

National Bank of the Republic of North Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

October 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 (June – September 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.

Recent developments and assessments continue to point to less favorable global economic outlook for 2020 and 2021 compared to April, entirely as a result of the health and economic crisis caused by the COVID-19. Given the huge uncertainty, the risks regarding such forecasts are still markedly downward. The rising number of infected people around the world has increased uncertainty about the development of the pandemic and its duration. Therefore, it is assumed that the continuation or re-introduction of measures to prevent the spread of a possible new wave of the virus, which although expected to be local and not as restrictive as before, will affect the dynamics of recovery of economic activity in the future. It is also estimated that the crisis caused by the pandemic had a strong adverse effect on the labor market and the solvency of companies, which will further slow down the recovery of economies. Other negative risks include the possibility of re-tightening of global financial conditions, premature withdrawal or inadequate guidance of the introduced anti-crisis measures to mitigate the negative effects of the crisis, possible further disinflationary pressures, the risk of inability to service public debt with part of the countries, as well as the possible delay in the start of mass use of the vaccine. On the other hand, the possibility of faster normalization of economic activity than expected in some countries, faster eradication of the virus and faster development of the vaccine pose positive risks to global economic growth. Regarding the **economic developments in the euro area**, the latest high-frequency data and assessments from the survey of households and enterprises for the third quarter indicate an improvement in the situation and a slowdown in the dynamics of annual decrease in the third quarter. In Germany, as our most important trading partner, similarly to the euro area, a smaller annual decline is expected in the third quarter, amid more favorable developments in industry in the period July-August and expectations for increased production in September, especially in the car industry. In the euro area labor market, the unemployment rate has been rising for five consecutive months, reaching 8.1% in the July-August period (7.6% in the second quarter). In terms of inflation, the initial assessment for September again showed an annual price drop of 0.3% (a fall of 0.2% in August), mostly due to the annual decrease in energy prices. Taking into account such dynamics in inflation and the perceptions of economic entities for possible easing of the conditions within the measures applied by the ECB, the expectations for **the one-month interest rate EURIBOR** are minimally revised downwards.

From the aspect of individual quantitative indicators of external environment of the Macedonian economy, the estimate of the foreign effective demand has been revised downwards for 2020 and 2021 compared to the April forecasts, while the **foreign effective inflation** was minimally revised downwards and slightly upwards for 2021. The latest expectations for the US dollar point to a downward revision compared to April, with its depreciation against the euro in both years being registered. **The latest forecasts for the changes in the prices of primary commodities on the world stock exchanges are mainly in the direction of falling prices in 2020 and their synchronized growth in 2021, given mostly upward revisions compared to the April estimates.** However, the movements and estimates of primary commodity prices are extremely volatile, and are currently strongly influenced by developments related to the new coronavirus pandemic, which creates greater uncertainty about their future dynamics and effects on the domestic economy, both in the short and long run.

The latest expectations for the US dollar point to a downward comparison of the latest macroeconomic indicators from the domestic economy with their projected dynamics within the April forecast cycle indicates certain deviations in some segments of the economy. According to the published estimated GDP data, in the first half of 2020, real GDP decreased by 6.4% on an annual basis, which is still slightly smaller than forecasted in April, due to the deviation for the first quarter. Regarding the economic activity in the third quarter of 2020, the currently available high-frequency data for the period July-August 2020, generally point to more moderate negative effects of the health crisis on economic activity, and compared to the previous quarter, the developments in the domestic economy are more favorable. . Namely, in conditions of gradual easing of the restrictive measures against COVID-19 and the undertaken measures to support the economy, the data for this period show a significant slowdown in the annual decrease in industry, construction, catering turnover, and partly the turnover in total trade. **Regarding the changes in consumer prices, the performance in September 2020 (annual inflation rate of 1.9%) is higher compared to the April forecast.** On average, the price changes in the second and third quarters are above expectations according to the April forecast cycle. With higher-than-expected performances and revisions in different directions in the external input assumptions, the risks in relation to the inflation projection for 2020 are currently assessed as mostly upward. At the same time, the movement of world prices of primary products in the next period remains uncertain and especially pronounced in conditions of the COVID-19 pandemic.

Foreign reserves remain at an appropriate level and are maintained in a safe zone.

During the third quarter of 2020, the main factors of change in foreign reserves (adjusted for price and exchange rate differences and price changes in securities) were the regular repayment of public sector liabilities abroad and foreign exchange market interventions by the National Bank. At the beginning of October 2020, an inflow of about Euro 80 million on the government account was realized, in the form of a loan within the of macro-financial assistance framework from the European Commission. Regarding the available external sector data, the data on the foreign exchange market as of September indicate lower performances in private transfers compared to the projected ones for the third quarter. At the same time, the data on foreign trade as of August point to the possibility of achieving a trade deficit generally in line with expectations, in accordance with the April forecasts.

According to the final data on August¹, **the total deposits** registered monthly decrease of 1.1%, as opposed to the increase in the preceding month (0.3%). Excluding the effect of the mentioned bank, the total deposits registered monthly growth of 0.5%. From a sectoral point of view, the decrease in total deposits results from the household deposits and other sectors, amid an increase in corporate deposits. According to the currency structure, the largest contribution to the monthly decrease in total deposits were made by denar deposits (including demand deposits), with a slight decline in foreign currency deposits. On annual basis, total deposits in August were higher by 5.3% (7% without the mentioned effect), mostly due to the growth of household deposits and demand deposits. The annual deposit growth in August exceeds the projections for the third quarter of 2020 (4.4%), as forecasted in April. **Total loans** to the private sector in August dropped by 1.4% on monthly basis, compared to the growth in the previous month (0.7%). Excluding the aforementioned effect², the total loans increased by 0.3%, on a monthly basis. From sectoral and currency aspect, the credit decrease is a result of the reduction of corporate loans, i.e. denar loans. On annual basis, total loans in August were higher by 6.9% (8.8% without the mentioned effect). From a sectoral point of view, the growth is largely due to household loans, with a positive contribution of corporate loans, as well. From the aspect of the currency structure, loans in domestic currency have a bigger contribution. The realized annual growth of loans in August is above the projected for the third quarter of the year (5.2%), according to the April forecast.

¹ In August, data on loans and deposits in the banking system did not include data on the bank whose operating license was revoked and for which a bankruptcy procedure was initiated.

² The calculation of the total loans includes the July data of the bank whose operating license was revoked.

The **Budget of the Republic of North Macedonia** registered a deficit of Denar 34,914 million in the period January-August. The budget deficit is mostly financed through the use of foreign loans, with part of the inflows being retained as government deposits with the National Bank. At the same time, in this period, the Government additionally borrowed on the domestic market of government securities and with domestic banks. The realized budget deficit for the first eight months of the year represents 61.7% of the deficit provided by the October Budget Revision for 2020, which is in parliamentary procedure.

Recent macroeconomic indicators and assessments indicate some deviations from the forecasted dynamics, but the perceptions of the monetary policy environment are largely unchanged from previous assessments. Foreign reserves are still maintained in a safe zone. In the first half of the year, there was an annual decrease in the gross domestic product of 6.4%, which is still a slightly weaker performance compared to the April forecasts. The currently available high-frequency data for the third quarter of 2020, point to more moderate negative effects of the health crisis on economic activity and gradual recovery of the economy. In terms of inflation, higher performance than projected, in revisions in different directions in the external input assumptions, indicate the existence of upward risks in relation to the inflation projection for 2020 of 0%. Within the monetary sector, the annual growth of deposits and loans in August is above the projected for the third quarter of 2020, according to the April forecast.

The inflation rate in the first nine months of the year is relatively low and stable

The average inflation rate in the first nine months of the year was 0.9%, with the largest contribution being made by the changes in food prices in the domestic economy (by 0.8 percentage points). Energy prices, in line with the movement of crude oil prices on the world market, decreased in this period (negative contribution of 0.3 percentage points), while core inflation was positive, but low and stable (with a positive contribution of 0.3 percentage points). The annual inflation rate accelerated slightly since June, reaching 1.9% in September, mainly due to two factors - higher-than-usual growth for the season in fresh food prices and an increase in the price of electricity in August by 7.4% (by ERC decision). In conditions of reduced economic activity and gradual recovery of the domestic economy, no significant inflationary pressures from domestic demand are expected in the future.

