

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



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

March 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 (December 2019 - February 2020) and to make a comparison with the latest macroeconomic forecasts (October 2019). 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.

The latest estimates of the international organizations indicate less favorable global environment compared to the October forecasts, which caused downward revisions of the global economic growth, especially for 2020. One of the main reasons for the downward revision is the outbreak of the new viral infection COVID-19 in China at the beginning of the year and its transmission in a large number of other countries, which caused not only disturbance of the economic activity in China, but also disturbance of the global value chains, the transport sector, the financial markets and the confidence of economic agents in global terms. The risks to the growth forecasts are still predominantly downward. In the short term, the possibility for the new viral infection to have longer-lasting and more intensive negative effects on the global economy than the current estimates is stated as the main risk. Also, the geopolitical risks, especially between the US and Iran, as well as the risks associated with the vulnerability of the financial markets, are pronounced, which further increased after the occurrence of the new viral infection. On the other hand, some of the risks pointed out in October are currently less pronounced, such as the risk of escalation of the trade conflict between the US and China (given the signing of the first phase of the trade contract) and the risk of a no-deal Brexit. However, there is still uncertainty in terms of the next phase of the trade contract between the US and China, as well as in terms of the manner of regulating the future relations between the United Kingdom and the EU. Regarding the **economic developments in the euro area**, as our major trading partner, the latest high-frequency data and household and corporate surveys in February indicate a probability of achieving similar or slightly higher economic growth at the beginning of 2020 compared to the previous quarter. According to the initial announcements, the labor market registered no significant shifts at the beginning of the year, so the unemployment rate in January remained at the previous month level (7.4%). In terms of inflation in the euro area, the initial assessment for February shows its deceleration to 1.2% (from 1.4% in January). At its regular meeting in January, the ECB did not make changes to the monetary policy setup. According to the latest estimates, the **one-month EURIBOR interest rate** is expected to be at a similar level as in the October forecast.

Analyzing the quantitative external environment indicators of the Macedonian economy, the forecasts for the foreign effective demand for 2019 and 2020 were revised upwards, while for 2021, they were minimally revised downwards compared to the October forecasts. The latest estimates for the **foreign effective inflation** have been revised downwards compared to the October expectations for the entire period of forecasts. In terms of the exchange rate, it is currently expected that the US dollar in 2020 will register a slight appreciation, instead of the previously expected depreciation, while the depreciation in 2021 will be in line with the October expectations. **The latest forecasts for the changes in the prices of primary products in world markets indicate a predominantly downward revision for 2020 and predominantly upward for 2021 compared to the October 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 spreading of the viral infection, 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 October forecasting round indicates certain deviations in the

individual segments of the economy. According to the estimated GDP data, in the last quarter of 2019, the economic activity registered an annual growth of 3.4%, which is above the forecasted growth in the October forecasts (2.9%). Such upward deviation stems from the higher growth in domestic demand, which is mostly explained by the growth in gross investments versus the expected slight decline, as well as by the stronger growth of public consumption than expected, while the growth of private consumption is somewhat slower than expected. On the other hand, net export demand made a negative contribution to the growth, instead of the expected small positive contribution (in conditions of a slight decline in exports and more moderate growth of imports). Observed for the whole of 2019, the real economic growth is in line with the October expectations and equals 3.6% (forecasted growth rate of 3.5%). Having a limited scope of available data, we could barely provide precise assessment of the economic situation for the first quarter of 2020. The currently available high-frequency data for January show moderate growth of industrial output after the fall in the previous quarter, as well as weaker performances in the trade turnover. **When it comes to changes in consumer prices,** February as well as the first month of the year witnessed a moderate inflation rate (0.7%), which is still lower than the October forecast. Moreover, external input assumptions in the inflation forecast for the entire 2020 have been significantly revised downwards. In such circumstances, currently, risks to the inflation forecast for 2020 have been assessed as downward. However, there is a greater uncertainty around the movement of world primary commodity prices in the next period, especially oil prices.

The latest available data on **foreign reserves** (adjusted for the price and exchange rate differentials and securities price changes), as of February 2020, indicate that they have declined compared to the end of 2019. Analyzing growth factors, the reduction of reserves is mostly due to the transactions on behalf of the government (servicing of the regular liabilities of the government). The analysis of foreign reserves adequacy indicators shows that they are still within the safe zone. Available data for January 2020 point to a trade deficit somewhat lower than expected for the first quarter according to the October forecast. Currency exchange market data as of the end of February point to net inflows of private transfers as expected for the first quarter of 2020. The balance of payments for 2019 points to a higher current account deficit than forecasted in October (2.8% of GDP versus the forecast of 1.3% of GDP), and significantly better financial account position (net inflows of 5.4% of GDP, compared to the forecast of 3.6% of GDP).

As for the monetary sector developments, final data as of January show a monthly decrease in **total deposits** of 0.9%, compared to the growth of deposits of 3.4% in December. The reduction of deposits is mostly due to the fall in corporate deposits in denars, i.e. demand deposits. On an annual basis, total deposits in January increased by 8.8%, mostly due to the growth of household deposits, i.e. of deposits in domestic currency (including demand deposits). The annual deposit growth in January is currently below the forecast for the first quarter of 2020 (9.9%). **Total private sector loans** stagnated in January, after the monthly growth of 1.9% in December. Observed by sector, there was an increase in household loans, amid decline in corporate loans. Analyzing the currency structure, loans in domestic and foreign currency remained almost unchanged compared to the previous month. On an annual basis, total loans in January increased by 6.8%, whereby the growth largely results from household loans, with a positive 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 January is above the forecast for the first quarter of the year (5.5%), according to the October forecast.

In January, the Budget of the Republic of North Macedonia registered a deficit of Denar 1,213 million. The budget deficit is mostly financed by domestic government borrowing, and to a lesser extent by using government deposits with the National Bank, amid repayment of due installment on the basis of a foreign loan. The budget deficit constitutes 7% of the Budget for 2020.

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.

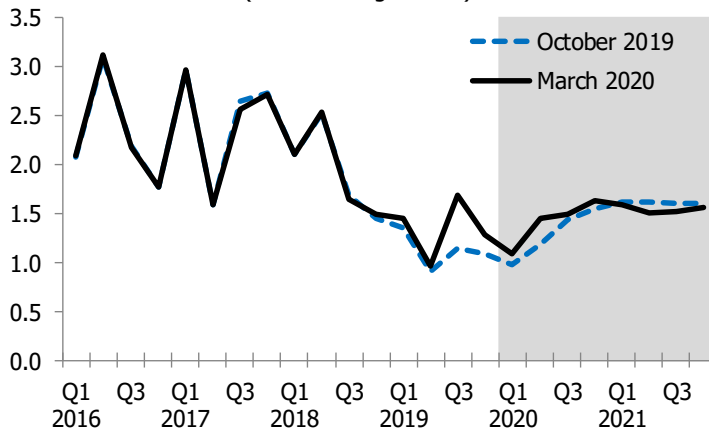
At the end of February 2020, foreign reserves (adjusted for price and exchange rate differentials and securities price changes) are lower relative to the end of 2019, mainly due to transactions on behalf of the government. Such performances in foreign reserves are within the expectations, whereby they are still maintained in a safe zone. Regarding the economic activity, the GDP data for the fourth quarter of 2019 indicate faster growth of the economy than expected, but the performances for the entire 2019 are in line with the forecasted rate within the October forecasts. Having a limited scope of available data, we could barely provide precise assessment of the economic situation in the first quarter of 2020. Analyzing the inflation, amid lower than forecasted performances for the first two months of 2020 and downward revisions of the external input assumptions for the period ahead, the current risks are assessed as downward, but are still mainly related to the prices of primary products in world markets. Observing the monetary sector, the annual deposit growth in January is currently below the forecast for the first quarter of 2020, while the annual growth of loans is higher than forecasted.

Acceleration in the growth of economic activity in 2019 according to the expectations

According to the estimated data of the SSO, the economic activity continued to grow in the fourth quarter of 2019, at a real growth rate of 3.4% (3.6% in the third quarter). Observing the manufacturing industry, higher value added was registered in most sectors, and the largest positive contribution was made by the activities "trade, transport and tourism", construction, as well as the agriculture. In terms of the expenditure side, the growth is mainly driven by domestic demand, with a positive contribution of all its categories, and mostly of gross investments. On the other hand, net exports made a negative contribution to the growth. Namely, for the first time in the last seven years, exports registered a small annual decline in the last quarter of 2019, amid a slight growth of imports. However, speaking for the whole of 2019, export is still the component with the highest individual contribution to the GDP growth, which reached 3.6% in 2019 and is in line with the expectations (forecasted growth rate of 3.5% for 2019). Regarding the expenditure components, the growth in 2019 is driven by domestic demand, whose driver are gross investments, and a significant positive contribution is also made by private consumption. The growth of the demand and export components also increased imports, whereby net exports makes a negative contribution to the overall economic growth.

Selected economic indicators ^{1/}	2016	2017	2018				2019												2020							
			Q1	Q2	Q3	Q4	2018	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep.	Q3	Oct.	Nov.	Dec.	Q4	2019	Jan.	Feb.
I. Real sector indicators																										
Gross domestic product (real growth rate, y-o-y) ^{2/}	2.8	1.1	0.3	1.7	2.4	6.2	2.7																			
Industrial production ^{3/}																										
y-o-y	3.4	0.2	5.2	4.9	5.1	6.4	5.4	12.0	7.3	7.5	8.8	5.5	1.2	-2.7	1.1	5.8	9.8	6.1	7.1	4.2	-2.1	-5.9	-1.3	3.7	0.3	
cumulative average	3.4	0.2	5.2	5.0	5.0	5.4	5.4	12.0	9.6	8.8	8.8	7.9	6.5	4.8	4.8	4.9	5.5	5.6	5.6	5.4	4.7	3.7	3.7	3.7	0.3	
Inflation ^{4/}																										
CPI Inflation (y-o-y) ^{5/}	-0.2	2.4	1.5	1.5	1.6	1.2	0.9	1.2	1.1	1.4	1.2	1.9	1.4	0.3	1.2	0.8	0.8	0.3	0.6	-0.2	-0.1	0.4	0.0	0.4	0.6	0.7
CPI Inflation (cumulative average)	-0.2	1.4	1.5	1.5	1.5	1.5	1.5	1.2	1.1	1.2	1.2	1.4	1.4	1.2	1.2	1.1	1.0	1.0	1.0	0.9	0.8	0.8	0.8	0.8	0.6	0.7
Core inflation (cumulative average)	1.3	2.3	1.6	1.6	1.6	1.5	1.5	1.3	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.6	0.5	0.5	0.5	0.3	0.5
Core inflation (y-o-y)	1.0	2.8	1.6	1.5	1.7	1.3	1.4	1.3	0.7	0.6	0.9	1.1	0.9	0.9	1.0	1.0	0.5	0.2	0.6	-0.3	-0.6	-0.3	-0.4	-0.3	0.3	0.8
Labor force																										
Unemployment rate	23.7	22.4	21.6	21.1	20.8	19.4	20.7																			
II. Fiscal Indicators^{6/}																										
(Central Budget and Budgets of Funds)																										
Total budget revenues	169,356	179,673	43,369	47,275	45,992	51,889	188,505	14,911	15,124	16,004	46,039	17,789	16,737	15,549	50,075	17,686	16,521	16,829	51,036	19,626	16,424	20,711	56,761	203,911	15,603	
Total budget expenditures	185,407	196,561	45,502	49,680	49,462	55,427	200,071	15,561	17,110	16,513	49,244	18,019	17,508	17,590	53,917	20,021	16,170	15,938	52,131	16,852	18,230	20,698	62,250	217,542	16,016	
Overall balance (cash)	-16,051	-16,888	-3,133	-1,405	-2,470	-4,538	-11,566	-710	-1,986	-509	-3,205	-1,030	-771	-2,041	-3,842	-2,345	351	899	-1,095	2,774	-2,096	-6,167	-5,489	-13,631	-1,213	
Overall balance (in % of GDP) ^{7/}	-2.7	-2.7	-0.5	-0.2	-0.4	-0.7	-1.8	-0.1	-0.3	-0.1	-0.5	-0.1	-0.1	-0.3	-0.6	-0.3	0.1	0.1	-0.2	0.4	-0.3	-0.9	-0.8	-2.0	-0.2	
III. Financial Indicators^{8/}																										
Broad money (M4), y-o-y growth rate	6.2	5.1	7.5	10.1	11.7	11.8	11.8	12.0	11.2	11.7	11.7	13.3	10.6	10.5	10.5	10.1	10.1	10.8	10.8	10.4	8.8	9.3	9.3	9.3	8.9	
Total credits, y-o-y growth rate	-0.1	5.4	5.7	6.2	7.9	7.3	7.3	7.8	8.2	9.0	9.0	8.9	8.3	8.1	8.1	6.8	6.4	5.6	5.6	6.0	6.4	6.0	6.0	6.0	6.8	
Total credits - households	7.0	9.2	9.4	9.7	10.1	10.3	10.3	9.9	9.6	9.7	9.7	9.3	9.6	9.9	9.9	9.4	9.4	9.5	9.5	9.7	10.1	10.5	10.5	10.5	10.6	
Total credits - enterprises	-5.3	2.3	2.3	2.9	5.7	4.5	4.5	5.7	6.9	8.2	8.2	8.5	7.0	6.4	6.4	4.3	3.4	1.7	1.7	2.2	2.7	1.9	1.9	1.9	3.2	
Total deposits (incl. demand deposits), y-o-y growth rate^{9/}	6.1	5.0	7.6	10.6	12.3	12.1	12.1	12.2	11.3	11.9	11.9	13.4	10.7	10.6	10.6	10.1	10.1	11.0	11.0	10.4	8.6	9.0	9.0	9.0	8.8	
Total deposits - households	2.5	6.1	7.3	7.9	8.4	9.5	9.5	9.3	8.8	8.7	8.7	9.6	8.8	9.0	9.0	9.1	9.1	9.3	9.3	9.3	9.1	7.9	7.9	7.9	8.5	
Total deposits - enterprises	13.4	2.1	4.1	11.6	16.8	9.5	9.5	10.6	9.5	12.1	12.1	16.9	11.3	10.1	10.1	9.1	10.1	11.1	11.1	9.6	8.9	14.6	14.6	14.6	12.2	
Interest rates^{10/}																										
Interest rates of CBBiis (end of month/quarter/year)	3.75	3.25	3.0	3.0	2.75	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.00	
Lending rates																										
denar rates	7.0	6.6	6.3	6.2	6.0	5.9	6.1	5.8	5.8	5.7	5.8	5.7	5.7	5.6	5.7	5.6	5.6	5.5	5.6	5.5	5.4	5.4	5.4	5.4	5.4	
fx rates (aggregated, incl. fx and denar with fx clause)	5.7	5.3	5.0	4.9	4.8	4.8	4.9	4.7	4.7	4.7	4.7	4.7	4.6	4.6	4.7	4.6	4.6	4.6	4.6	4.5	4.5	4.5	4.5	4.5	4.4	
Deposit rates																										
denar rates	2.5	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.9	1.7	1.7	1.7	1.7	1.9	1.6	
fx rates (aggregated, incl. fx and denar with fx clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.7	
IV. External sector indicators																										
Current account balance (millions of EUR)	-275.5	-102.9	-141.0	30.8	199.9	-104.7	-14.9	-59.2	-62.5	-36.4	-158.1	-95.3	-9.4	57.7	-47.0	51.0	47.5	79.9	178.5	-21.4	-96.1	-169.4	-286.9			
Current account balance (% of GDP)	-2.9	-1.0	-1.3	0.3	1.9	-0.98	-0.1	-0.5	-0.6	-0.3	-1.4	-0.8	-0.1	0.5	-0.4	0.4	0.4	0.7	1.6	-0.2	-0.8	-1.5	-2.5			
Trade balance (millions of EUR)^{11/}	-1,786.2	-1,816.2	-474.2	-431.6	-382.3	-523.1	-1,811.1	-1,548.8	-149.8	-151.8	-456.3	-228.8	-157.7	-88.0	-474.5	-183.9	-163.9	-89.3	-437.1	-197.9	-171.7	-277.3	-646.8	-2,014.8	-115.6	
Trade balance (% of GDP)	-18.0	-18.1	-4.4	-4.0	-3.6	-4.9	-16.9	-1.4	-1.3	-1.3	-4.0	-2.0	-1.4	-0.8	-4.2	-1.6	-1.4	-0.8	-3.9	-1.7	-1.5	-2.4	-5.7	-18.8	-1.0	
Import (millions of EUR)	-5,176.5	-6,824.9	-1,783.9	-1,890.2	-1,846.0	-2,156.3	-7,676.1	-3,701.1	-4,706.6	-7,047.9	-1,990.4	-760.8	-716.4	-618.5	-2,095.7	-748.2	-666.6	-653.2	-2,066.0	-763.7	-730.1	-781.4	-2,284.2	-8,436.3	-572.8	
Export (millions of EUR)	4,390.3	5,018.7	1,309.5	1,459.0	1,469.7	1,634.2	5,872.4	415.3	529.8	588.9	1,534.0	531.9	558.8	530.5	1,621.2	564.3	500.7	564.0	1,628.9	565.9	567.4	504.1	1,637.4	6,421.6	457.2	
rate of growth of import (y-o-y)	6.5	10.7	12.3	9.6	11.9	15.2	12.3	1.5	17.8	14.9	11.6	22.1	14.6	-3.6	10.9	16.7	11.1	7.7	11.9	-2.6	4.2	18.4	5.9	9.9	0.5	
rate of growth of export (y-o-y)	7.4	14.3	13.3	14.4	16.4	23.3	17.0	-1.9	15.2	28.2	17.1	13.2	10.5	9.9	11.1	17.4	10.7	6.4	10.8	-6.1	3.9	4.7	0.2	9.4	10.1	
Foreign Direct Investment (millions of EUR)	316.9	180.0	233.5	69.7	-1.8	304.4	603.7	34.7	6.1	-0.5	40.2	21.5														
External debt																										
Gross external debt (in millions of EUR)	7,216.6	7,372.5	8,221.1	8,386.2	8,360.8	7,843.7	7,843.7				8,522.2				8,334.6				8,575.3							
public sector	3,445.3	3,461.8	4,053.1	4,077.9	3,986.4	3,756.2	3,756.2				4,052.2				4,035.1				4,074.2							
private sector/GDP (in %)	35.7	34.5	37.9	38.1	37.3	35.1	35.1				36.8				36.3				36.6				</			

