⁸														
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
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	
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	
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	
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	
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	-1,811.1	-456.3	-474.5	-437.1	-646.8	-2,014.8	-134.3	-199.9	-176.7	-510.9	-162.2	
Trade balance (% of GDP)	-18.0	-18.1	-16.9	-4.0	-4.2	-3.9	-5.7	-17.8	-1.2	-1.8	-1.6	-4.7	-1.5	
import (millions of EUR)	-6,176.5	-6,834.9	-7,676.3	-1,990.4	-2,095.7	-2,066.0	-2,284.2	-8,436.3	-591.4	-719.8	-607.4	-1,918.6	-373.5	
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	
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	
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	
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	8249.5	8337.2	8581.0	8,191.2	8,191.2						
public sector	3,445.3	3,461.8	3,756.2	4095.2	4035.1	4074.2	3,836.6	3,836.6						
public sector/GDP (in %)	35.7	34.5	35.1	36.1	35.6	35.9	33.8	33.8						
private sector	3,771.2	3,910.7	4,087.5	4154.4	4302.1	4506.9	4,354.6	4,354.6						
Gross external debt/GDP (in %)	74.7	73.4	73.3	72.7	73.5	75.7	72.2	72.2						
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

¹ In calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2020, the projected level from NBRNM's last forecasting round is used.

² The quarterly data for 2018 are preliminary, while for 2019 are estimated (Press release for quarterly data on GDP as of 08.06.2020). The annual data for 2017 is final, and 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).

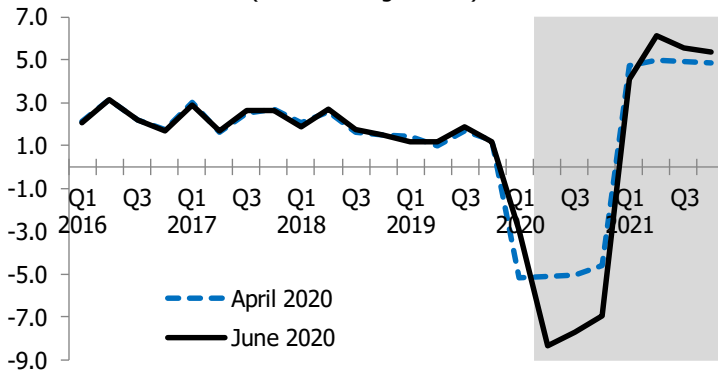
⁷ It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.

⁸ As of June 2018 data for active and passive interest rates are compiled according to the new methodology of 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.

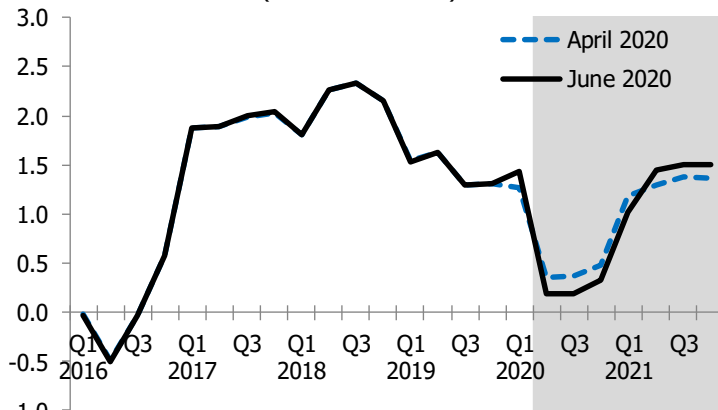
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

The latest estimates for the foreign effective demand for 2020 have been revised downwards, whereby the fall is expected to amount to 6.5% (5% in April). The downward revision is a result of the downward adjustments in the assessments in almost all countries, but it is largely due to the expectations for sharper economic decline in Germany, as well as in Greece, Italy and Bulgaria. In contrast, for 2021, it is expected higher growth of foreign demand of 5.3% relative to the April forecasts (4.9%), mainly due to the improved expectations for growth of the German economy³.

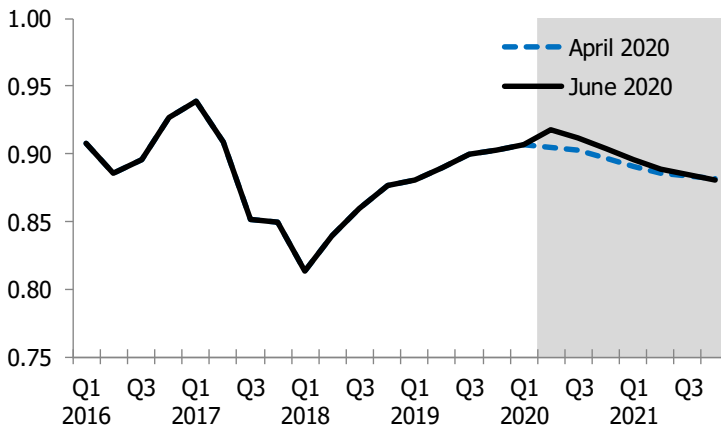
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

The forecast of the foreign effective inflation registered minimal adjustments compared to April assessments, for both years of forecast. Moreover, for 2020 there is a downward revision and it is now expected inflation of 0.5% (0.6% in April), mostly due to the downward movements in Croatia⁴. On the other hand, in 2021 the foreign inflation is adjusted upwards and it is estimated that it will equal 1.4% (1.3% in the April forecasts), mainly due to the higher inflation in Bulgaria.

EUR/USD exchange rate

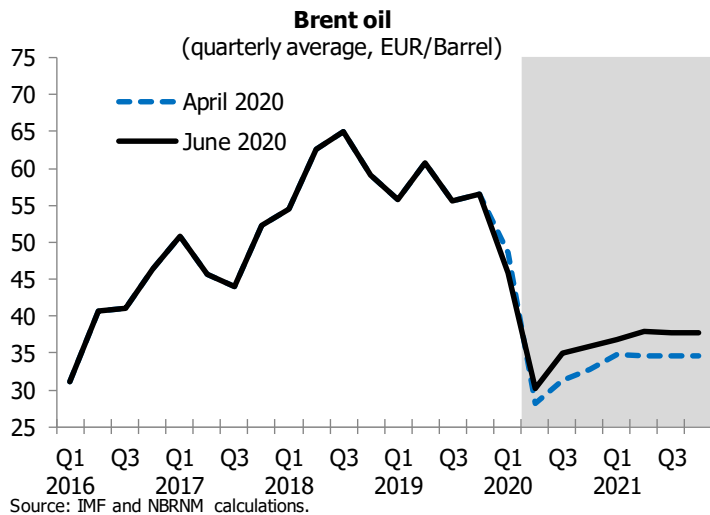


Source: Consensus forecasts and NBRNM calculations.

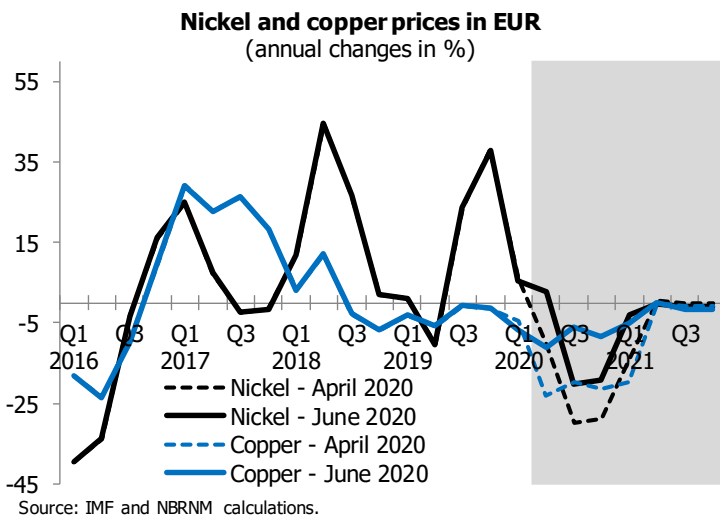
The euro/US dollar exchange rate in 2020 is expected to register a slightly higher appreciation compared to the expectations in the April forecasts. Such assessments mainly result from the growing uncertainty related to the new souring of the relations between the USA and China. In contrast, for 2021, a slightly higher depreciation rate of the US dollar is forecasted relative to April.

³ For 2020, a fall in Germany of 6.3% is forecasted, unlike the fall of 5% in April and growth of 5.2% in 2021 versus the growth of 4.5% in April.

⁴ Inflation in Croatia has been adjusted for the changes in the exchange rate.



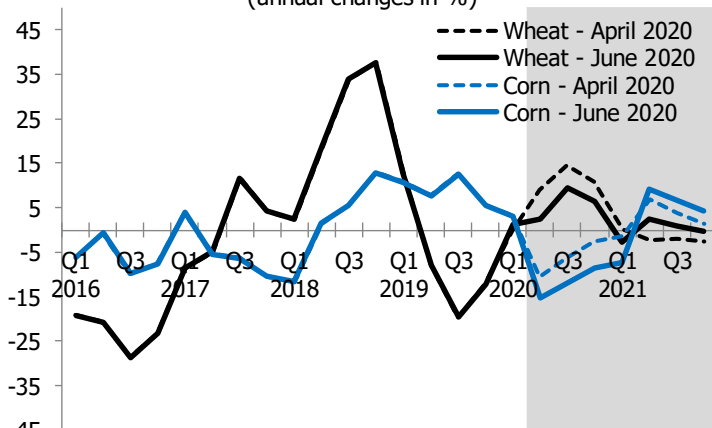
The latest estimates for the oil price⁵ still indicate a significant fall in 2020, but slightly smaller relative to April. Such assessments are due to the expectations for continuation of the agreed reduction of the production between the OPEC+ member countries in the next two months, as well as the expectations for reduction of the production in the USA, contrary to the expectations for an increased global demand in conditions of easing of the restrictive measures in dealing with the coronavirus and the gradual opening of the businesses in a large number of countries, but also the lower inventories in the USA. For 2021, a small upward adjustment was also made, thus forecasting a small price growth, versus the April expectations for a slight decline.



The prices of nickel and copper have been revised upwards in the entire period of forecasts. Moreover, also in both years, a smaller decline in prices than that in the April forecasts is expected, but the adjustment is more significant for 2020. The upward adjustments mainly reflect the recovery of the economic activity in China after the health crisis and the expectations for its increased future demand for metals. An additional factor for more favorable movements in the copper price are also the reduced inventories.

⁵ 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.

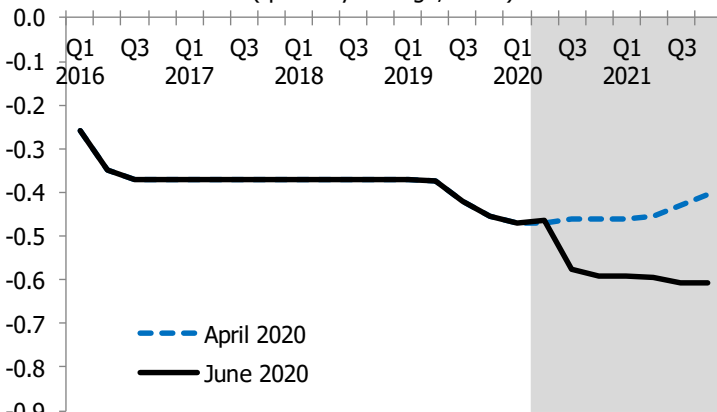
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

According to the latest forecasts, food prices for 2020 were subject to a downward revision. Thus, the wheat price is now expected to register a slower growth compared to the April forecasts, mainly due to the expectations for a higher global supply, as well as due to the concern about the demand related to the global economic activity. Regarding the corn price, sharper decline than previously expected is forecasted, in conditions of a high global supply and reduced demand for the needs of the industry, mainly in the USA and China, which will also lead to an increase in the inventories of corn. **For 2021, minor positive revisions have been made relative to April,** whereby the wheat is expected to register price stabilization, versus the previously expected fall, while the corn price is expected to register a minimally higher growth than that in April.

1-month Euribor
(quarterly average, in %)

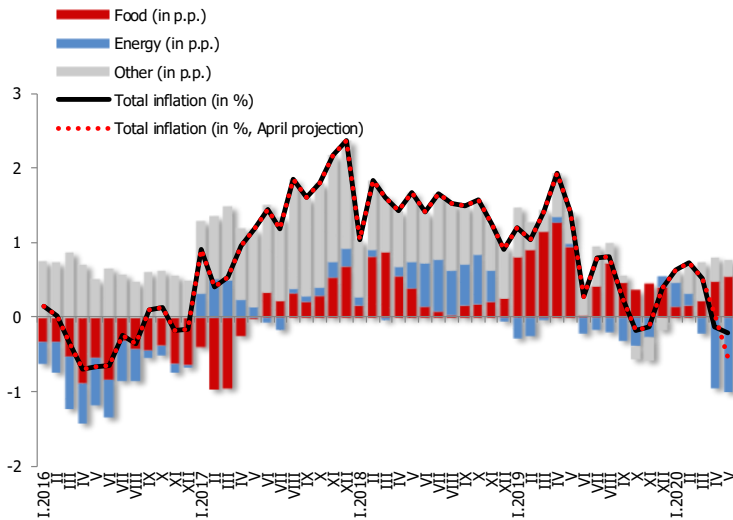


Source: Consensus forecasts and NBRNM calculations.