Selected economic indicators ¹⁾	2019																			2020									
	2016	2017	2018	Q1	Q2	Q3	Q4	2019	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep.	Q3									
I. Real sector indicators																													
Gross domestic product (real growth rate, y-o-y) ²⁾	2.8	1.1	2.9	3.8	3.4	3.6	3.4	3.2				0.2				-12.7													
Industrial production ³⁾																													
y-o-y cumulative average	3.4	0.2	5.4	8.8	1.1	7.1	-1.3	3.7	0.3	3.5	-13.4	-3.7	-33.5	-27.0	-15.1	-25.0	-9.5	-9.1											
Inflation ⁴⁾	3.4	0.2	5.4	8.8	4.8	5.6	3.7	3.7	0.3	1.9	-3.7	-3.7	-11.2	-14.4	-14.6	-14.6	-13.8	-13.2											
CPI Inflation (y-o-y) ⁵⁾	-0.2	2.4	0.9	1.2	1.2	0.6	0.0	0.4	0.6	0.7	0.5	0.6	-0.1	-0.2	1.7	0.5	1.3	1.5	1.9	1.5									
CPI Inflation (cumulative average)	-0.2	1.4	1.5	1.2	1.2	1.0	0.8	0.8	0.6	0.7	0.6	0.6	0.4	0.3	0.5	0.5	0.6	0.8	0.9	0.9									
Core inflation (cumulative average)	1.3	2.3	1.5	0.9	0.9	0.8	0.5	0.5	0.3	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7									
Core inflation (y-o-y)	1.0	2.8	1.4	0.9	1.0	0.6	-0.4	-0.3	0.3	0.8	1.0	0.7	0.7	0.4	0.4	0.5	0.6	0.8	1.1	0.9									
Labor force																													
Unemployment rate	23.7	22.4	20.7	17.8	17.5	17.1	16.6	17.3				16.2				16.7													
II. Fiscal Indicators ⁶⁾																													
(Central Budget and Budgets of Funds)																													
Total budget revenues	169,356	179,673	188,505	46,042	50,076	50,986	56,718	203,822	15,599	15,727	15,158	46,484	14,241	12,660	14,050	40,951	17,896	14,218											
Total budget expenditures	185,407	196,561	200,071	49,243	53,915	52,085	62,202	217,445	16,806	18,824	18,264	53,894	18,969	19,420	21,094	59,483	24,020	17,066											
Overall balance (cash)	-16,051	-16,888	-11,566	-3,201	-3,839	-1,099	-5,484	-13,623	-1,207	-3,097	-3,106	-7,410	-4,728	-6,760	-7,044	-18,532	-6,124	-2,848											
Overall balance (in % of GDP) ⁴⁾	-2.7	-2.7	-1.8	-0.5	-0.6	-0.2	-0.8	-2.0	-0.2	-0.5	-0.5	-1.1	-0.7	-1.0	-1.0	-2.8	-0.9	-0.4											
III. Financial indicators⁴⁾																													
Broad money (M4), y-o-y growth rate	6.2	5.1	11.8	11.7	10.5	10.8	9.3	9.3	8.9	8.2	8.9	8.9	7.5	9.4	9.8	9.8	9.1	6.6											
Total credits, y-o-y growth rate	-0.1	5.4	7.3	9.0	8.1	5.6	6.0	6.0	6.8	6.9	5.8	5.8	5.5	5.9	6.6	6.6	8.2	6.9											
Total credits - households	7.0	9.2	10.3	9.7	9.9	9.5	10.5	10.5	10.6	11.1	10.1	10.1	9.4	8.6	8.8	8.8	9.4	9.0											
Total credits - enterprises	-5.3	2.3	4.5	8.2	6.4	1.7	1.9	1.9	3.2	2.8	1.8	1.8	2.0	3.3	4.6	4.6	7.1	4.8											
Total deposits (incl. demand deposits), y-o-y growth rate ⁷⁾	6.1	5.0	12.1	11.9	10.6	11.0	9.0	9.0	8.8	7.8	7.9	7.9	6.0	7.8	8.4	8.4	8.0	5.3											
Total deposits - households	2.5	6.1	9.5	8.7	9.0	9.3	7.9	7.9	8.5	8.7	8.6	8.6	7.8	8.2	8.7	8.7	8.4	5.7											
Total deposits - enterprises	13.4	2.1	9.5	12.1	10.1	11.1	14.6	14.6	12.2	10.2	12.5	12.5	6.5	9.8	11.2	11.2	9.0	5.8											
Interest rates ⁸⁾																													
Interest rates of CBills (end of month/quarter/year)	3.75	3.25	2.50	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.50	1.50	1.50	1.5	1.50	1.50	1.50									
Lending rates																													
denar rates	7.0	6.6	6.1	5.8	5.7	5.6	5.4	5.6	5.4	5.3	5.3	5.3	5.3	5.3	5.2	5.3	5.1	5.1											
f/x rates (aggregated, incl. f/x and denar with f/x clause)	5.7	5.3	4.9	4.7	4.7	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3											
Deposit rates																													
denar rates	2.5	2.2	2.0	2.0	1.9	1.9	1.7	1.9	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.4											
f/x rates (aggregated, incl. f/x and denar with f/x clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6											
IV. External sector indicators																													
Current account balance (millions of EUR)	-275.5	-102.9	-7.1	-175.0	-65.6	162.2	-293.9	-372.3	2.2	-70.8	-80.3	-148.8	-76.7	-9.3	0.1	-85.9													
Current account balance (% of GDP)	-2.9	-1.0	-0.1	-1.6	-0.6	1.4	-2.6	-3.3	0.0	-0.6	-0.7	-1.4	-0.7	-0.1	0.0	-0.8													
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	-134.4	-199.9	-176.9	-511.1	-162.4	-116.1	-105.7	-384.3	-198.8	-102.1											
Trade balance (% of GDP)	-18.0	-18.1	-16.9	-4.1	-4.2	-3.9	-5.8	-18.0	-1.2	-1.8	-1.6	-4.7	-1.5	-1.1	-1.0	-3.5	-1.8	-0.9											
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	-607.7	-1918.8	-373.7	-455.5	-597.7	-1426.9	-717.2	-603.3											
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	1407.7	211.3	339.4	492.0	1042.6	518.4	501.2											
rate of growth of import (y-o-y)	6.5	10.7	12.3	11.6	10.9	11.9	5.9	9.9	3.7	5.9	-18.0	-3.6	-50.9	-36.4	-3.4	-31.9	-4.1	-9.2											
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	-36.8	-8.2	-60.3	-39.3	-7.3	-35.7	-8.1	0.1											
Foreign Direct Investment (millions of EUR)	316.9	180.0	603.7	40.2	11.0	62.9	176.5	290.6	27.1	-47.7	-106.5	-127.1	-42.1	36.7	20.4	15.0													
External debt																													
Gross external debt (in millions of EUR)	7,216.6	7,372.5	7,843.7	8,238.5	8,324.7	8,568.6	8,154.4	8,154.4				8,309.6				8,781.7													
public sector	3,445.3	3,461.8	3,756.2	4,095.2	4,035.1	4,074.2	3,836.6	3,836.6				3,816.5				4,460.3													
public sector/GDP (in %)	35.7	34.5	35.1	36.1	35.6	35.9	33.8	33.8				34.9				40.8													
private sector	3,771.2	3,910.7	4,087.5	4,143.3	4,289.6	4,494.4	4,317.8	4,317.8				4,493.2				4,321.4													
Gross external debt/GDP (in %)	74.7	73.4	73.3	72.6	73.4	75.6	71.9	71.9				76.0				80.3													
Gross official reserves (millions of EUR) ¹⁰⁾	2,613.4	2,336.3	2,867.1	2,866.4	2,928.2	3,127.5	3,262.6	3,262.6	3,100.6	3,084.5	3,017.3	3,017.3	3,159.6	3,079.1	3,639.7	3,639.7	3,512.4	3,406.4	3,480.2	3,480.2									

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 and 2020 are estimated (Press release for quarterly data on GDP as of 07.09.2020). The annual data for 2018 is final data (Announcement for annual data for GDP from 30.09.2020) while for 2019 is preliminary data (Announcement for annual data for GDP from 05.10.2020).

³⁾ The changes of Index of Industrial production are according to base year 2015=100.

⁴⁾ CPI calculated according to COICOP 2016=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).

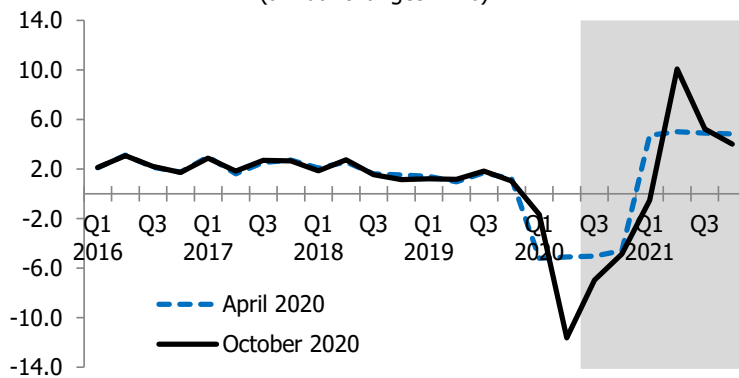
⁷⁾ It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.