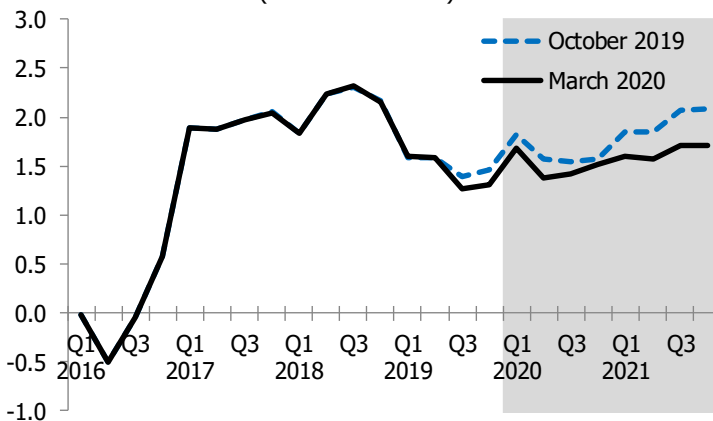
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates¹, the growth of the foreign effective demand has been revised upwards for 2019 and 2020, and it is now estimated at 1.3% and 1.4%, respectively (1.1% and 1.3% respectively, in October). The higher estimates for 2019 and 2020 mainly reflect the upward adjustments in the expected growth rate of the German² and the Serbian economy. In contrast, for 2021, the growth has been minimally revised downwards, from 1.6% in October to 1.5%, mainly due to the lower expected growth in Germany.

Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

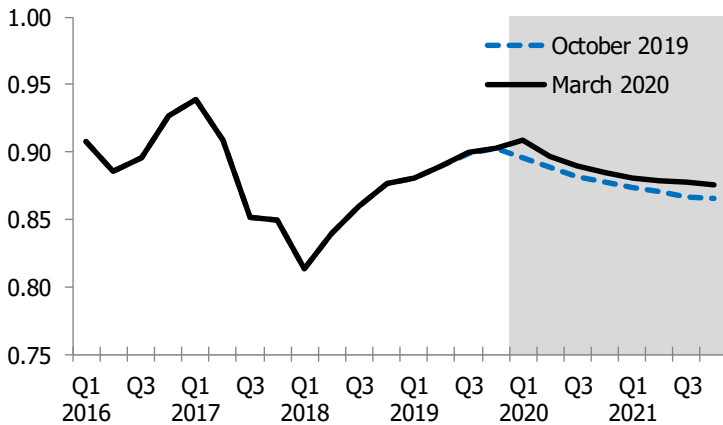
The foreign effective inflation has been revised downwards for 2020 and 2021, whereby it is now envisaged that it will equal 1.5% this year and 1.7% the next year (instead of 1.6% and 2%, respectively, in October). The revision for 2020 is mainly due to the lower forecasted inflation rates in Germany and Croatia³, while for 2021 it results from the lower inflation in Serbia³ and Germany.

¹ The estimates are based on the last Consensus Forecast from February 2019, in which the global extraordinary situation due to the new viral infection COVID-19 is perceived only as an additional factor of uncertainty about the global growth, i.e. these are estimates given before the beginning of the wave of spreading of the infection in the other parts of the world.

² Forecasted growth in Germany of 0.6%, 0.9% and 1.1% in 2019, 2020 and 2021, compared to 0.4%, 0.8% and 1.2%, respectively, in October.

³ Inflation in Serbia and Croatia was adjusted for the changes in the exchange rate.

EUR/USD exchange rate

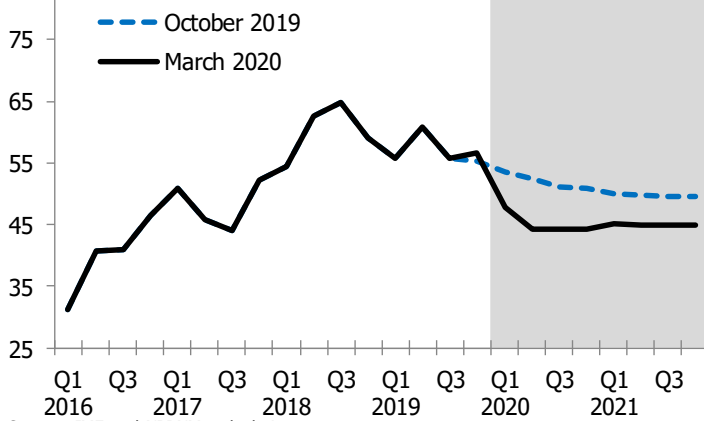


Source: Consensus forecasts and NBRNM calculations.

In terms of the euro/US dollar exchange rate, small appreciation of the US dollar is expected in 2020, versus the expectations of a slight depreciation in the October forecasts. These changes are due to the increased risk aversion and the more favorable economic indicators for the USA. For 2021, the same depreciation rate of the US dollar is estimated as in October.

Brent oil

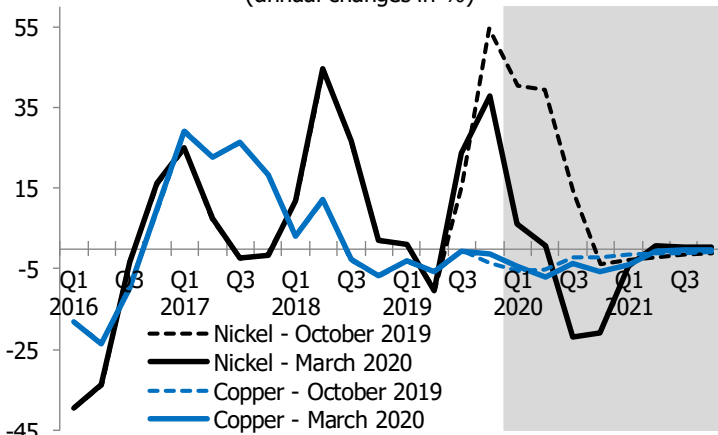
(quarterly average, EUR/Barrel)



Source: IMF and NBRNM calculations.

Oil price⁴ for 2020 has been revised downwards, now expecting a significantly rougher decline than envisaged with the October forecast. This change is largely driven by the expectations for negative effects of the new viral infection in China on the global economic activity and consequently on the demand for oil, especially from China. On the other hand, for 2021, an upward adjustment was made, currently envisaging stabilization of the price of oil, despite the estimated fall in October.

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

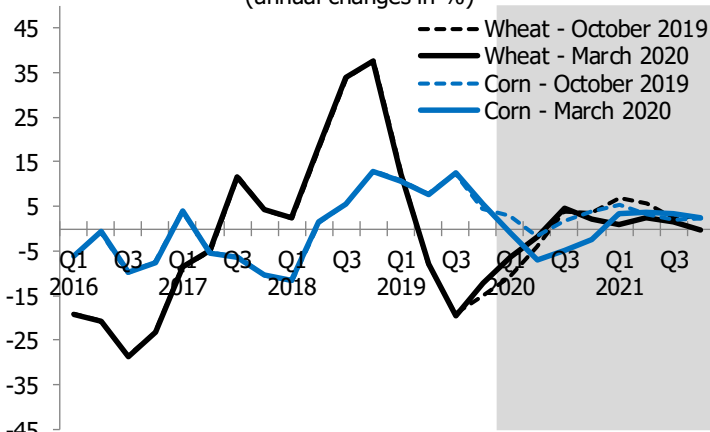


Source: IMF and NBRNM calculations.

Nickel and copper prices for 2020 were subject to downward adjustment. Thus, a decline in the nickel price is currently expected in 2020, contrary to the strong growth in October, while the copper price is expected to register somewhat sharper decline than previously expected. Expectations for slowdown of the demand from China due to the spreading of the new viral infection, and consequently of the global growth are the main factor for the downward revisions of prices, and the increased inventories also have an additional effect, due to the lower demand from the metal industry. **For 2021, similar rates of decline are expected as in the October forecasts.**

⁴ 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.

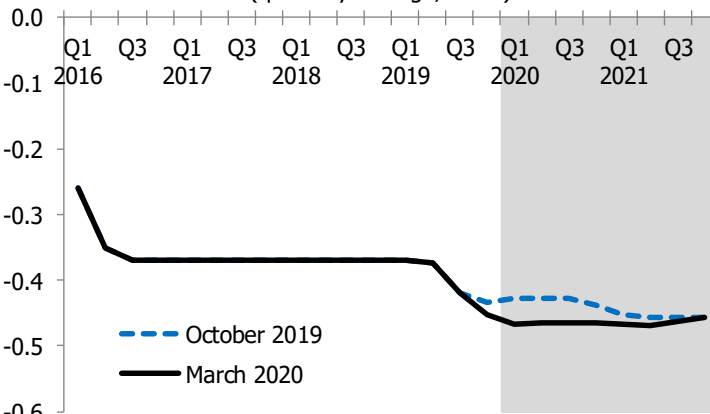
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

According to the latest estimates, the wheat price in 2020 is expected to register a smaller price decline than envisaged with the October forecast. The upward revision is mostly due to the reduced supply due to the smaller than expected production in Australia and the estimate for lower quality of the winter plantations in France. On the other hand, in 2021 the wheat price has been revised downwards and it is expected that it will register a slower growth compared to the October forecasts. **The corn price** was subject to a substantial downward revision in 2020, now expecting a fall instead of the growth forecasted in October. This is mainly due to the expectations for higher global supply of corn, as well as to the reduced demand from China due to the spread of the viral infection. For 2021, the growth rate of the corn price is unchanged compared to the October forecasts.

1-month Euribor
(quarterly average, in %)

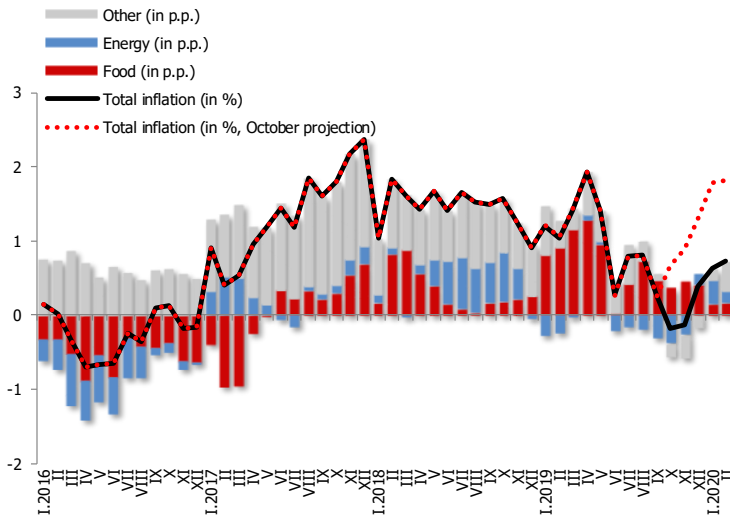


Source: Consensus forecasts and NBRNM calculations.