Regarding the **one-month EURIBOR**, in the period of forecasts slightly more negative rates relative to the April forecast are expected, i.e. average rates of -0.53% and -0.6% in 2020 and 2021 are forecasted, versus -0.47% and -0.44%, respectively, in April. The downward revisions reflect the market expectations for a more stimulating monetary policy by the ECB through an increased volume of the Pandemic Emergency Purchase Programme (PEPP). Such expectations were confirmed at the meeting from 4 June 2020, when the ECB increased the volume of the Programme from Euro 750 billion to Euro 1,350 billion, at the same time continuing the duration of the Programme by 6 months (i.e. by the end of June 2021).

Inflation rate

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



Source: SSO and NBRNM.

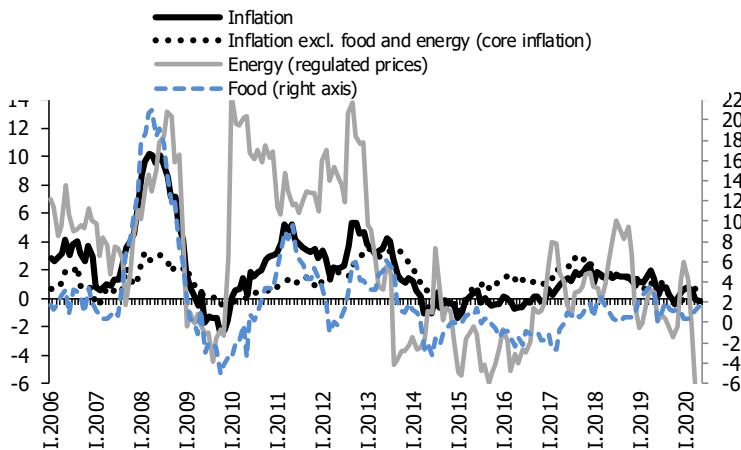
In May 2020, **domestic consumer prices** slightly increased by 0.4% (the previous month registered a monthly growth of 0.1%), amid slight increase in the prices within the food and energy components, while the prices within core inflation were almost unchanged⁶. The price movement by different groups of products partly reflects the reduced current demand for certain categories of products (durable and semi-durable consumer goods), in conditions of uncertainty due to the health crisis⁷.

The annual inflation rate equaled -0.2% in May (-0.1% in the past month), which is a slightly smaller intensity of price decline than expected with the April forecasting round.

In terms of structure, upward deviation was registered in food and in energy, amid insignificant downward deviation in core inflation, from the forecast.

Inflation and volatility of food and energy

(annual growth rates, in %)



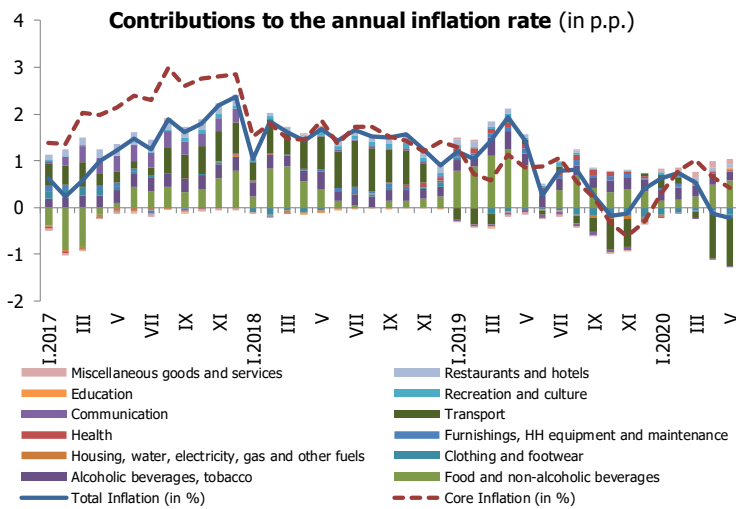
Source: State statistical office and NBRNM calculations.

Core inflation in May registered minimal monthly growth of 0.1%, and on an annual basis it was 0.4% (0.7% in April). The structure of the annual rate of core inflation in May is similar to the previous month, where the prices of tobacco⁸ continue to make the highest positive contribution. Also, a positive contribution this month was made by the prices of vehicles and the prices of electrical appliances for personal hygiene and other appliances. On the other hand, a more pronounced negative contribution was made by the lower prices of clothing and footwear, as well as of non-durable household products.

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 Observed by group of products, the greatest positive contribution to the monthly increase in prices in May was made by the prices of fruit and vegetables (common occurrence), as well as the prices of liquid fuels and lubricants. On the other hand, the largest negative contribution was made by the prices of non-durable household products, the large household appliances, as well as the prices of clothing, oil and grease.

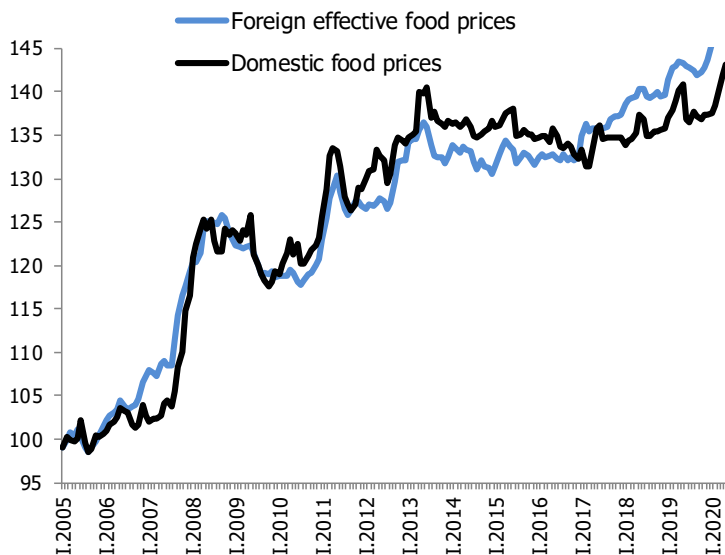
⁸ The annual growth of tobacco price in May also reflects the increase in the prices of cigarettes in May 2019 and March 2020, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023.



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

Source: SSO and NBRNM.

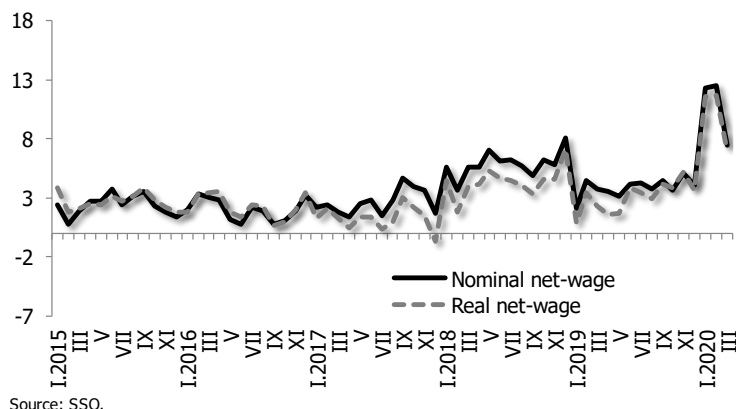
Foreign effective food prices* and domestic food prices
(indices, 2005 = 100)



In conditions of slightly higher inflation than forecasted, as well as revisions of the external assumptions in a different direction, the current risks to the inflation forecast for 2020 are assessed as balanced. 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.

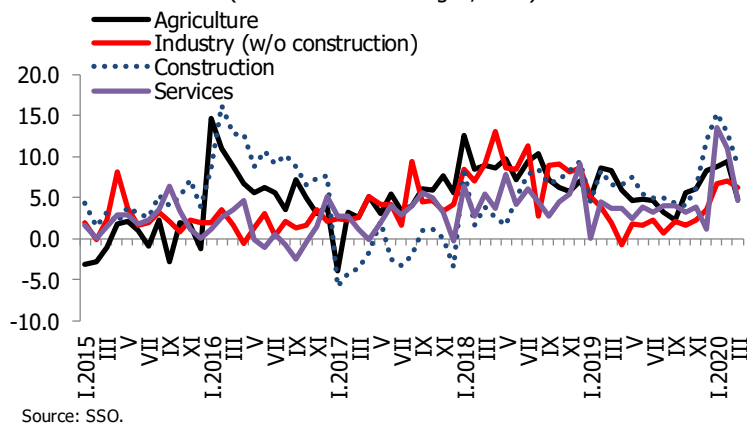
* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.

Average net-wage
(annual changes, in %)



In March 2020, the nominal annual growth of the average net wage was 7.4%, and the solid growth, as before, mainly reflects the increase in the minimum wage⁹, the increase in the wages in the public sector¹⁰, as well as the effect of the measure for subsidizing contributions due to wage increase¹¹. However, compared to the previous month, there is a more significant **slowdown in growth** (annual growth in February of 12.5%) which is partly an indication of the impact of the restrictive measures for dealing with the new viral infection on this segment of the labor market, and which started to be applied from the second half of March.

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



Wage growth was registered in most of the activities, with the most prominent one being registered in the activities "education", "wholesale and retail trade; repair of motor vehicles and motor-cycles", "manufacturing industry", "other services", "professional, scientific and technical activities" and "construction"¹².

Amid small increase in the consumer prices on an annual level, the **real annual growth of the net wage in March was 6.9%**.

The annual wage growth in the first quarter is slightly lower compared to the expected growth according to the April forecasts.

In the first quarter of 2020, the real GDP growth rate was 0.2%, which is a more significant slowdown compared to the growth in the previous quarter (growth of 3.4% in the fourth quarter of 2019) and a

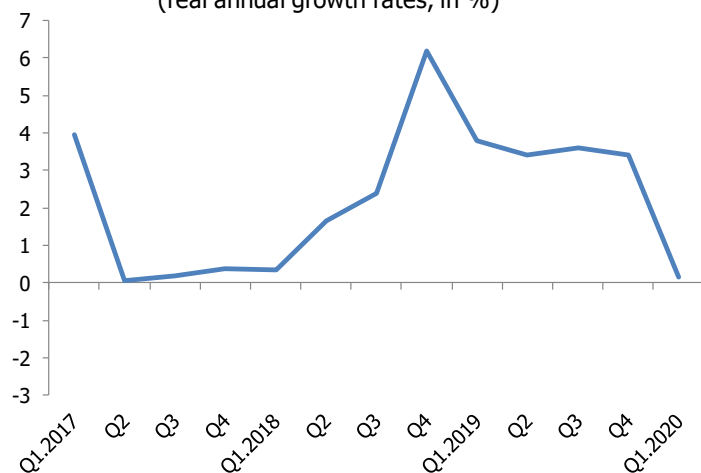
⁹ During 2019, the minimum wage was increased twice, in April and December. In April, the minimum wage was increased from Denar 12,165 to Denar 12,507 net wage (gross from Denar 17,370 to Denar 17,943) in accordance with the adjustment with the increase for the previous year of the average wage paid 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, net (Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 239/19).

¹⁰ 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 in 2019, 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%.

¹¹ 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).

¹² A more pronounced reduction of wages in March 2020 was registered in the categories "financial and insurance activities" and "accommodation facilities and catering services".

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



Source: SSO and NBRNM projections.
There are changes in the series as a result of regular revisions by SSO.

downward deviation from the April forecast for the first quarter.

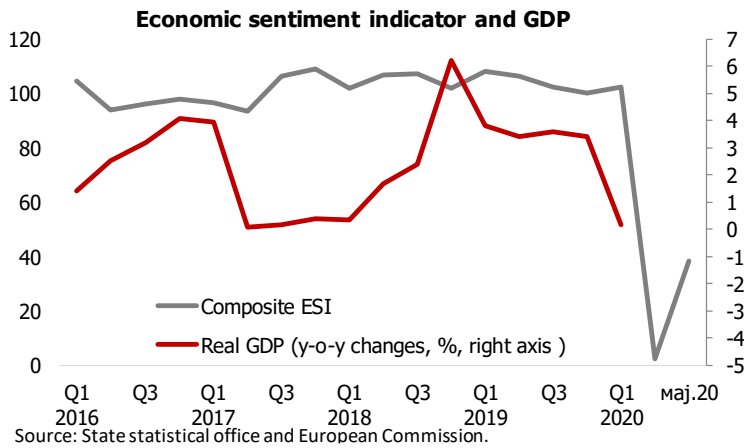
In terms of demand, in the first quarter, a positive contribution to the growth was made by domestic demand amid growth of private and public consumption, while gross investments registered a small decline. Net exports made a negative contribution amid larger decline in the export, contrary to the decline in the import of goods and services. Compared to the previous quarter, the lower GDP growth reflects the slower growth in domestic demand, while net exports registered a narrowing of the negative contribution.

Regarding the forecast for the first quarter of the year, the lower GDP growth is explained by the shifts within the domestic demand, amid downward deviations in all its components. However, there is largest deviation in gross investments, which registered a slight decline, instead of the expected growth, as well as in private consumption, due to the more moderate growth than expected. Regarding the net export, the movements are mainly in line with the forecast, amid a slightly smaller decline in exports than expected.