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.

According to the latest estimates, foreign effective demand has undergone a downward revision for 2020 and 2021. Namely, it is now expected that the decrease in foreign effective demand in 2020 will be 6.3%, compared to the estimated fall of 5% in April. The downward revision is a result of the projected deeper decrease with almost all of our trading partners, especially Germany³, Greece, Belgium and Italy. For 2021, the expected growth rate is 4.6%, compared to 4.9% in April, with the downward correction, mostly due to the expectations for weaker economic activity in Bulgaria and Serbia.

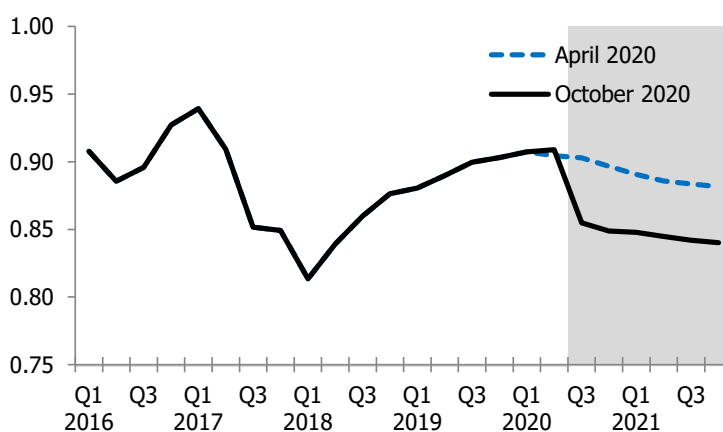
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

The forecast of foreign effective inflation for 2020 has minimally been revised downwards compared to the April assessment, and it is expected to be 0.5% (0.6% in April), mainly due to the downward correction in Croatia⁴. On the other hand, for 2021, a minimal upward correction has been made, with foreign inflation now expected to be 1.4% (1.3% in April).

EUR/USD exchange rate



Source: Consensus forecasts and NBRNM calculations.

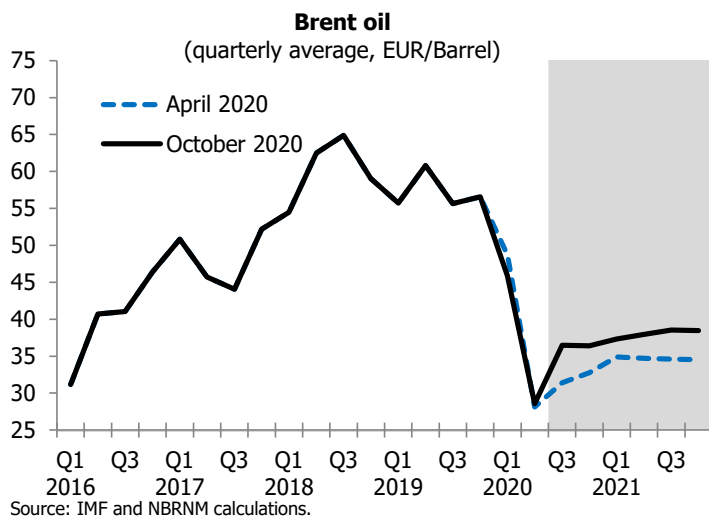
The latest estimates of the euro / US dollar exchange rate point to a downward revision from the April forecast. Namely, now in 2020 a small depreciation of the US dollar is expected, as opposed to the small appreciation predicted in April, while for 2021 a larger depreciation than originally projected in April is anticipated. Such revisions reflect the investors' expectations to maintain low interest rates in the United States over a longer period of time in line with changes in the monetary policy framework, and in part the expectations for greater fiscal stimulus in line with post-election policies in the United States..

Regarding the oil prices⁵, an upward revision was made for the entire forecast period, with now a slightly smaller decline than expected for 2020 being anticipated, and a growth, instead of a drop in the price

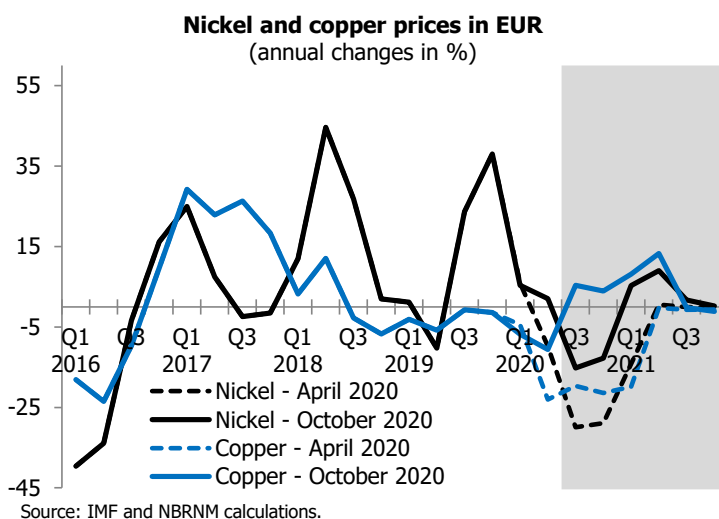
³ Projected decrease for Germany of 5.7% in 2020, compared to 5% in April and projected growth of 4.4% in 2021, similar to April (growth of 4.5%).

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

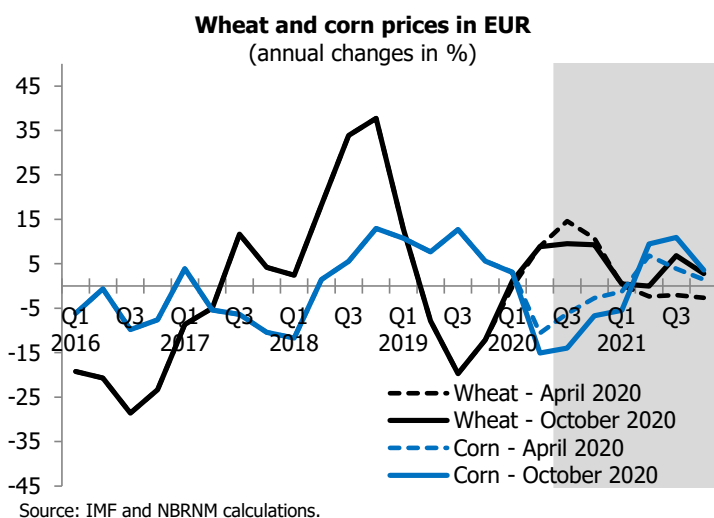
⁵ The analysis of prices of oil, metals and primary food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.



in 2021. The upward revision is largely a reflection of lower supply expectations, as a result of a strike by oil workers in Norway and a possible cessation of oil production in the United States and Mexico due to Hurricane Delta.

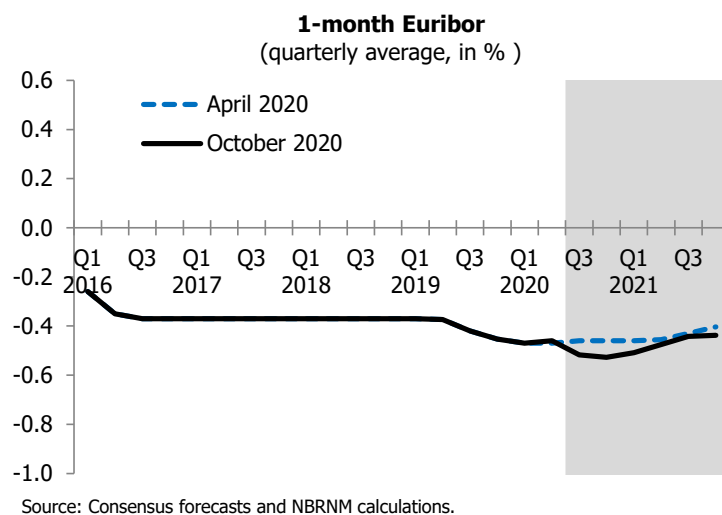


According to the latest estimates for metal prices, an upward revision was made for the entire forecast period. Thus, for 2020, a significantly lower fall in the price of copper and nickel is expected compared to April expectations. This change in the copper price reflects the growing demand in China, as well as the concern that supply will not be able to meet demand for copper in the future⁶. The upward revision of the nickel price is mainly due to the growing demand from the electric car industry. A larger upward revision of prices was made for 2021, with growth now expected, compared to the April estimates for decline.