In terms of the **one-month EURIBOR**, in 2020 no significant deviations from the October forecast (-0.47%, versus -0.43% in October) are expected, while for 2021 the forecast is unchanged (-0.46%).

Inflation rate

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



Source: SSO and NBRNM.

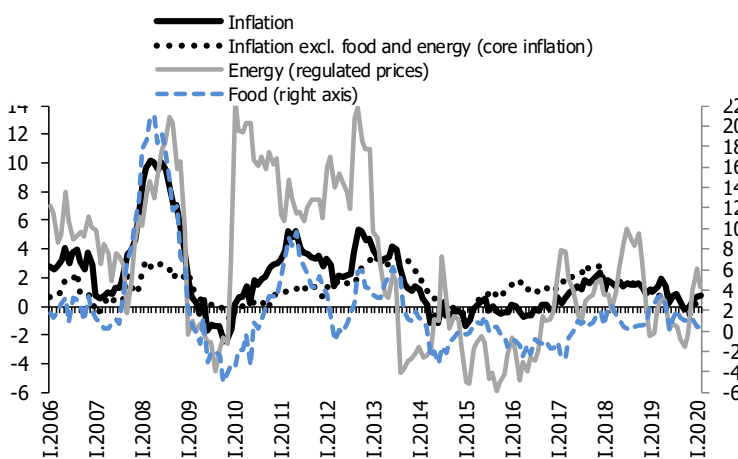
In February 2020, **domestic consumer prices** registered minor growth of 0.1%⁵ (same as in the previous month)...

...amid increased food prices, decreased energy prices and unchanged prices of the core component.

The annual inflation rate equaled 0.7% in February (0.6% in the last month), whereby it is still maintained below the expected rate with the October forecasting round.

Inflation and volatility of food and energy

(annual growth rates, in %)



Source: State statistical office and NBRNM calculations.

Analyzing structure, downward deviation from the forecast was registered in core inflation and in food prices, while energy prices are in line with the forecasts.

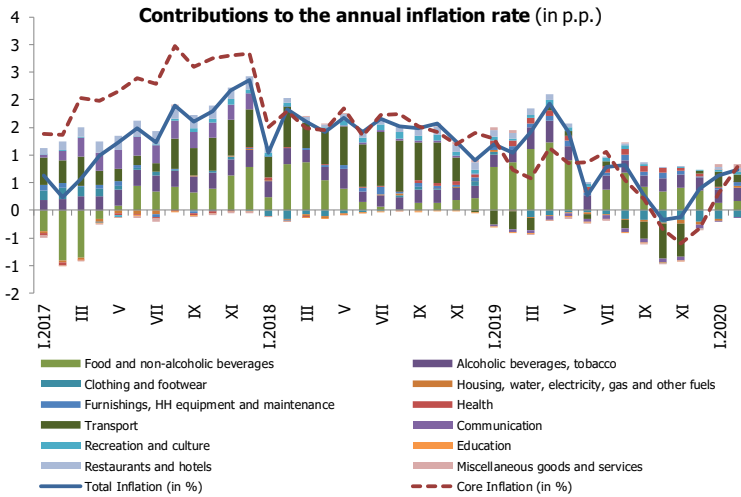
Core inflation in February remained unchanged on a monthly basis, and on an annual basis it increased by 0.8% (0.3% in the last month). The structure of the annual rate of core inflation in February is similar to the previous month, where the prices of tobacco⁶ continue to make the highest positive contribution. A more pronounced positive contribution this month was made by the prices of vehicles⁷, and the prices of catering services, package tours and water-supply⁸. On the other hand, the greatest negative contribution was made by the prices of air traffic, and a more moderate contribution was made by the prices of clothing and footwear.

⁵ Observed by group of products, the largest positive contribution to the monthly increase in prices in February was made by the growth of the prices of meat, vegetables, fruit, as well as of the prices of vehicles, and the largest negative contribution was made by the prices of liquid fuels and lubricants as well as the prices of air traffic.

⁶ The annual growth of tobacco price in February also reflects the increase in the prices of cigarettes in March and May 2019, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023.

⁷ From 1 January 2020, the Law on Motor Vehicle Tax (Official Gazette No. 261/2019) came into effect, which abolished the current excise duty in case of import of motor vehicles and replaced it with motor vehicle tax. One of the major changes with the new law is the introduction of taxation according to the amount of the average emission of carbon dioxide.

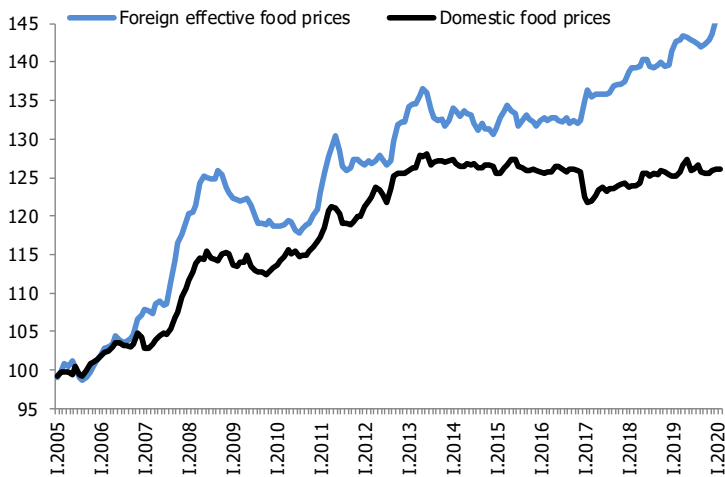
⁸ The prices of water-supply services were increased in several larger cities in the state by a decision of the municipalities.



Regarding the expected price movements of the external input assumptions in the inflation forecast, more pronounced downward revisions were generally made.

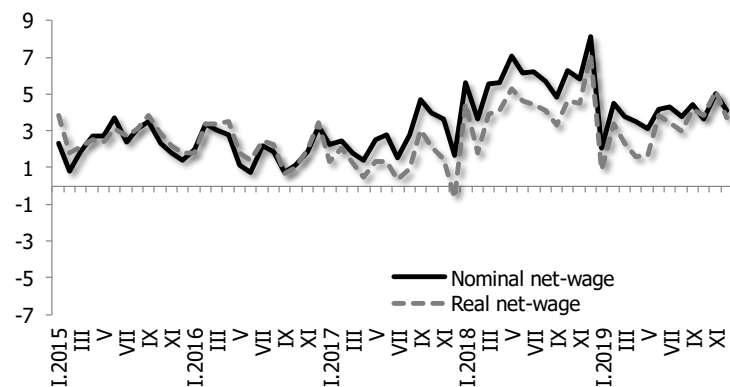
In conditions of lower inflation than forecasted in October, as well as external assumptions revised mainly downwards, risks to the inflation forecast for 2020 are currently considered downwards. Yet, the movement of global primary commodities prices remains uncertain in the next period.

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 %)

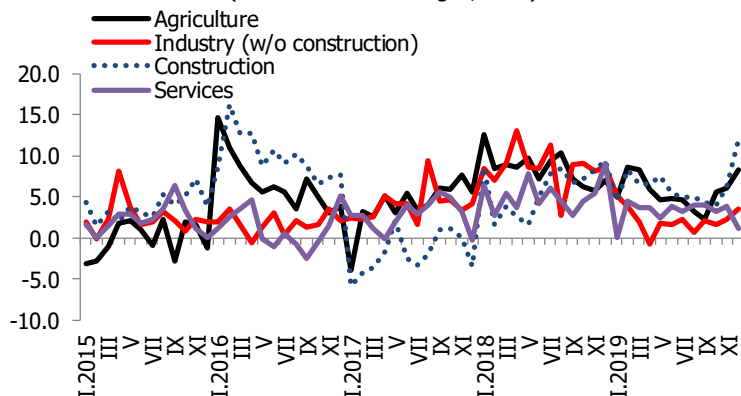


Source: SSO.

In December 2019, the nominal annual growth of the average net wage was 4.1% (a slight slowdown compared to the growth of 5.1% in November). The growth partly 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.

Wage growth was registered in most of the activities, with the most prominent one being registered in the activities “transport and storage”, “accommodation facilities and catering services”, “construction” and “manufacturing industry”¹².

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



Source: SSO.

Amid small increase in the consumer prices on an annual level, the **real annual growth of the net wage in December was 3.7%**.

The annual wage growth in the fourth quarter is higher compared to the expected growth according to the October forecasts.

The economic activity continued to grow in the fourth quarter of 2019, at a real growth rate of 3.4% (3.6% in the third quarter). The growth rate in the fourth quarter is slightly higher than expected of the October forecasting round. Observed for the whole of 2019, the real economic growth is in line with the expectations and equals 3.6% (forecasted growth rate of 3.5%).

Regarding the expenditure GDP components, the growth in the fourth quarter of 2019 results from domestic demand, with negative contribution of net exports. The growth of domestic demand is mainly explained by the changes in gross

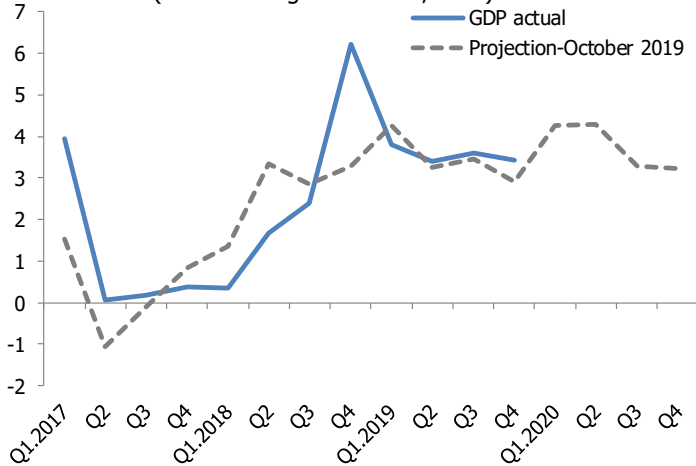
⁹ During 2019, the minimum wage was increased twice, in April and December. In April, the minimum wage was increased from Denar 12,165 to Denar 12,507 net wage (gross from Denar 17,370 to Denar 17,943) in accordance with the adjustment with the increase for the previous year of the average wage paid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

¹⁰ The RNM Budget for 2019 increased the wages of specialists by 10% from January and increased the wages by 5% of other medical personnel in the public health institutions with the payment of the January wage in 2019, and additionally increased the wages of health workers 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, starting with the June wage, increase the wages of educators, carers/nurses, professional workers and associates by 16%, 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.

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 December 2019 was registered in the activities “arts, entertainment and recreation”, “information and communication”, “activities related to real estate” and “wholesale and retail trade, repair of motor vehicles and motor-cycles”.

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

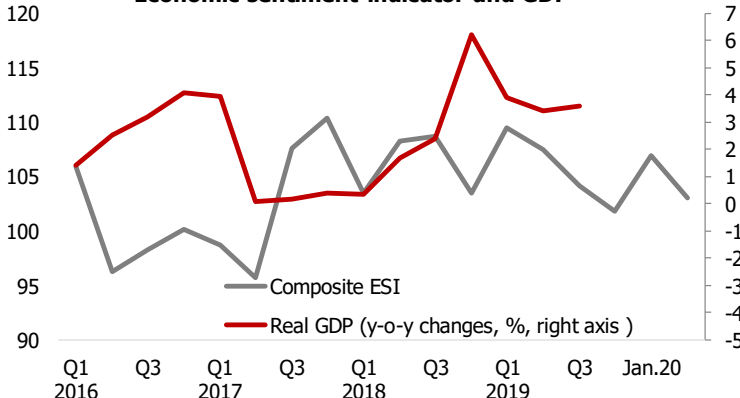


Source: SSO and NBRNM projections.
There are changes in the series as a result of regular revisions by SSO.

investments (versus the expected slight decline). Also, a significant contribution is also made by private consumption, whose positive contribution is still slightly lower than forecasted, and the faster growth of public consumption than expected further contributes to the growth of domestic demand. On the other hand, the negative contribution of the net export versus the expected small positive contribution is a result of more pronounced downward deviations in the exports from the forecast, compared to the deviation in the imports.

Observing the manufacturing industry, in the fourth quarter, the greatest positive contribution to the GDP growth was made by the activities "trade, transport and tourism", construction, as well as the agriculture.

Economic sentiment indicator and GDP

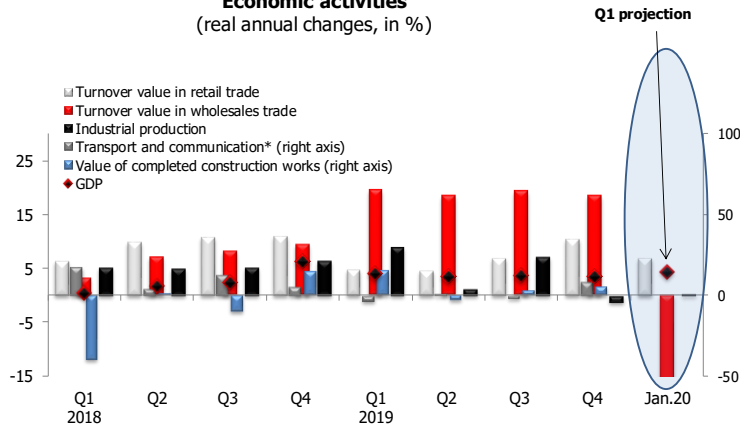


Source: State statistical office and European Commission.

Having a limited scope of available data, it is difficult to get more accurate estimations of the overall condition of the economy in the first quarter of 2020. Concerning the perceptions of the economic agents for the conditions of the economy¹³, the results of the surveys for the period January-February in 2020 indicate more favorable perceptions compared to the fourth quarter of 2019.

When it comes to the high frequency data on the supply side, the data on industrial output and trade are available for January.