Observing the manufacturing industry, in the first quarter of 2020, the largest positive contribution to GDP growth was made by the activities “information and communications” and activities related to real estate. However, most of the activities registered downward adjustments, and the highest negative contribution was made by the industry and the activities trade, transport and tourism.

Having a limited scope of available data, it is difficult to get more accurate estimations of the overall condition of the economy in the second quarter of 2020. As for the economic agents’ perceptions for the economic situation¹³, the results of the surveys for the second quarter of 2020 indicate significantly worsened perceptions compared to the last quarter, as well as compared to the same quarter last year, mainly due to the measures related to the new viral infection.

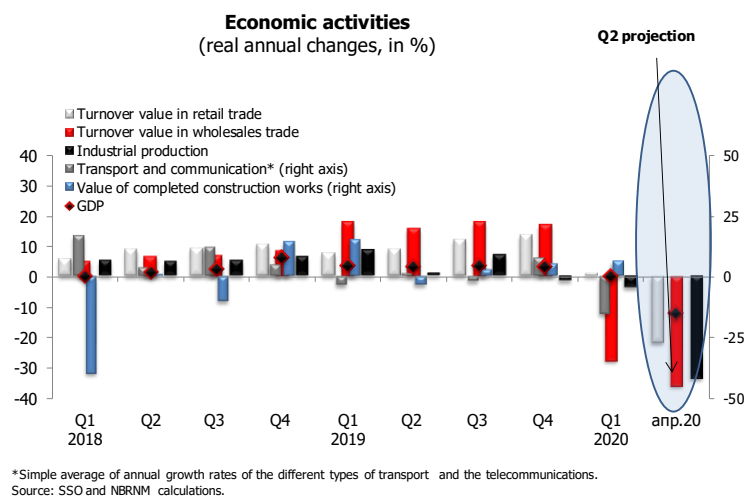
¹³ It refers to the surveys conducted by the European Commission to measure the economic confidence of agents in an economy. The composite indicator of economic confidence is a weighted average of the consumer confidence indicators and economic sectors confidence indicators (construction, industry, retail trade and services). 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



As for the high frequency data on the supply side, the data on trade and industrial output are available for April.

The total trade turnover registered a significant annual fall in April of nearly 30%, reflecting the unfavorable developments and the substantial fall in the turnover in all three types of trade (retail trade, wholesale trade and trade in motor vehicles). Such downward movements are expected, taking into account the restrictive measures for dealing with the new viral infection, and which were in force also during April.

Industrial output also registered a significant fall in April, of 33.5% on an annual basis, which is a significant deterioration relative to the decline of 3.7%, which was registered in the first quarter of the year, as a result of the developments related to the coronavirus. Moreover, the largest decline and consequently the highest negative contribution was registered in the manufacturing industry, and a smaller negative contribution was also made by the mining and the energy 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 equipment. Namely, most of these domestic facilities temporarily did not operate from the end of March and during April, under the influence of the temporary closure of the foreign companies from the automotive industry due to the health crisis, which caused an interruption in the production chains. When it comes to the traditional activities, a more notable negative contribution was made by the production of clothing and textile, the production of beverages and other non-metal mineral products. On the other hand, a small positive contribution was made only by the activities such as production of basic pharmaceutical products, production of rubber and plastic products and production of other transport equipment.



	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Jan	Feb	Mar	Apr
	<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	0.3	3.5	-13.4	-33.5
Construction	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	27.0	42.3	-19.2	-
Building	3.2	6.1	-11.4	28.1	-9.3	5.1	23.7	-1.1	-8.5	23.7	119.6	-55.2	-
Civil Engineerings	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.7	11.1	21.3	30.9	4.3	26.3	-
Retail and wholesale trade	5.8	8.2	7.3	9.2	13.9	12.8	15.3	15.5	-16.7	-14.1	-14.4	-20.9	-30.4
Retail trade	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	7.0	7.5	-9.9	-21.8
Wholesale trade	5.2	6.8	7.0	8.6	18.0	16.0	18.1	17.3	-27.8	-28.7	-28.2	-26.6	-35.9

* 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.

Also, the available aggregate demand indicators are mainly unfavorable and point to a

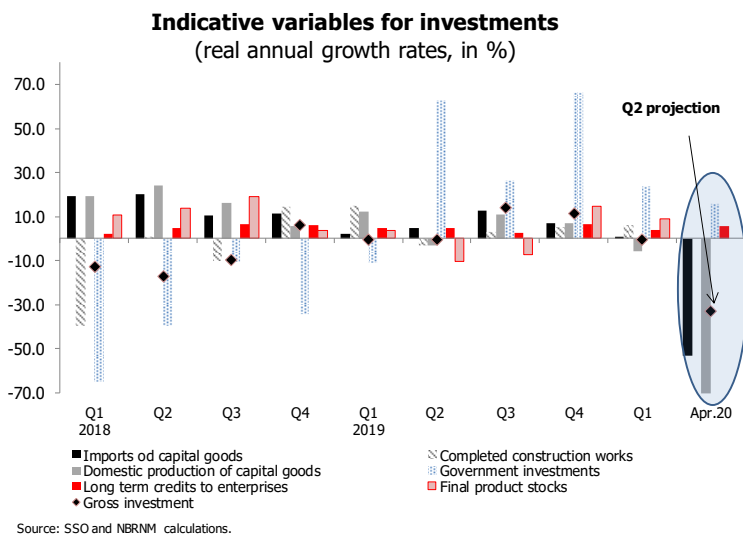
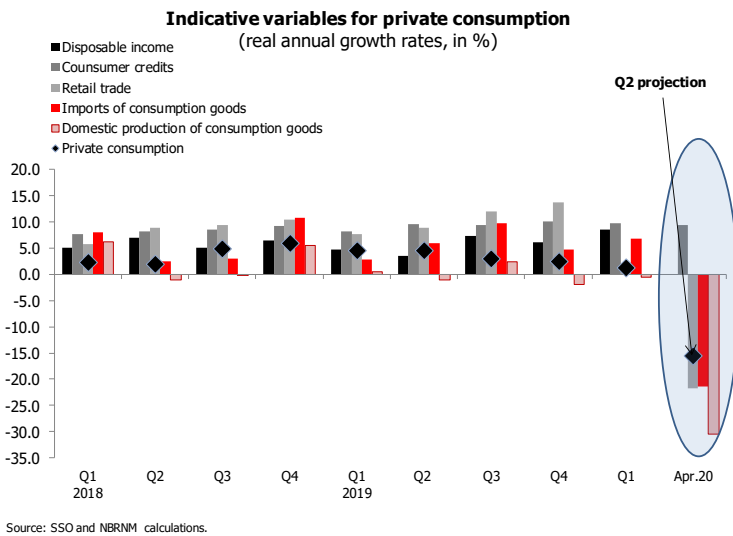
fall in the economic activity in the second quarter of the year.

Indicators of the movements in **private consumption** at the beginning of the second quarter of the year point to a reduced consumption, 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. Regarding the funding sources of private consumption, the available data currently indicate a further, but more moderate growth in some of the components of disposable income (available data only for pensions), and a slight slowdown in growth is also registered in household loans. The short-term indicators of private consumption dynamics are unfavorable, given the double-digit fall in retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT.

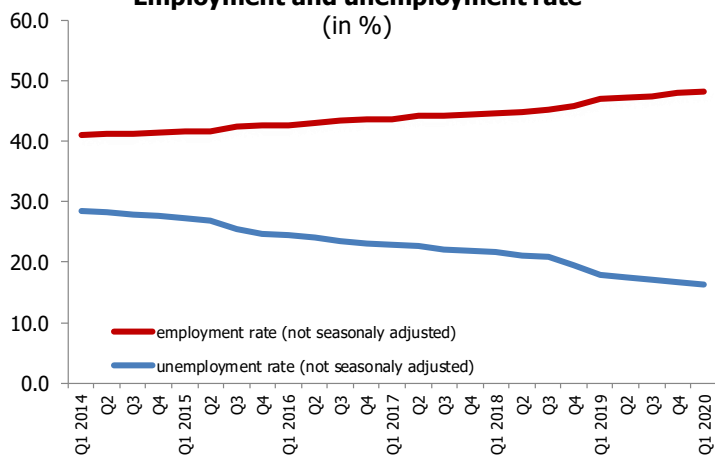
The high frequency data on the **gross investments** in April moved in different directions. Thus, a double-digit decline was registered in industrial output, domestic production of capital goods and import of capital goods. On the other hand, growth was registered in government capital investments, as well as 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. Growth was recorded also in revenues from corporate income tax.

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

The data on the budget execution as of April 2020 indicate an annual decline in **public consumption** in the second quarter, mainly due to the reduction in the expenditures on goods and services.



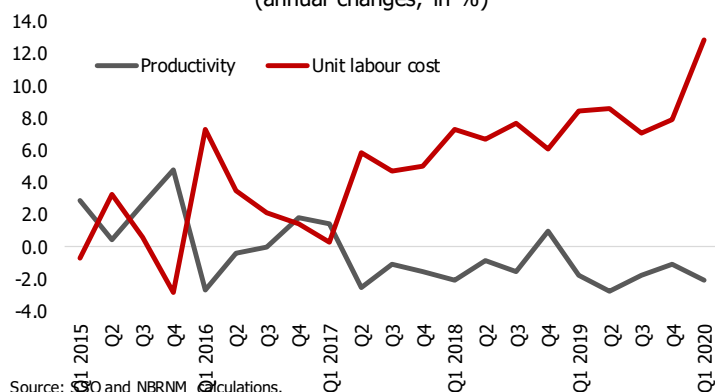
Employment and unemployment rate
(in %)



Source:SSO, LFS

Regarding the employment, the favorable labor market developments continued in the first quarter of 2020, amid further cut in **unemployment which reduced to 16.2%** (16.6% in the previous quarter), while the number of employed persons registered annual growth of 2.7%¹⁴.

Productivity and Unit labour cost
(annual changes, in %)



Labor productivity¹⁵ continued to register a decline, which in the first quarter of 2020 deepened to 2.1% (fall of 1.1% in the previous quarter), in conditions of higher growth of employment compared to the growth of economic activity.

At the same time, in the first quarter, unit labor costs increased by 12.8% on an annual basis (7.9% in the previous quarter), amid a rise in the gross wage amid falling productivity.

¹⁴ The largest contribution to the employment growth was made by the activities education, manufacturing industry, activities related to “wholesale and retail trade; repair of motor vehicles and motor-cycles” and health and social care activities.

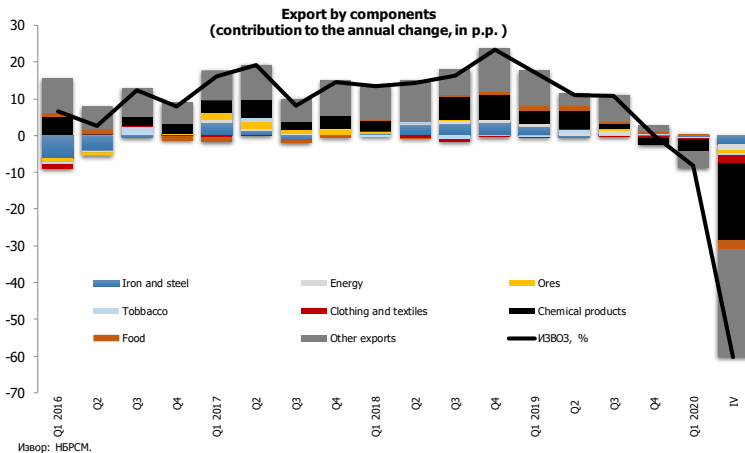
¹⁵ Total productivity is a weighted sum of productivity of each sector. Sector productivity is the ratio of the sector’s value added to the number of employees.

In April 2020, the foreign trade deficit registered a more intensive narrowing of 29.1%, in conditions of a significant fall in both the export and the import components, as a result of the pandemic caused by the virus COVID-19¹⁶.

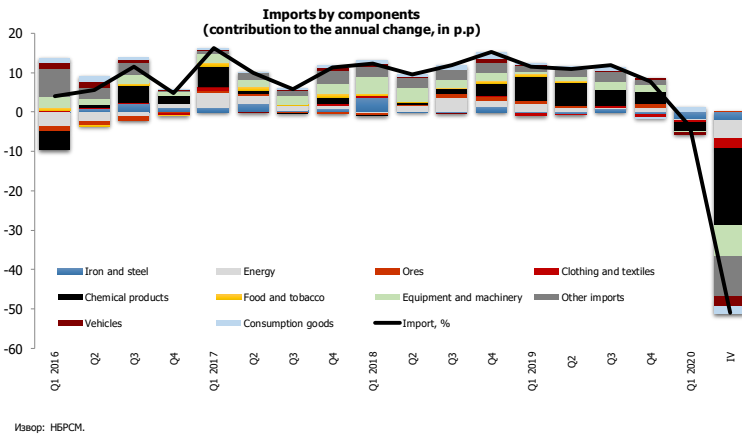
Exports of goods in April registered a rough annual decline of 60.3%, as a result of the negative effects of the pandemic. The movement restrictions, as well as the growing uncertainty, drastically reduced the global demand, resulting in a substantial fall in the export activity in April. Analyzed by individual categories, as much as 77% of the fall is due to the lower export of the new export facilities, where most of the exports is composed of products for the automotive industry, as one of the most affected sectors by the consequences of the pandemic. All remaining export categories also acted towards reducing the exports, but at significantly slower pace. There is a more significant negative contribution of the export of iron and steel, food and clothing and textile during April.