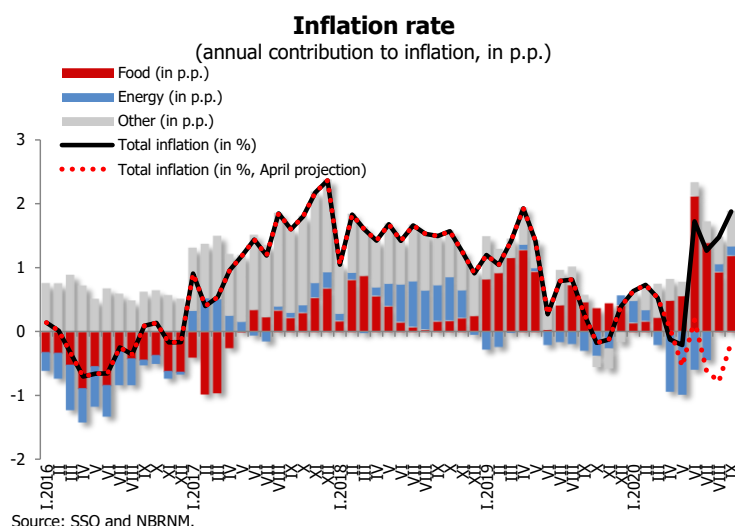


According to the latest estimates, a downward revision of the prices of primary food products for 2020 has been made. Thus, a smaller increase in the price of wheat is now expected, and a larger decrease in the price of corn compared to the April forecasts. Such movements are largely due to higher-than-expected corn and wheat production in Russia. For 2021, prices have been revised upwards compared to the April estimates, so that the price of wheat is now expected to grow, instead of a small decline, and the price of corn to grow more.

⁶ Investors' expectations are that the market deficit will not be able to be covered in the medium term, due to the reduced production capacity in the conditions of the COVID-19 pandemic.

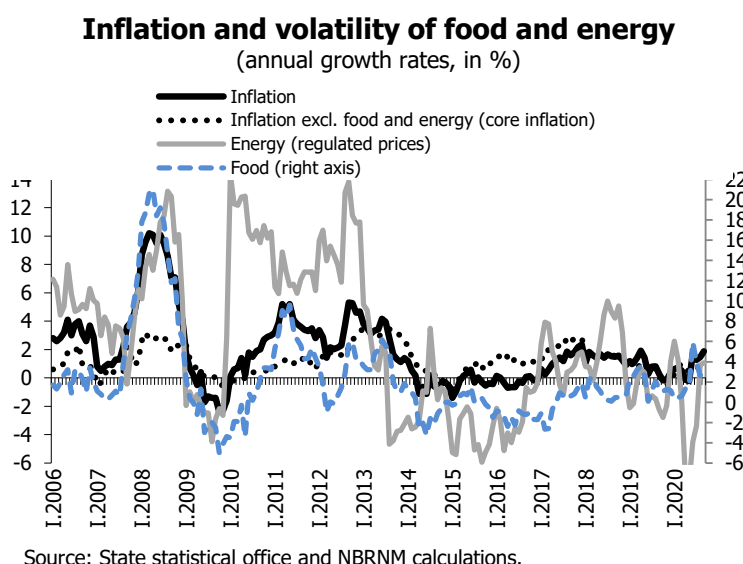


Regarding the one-month EURIBOR, for 2020 and 2021 a minimal downward revision was performed compared to April forecasts. Namely, the one-month EURIBOR is now expected to average -0.49% (-0.47% in April) and -0.47% in 2021 (-0.44% in April) on average in 2020. In conditions of negative inflation rates in the euro area in September, such movements are largely due to expectations that the ECB will retain the measure to buy funds for emergency economic support due to the pandemic, which is expected to last until the middle of next year.



In September 2020, **domestic consumer prices** registered a minimal decline of -0.2% (in the previous month a monthly increase of 0.5% was registered), mostly due to the price drop in the categories of the basic component and the minimal negative contribution of the energy component, in conditions of a small positive contribution from the food component⁷.

The annual inflation rate in September was 1.9% (1.5% in the previous month) driven mainly by the increase in the prices of the food and basic component, and to a small extent by the energy component⁸. As before, the annual inflation rate in September is higher than expected according to the April forecast round. From the aspect of the structure, in relation to the forecast, there is an upward deviation in all three components of inflation, with a significant deviation in food and energy.

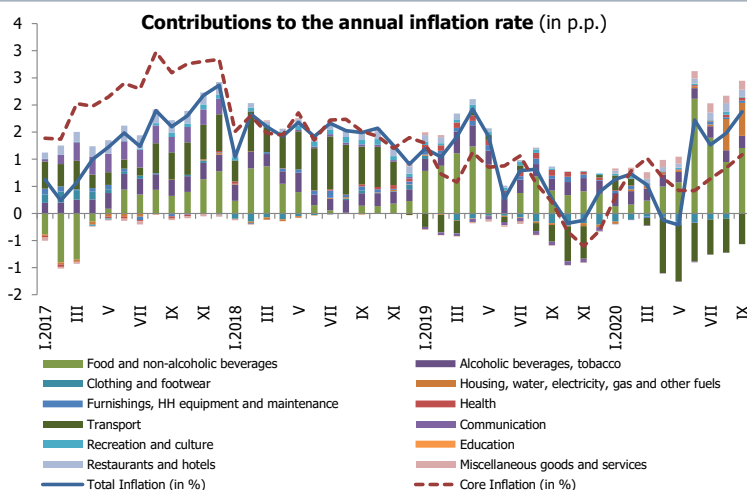


The monthly core inflation rate in September was negative at -0.6%, while on annual basis the core inflation rate was 1.1%. The structure of the annual core inflation rate in September is similar to the previous month, i.e. the tobacco prices still have the highest positive contribution⁹. Also, a positive contribution this month was made by the prices of electrical appliances for personal hygiene and other appliances, prices of restaurants and accommodation services and prices of tourist arrangements. On the other hand, the prices of air traffic, information equipment, audio-visual equipment and large household appliances have made the largest negative contribution.

⁷ Observed by product groups, the biggest contribution to the monthly decrease in prices in September have the prices of air traffic, followed by the prices of fruit, tourist arrangements, accommodation services, as well as the prices of liquid fuels and lubricants. On the other hand, the prices of vegetables, meat, clothing and footwear made the largest positive contribution.

⁸ In conditions of falling prices of liquid fuels and lubricants in accordance with the global movements in oil prices, the annual growth of energy prices is a result of the increase in electricity prices in August, according to the decision of the Energy Regulatory Commission. Starting from 1 August 2020, the price of electricity is higher by 7.4%, i.e. for high tariff it is 5.95 den / kWh, for low tariff it is 2.99 den / kWh, while for single tariff metering it is 4.77 den / kWh (<https://www.erc.org.mk/pages.aspx?id=153>).

⁹ The annual growth of the price of tobacco in September is a reflection of the increase in the prices of cigarettes in March 2020, in accordance with the projected annual increase of the excise duties on cigarettes by 0.20 denars/ piece, as of 1 July 2023.

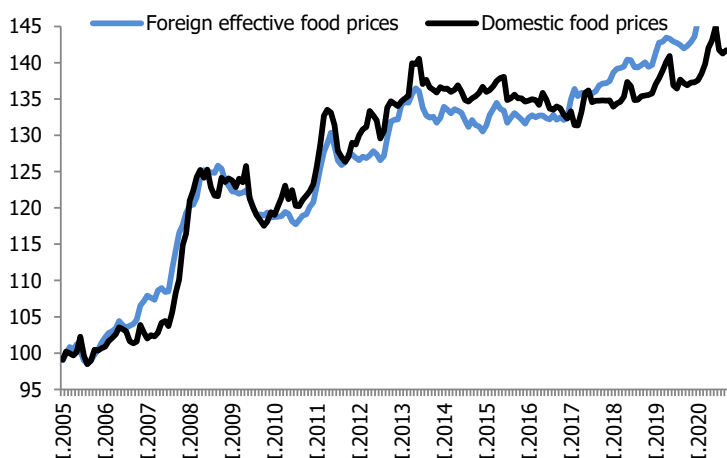


Source: SSO and NBRNM.

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

In conditions of higher inflation than projected in April, as well as revisions of external assumptions in a different direction, currently the risks in relation to the inflation projection for 2020 are assessed as mostly upward. However, the movement of world prices of primary commodities in the next period remains very uncertain, in accordance with the uncertain economic effects of the COVID-19 pandemic and its duration.