Economic activities
(real annual changes, in %)



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

Industrial output in January, on an annual basis, recorded a small growth of 0.3%, which is an improvement relative to the decline of 1.3% in the fourth quarter of 2019. The largest positive contribution was made by the manufacturing industry, followed by mining sector, while the production of energy made a negative contribution to the total industrial output. Analyzing the manufacturing industry, most of the activities increased. There is a most pronounced contribution of the production of motor vehicles and the production of rubber and plastic products, as well as of some of the traditional activities (the production of textile, of food products, of clothing and of construction

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

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2018				2019				2020		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Nov	Dec	Jan
	<i>real annual changes in %</i>										
Gross domestic product	0.3	1.7	2.4	6.2	3.9	3.4	3.6	3.4	-	-	-
Industrial output*	5.2	4.9	5.1	6.4	8.8	1.1	7.1	-1.3	-2.1	-5.9	0.3
Construction	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.2572	-5.2	17.2	-
Building	3.2	6.1	-11.4	28.1	-9.3	5.1	23.7	-1.1	-12.2	12.6	-
Civil Engineerings	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.7	11.1	0.8	21.5	-
Retail and wholesale trade	4.9	8.8	8.6	10.0	13.5	12.6	14.0	14.6	14.5	16.2	-13.5
Retail trade	6.4	9.9	10.8	10.9	4.7	4.6	6.9	10.4	9.9	12.3	6.9
Wholesale trade	3.2	7.1	8.2	9.3	19.5	18.5	19.4	18.4	18.7	19.4	-28.7

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

materials) and the activity “printing and production of recorded media (records)”. On the other hand, the most pronounced negative contribution within the manufacturing industry was made by the production of machines and devices.

In January 2020, the **total trade turnover** registered usual monthly fall, under the influence of seasonal factors, given the decline in all three types of trade (wholesale, retail and trade in motor vehicles). The movements in January on an annual basis are currently weaker compared to the previous quarter.

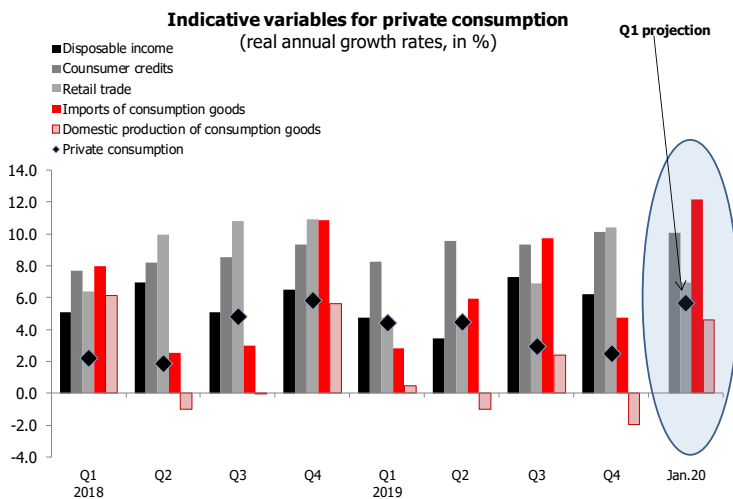
Available **aggregate demand** indicators mainly point to economic growth in the first quarter of the year.

Indicators of the movements in **private consumption** in the first quarter currently point to its further growth supported by the increase of some of the disposable income components (available data for pensions only) as well as through the stable and solid increase of household loans. Also, the short-term indicators of private consumption dynamics are also favorable, taking into account the growth of domestic production of consumer goods and import of consumer goods, as well as the growth in retail trade and gross revenues from VAT.

From the indicative categories for **gross capital formation** in January, growth was registered in long-term corporate lending, in government capital investments and import of investment products, and after the fall in the last quarter, a small increase was also registered in industrial output. On the other hand, decrease was recorded in corporate tax and domestic production of capital goods.

Foreign trade data as of January indicate potential narrowing of the deficit in the first quarter of the year compared to the same period last year, amid higher growth of the export than the import of goods.

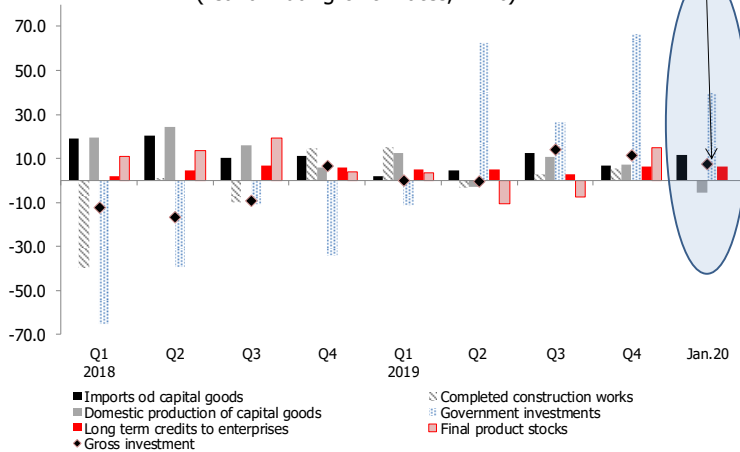
The budget execution as of January indicates a growth of **public consumption** in the first quarter, given the growth of the expenditures on



Source: SSO and NBRNM calculations.

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

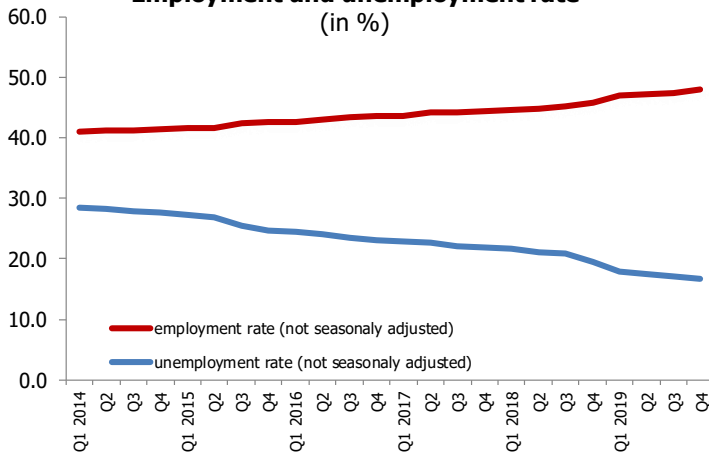
Q1 projection



wages, goods and services and transfers to local authorities¹⁴.

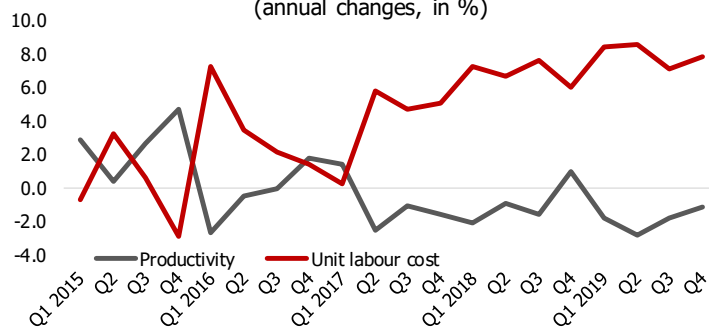
The favorable labor market developments continued in the fourth quarter of 2019, amid further cut in **unemployment which reduced to 16.6%** (17.1% in the previous quarter), while the number of employed persons registered an annual growth of 4.6%¹⁵.

Employment and unemployment rate
(in %)



Labor productivity¹⁶ continued to register a decline, but in the fourth quarter of 2019 it reduced to 1.1% (fall of 1.8% in the previous quarter), in conditions of higher growth of employment compared to the growth of economic activity.

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



At the same time, in the fourth quarter, unit labor costs increased by 7.9% on an annual basis (7.1% in the previous quarter), amid a rise in the gross wage amid falling productivity.

¹⁴ From the most important categories of public spending, in January 2020, a decline was observed in the transfers to the Health Fund.

¹⁵ The largest contribution to the growth of employment was made by the activities related to "transport and storage", "administrative and auxiliary services", the manufacturing industry, activities related to "arts, entertainment and recreation" and education.

¹⁶ 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 January 2020, the foreign trade deficit registered a significant narrowing of 25.3% on an annual basis, driven by the higher growth in exports relative to the small growth of imports.

The export component of trade registered a significant growth rate of 10.1%. The export growth is due to the higher export of iron and steel compared to the same period last year¹⁷, as well as to the favorable movements in some of the new production facilities in foreign ownership. An annual decrease was registered in the export of energy.

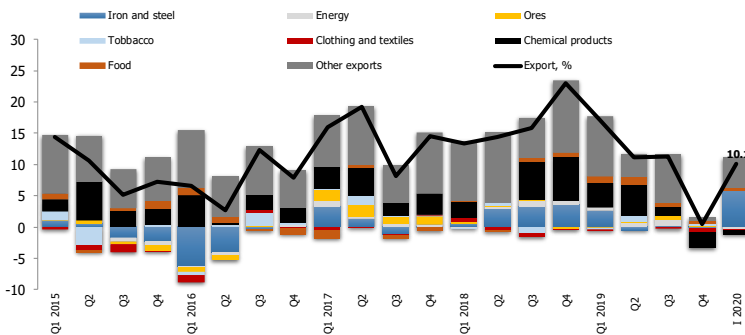
Compared to the October forecast, the performances in January are slightly lower than the export expected for the first quarter for 2020. More pronounced downward deviations were registered in the export of part of the new production facilities, coupled with the somewhat lower export of clothing and textile and energy.

In January 2020, the import of goods recorded a small growth of 0.5% on an annual basis. This change is due to the growth of other imports, the import of iron and steel, consumer goods and food, amid simultaneously reduced import of raw materials of some of the new production facilities and lower energy imports.

The performance of the import of goods in January 2020 is lower than expected for the first quarter of the year according to the October forecasts, amid lower import in some of the new facilities in foreign ownership, as well as the import of energy, and slightly higher import of consumer goods and food.

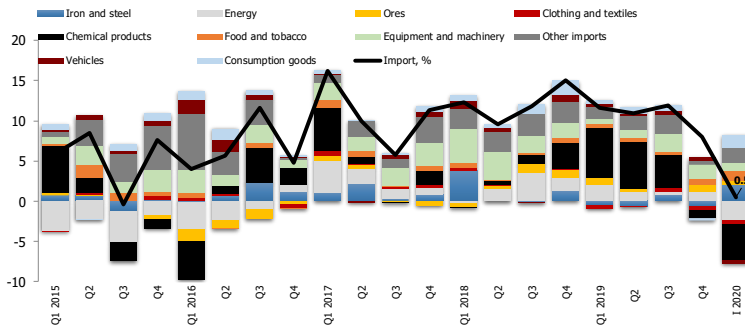
The performance of foreign trade components in January 2020 is slightly lower than the trade deficit expected for the first quarter of the year according to the October forecast.

Export by components
(contribution to the annual change, in p.p.)



Source: NBRNM.

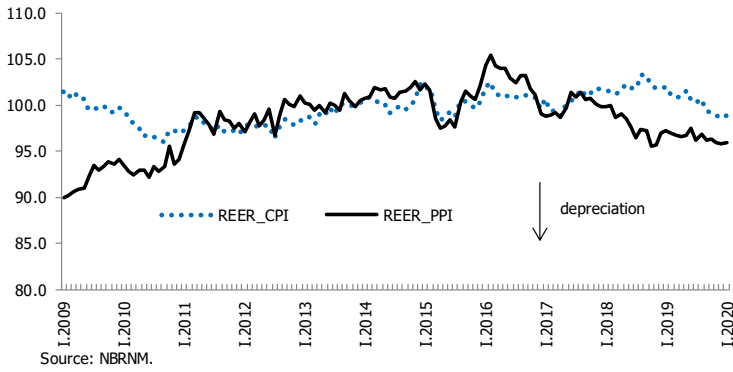
Imports by components
(contribution to the annual change, in p.p.)



Source: NBRNM.

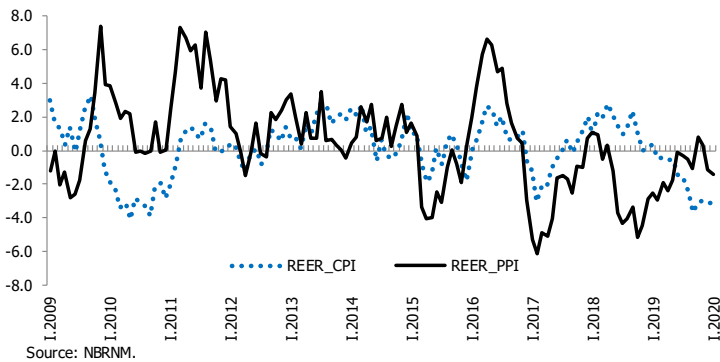
¹⁷ The high contribution to the growth of the export of the category iron and steel during January 2020 is partly due to the low base effect.

REER
(2010=100)

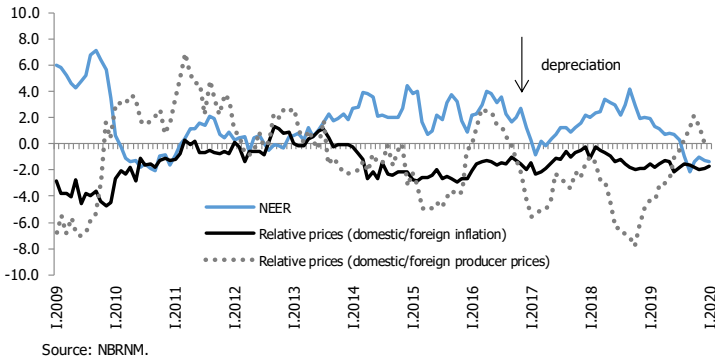


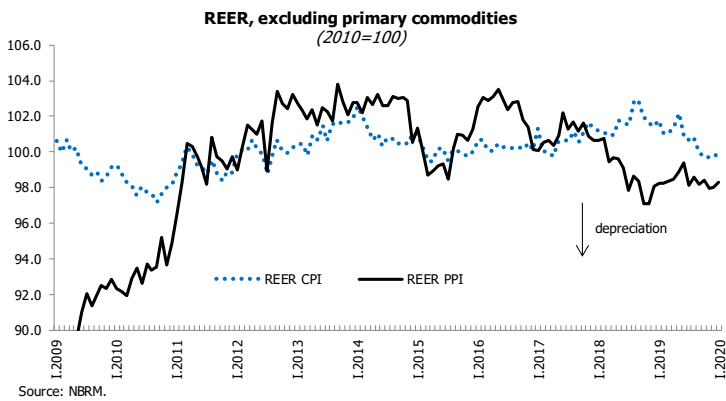
In January 2020, price competitiveness indicators of the domestic economy registered further improvement on an annual basis. The REER index deflated by consumer prices depreciated by 3.1%, while the REER index deflated by producer prices registered a smaller depreciation of 1.4%. Such movements of the REER deflated by consumer prices are due to the favorable changes in relative prices (the relative consumer prices are lower by 1.8%), while the relative producer prices remained unchanged on an annual basis. The NEER also acted in the same direction, registering a depreciation of 1.4%, which is largely due to the appreciation of the Russian ruble, the Ukrainian hryvnia and the British pound.