Compared to the expectations according to the April forecast, the performances in April are currently lower than the export expected for the second quarter for 2020. Significant downward deviations were registered in the export of the new production facilities, coupled with the slightly lower export of food and clothing and textile. However, such performances are in line with the expectations for strongest negative effects in April, with gradual recovery of the exports in the remaining part of the second quarter.

In April 2020, the import of goods also registered sharp annual decline of 50.9%. The reduction of the import component reflects the effect of the pandemic, which caused a significant fall in demand and exports. Analyzed by individual categories, most or two thirds of the fall in imports is due to the reduced import of raw



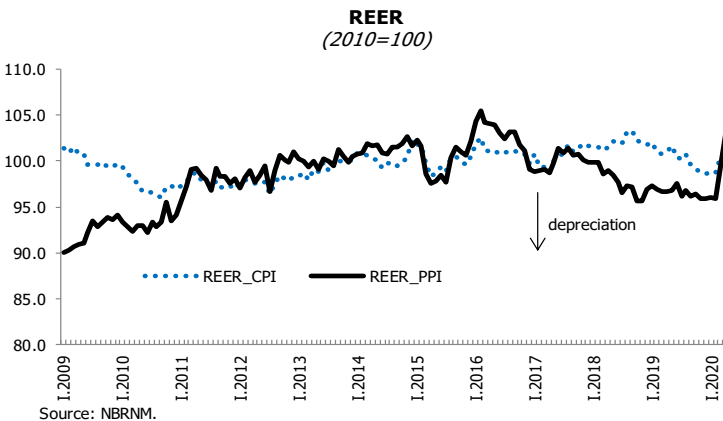
¹⁶ From the second half of March and during April, the domestic economy was under considerable negative pressure due to the spread of the virus. Namely, movement restrictions were established in both the domestic economy and in most of the countries in the EU, our most important trading partner, the borders of most countries in Europe were closed for movement of passengers, but certain difficulties were also recorded in the transport of goods. Due to the fear of the spread of the virus and significant fall in the global demand, most of the production facilities in the domestic economy, including the new export-oriented facilities, remained closed in this period. This situation caused a contraction on both the export and the import side, with intensity that has not been recorded in the post-transition period of the economy. The contraction on the imports side in April was more pronounced in nominal amounts, from where the significant adjustment in the trade deficit on an annual basis, also results.



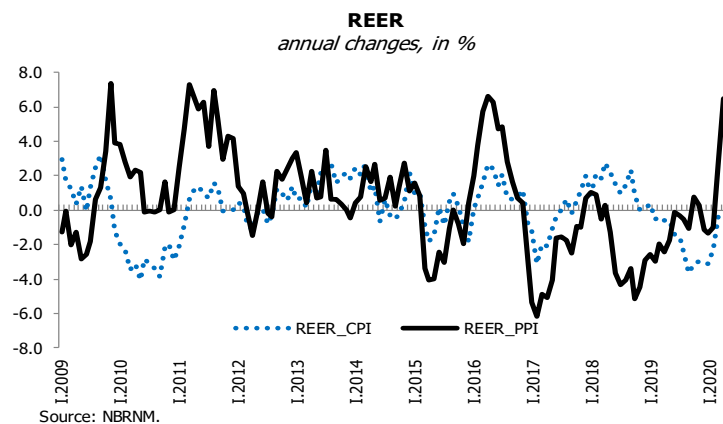
materials by the new export facilities, i.e. lower import of equipment and machines and other imports. In addition, all remaining categories, with the exception of food, acted towards reducing the imports, with a more pronounced contribution from energy, textile and vehicles.

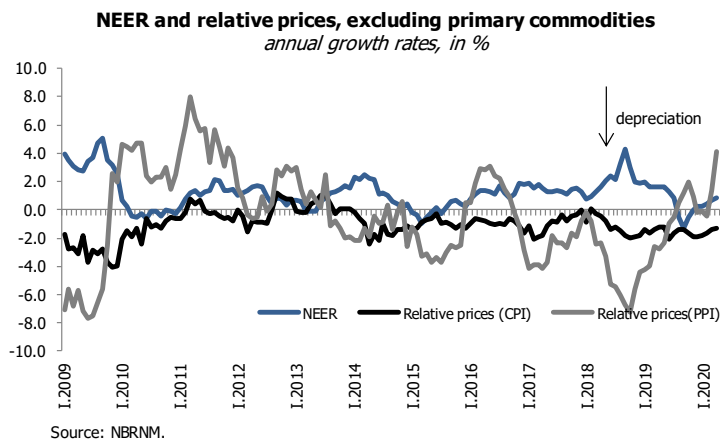
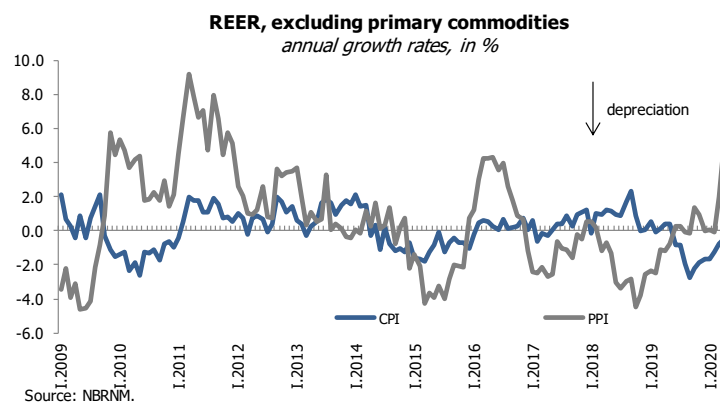
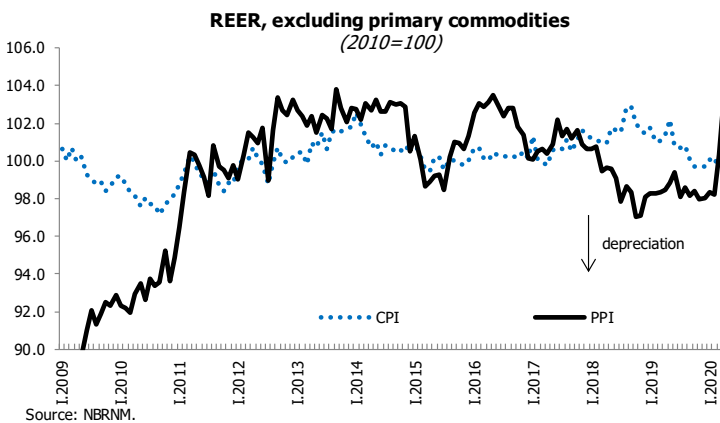
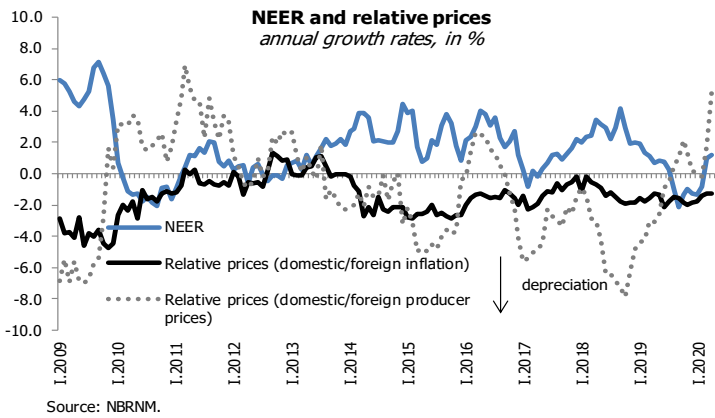
The performance of the import of goods in April 2020, is currently lower than expected for the second quarter of the year according to the April forecasts, as a result of the lower import of the new export-oriented facilities, as well as the lower import of vehicles, consumer goods and clothing and textile. On the other hand, slightly higher import than expected was registered in food and other imports.

The performance of the trade deficit in April 2020 is generally in line with the expectations for the second quarter of the year according to the April forecast. However, in conditions of great uncertainty and with available data for only one month, it is difficult to draw more specific conclusions for the entire quarter.



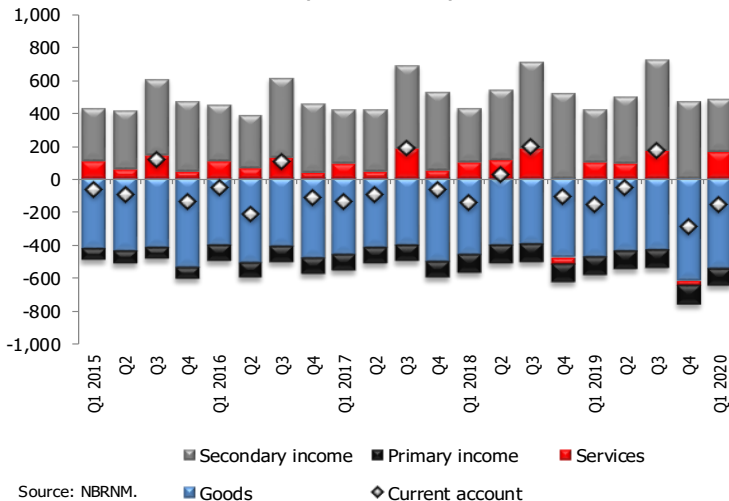
In April 2020, price competitiveness indicators of the domestic economy registered divergent movements analyzed on an annual basis. The REER index deflated by consumer prices depreciated by 0.1%, while the REER index deflated by producer prices appreciated by 6.5%. Moreover, the relative consumer prices decreased by 1.3%, while the relative producer prices increased by 5.2% (due to a fall in foreign prices amid a small increase in domestic prices), compared to the same month last year. The NEER acted towards reducing the competitiveness, registering an appreciation of 1.2%, which is largely due to the depreciation of the Turkish lira and the Russian ruble.





REER indices, as measured using weights based on the foreign trade without primary commodities, in April 2020, also registered divergent movements. Thus, the REER index deflated by consumer prices depreciated by 0.5%, while the REER deflated by producer prices appreciated by 4.9%. 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 4.1% as a result of the fall in foreign prices in conditions of a small increase in domestic prices. The nominal effective exchange rate slightly appreciated by 0.8% on an annual basis.

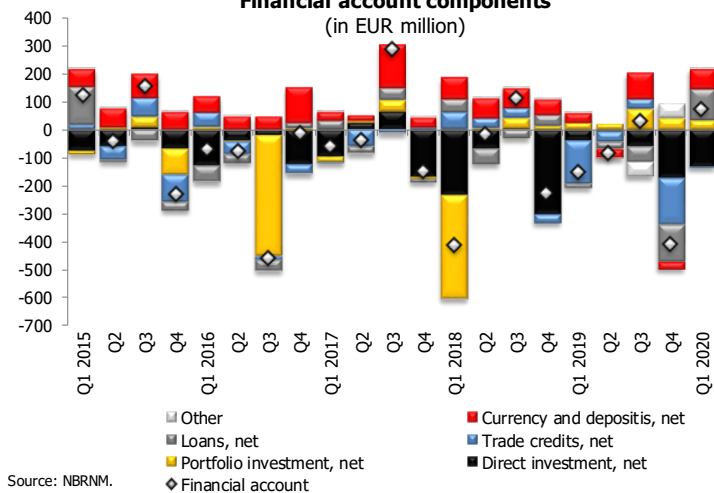
Main components of the current account
(in EUR million)



In the first quarter of 2020, the current account deficit in the balance of payments was Euro 157 million or 1.4% of GDP¹⁷, which is in line with the expectations for the first quarter according to the April forecast.

In terms of the components of the current account, the balance of foreign trade in goods and services is in line with the expectations from the April forecast. At the same time, the primary income deficit is higher than expected, while the surplus in the secondary income is higher than forecasted, mainly due to the higher net inflows in private transfers (personal transfers and other transfers).