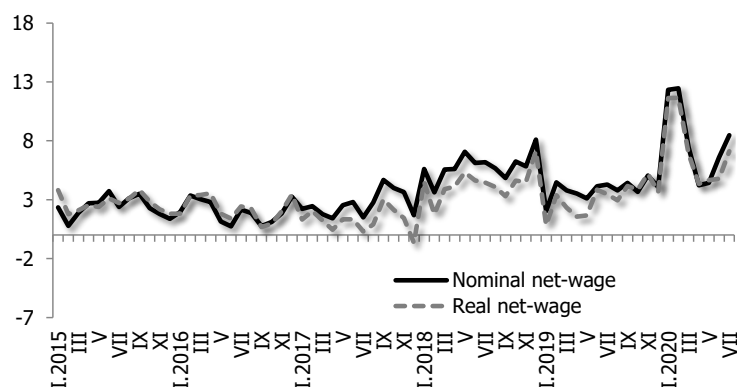
Foreign effective food prices* and domestic food prices (indices, 2005 = 100)



* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.

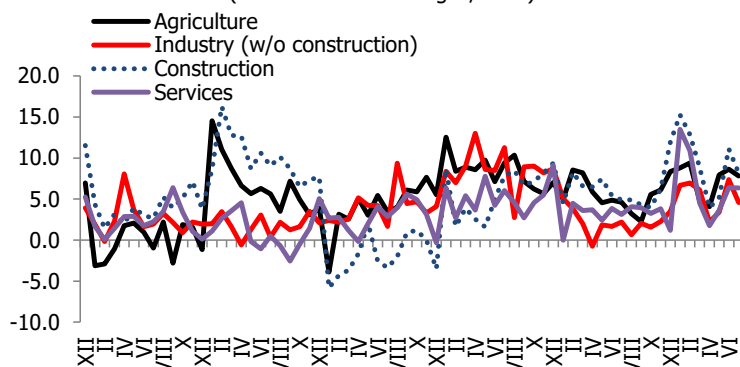
Source: State statistical office, Eurostat and NBRNM calculations.

Average net-wage
(annual changes, in %)



Source: SSO.

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



Source: SSO.

In July 2020, the nominal annual growth of the average net wage was 8.5%. The solid growth of wages, as before, is partly related to the increase of wages in the public sector¹⁰, as well as the effect of the measure for subsidizing the contributions due to the wage increase.¹¹ Compared to the previous month, wage growth in July accelerated (growth of 6.6% in June), a shift that comes amid easing of restrictive measures to deal with the COVID-19 pandemic, and a certain effect has the annual adjustment of growth to legally set minimum wage in July, which increased by 3%¹².

Wage growth was present in most of the activities, and is most pronounced in the activities related to "education", "information and communications", "health and social care activities", "wholesale and retail trade", "construction", "professional, scientific and technical activities", "manufacturing industry", "agriculture", as well as activities related to "water supply; wastewater disposal, waste management and remediation activities"¹³.

Wage growth was evident in most of the activities. In conditions of increase in the consumer prices on annual level, **the real annual growth of the net wage in June was 7.1%.**

The realized annual wage growth in July is more favorable compared to the expectations for wage decrease in the third quarter of the year within the April forecast.

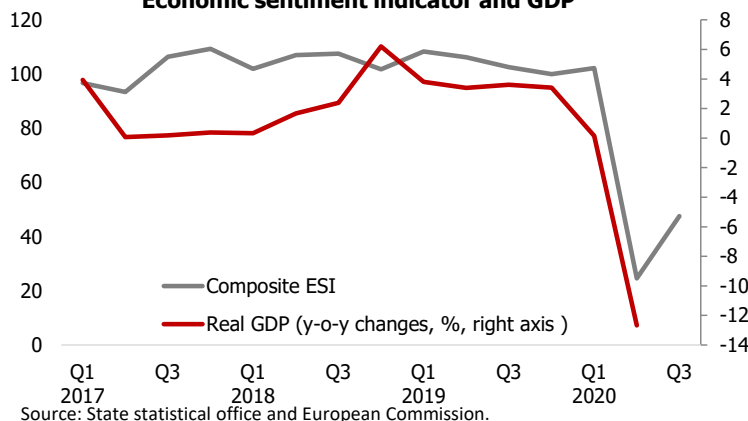
¹⁰ The wages of health workers increased by 5%, starting with the payment of the September wage in 2019. A 5% wage increase was also made for social workers with the payment of the September wage in 2019. In addition, there was 5% wage increase for employees in education, police, defense and the entire public sector, starting with the September wage in 2019. In January 2020, the wages in education were additionally increased by 10%, and since February 2020, additional wage increases have been made for health care workers (an increase of 25% for specialists, 15% for general practitioners, 10% for nurses, and 5% for health care associates and support staff).

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 According to the announcement of the Ministry of Labor and Social Policy, published in the "Official Gazette of RSM" no. 75/20 and the Decree with legal force for application of the Law on Minimum Wage in the Republic of Macedonia "Official Gazette of RSM" no. 88 / 20, the minimum net wage increased by 3%, i.e. by Denar 434. The amount of the minimum wage in gross amount, starting from July 2020 to March 2021 is Denar 21,776 (previously Denar 21,107), i.e. the minimum wage in net amount is Denar 14,934 (previously Denar 14,500). The regular adjustment for increasing the minimum wage (with the increase of the average paid wage in RSM for the previous year, the consumer price index and the real GDP growth - one third of the increase of each indicator, respectively) was made even before the COVID-19 pandemic crisis, but with a Government Decree it was put on hold until the end of the state of emergency (i.e. for the period April-June 2020). Previously, in addition to the regular adjustment in April 2019, the minimum wage was extraordinarily increased in December 2019 (by about Denar 2000, net) and amounted to Denar 14,500, net (Law on Minimum Wage, "Official Gazette of RSM" No. 239/19).

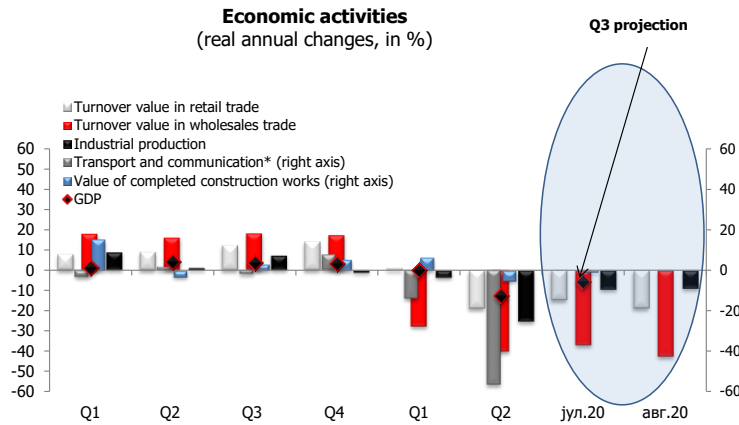
¹³ Furthermore, a more pronounced decrease in wages in July 2020 was observed in the activities related to "accommodation facilities and catering activities".

Economic sentiment indicator and GDP



The high frequency data on the supply and demand side that are available for the period July-August 2020 are more favorable compared to the second quarter. However, the movements on an annual basis still point to a decline in economic activity in the third quarter of the year, although not as pronounced as in the previous quarter, which is in line with the expectations according to the April projection cycle. The gradual easing of the measures for dealing with COVID-19 had a favorable effect on the perceptions of economic agents about the situation in the economy¹⁴. Thus, the results of the survey for the third quarter of 2020 indicate significantly more optimistic perceptions compared to those in the second quarter, which indicates expectations for a gradual economic recovery.

Economic activities
(real annual changes, in %)



All available high-frequency data on the supply side show an improvement compared to the performances in the second quarter, as well as a significant slowdown in their decline on an annual basis.

The total trade turnover in the period July-August registered a real decline of 27.5% on annual basis, reflecting the unfavorable performances and the decrease in the turnover in the wholesale and retail trade, while the trade in motor vehicles registered a high real growth. However, in the period July-August, the decline in turnover in total trade, as well as in retail trade, was milder compared to the decrease recorded in the second quarter.