REER
annual changes, in %

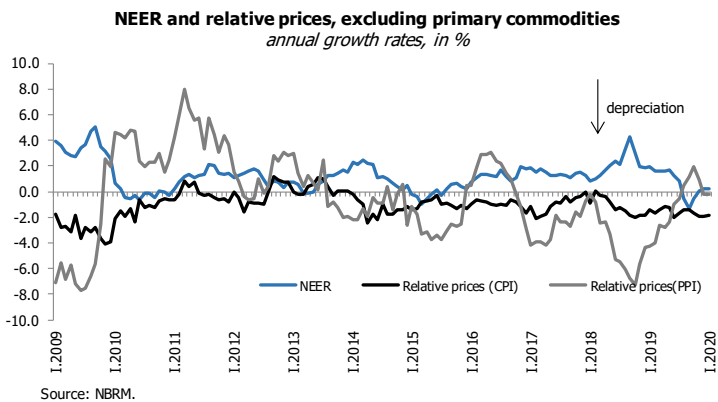
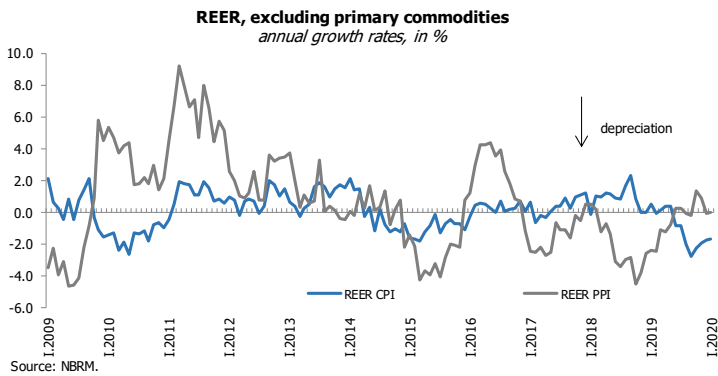


NEER and relative prices
annual growth rates, in %

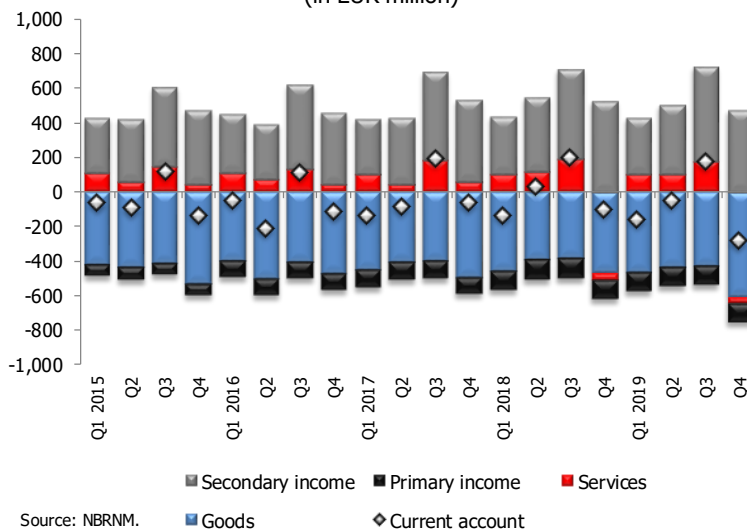




REER indices, as measured using weights based on the foreign trade without primary commodities, in January 2020 registered divergent movements. Thus, the REER index deflated by consumer prices depreciated by 1.6%, while the REER deflated by producer prices registered no changes. The changes result from the dynamics of relative prices, in particular the decline in the relative consumer prices of 1.8% and the minimal decline in the relative producer prices of 0.2%, amid minimal appreciation of the NEER on an annual basis.



Main components of the current account
(in EUR million)

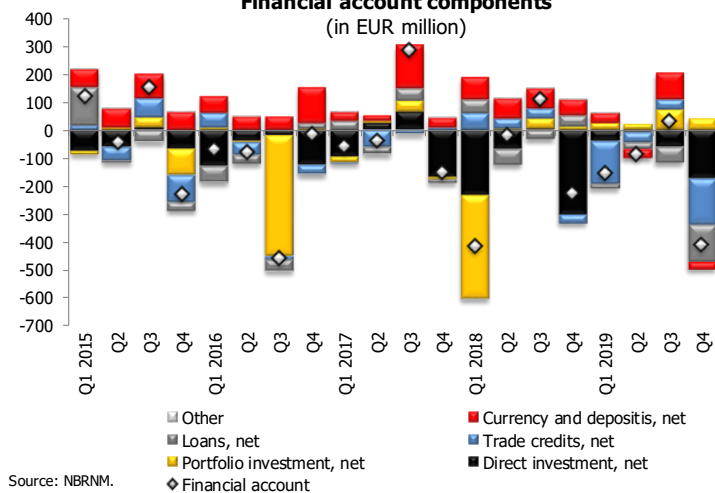


In the fourth quarter of 2019, the current account deficit in the balance of payments was Euro 286.9 million or 2.5% of GDP¹⁸, which is higher than expected for the fourth quarter according to the October forecast.

Deviations from the expectations are registered in almost all categories, with the exception of primary income, which is generally in line with the October forecast. Thus, the trade deficit is higher than expected in conditions of lower export growth and simultaneously slightly higher growth of the import component, than expected with the October forecast. The balance of services registered a moderate deficit versus the expected almost balanced balance, mainly due to the higher deficit in other services and the lower surplus in production services for processing. The surplus in the secondary income is lower than forecasted, mainly due to the lower net inflows in the government.

The current account deficit in 2019 is higher than expected in the October forecast. Weaker performances are registered in the balances of goods, services and secondary income, while the movements of primary income are within the expectations.

Financial account components
(in EUR million)



In the fourth quarter of 2019, the financial account registered net inflows¹⁹ of Euro 411 million (or 3.6% of GDP), which are higher than expected for the fourth quarter with the October forecast.

Such deviation is mostly due to trade credits (net borrowing, versus the expected moderate net deleveraging), as well as to the net inflows on the basis of currency and deposits (due to high net inflows in depository institutions), versus the expected net outflows according to the October forecast. Other components of the financial account are generally in line with the expectations with the October forecast.

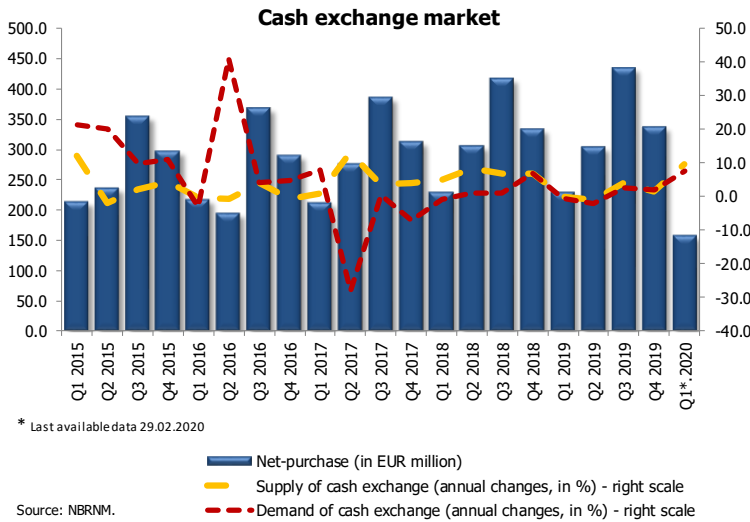
Annually, the financial account in 2019 registered higher net inflows than expected in the October forecasts. Positive deviations were registered in trade credits, currency and

¹⁸ The analysis uses the National Bank's October forecasts for the nominal GDP for 2019.

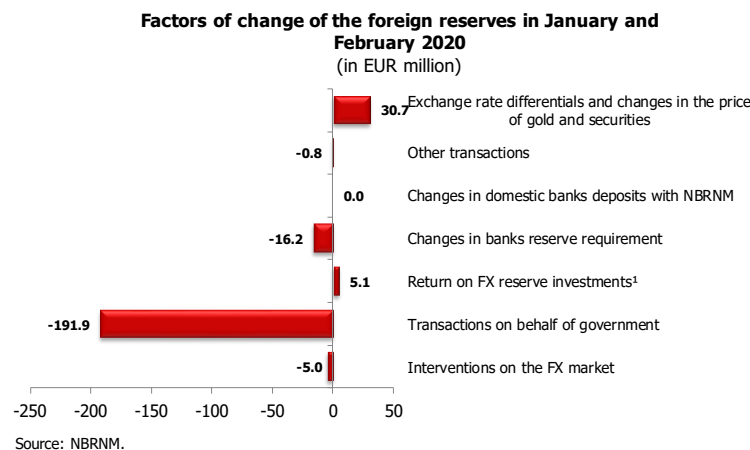
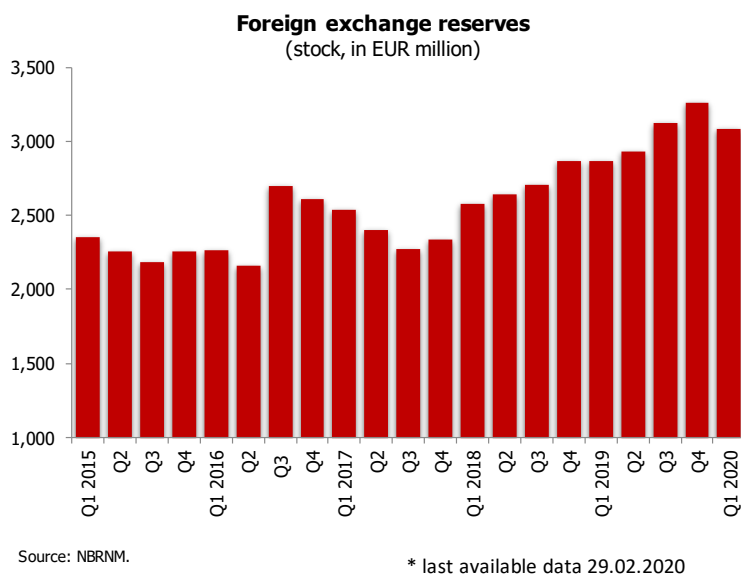
¹⁹ According to the new methodology for compiling the balance of payments (BPM6), the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.

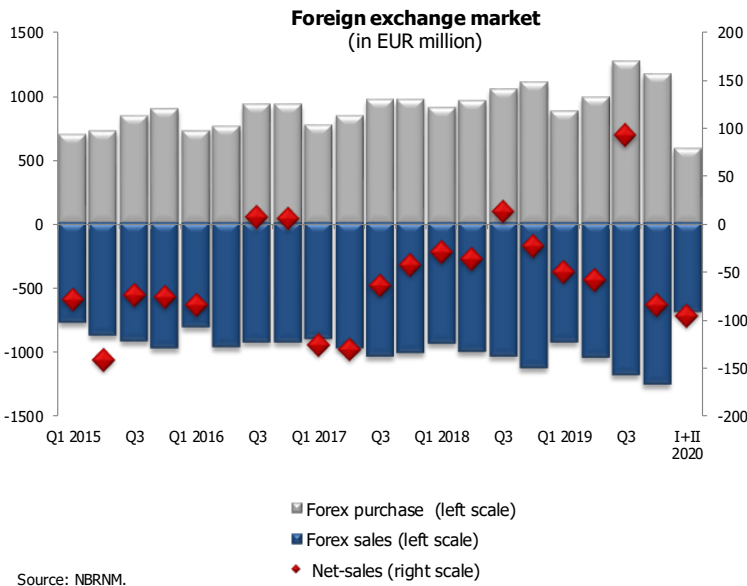
deposits, and loans, versus the higher net outflows in portfolio investments.

The net purchase on the currency exchange market in the period from 1 January to 29 February 2020 was Euro 158 million, which is an annual increase of 10.5%. Such performances are driven by the higher increase in the supply of than the increase in the demand for foreign currency (by 9.6% and 7.5%, respectively).

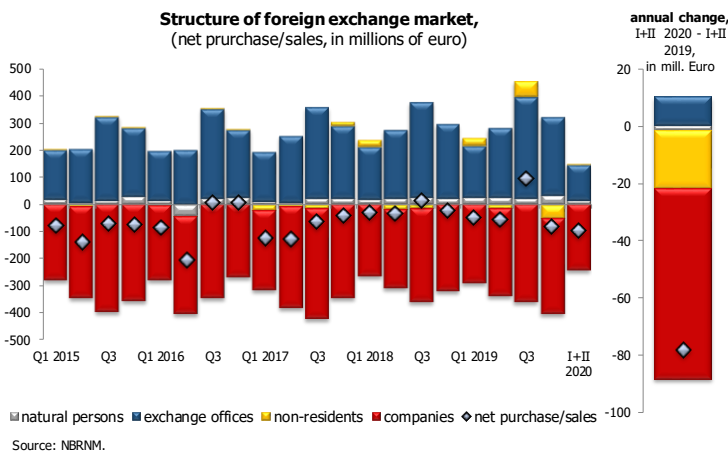


As of 29 February 2020, gross foreign reserves stood at Euro 3,084.6 million, which is a decrease of Euro 178.1 million compared to the end of the fourth quarter of 2019. The main factor for such change are the transactions on behalf of the government (repayment of a debt in the amount of Euro 158.1 million to Deutsche Bank). The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.