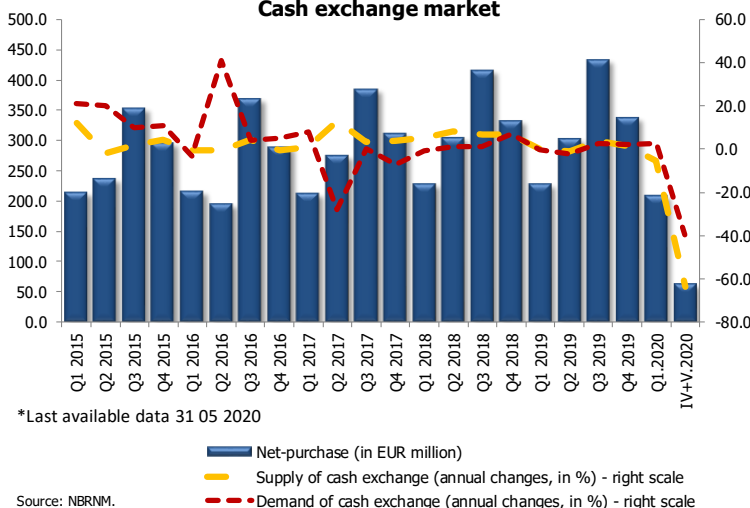
Financial account components
(in EUR million)



In the first quarter of 2020, the financial account registered net outflows¹⁸ of Euro 76.7 million (or 0.7% of GDP), which are slightly lower than the net outflows expected for the first quarter with the April forecast.

In the first quarter, net inflows based on foreign investments are higher than forecasted, and higher inflows are registered in short-term and long-term loans (mainly due to the higher net borrowing by the private sector). Such movements were partly offset by the lower net inflows based on trade credits, as well as the higher net outflows in portfolio investments.

Cash exchange market

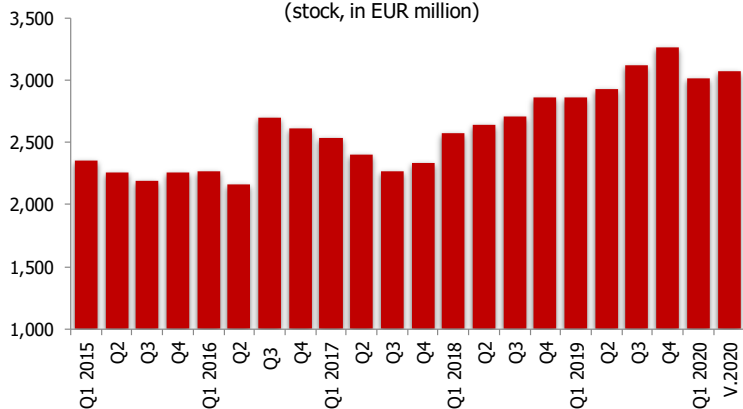


The net purchase on the currency exchange market in the period from 1 April to 31 May 2020 was Euro 63.2 million, which is an annual decrease of 70.7%. In this period, a decrease was also registered in the supply of and the demand for foreign currency, of 63.5% and 39.7%, respectively. Regarding the supply, the fall largely reflects the introduced restrictions in the movement and the closure of the borders due to the pandemic, which influenced the decrease in the inflow of remittances in cash.

¹⁷ The analysis uses the NBRNM April forecasts for the nominal GDP for 2020.

¹⁸ According to the new methodology for compiling the balance of payments (BPM6), the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.

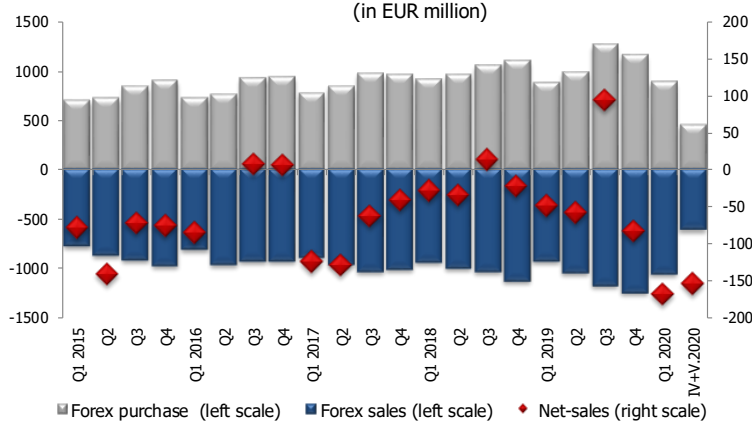
Foreign exchange reserves
(stock, in EUR million)



Source: NBRNM.

As of 31 May 2020, gross foreign reserves stood at Euro 3,079.3 million, which is an increase of Euro 61.7 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 based on a loan from the IMF in the amount of Euro 176.5 million). 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.

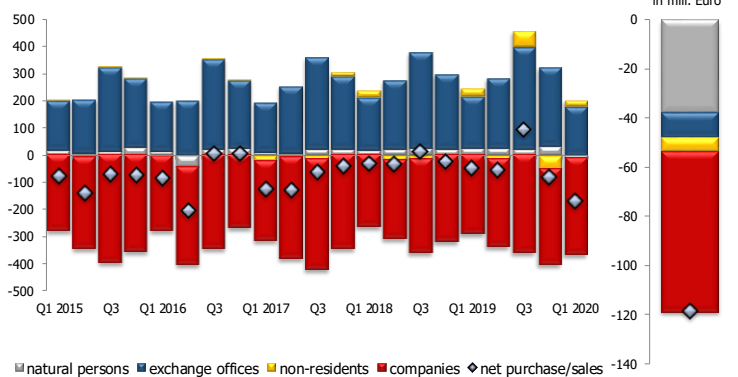
Foreign exchange market
(in EUR million)



Source: NBRNM.

In the period April-May 2020, the foreign exchange market registered a net sale of foreign currency of Euro 153.8 million, versus the net purchase of Euro 3.7 million for the same period last year. This annual change is a result of the more substantial fall in the supply of relative to the demand for foreign currency.

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

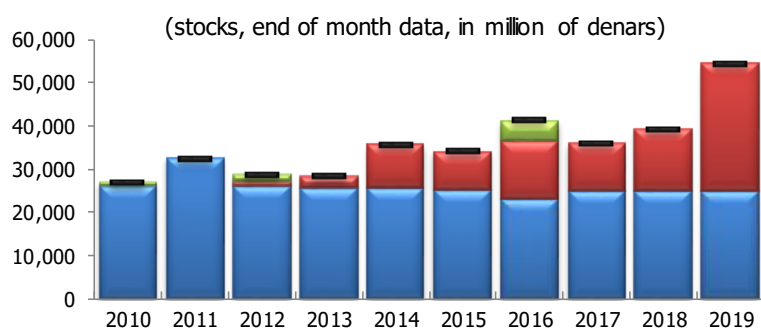
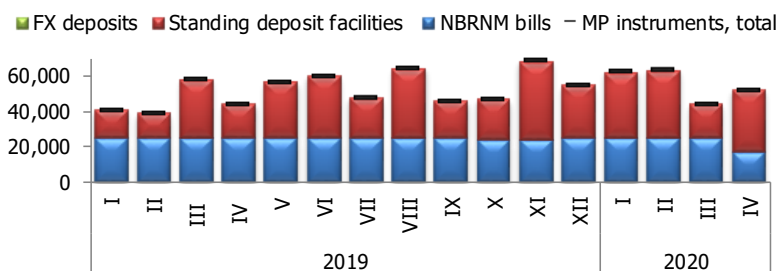


Source: NBRNM.

Sector-by-sector analysis shows that such movements result from almost all components, with the exception of non-residents, and the dominant factor is the lower net purchase from exchange offices, according to the reduced supply of foreign currency on the currency exchange market.

Monetary policy instruments

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



Source: NBRNM

At the end of April, the monetary instruments increased on a monthly level, due to the larger amount of banks' assets placed in deposits with the National Bank, while the stock of the CB bills decreased, according to the decision made by the National Bank during April to reduce the supply of CB bills¹⁹. Thus, the stock of monetary instruments at the end of April was higher than forecasted for the end of the second quarter of 2020²⁰.

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

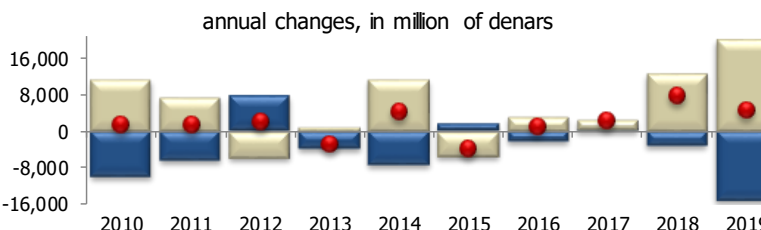
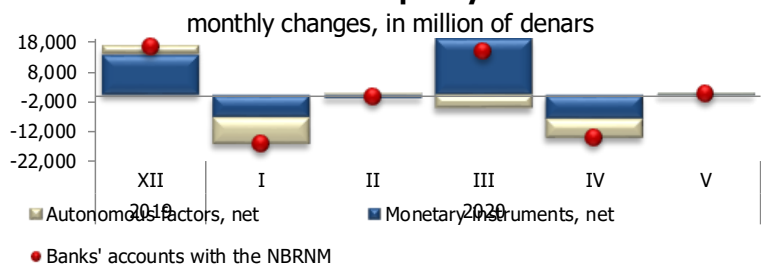
In April, the total government deposits with the National Bank registered a monthly growth, and their stock at the end of April is lower than forecasted for the end of the second quarter of 2020.

Amid decrease in banks' total reserves with the National Bank and increase in the currency in circulation, the reserve money decreased on a monthly level. Thus, the stock at the end of April is lower compared to the forecast for the end of the second quarter of 2020.

¹⁹ At the CB bills auction of the National Bank held on 15 April 2020, Denar 17,000 million (or by Denar 8,000 million lower amount than the due amount) of CB bills was offered and sold at an interest rate of 1.75% and maturity of 28 days.

²⁰ The performance comparisons are against the April forecasts of the National Bank.

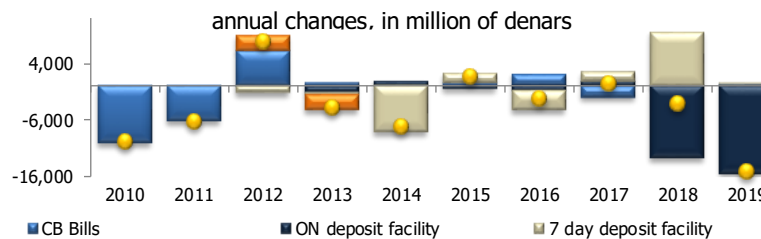
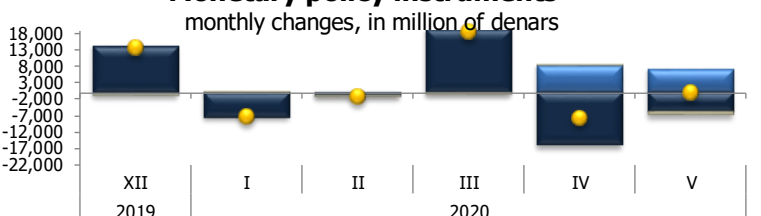
Banks liquidity*



Source: NBRNM.

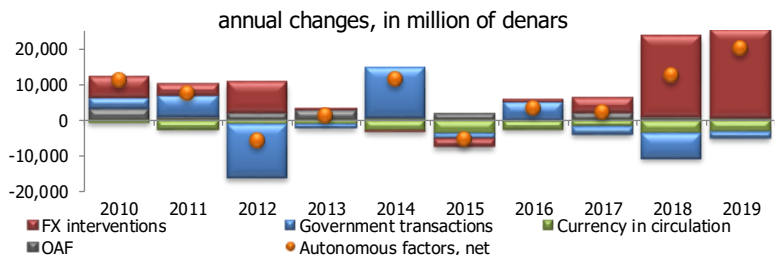
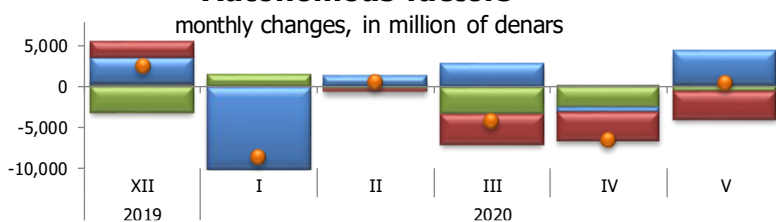
According to the operational data on liquidity flows, **in May, the liquidity of the banking system registered a small increase on a monthly level.** The increase is mostly due to the lower amount of banks' assets placed in CB bills²¹, an effect which was partially offset by increasing the banks' placements in short-term deposits (primarily in overnight deposits) which acted towards reducing the liquidity. The autonomous factors, net, also contributed towards creating liquidity in the banking system, which was entirely a result of government transactions, while the foreign currency interventions of the National Bank and currency in circulation acted towards reducing the liquidity.