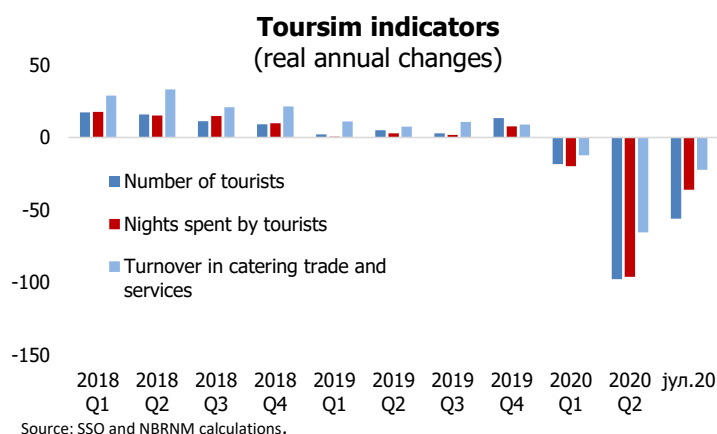
In the first two months of the third quarter, the industrial output registered a significant deceleration in the decrease, which was reduced to 9.3% on an annual basis (compared to the fall of 25% in the second quarter of the year). Observed by main industrial activities, the largest decrease and consequently the highest negative contribution is still registered in the manufacturing industry, with simultaneous but smaller decline in both mining and energy sector. The decrease in the manufacturing industry is

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Jul	Aug
	real annual changes in %											
Gross domestic product	0.3	1.7	2.4	6.2	3.8	3.4	3.6	3.4	0.2	-12.7	-	-
Industrial output*	5.2	4.9	5.1	6.4	8.8	1.1	7.1	-1.3	-3.7	-25.0	-9.5	-9.1
Construction	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-5.1	-0.9	-
Building	3.2	6.1	-11.4	28.1	-9.3	5.1	23.7	-1.1	-8.5	-20.4	-23.2	-
Civil Engineerings	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.7	11.1	21.3	4.7	15.4	-
Retail and wholesale trade	5.8	8.2	7.3	9.2	13.9	12.8	15.3	15.5	-16.7	-30.6	-25.5	-29.6
Retail trade	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-18.6	-14.5	-18.5
Wholesale trade	5.2	6.8	7.0	8.6	18.0	16.0	18.1	17.3	-27.8	-40.1	-36.9	-42.5

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

¹⁴ 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



widely dispersed, and the largest negative contribution was made by the group of activities in which foreign export facilities related to the automotive industry are active, such as the production of machinery and equipment and the production of motor vehicles, and a negative contribution is observed in production of electrical equipment. When it comes to traditional activities, a significant negative contribution is registered in the production of furniture, beverages and clothing. On the other hand, within the processing industry, the highest positive contribution was made by the production of food products and the production of tobacco products, and a solid positive contribution has also been made by the production of basic pharmaceutical products and the production of chemicals and chemical products.

The significant slowdown in the annual decrease in industrial output in the period July-August, compared to the decrease in the second quarter, is mainly due to the more moderate fall in the manufacturing industry, amid a slowdown in the production of machinery and equipment, motor vehicles and electrical equipment. and in the production of clothing and textiles, but also in the growth in the production of food products and the production of tobacco products as opposed to the decline in the second quarter.

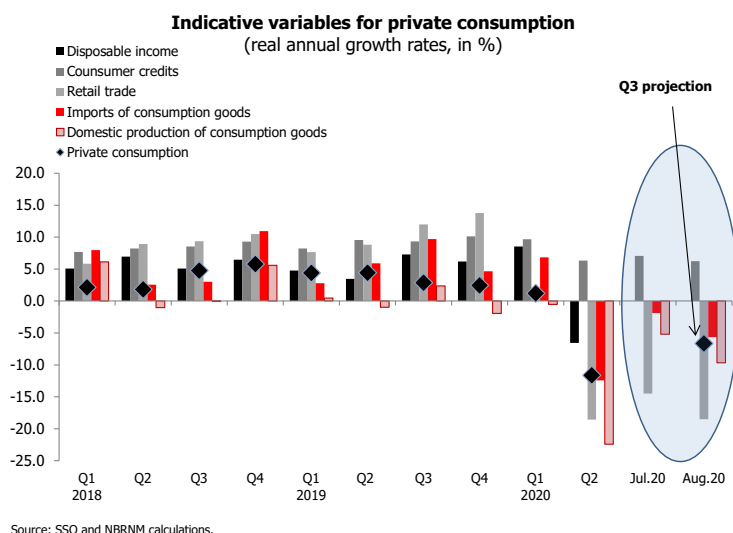
In July 2020, **the construction sector** registered a slight activity reduction (real annual decline of 0.9%), which is a evident slowdown in the decrease compared to the second quarter (decrease of 5.1%). Thereby, the small decline in July is entirely due to the fall in activity in high-rise construction, while in civil engineering there is a high rate of real annual growth and significant acceleration of activity compared to the second quarter.

Regarding **catering**, in July 2020, there was a real annual decrease in the number of tourists, overnight stays, as well as the total turnover, although the decrease in all three categories is significantly milder compared to the decline in the second quarter. This slowdown is due almost entirely to the significant decrease in the number of overnight stays of domestic tourists, in part as a result of government measures to support domestic tourism, as well as the easing of measures to deal with the COVID-19 pandemic.

The available **aggregate demand** indicators are more favorable compared to the second quarter, but similar to supply, the indicators point to an annual decline in economic activity in the third quarter of the year, although lower than in the previous quarter.

Also in the third quarter of the year, the indicators of the movements in the **private consumption**¹⁵ still point to reduced consumption, but significantly less pronounced than in the second quarter of the year. Thus, a slowdown in the decline in this period was registered in the retail trade and gross VAT revenues, and a significantly lower decrease was registered in the domestic production of consumer goods and import of consumer goods. In the same direction are the shifts in the consumer confidence indicator which indicates a slight decrease in consumer pessimism (less negative perceptions and expectations for their financial and general economic situation in the country, as well as their expectations for higher spending in the next period). This improvement of the dynamics of the indicators for the movement of private consumption, in part could be related to the implemented economic measures to support private consumption¹⁶. In terms of sources of financing private consumption, solid growth is still observed in almost all sources. Thus, from the main categories of disposable income, acceleration of growth was registered in wages, and the solid growth of the amount of pensions and lending to households continued.

The high frequency data on the **gross investments**¹⁷ in the period July-August 2020 move in different directions, but generally point to favorable movements also in this category. Thus, the decrease in construction, industrial production, domestic production of capital products and import of capital products significantly slows down. The assessments of the managers of the companies from the construction and industry are similar, which indicate decelerated decrease in this period. The only

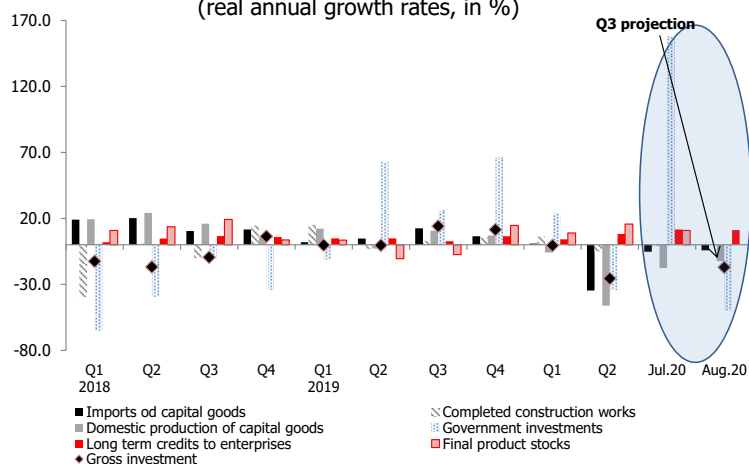


¹⁵ Wage data are as of July 2020, while data on household loans, pensions, retail trade, domestic production of consumer goods, imports of consumer goods and gross VAT revenues refer to the period July - August 2020.

¹⁶ Within the third package of economic measures of the Government for revival of the Macedonian economy through direct support of the citizens and the economy in conditions of COVID-19, it was envisaged to issue a home payment card to selected categories of citizens, in a total value of Euro 28 million. The deadline for using these funds was 15 August 2020. More information can be found at the following links: <https://vlada.mk/node/21426> и <https://finance.gov.mk/mk/node/8798>.

¹⁷ The data on completed construction works are as of July 2020, while the data on long-term loans to enterprises, government capital investments, industrial output, import of investment goods and domestic production of capital products refer to the period July - August 2020..

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



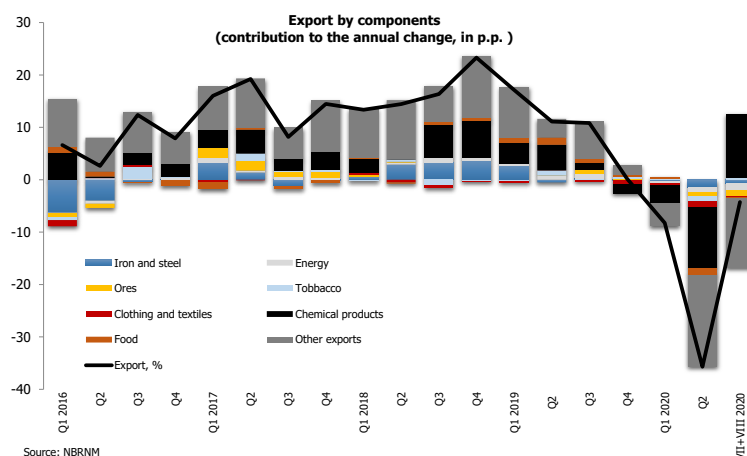
Source: SSO and NBRNM calculations.

acceleration of the annual decrease was registered in the profit tax, partly related to the measure for postponement of the payment of this tax¹⁸. At the same time, the accelerated growth of long-term lending to enterprises by banks continues, which was contributed by the series of measures taken to improve liquidity conditions and ease of financing conditions, and accelerated growth was also observed in government capital investments.