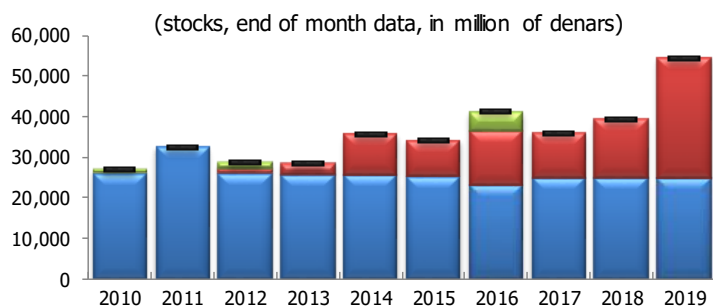
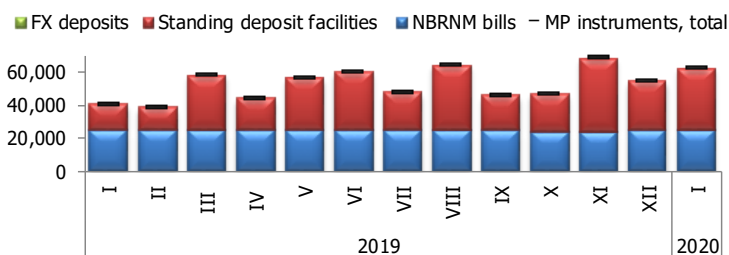
In January and February 2020, the banks' foreign exchange market reported a net sale of foreign currency of Euro 94.9 million, which is by Euro 78.2 million more than the same period last year. This annual change is a result of the faster growth in the demand for relative to the growth in the supply of foreign currency.



Sector-by-sector analysis shows that such shifts result from the high net sales of companies.

Monetary policy instruments

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



Source: NBRNM

In January, the monetary instruments increased, amid a larger amount of banks' assets placed in deposits with the National Bank and minimal growth of the stock of CB bills²⁰. The stock of monetary instruments at the end of January was higher than forecasted for the end of the first quarter of 2020²¹.

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

Total government deposits with the National Bank in January registered a moderate decrease compared to the previous month. Compared with the forecast for the first quarter of 2020, the stock of total government deposits with the National Bank is lower.

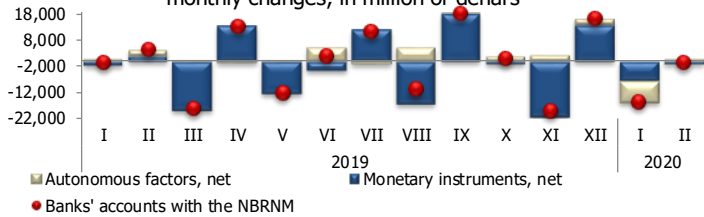
Given the lower level of banks' total reserves with the National Bank in January and a slight decline in currency in circulation, the reserve money stock in January decreased compared to the previous month and is also lower compared with the forecast for the end of the first quarter of 2020.

²⁰ At the CB bills auction of the National Bank held on 15 January 2020, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2% and maturity of 28 days. In January, the amount of CB bills was by Denar 238 million higher compared to the previous month (Denar 24,983 million).

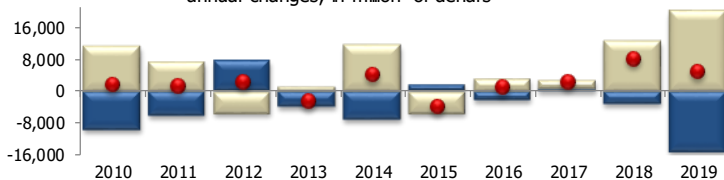
²¹ The performance comparisons are against the October forecasts of the National Bank.

Banks liquidity*

monthly changes, in million of denars



annual changes, in million of denars

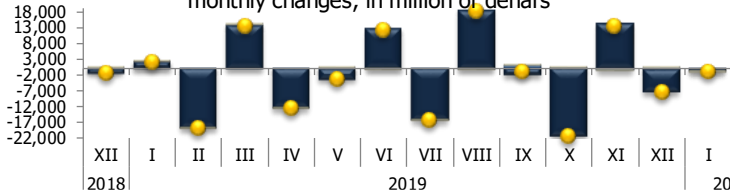


Source: NBRNM.

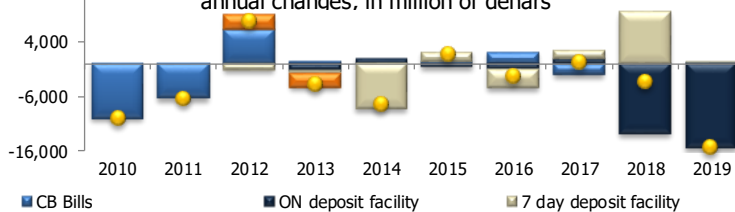
According to the operational data on liquidity flows, **in February, the liquidity of the banking system registered a slight decrease.** The change is a result of the slightly higher amount of banks' assets placed in monetary instruments (primarily in overnight deposits, amid unchanged stock of CB bills)²² and of the impact of the autonomous factors on a net basis aimed towards small liquidity creation, as a result of government transactions.

Monetary policy instruments*

monthly changes, in million of denars



annual changes, in million of denars

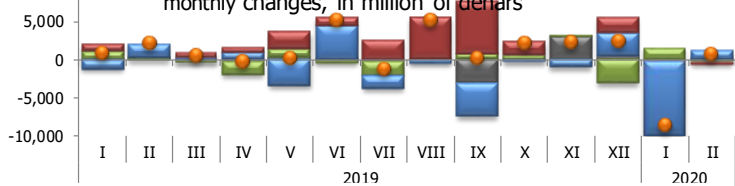


Source: NBRNM.

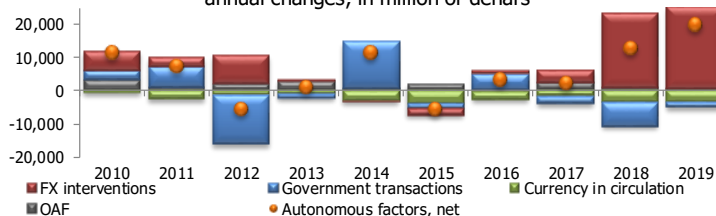
* positive change: liquidity creation, negative change: liquidity withdrawal

Autonomous factors*

monthly changes, in million of denars



annual changes, in million of denars



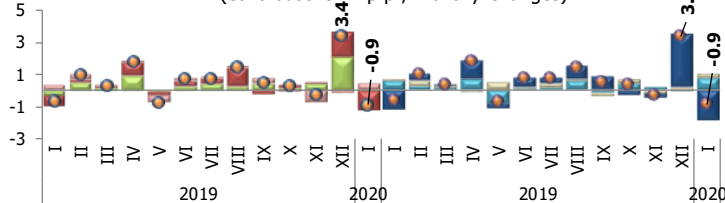
Source: NBRNM.

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

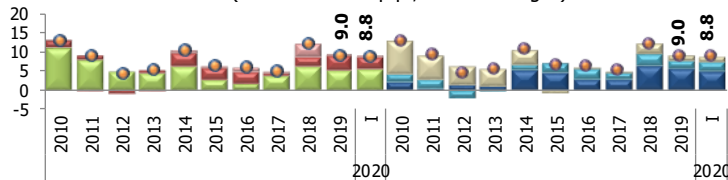
²² At the CB bills auction of the National Bank held on 12 February 2020, Denar 25,000 million of CB bills was offered and sold at an interest rate of 2.0% and maturity of 28 days.

Total Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by sector: Other institutions Deposits, Foreign Currency Deposits, Enterprise Deposits. Composition by currency: Domestic Currency Deposits, Demand Deposits, Household Deposits.

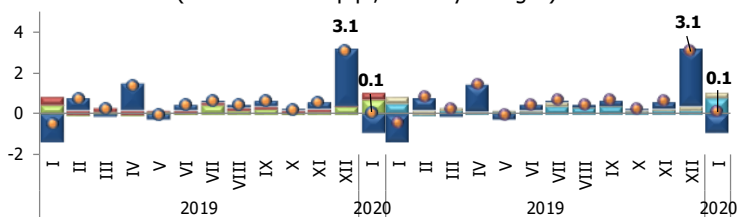
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the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

Total deposits²³ in January registered monthly drop of 0.9%, despite the growth in the previous month, which is usual for this period. The reduction of deposits is a result of the fall in corporate deposits, with minor growth in household deposits and simultaneous slight increase in other sectors deposits. Analyzing the currency, the reduction of total deposits is due to the fall in denar deposits, i.e. in demand deposits, amid moderate growth of foreign currency deposits. Total deposits in January declined, which is usual for this period, while the October forecast envisages an increase in deposits for the first quarter of the year.

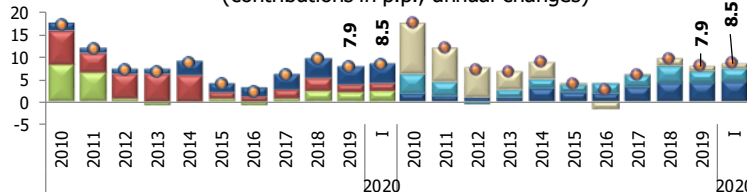
In January, the annual growth rate of total deposits was 8.8% and is currently below the annual growth forecasted for the end of the first quarter of 2020 (of 9.9%). From sectoral and currency aspect, the growth mostly emanates from household deposits, i.e. from deposits in domestic currency (including demand deposits).

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity: Demand Deposits, Domestic Currency Household Deposits, Foreign Currency Household Deposits, Long-term Household Deposits, Short-term Household Deposits.

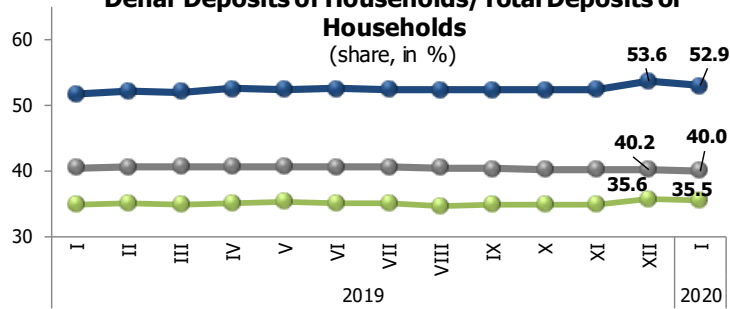
Household Deposits, monthly/annual changes, in %

Source: NBRNM.

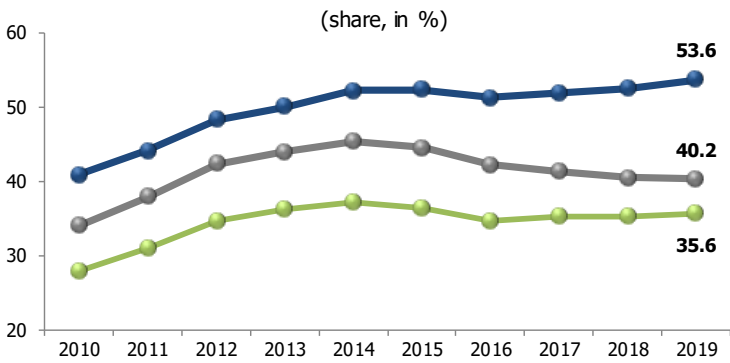
In January, household deposits registered a minimal monthly growth of 0.1%, resulting from foreign currency deposits, given the decline in denar deposits, i.e. from demand deposits. The share of denar deposits (including demand deposits) in total household deposits at the end of January was 52.9%, and is slightly lower compared to the previous month (of 53.6%). **The annual increase in household deposits in January was 8.5%.**

²³ 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.nspk.

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



In January, broad money, measured through M4, registered a monthly decrease of 1.2%, as opposed to the growth in the previous month. The reduction is a result of the most liquid money supply components, primarily of the decrease in demand deposits, amid decline in currency in circulation. In terms of maturity, short-term deposits registered moderate growth, amid almost unchanged long-term deposits. Observing by currency, the reduction is due to the fall in denar deposits (entirely as a result of demand deposits), amid moderate growth of foreign currency deposits.

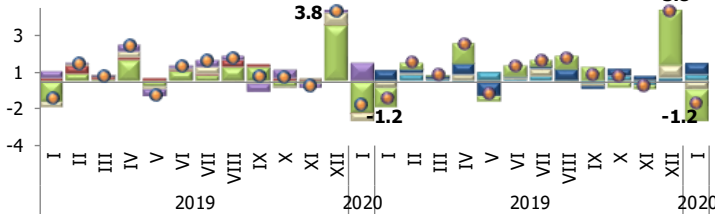


- Share of total household deposits (with demand deposits)
- Share of total household deposits (without demand deposits)
- Share of total deposits (with demand deposits)*

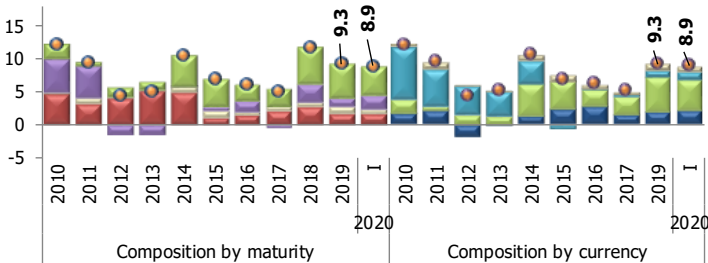
* Includes deposits at Banks and Saving Houses
Source: NBRNM.

Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)

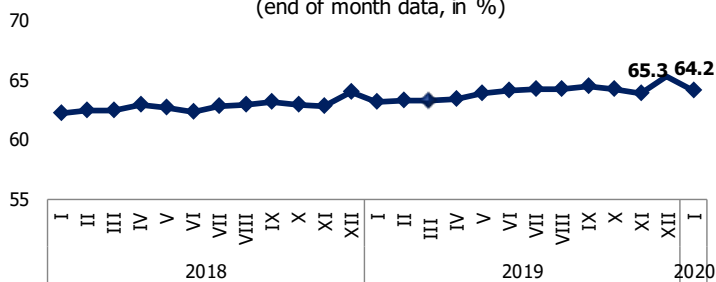


- CC Outside Depository Corporations
- Demand Deposits
- Total Short-term Deposits
- Total Denar Deposits

Source: NBRNM.