Monetary policy instruments*



Source: NBRNM.
* positive change: liquidity creation, negative change: liquidity withdrawal

Autonomous factors*

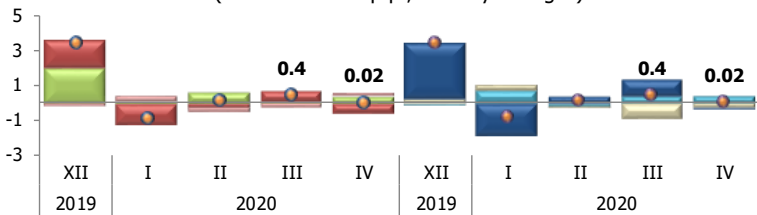


Source: NBRNM.
* positive change: liquidity creation, negative change: liquidity withdrawal

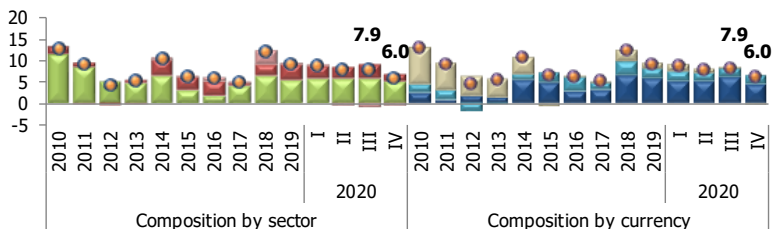
²¹ At the CB bills auction of the National Bank held on 13 May 2020, Denar 10,000 million (or by Denar 7,000 million less than the due amount) of CB bills was offered and sold at an interest rate of 1.5% and maturity of 35 days.

Total Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by sector

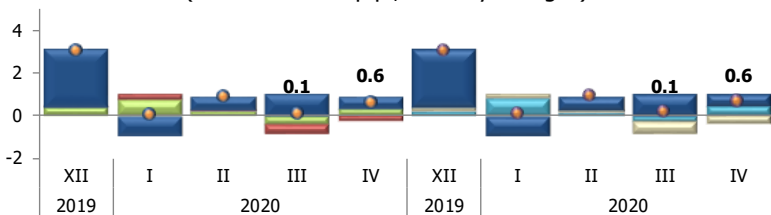
Composition by currency

- Other institutions Deposits*
- Foreign Currency Deposits
- Enterprise Deposits
- Deposits, monthly/annual changes, in %
- Domestic Currency Deposits
- Demand Deposits
- Household Deposits
- Deposits, annual changes, in %

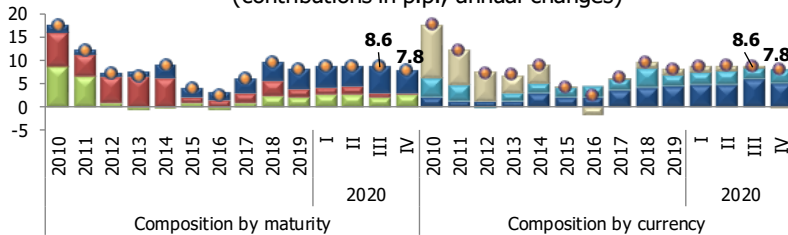
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the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

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity

Composition by currency

- Demand Deposits
- Domestic Currency Household Deposits
- Foreign Currency Household Deposits
- Long-term Household Deposits
- Short-term Household Deposits
- Household Deposits, monthly/annual changes, in %

Source: NBRNM.

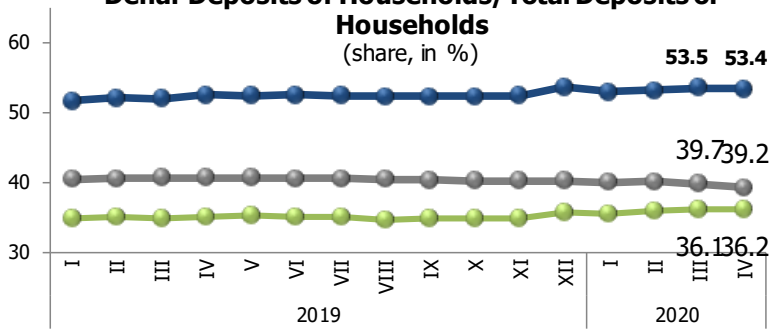
Total deposits²² in April remained almost at the same level as in the previous month. Observed by sector, there was an increase in household and other sectors deposits, amid a moderate decline in corporate deposits. Analyzing the currency structure, foreign currency deposits increased, given the decline in deposits in domestic currency (including demand deposits). In April, total deposits registered minimal growth, which is currently lower compared to the forecasted quarterly growth of the April forecast for the second quarter of the year.

In April, the annual growth rate of total deposits was 6.0%, which is slightly below 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 (primarily demand deposits).

In April, household deposits registered a monthly growth of 0.6%, which largely stems from foreign currency deposits, amid moderate growth of denar deposits (entirely as a result of demand deposits). **The annual increase in household deposits in April was 7.8%.**

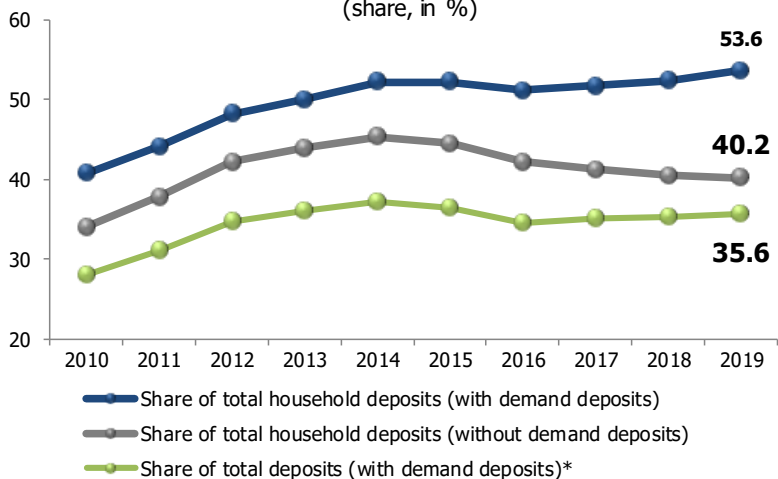
²² Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.x.

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 April was 53.4% (53.5% in the previous month).

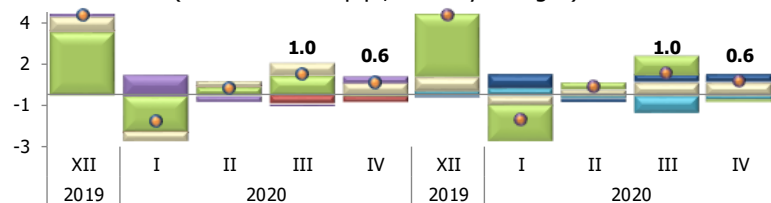
(share, in %)



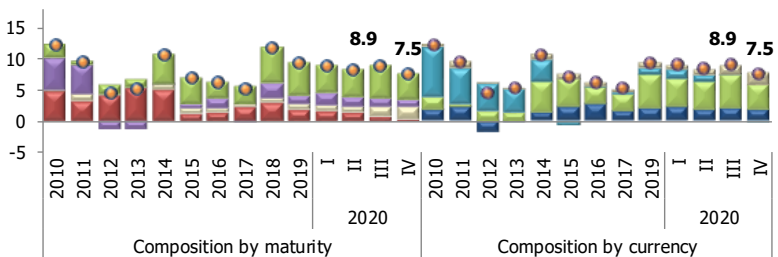
* Includes deposits at Banks and Saving Houses
Source: NBRNM.

Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



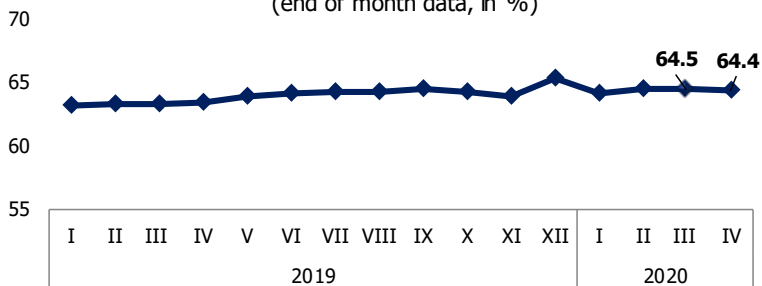
Composition by maturity: CC Outside Depository Corporations, Demand Deposits, Total Short-term Deposits, Total Denar Deposits

In April, broad money, measured through M4, registered a monthly increase of 0.6%. The increase is mostly due to the growth of currency in circulation. An additional contribution to the growth was made by short-term deposits, i.e. foreign currency deposits. In April, broad money increased by 7.5% annually, slightly exceeding the annual growth of 7.3% forecasted for the second quarter of 2020.

Source: NBRNM.

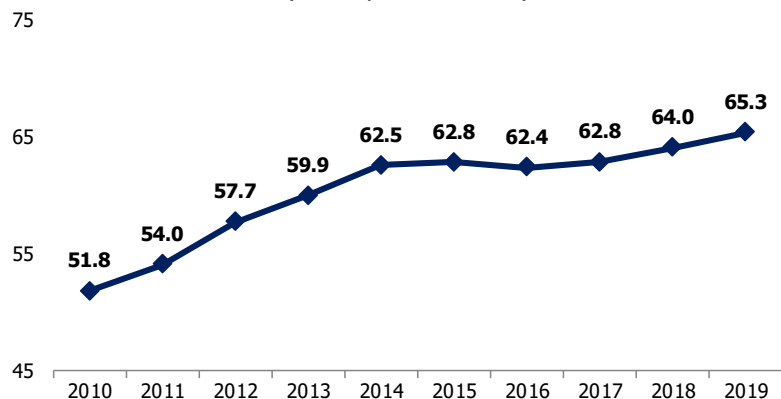
Share of Denar M4 in total M4

(end of month data, in %)



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

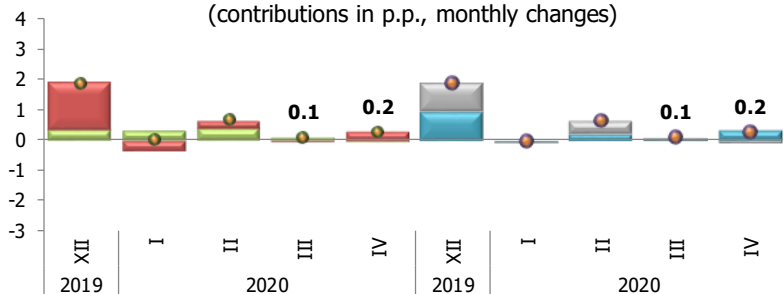
(end of year data, in %)



Source: NBRNM.

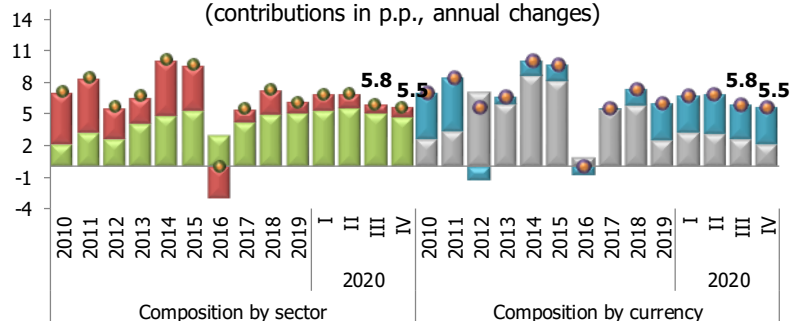
Total loans

(contributions in p.p., monthly changes)

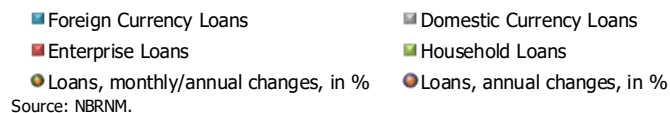


In April, total loans registered a small monthly increase of 0.2%. Observed by sector, the increase is a result of the growth in corporate loans, amid reduction of the household loans. Observing by currency, the foreign currency loans grew, while loans in domestic currency decreased. In April, total loans grew, which is currently in accordance with the forecasted increase in loans in the second quarter of the year, according to the April forecast.

(contributions in p.p., annual changes)



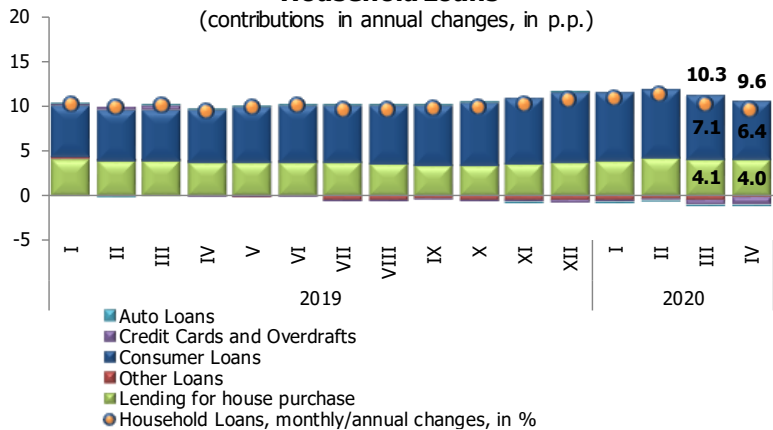
In April, the annual growth rate of total loans equaled 5.5%, which is above the annual growth of 4.3% forecasted for the second quarter of 2020, according to the April forecast. Observed by sector, the growth still largely results from the household loans, with a positive contribution of corporate loans. Analyzing currency structure, a positive contribution to the credit growth was primarily made by foreign currency loans, with a positive, although smaller contribution of loans in domestic currency.



Source: NBRNM.