The data on the **foreign trade** in July-August 2020 indicate a potential narrowing of the deficit in the third quarter of the year compared to the same period last year, amid lower nominal decrease in exports than import of goods.

Budget revenues in the period July-August 2020 point to further annual growth of public consumption in the third quarter, in conditions of growth in most of the main categories of **public consumption**. Thus, higher transfers for health care and transfers to local governments, and wage costs are rising, although at a slower pace. On the other hand, decrease was registered only in expenditures on goods and services.

¹⁸ Related to the measure taken since the beginning of the crisis to release the profit tax advance for all companies that are affected by the virus and that meet the required conditions (the company does not reduce the number of employees below the number of employees from February 2020, does not pay dividend in 2020 and has not paid rewards and bonuses after the entry into force of the measure). The fourth package of measures envisages extension of this measure until March 2021, for companies that have a revenue decline of more than 40%.



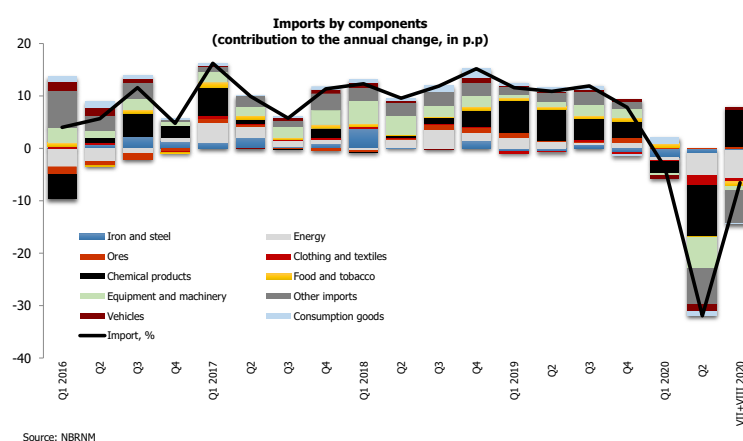
In July and August 2020, the foreign trade deficit narrowed on an annual basis by 13.5%, as a result of the larger decrease in import compared to the export component. In this period, there is a gradual recovery of foreign trade, after the initial strong shock caused by the COVID-19 pandemic in the second quarter.

Thus, the export of goods in July and August registered significantly more moderate decrease of 4.3% annually. The decrease is a result of the performance with most of the export categories, with the highest contribution being made by the lower energy exports, export of ores, export of some of the new facilities in the automotive industry and exports of iron and steel. On the other hand, tobacco exports increased and had a positive contribution to total exports.

Compared to the April forecast, the performances in July and August 2020 indicate the possibility of higher exports than expected for the third quarter of 2020. Significant upward deviation is observed in the export of new facilities, and to a lesser extent in the export of iron and steel. The performances in the other export categories are generally in line with the expectations for the third quarter.

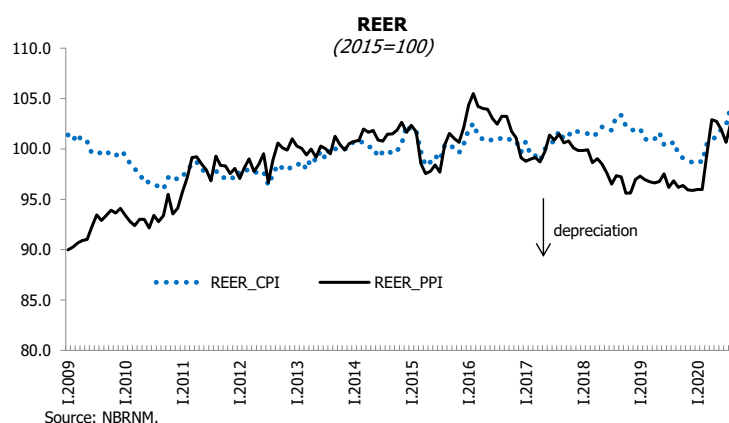
Imports of goods in July and August 2020 also registered a more moderate decline, of 6.5% on annual basis. The decrease is primarily due to lower energy imports (as a combined effect of lower imported quantities and the fall in the price of crude oil on world markets). The import of equipment and machinery, the import of food and the import of textiles and clothing also acted in the same direction, but significantly more moderately. On the other hand, the higher raw material imports of some of the new export capacities in the economy acted in the direction of growth of the total imports during July and August.

Compared to the April forecast, the performances in July and August 2020 indicate the possibility of higher imports than expected for the third quarter of 2020, as a result of the upward deviations in most of the import categories. Thereby, a significant upward deviation is registered in the raw material import of some of the new export facilities, the import

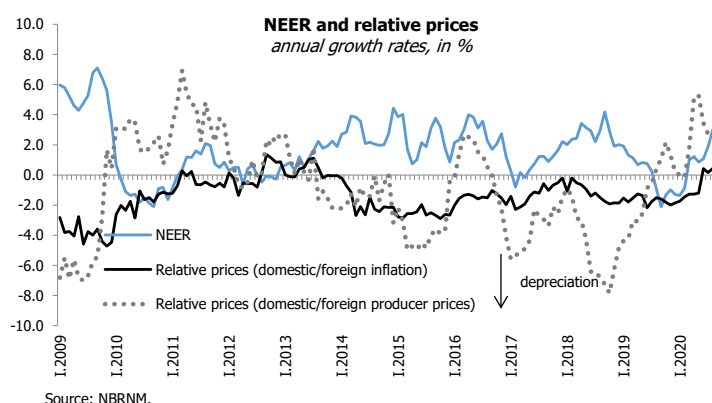
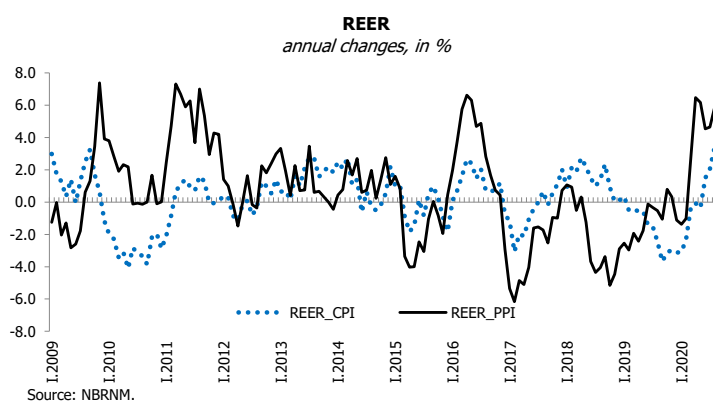


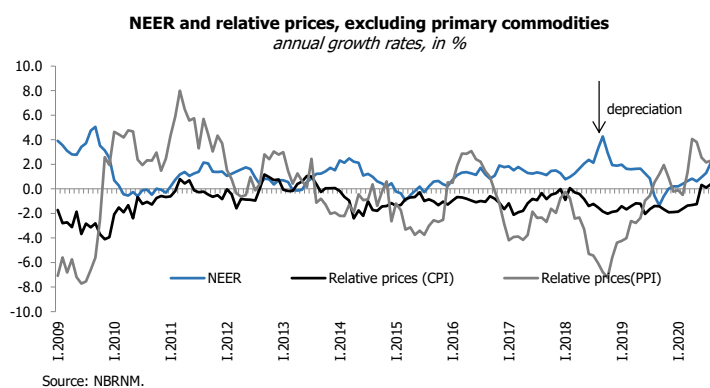
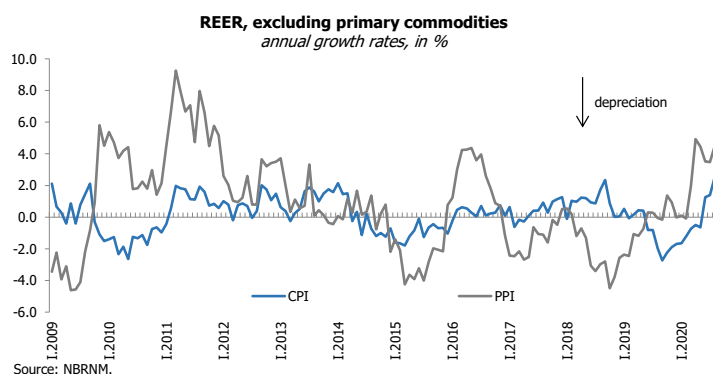
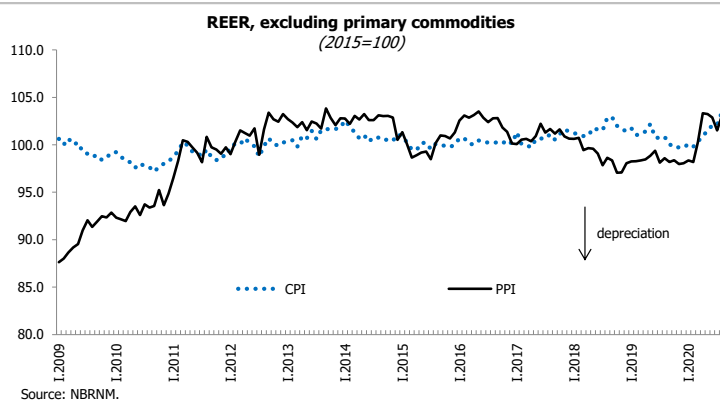
of equipment and machinery, vehicles and other imports. On the other hand, the performance of energy imports is weaker.