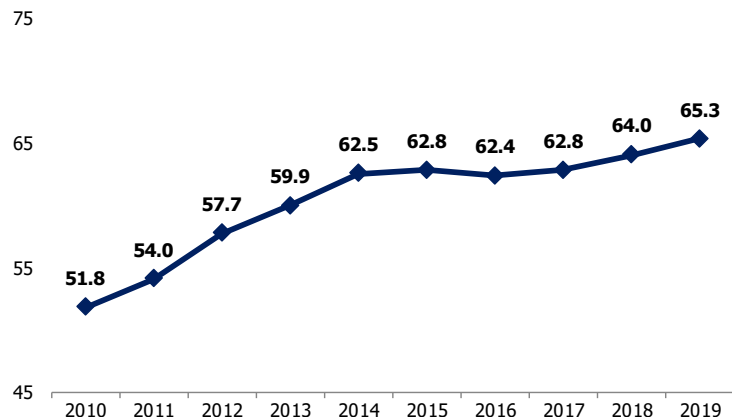
Share of Denar M4 in total M4

(end of month data, in %)



At the end of January, the denar share in total broad money M4 was 64.2% (65.3% in the previous month). **In January, broad money increased by 8.9% annually, which is below the annual growth of 9.7% forecasted for the first quarter of 2020.**

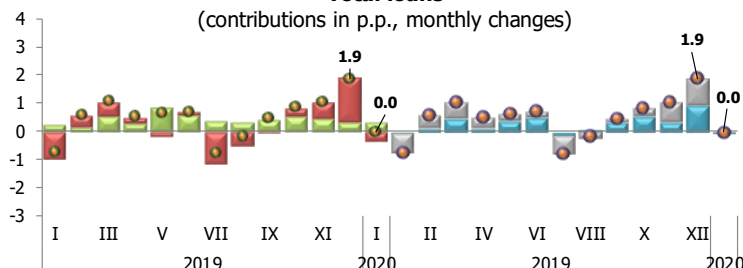
(end of year data, in %)



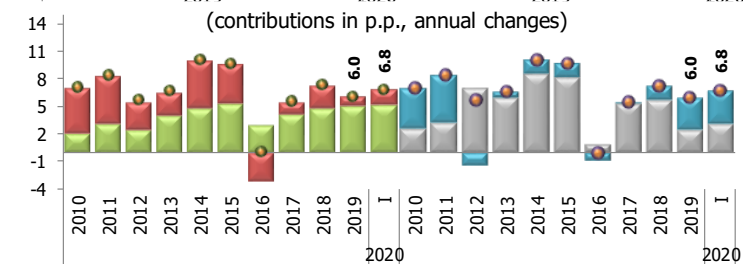
Source: NBRNM.

Total loans

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by sector: Foreign Currency Loans, Enterprise Loans, Loans, monthly/annual changes, in %
 Composition by currency: Domestic Currency Loans, Household Loans, Loans, annual changes, in %

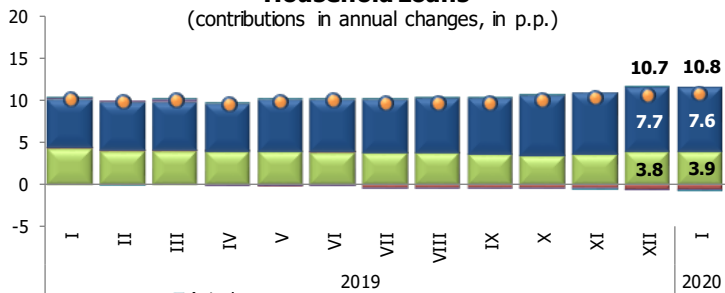
Source: NBRNM.

Total loans in January remained at an almost same level as in the previous month. Observed by sector, there was an increase in household loans, amid decline in corporate loans. Analyzing the currency structure, loans in domestic and foreign currency remained almost unchanged compared to the previous month. In January, total loans registered a minimal monthly decline under the influence of usual seasonal factors, while the October forecast predicts growth of loans for the first quarter of the year.

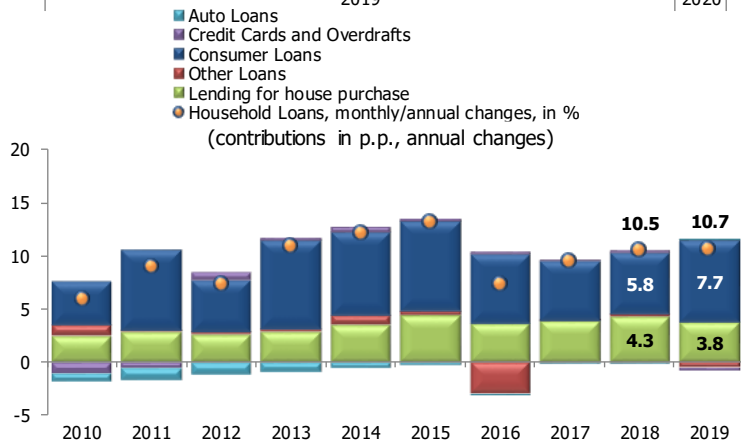
In January, the annual growth rate of total loans equaled 6.8%, which is above the annual growth of 5.5% forecasted for the first quarter of 2020, according to the October forecast. Observed by sector, the growth largely results from the household loans, with a positive contribution of corporate loans. In terms of currency structure, the growth results from both the foreign currency loans (including denar loans with currency clause) and the loans in domestic currency.

Household Loans*

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



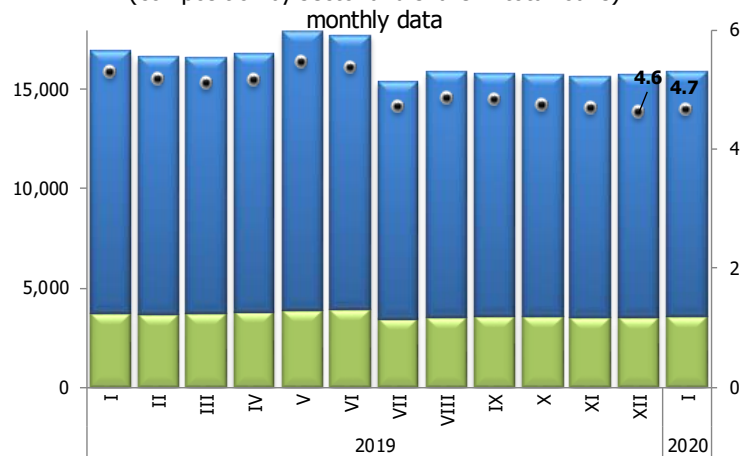
The annual growth of household loans²⁴ in January amounted to 10.8%, and was still largely driven by the growth of consumer loans that contributed with 7.6 percentage points.



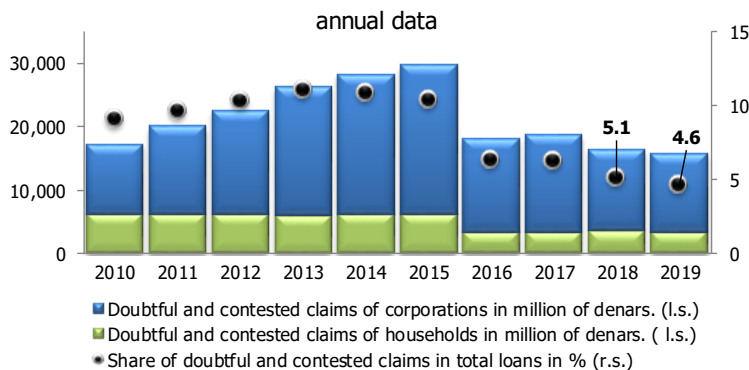
* Self-employed individuals are not included.
Source: NBRNM.

Doubtful and contested claims

(composition by sector and share in total loans)

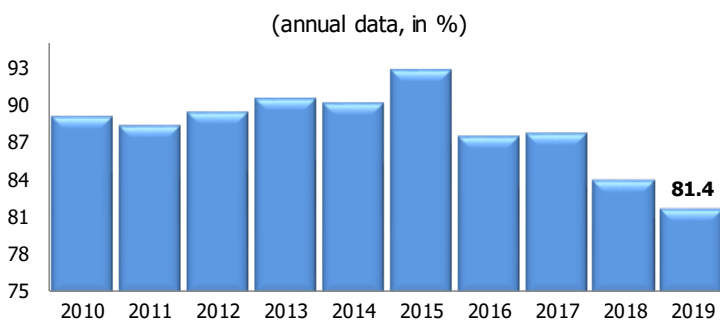
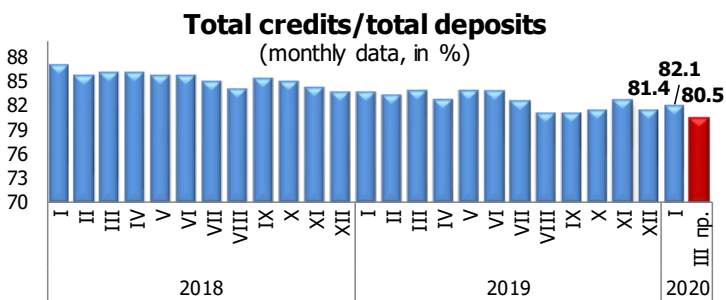


The share of doubtful and contested claims in total loans in January registered a minimal monthly increase of 0.1 percentage point and amounted to 4.7%. In terms of sector, most of the total amount of non-performing loans still results from the corporate sector, while the share of non-performing loans of the household sector is significantly lower.



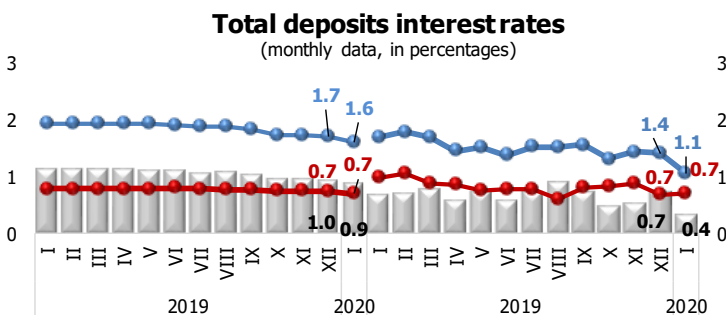
Source: NBRNM.

²⁴ Excluding loans of self-employed individuals.

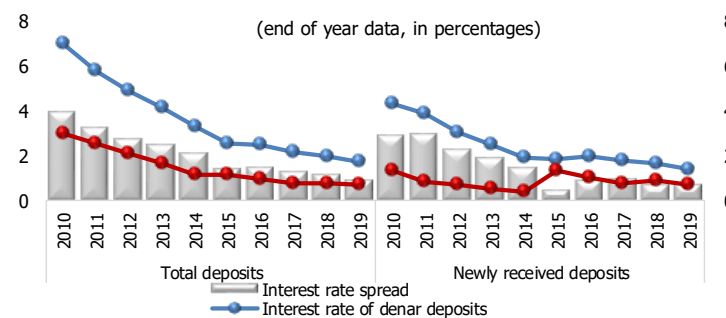


Source: NBRNM.

The indicator for the utilization of banks' deposit potential for lending to the private sector in January registered a monthly growth (from 81.4% to 82.1%), whereby it is above the forecasted value of this indicator for the end of the first quarter of 2020 (80.5%).



In January, the interest rate spread for the total deposits (denar and foreign currency)²⁵ narrowed marginally by 0.1 percentage point compared to the previous month, as a result of the minimal decline in the interest rate on denar deposits, amid unchanged interest rate on foreign currency deposits. For total newly accepted deposits, the interest rate spread narrowed compared to the previous month (from 0.7 to 0.4 percentage points), amid reduction of the interest rate on newly received denar deposits of 0.4 percentage points, amid unchanged interest rate on foreign currency deposits²⁶.

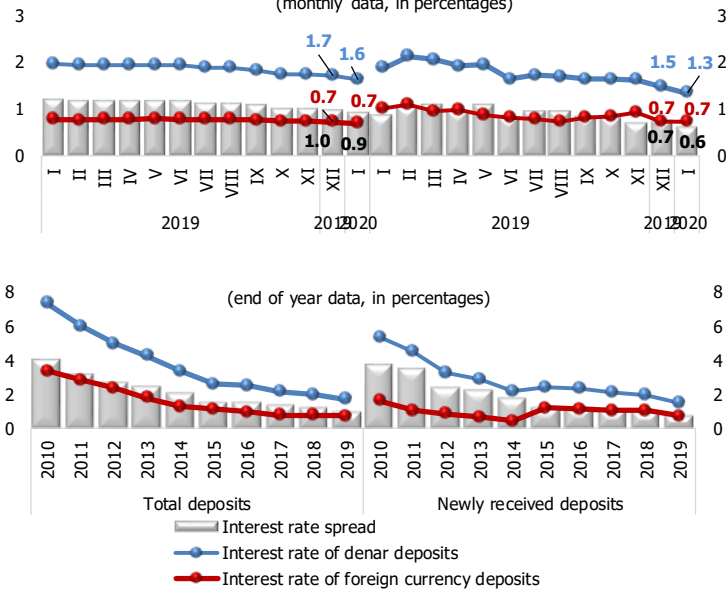


Source: NBRNM.

²⁵ Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

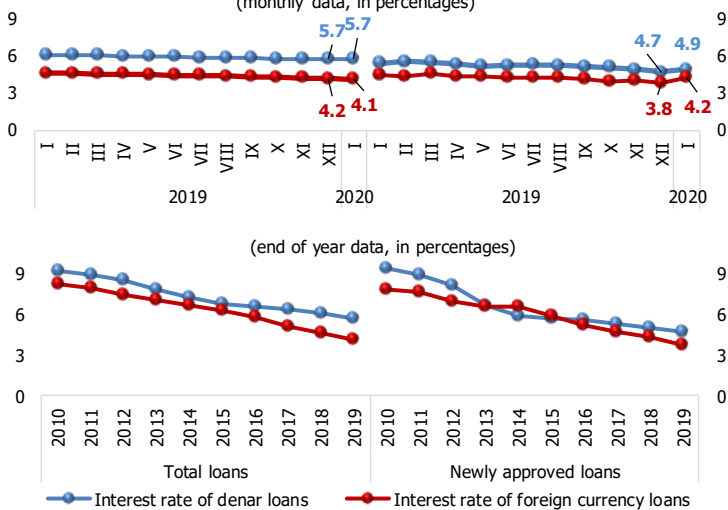
²⁶ Regarding the interest rates on the newly accepted deposits, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from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

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



Source: NBRNM.

Total loans interest rates
(monthly data, in percentages)



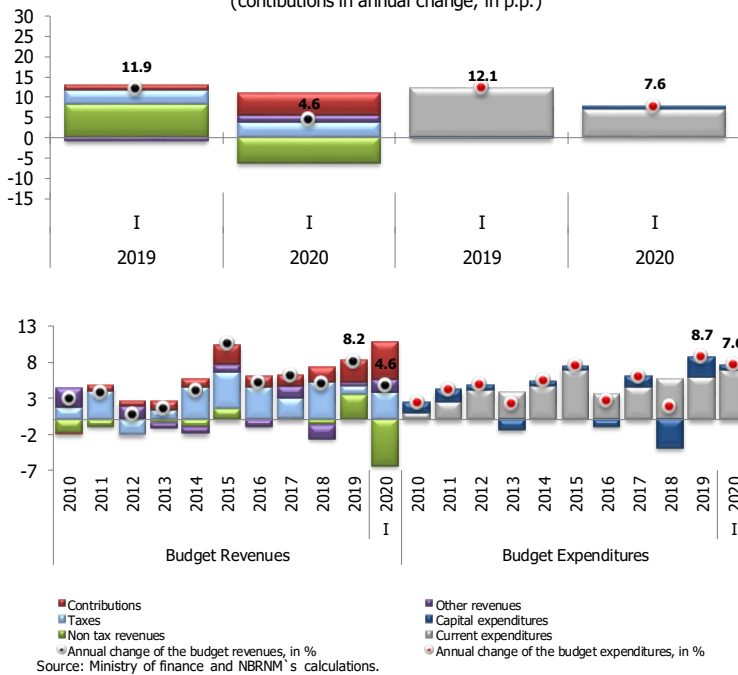
Source: NBRNM.