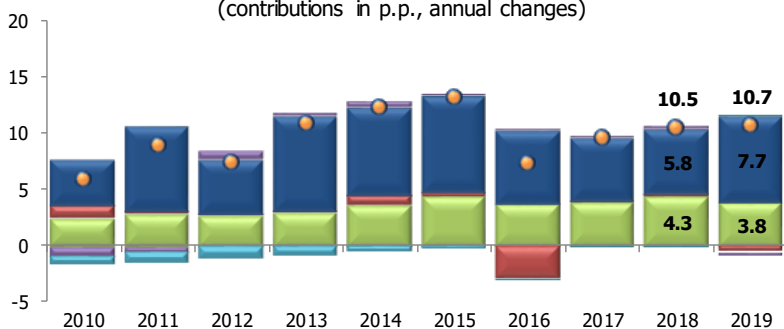
Household Loans*

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



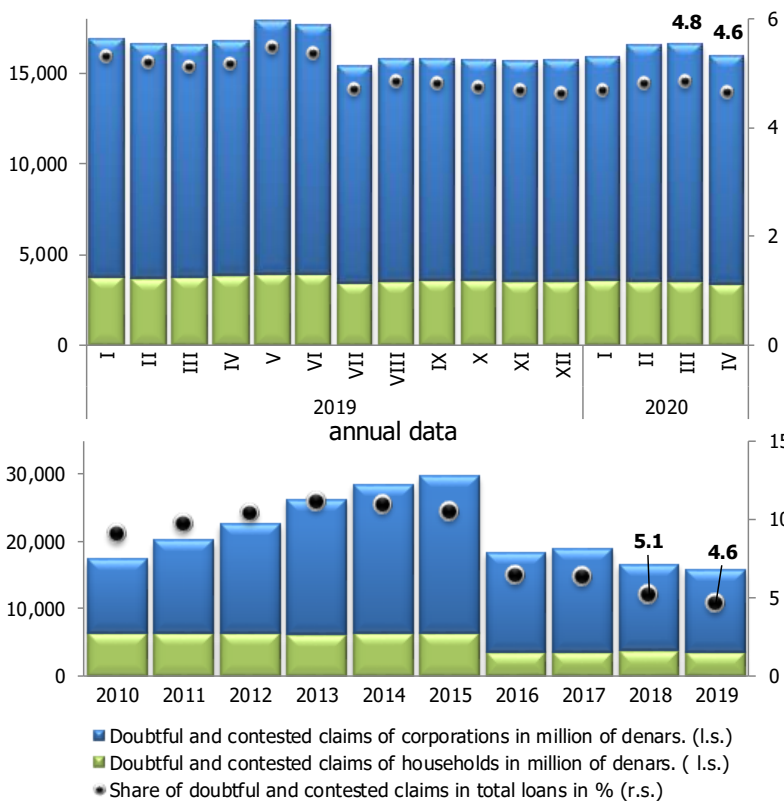
The annual growth of household loans²³ in April amounted to 9.6%, and was still largely driven by consumer loans that contributed with 6.4 percentage points.

(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)



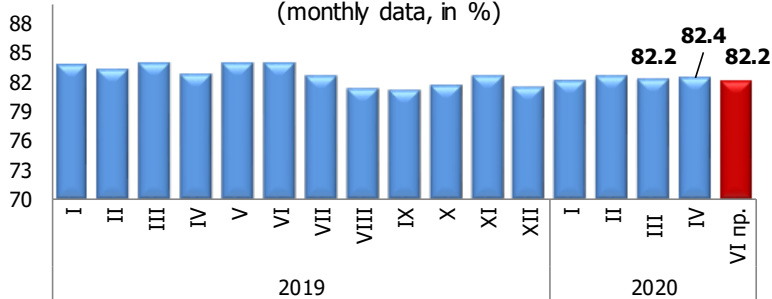
The share of doubtful and contested claims in total loans in April decreased by 0.2 percentage points and amounted to 4.6%. In terms of sector, most of the total amount of non-performing loans still results from the corporate sector, while the share of non-performing loans of the household sector is significantly lower.

Source: NBRNM.

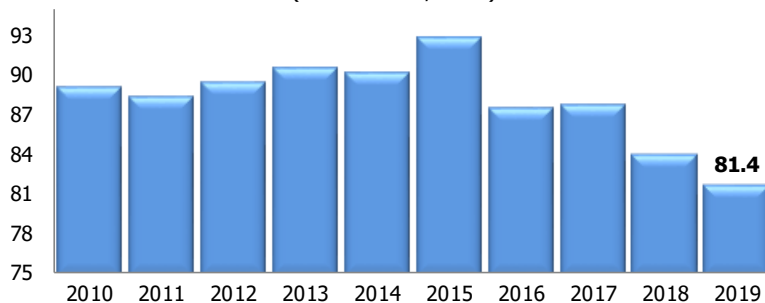
²³ Excluding loans of self-employed individuals.

Total credits/total deposits

(monthly data, in %)



(annual data, in %)

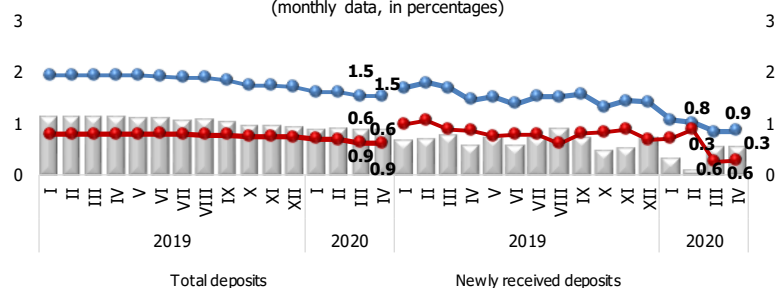


Source: NBRNM.

The indicator for the utilization of banks' deposit potential for lending to the private sector in April registered a monthly growth (from 82.2% to 82.4%), whereby it is above the forecasted value of this indicator for the end of the second quarter of 2020 (82.2%), according to the April forecast.

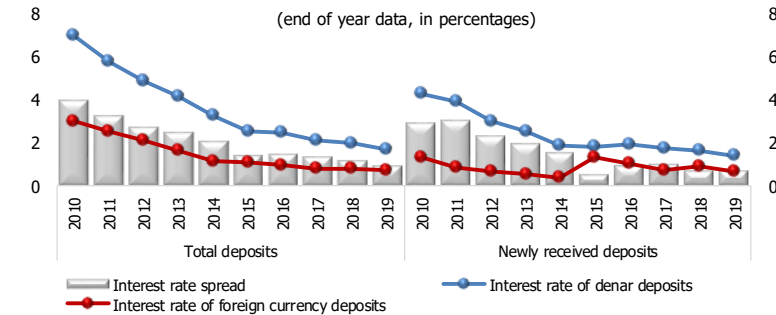
Total deposits interest rates

(monthly data, in percentages)



In April, interest rates on total deposits (denar and foreign currency)²⁴ registered no changes, so that the spread between these two interest rates is still 0.9 percentage points. For total newly accepted deposits²⁵, the interest rate spread remained relatively stable at around 0.6 percentage points, amid minimal increase in the interest rate on denar deposits and unchanged interest rate on foreign currency deposits.

(end of year data, in percentages)



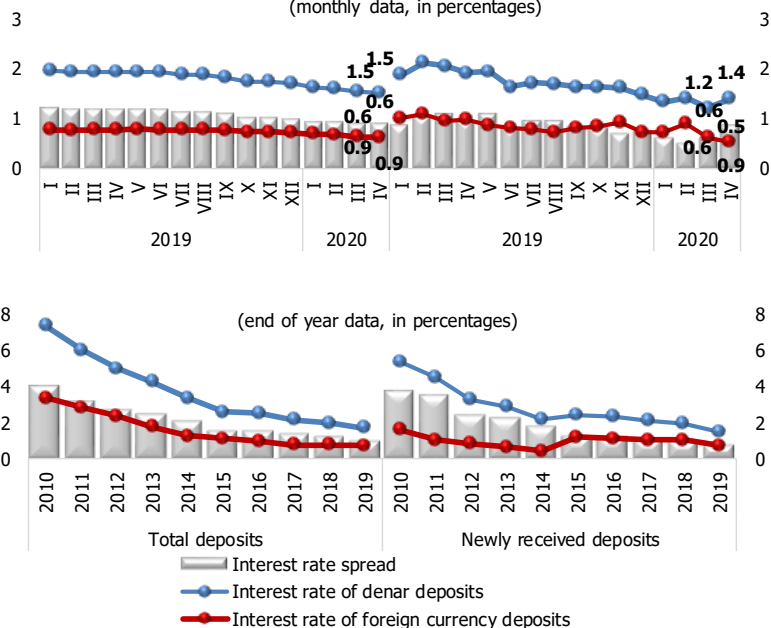
Source: NBRNM.

²⁴ 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.nspk.

²⁵ Regarding 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

(monthly data, in percentages)

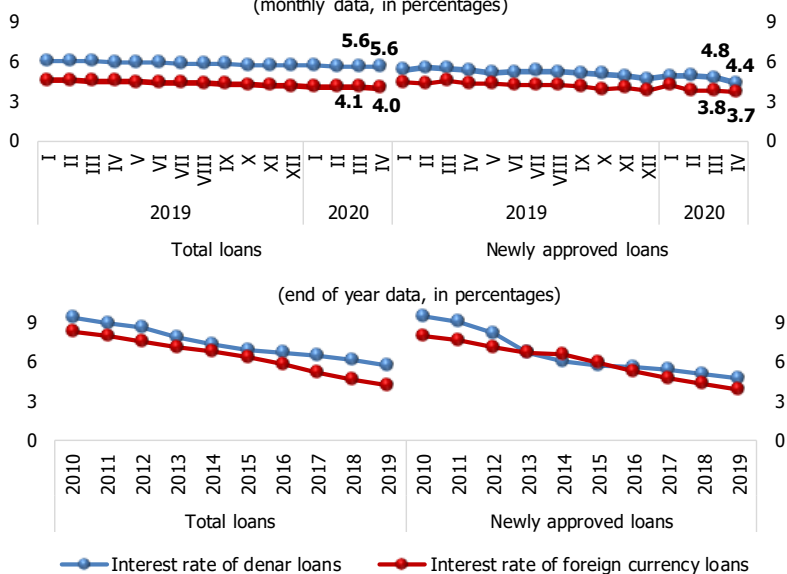


The interest rates on total household deposits (denar and foreign currency) registered no changes compared to the previous month, and the interest rate spread remained at 0.9 percentage points. For the newly accepted household deposits, the interest rate spread expanded by 0.3 percentage points, amid increased interest rate on denar deposits by 0.2 percentage points and decreased interest rate on foreign currency deposits by 0.1 percentage point.

Source: NBRNM.

Total loans interest rates

(monthly data, in percentages)



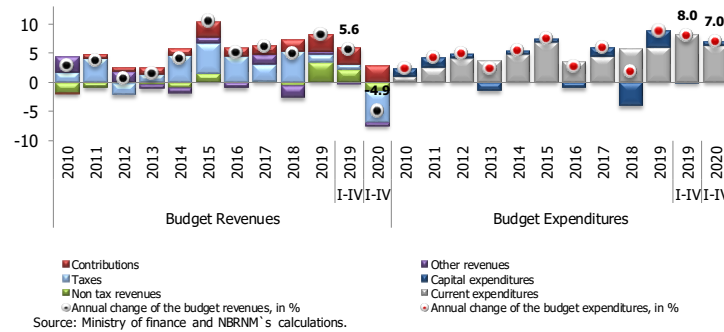
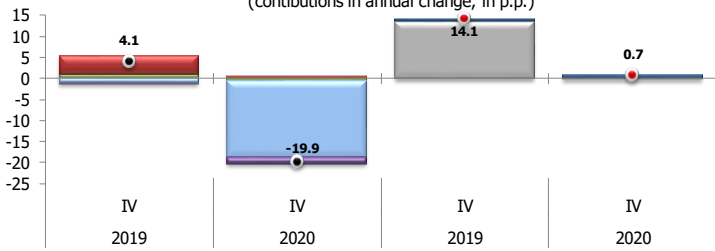
In April, the interest rate on total corporate loans decreased by 0.1 percentage point and amounted to 4.0%, while the interest rate on household loans remained at the level of the previous month of 5.6%. For the newly approved loans²⁶ in April, the interest rates on household and corporate loans decreased by 0.4 percentage points and 0.1 percentage point, and equaled 4.4% and 3.7%, respectively.

Source: NBRNM.