The interest rate spread of the interest rates on total household deposits (denar and foreign currency) narrowed marginally by 0.1 percentage point, as a result of the minimal decline in the interest rate on denar deposits, amid unchanged interest rate on foreign currency deposits. For the **newly accepted household deposits**, the interest rate spread narrowed marginally by 0.1 percentage point, amid reduction of the interest rate on denar deposits of 0.1 percentage point and unchanged interest rate on foreign currency deposits.

The interest rates on total loans registered a decline in the interest rate on corporate loans of 0.1 percentage point, amounting to 4.1%, while the interest rate on household loans remained at a level of the previous month of 5.7%. For the **newly approved loans**²⁷ in January, the interest rates on household and corporate loans increased by 0.2 and 0.4 percentage points, respectively compared to the previous month and equaled 4.9% and 4.2%, respectively.

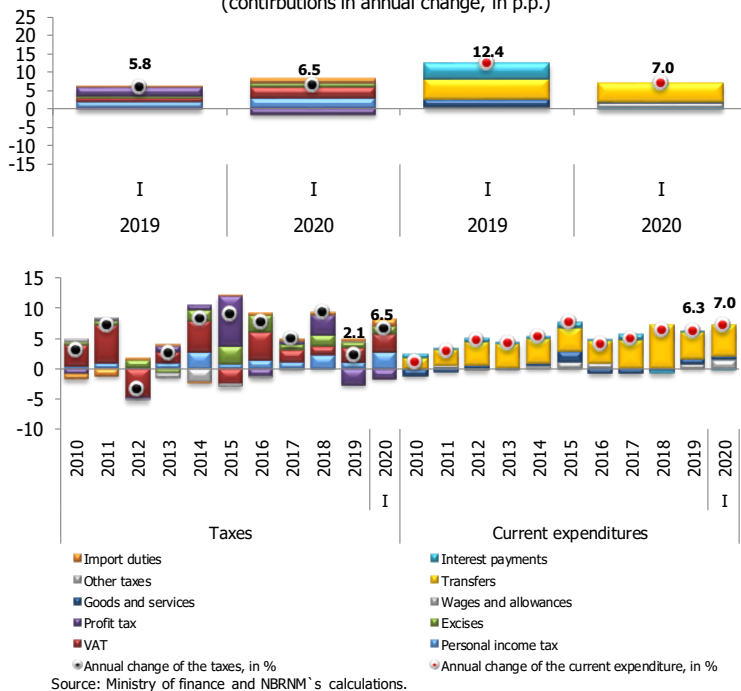
²⁷ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to 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 January 2020, total budget revenues and expenditures increased on an annual basis. The growth of **revenues** of 4.6% mostly results from the higher inflows in the categories contributions, tax revenues and other revenues²⁸ (with a contribution of 5.2 percentage points, 3.7 percentage points and 1.9 percentage points, respectively), while the contribution of non-tax revenues²⁹ is negative (6.3 percentage points). Inflows on the basis of tax revenues in January were higher by 6.5% on an annual basis, mainly as a result of the higher inflows in VAT, personal income tax, excises and import duties (contribution of 3.0 percentage points, 2.7 percentage points, 1.2 percentage points and 1.1 percentage points, respectively), while corporate tax made a negative contribution (1.6 percentage points). **Budget expenditures** were higher by 7.6%, on an annual basis, as a result of the higher current expenditures with a contribution of 6.9 percentage points, with a positive contribution of capital expenditures of 0.7 percentage points. Current expenditures increased by 7.0% annually, mainly due to the increase in transfers (contribution of 5.2 percentage points), amid smaller positive contribution of wages and compensations with a contribution of 1.4 percentage points and goods and services with a contribution of 0.5 percentage points.

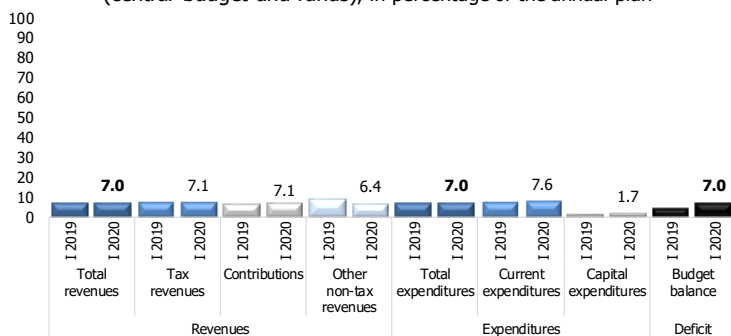
Taxes and current expenditures
(contributions in annual change, in p.p.)



²⁸ Other revenues include capital revenues, donations from abroad and revenues from recovered loans. Within this category, in January 2020, capital revenues registered faster growth due to the increase in the sub-item sale of land and intangible investments.

²⁹ Lower non-tax revenues in January 2020 are due to the higher base effect in January 2019 when there were higher inflows to the Pension and Disability Insurance Fund's account in the RNM Budget. Higher inflows in the previous year are a result of the transfer of funds of the private pension funds in accordance with the Law Amending the Law on Mandatory Fully Funded Pension Insurance and the Law Amending the Law on Pension and Disability Insurance (Official Gazette of RM No. 245 of 28 December 2018). With these amendments, the membership of some insuree categories in the second pillar of the pension system ceased on 1 January 2019.

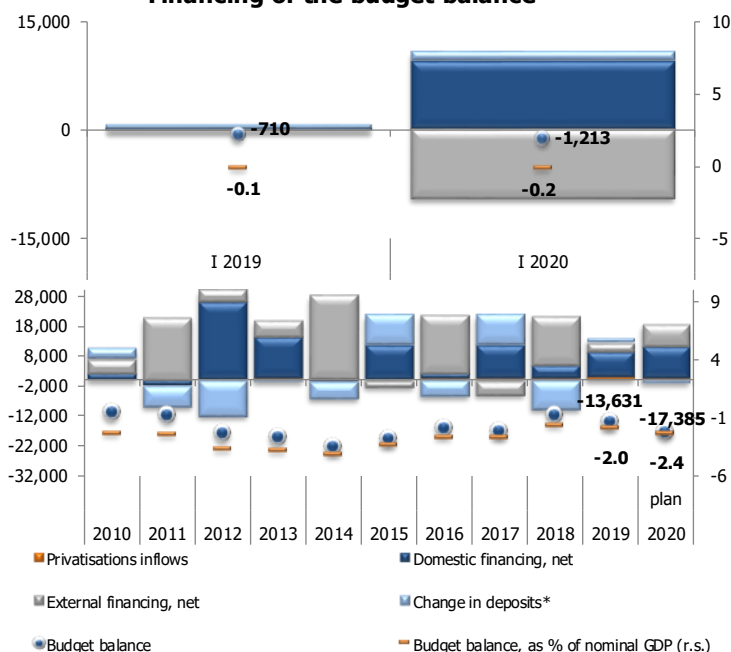
Budget implementation , per categories
(central budget and funds), in percentage of the annual plan*



*for 2019, figures are calculated compared to the Budgete rebalance.
Source: Ministry of Finance and NBRNM's calculations.

In comparison with the annual plan of the Budget for 2020, budget revenues and expenditures in January 2020 accounted for 7.0% (7.1% and 6.8%, respectively, realization in 2019). The budget deficit was also 7% of the plan for 2020 (4.0% 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 January 2020 amounted to Denar 1,213 million (0.2% of the nominal GDP³⁰) and is mostly financed by domestic government borrowing³¹, and to a lesser extent by using government deposits with the National Bank, amid repayment of due installment on the basis of a foreign loan³².

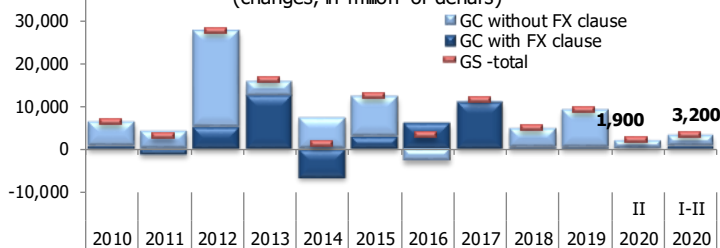
³⁰ The analysis uses the forecasted GDP growth of the National Bank October forecasts for the nominal GDP for 2020.

³¹ Besides the issuance of government securities, domestic government borrowing was also made by the domestic commercial banks by around Euro 135 million, i.e. Denar 8,172.5 million, intended for repayment of a loan whose term expires on 29 January 2020.

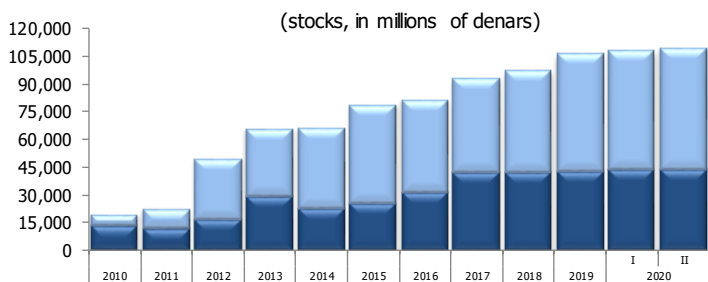
³² It concerns repayment of second installment in the amount of Euro 158 million, from a PBG loan concluded in 2013, which fell due on 29 January 2020.

Government securities

(changes, in million of denars)



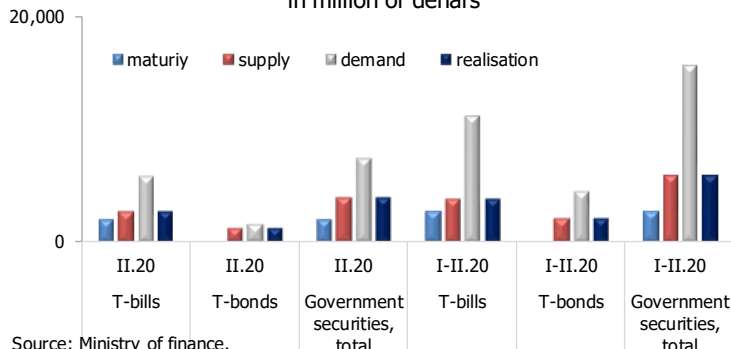
In the primary government securities market in February 2020, the stock of issued securities increased on a monthly basis and at the end of the month reached Denar 109,554 million. The monthly growth amounted to Denar 1,900 million, amid increased government securities without currency clause³³ and unchanged government securities with currency clause. Compared to the end of 2019, the stock of government securities at the end of February increased by Denar 3,200 million.



Source: MoF.

Government securities auctions

in million of denars



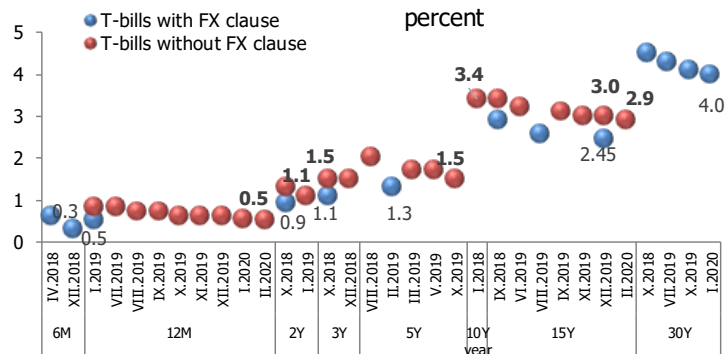
Source: Ministry of finance.

The new issues of government securities in February 2020 were with twelve-month and fifteen-year maturity³⁴, whereby the market participants' interest this month was higher than the offered amount. Amid issue of government securities in a higher amount than the amount due, their stock increased at the end of February.

Interest rates of T-Securities

percent

in



Source: Ministry of Finance

In February, the Ministry of Finance kept the interest rates on the newly issued twelve-month government securities without currency clause unchanged (0.5%), while the interest rates on the fifteen-year government securities without currency clause were cut (from 3.0% to 2.9%).

³³ The Budget plans a net domestic borrowing (continuous government securities) of the government of Denar 12,300 million for 2020, i.e. increase in the stock of government securities to Denar 118,654 million.

³⁴ The twelve-month treasury bills fell due in February 2020.

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	November	December	January
	<i>real annual growth rates in %</i>										
Retail trade*	6.4	9.9	10.8	10.9	4.7	4.6	6.9	10.4	9.9	12.3	6.9
VAT revenues*	3.9	6.5	7.5	7.0	3.5	1.4	7.5	6.6	5.6	10.2	8.1
Imports of consumption goods*	8.0	2.5	3.0	10.9	2.8	5.9	9.7	4.8	-4.8	16.7	12.1
Domestic production of consumption goods	6.1	-1.0	-0.1	5.6	0.5	-1.0	2.4	-2.0	-4.1	-6.0	4.6
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	10.3	10.1	10.0
Average net wage*	3.4	4.7	3.9	5.4	2.2	2.4	3.5	4.2	5.2	3.7	-
Private net transfers*	5.6	9.1	4.3	2.0	-2.2	-4.7	5.7	2.1	-5.1	9.8	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	3.8	2.5	2.3

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

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

INDICATIVE VARIABLES FOR INVESTMENTS

	2018				2019						2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	November	December	January
	<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	4.8	16.1	11.5
Completed construction works**	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	-5.2	17.2	-
Domestic production of capital goods	19.3	24.2	16.0	5.7	12.3	-2.9	10.7	7.1	6.6	2.0	-5.5
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	72.7	92.1	39.9
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-12128.9	-3653.4	4093.0	-7892.4	3952.7	-8024.9	-
Long term credits to enterprises*	2.0	4.7	6.6	5.9	4.9	4.8	2.6	6.4	5.9	6.4	6.2

* 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.