²⁶ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Budget revenues and expenditures

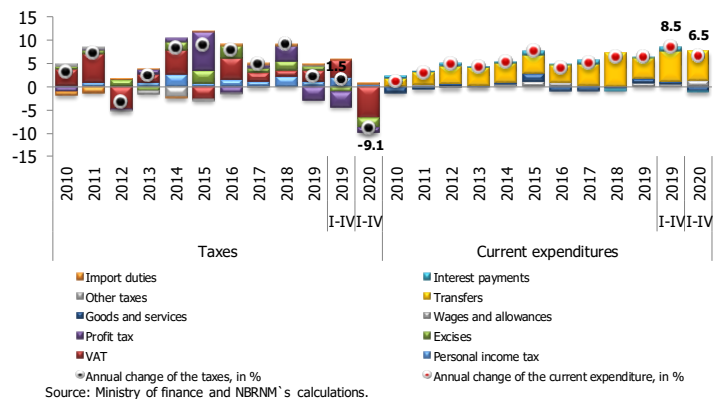
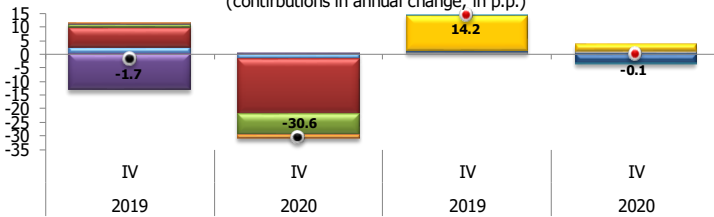
(contributions in annual change, in p.p.)



In the Budget of the Republic of North Macedonia (central budget and budgets of funds), in April 2020, total budget revenues registered a significant reduction on an annual basis, as a reflection of the deteriorated economic situation due to the health crisis, amid simultaneous slight increase in total budget expenditures. The reduction in revenues of 19.9% is almost entirely a result of the lower tax inflows, amid simultaneous reduction in other revenues²⁷ and non-tax revenues. On the revenue side of the budget, only contributions registered a slight increase in April. Tax revenues in April went down by 30.6% on an annual basis, as a result of the lower inflows in VAT, excises, personal income tax and import duties, amid slight increase in revenues from corporate income tax. **Budget expenditures** were higher by 0.7% on an annual basis, resulting from the higher capital expenditures. Current expenditures in April are almost unchanged on an annual level (minimal decline of 0.1%), amid reduction of the expenditures on goods and services, which was almost entirely offset by the higher transfers and expenses for wages and benefits.

Taxes and current expenditures

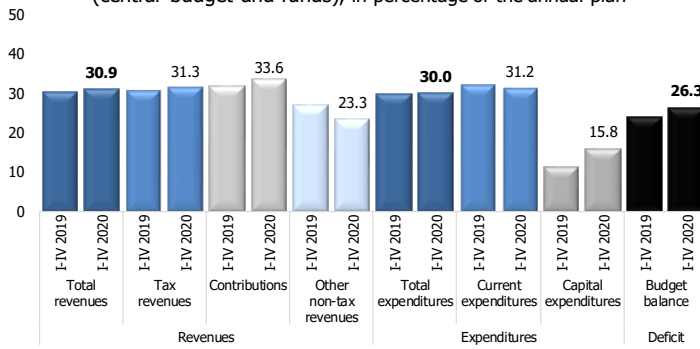
(contributions in annual change, in p.p.)



In the period January - April 2020, total budget revenues went down by 4.9% compared to the same period last year, mostly due to the lower tax revenues. On the other hand, total budget expenditures increased by 7.0%, primarily due to the higher current expenditures (mainly due to the increased transfers), and a smaller positive contribution was also made by capital expenditures.

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

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

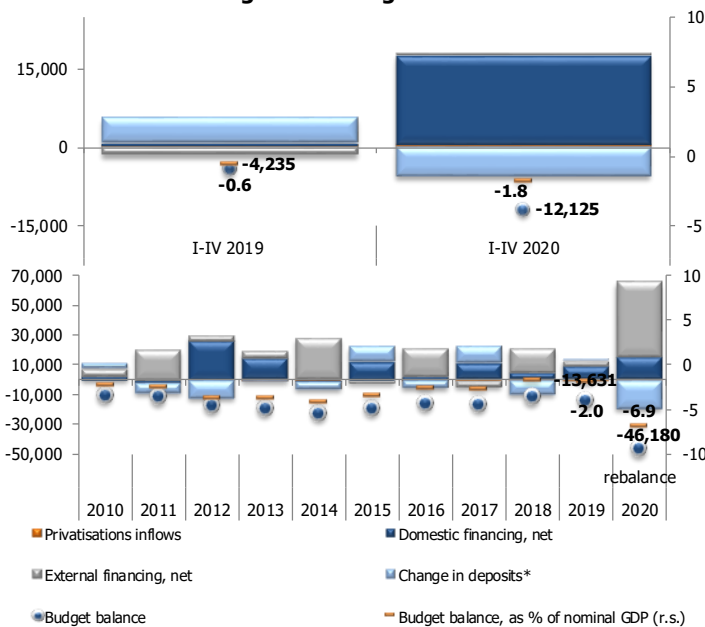


*for 2019 and 2020, figures are calculated compared to the Budgete rebalance for 2019 and 2020, respectively.

Source: Ministry of Finance and NBRNM's calculations.

In comparison with the Budget Revision²⁸ for 2020, the budget revenues in the period January-April 2020 amounted to 30.9% (30.3% in 2019), while the budget expenditures amounted to 30.0% (29.8% in 2019). The budget deficit in the amount of Denar 12,125 million was 26.3% of the Revision for 2020 (execution of 23.9% 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-April 2020 of Denar 12,125 million (or 1.8% of the nominal GDP²⁹) is mostly financed by domestic government borrowing³⁰, and to a lesser extent by using foreign loans³¹, with part of the inflows being retained as government deposits with the National Bank.

²⁸At 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).

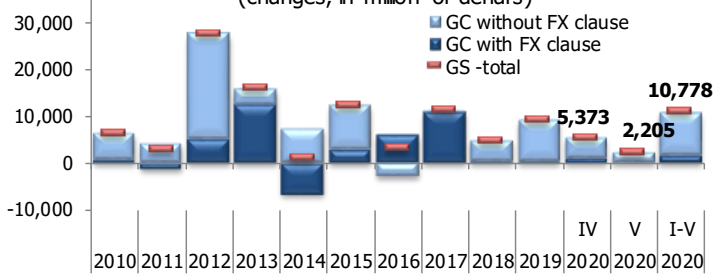
²⁹The analysis uses the National Bank's April forecasts for the nominal GDP for 2020.

³⁰Besides 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.

³¹At 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.

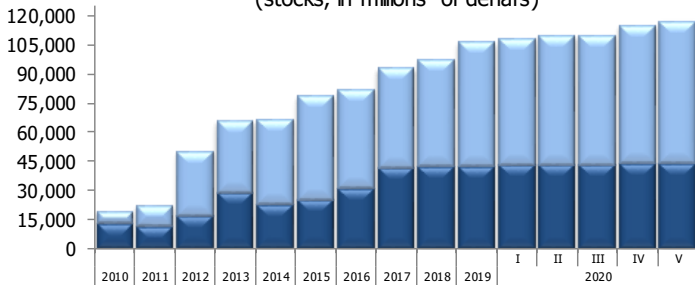
Government securities

(changes, in million of denars)



In May 2020, the stock of issued government securities³² in the primary market increased on a monthly basis by Denar 2,205 million and at the end of the month reached Denar 117,131 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 May increased by Denar 10,778 million.

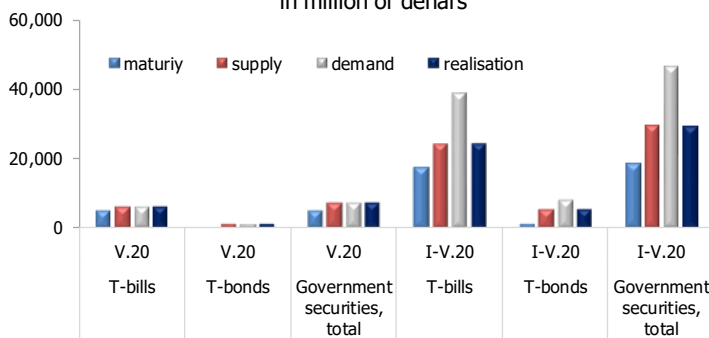
(stocks, in millions of denars)



Source: MoF.

Government securities auctions

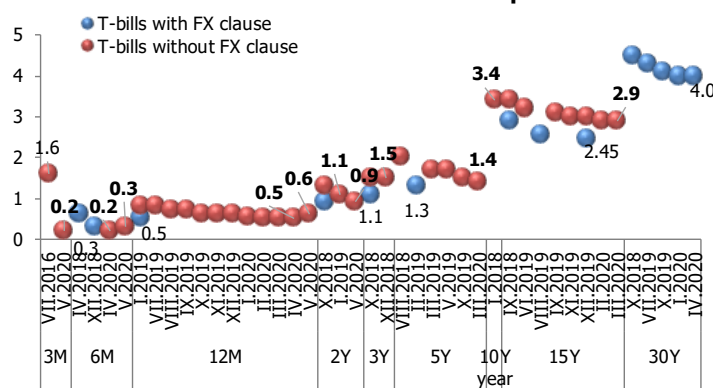
in million of denars



Source: Ministry of finance.

The new issues of government securities in May³³ 2020 were with three-month, six-month, twelve-month and two-year maturity, whereby the market participants' interest was equal to the offered amount.

Interest rates of T-Securities in percent



Source: Ministry of Finance

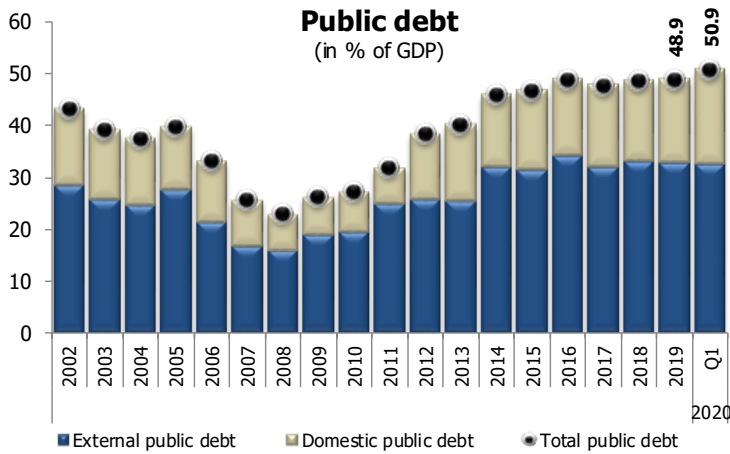
After a longer period of time, in May, the Ministry of Finance issued treasury bills without currency clause with three-month maturity³⁴, at a reduced interest rate (from 1.6% to 0.2%). The interest rates on the two-year government bonds without currency clause were also cut (from 1.1% to 0.9%). On the other hand, there was a minor increase in the interest rates on the newly issued six-month³⁵ (from 0.2% to 0.3%) and twelve-month (from 0.5% to 0.6%) treasury bills without currency clause.

³² 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.

³³The twelve-month treasury bills fell due in May 2020.

³⁴The last issuance of treasury bills without currency clause with three-month maturity was made at the auction in July 2016 at an interest rate of 1.6%.

³⁵The treasury bills without currency clause with six-month maturity were issued in April 2020, after a longer period of time i.e. the last auction at which this type of bills were issued, was in December 2017 at an interest rate of 1.55%.



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

At the end of the first quarter of 2020, public debt³⁶ equaled 50.9% of GDP³⁷, which is a higher level by 2.0 percentage points compared to the end of 2019. This change results from internal public debt, which increased by 2.2 percentage points and equaled 18.4% of GDP at the end of the quarter, without any major change in external public debt (fall of 0.2 percentage points) which equals 32.5% of GDP. Total government debt in the first quarter of the year increased by 1.7 percentage points compared to the end of the previous year and accounted for 41.9% of GDP, while the debt of public enterprises (guaranteed and non-guaranteed)³⁸ at the end of the quarter equaled 9.0% of GDP and grew by 0.3 percentage points.

³⁶The 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.

³⁷ The analysis uses the National Bank's April forecasts for the nominal GDP for 2020.

³⁸According 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	February	March	April
	<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	7.5	-9.9	-21.8
VAT revenues*	3.9	6.5	7.5	6.9	3.5	1.4	7.5	6.6	1.8	5.0	-8.2	-23.7
Imports of consumption goods*	8.0	2.5	3.0	10.9	2.8	5.9	9.7	4.8	6.8	14.9	-4.8	-21.4
Domestic production of consumption goods	6.1	-1.0	-0.1	5.6	0.5	-1.0	2.4	-2.0	-0.5	6.9	-10.8	-30.5
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	9.7	10.4	9.7	9.4
Average net wage*	3.4	4.7	3.9	5.4	2.2	2.4	3.5	4.2	10.0	11.6	6.9	-
Private net transfers*	5.6	9.1	4.3	2.0	-2.2	-4.7	5.7	2.1	-2.9	-0.5	-21.0	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	5.7	7.4	7.4	5.7

* 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	February	March	April
	<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	5.1	-11.6	-53.2
Completed construction works**	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	42.3	-19.2	-
Domestic production of capital goods	19.3	24.2	16.0	5.7	12.3	-2.9	10.7	7.1	-5.7	10.4	-20.1	-70.8
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	23.8	16.0	24.3	15.9
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-12128.9	-3653.4	4093.0	-7892.4	5671.8	2651.2	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	5.8	4.1	5.8

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

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

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

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