The performance in the import and export of goods as of August 2020 indicate the possibility of registering a trade deficit generally in line with the April forecasts.

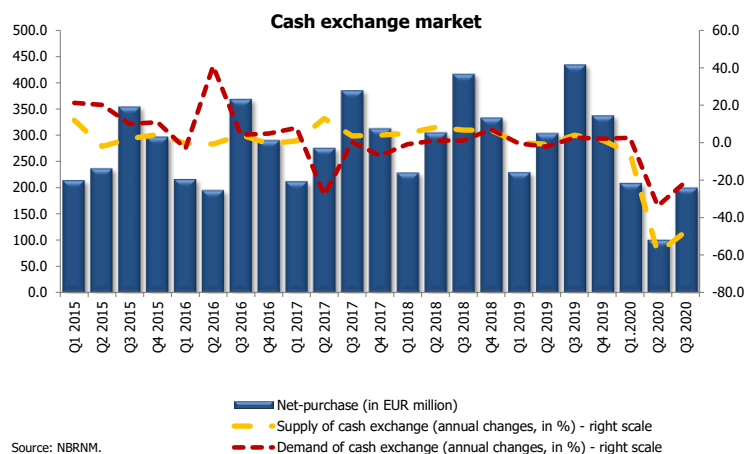


In August 2020, the REER index deflated by the consumer prices appreciated by 3.4%, while the REER index calculated with the industrial producer prices registered a higher appreciation of 5.9%. The relative consumer prices were higher by 0.4%, while the relative prices of industrial producers increased by 2.8%. The NEER acted in the same direction, recording an appreciation of 3%, which is mostly due to the depreciation of the Turkish lira and the Russian ruble.

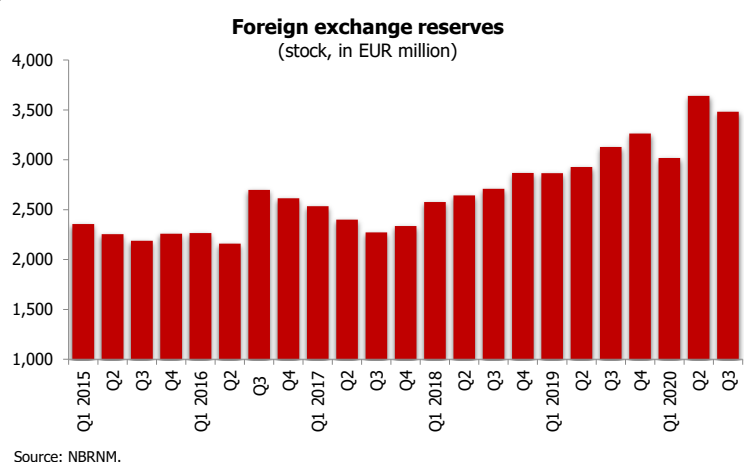




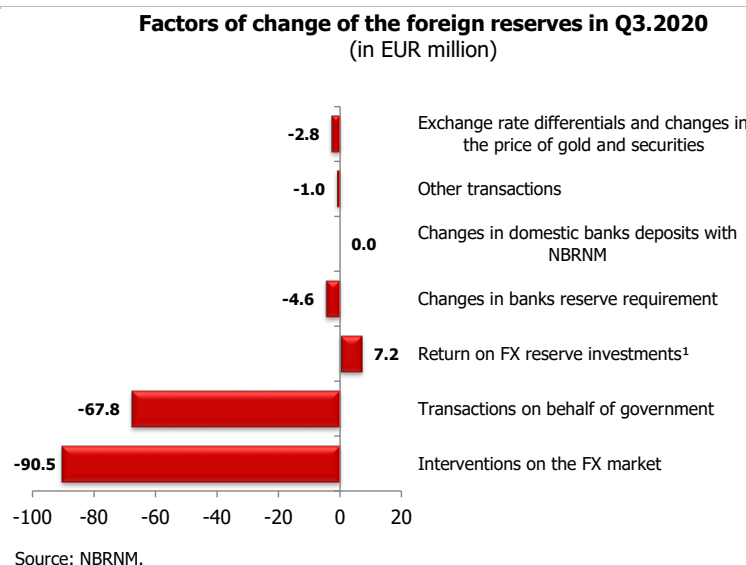
The REER indices calculated by weights based on foreign trade without primary commodities in August 2020 also appreciated on an annual basis. Thus, the REER index deflated by the consumer prices appreciated by 2.5%, while the REER deflated by the prices of industrial products, by 4.5%. Thereby, the relative consumer prices increased by 0.4%, while the relative industrial producer prices increased by 2.3%. The nominal effective exchange rate appreciated by 2.1% on annual basis.

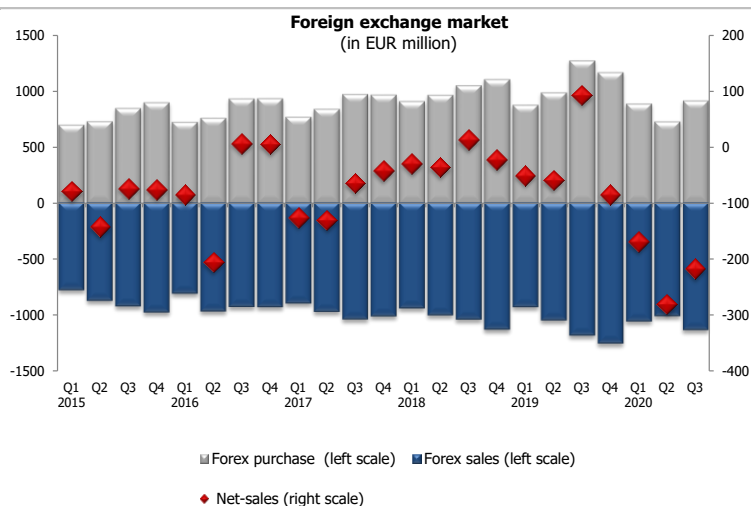


The realized net purchase on the foreign exchange market in the third quarter of 2020 amounts to Euro 200 million, which is a decrease of 53.9% on annual basis. Such performances are driven by the higher decrease in supply than the decline in foreign exchange demand (by 47.6% and 21% respectively).

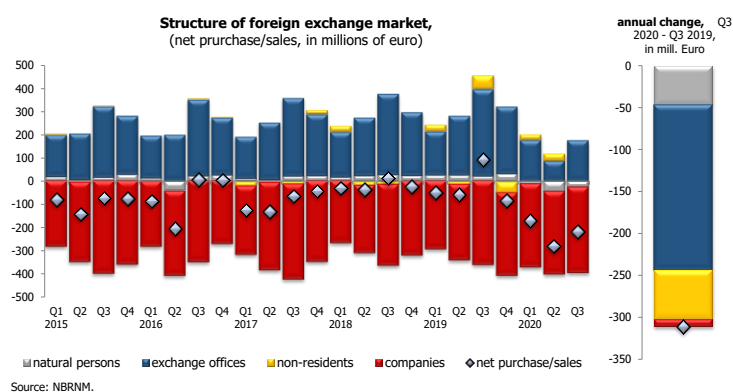


The balance of the gross foreign reserves on 30 September 2020 is Euro 3,480.5 million. In terms of factors, the change reflects the National Bank's interventions and the regular repayment of public sector liabilities abroad. Other flows had a more moderate impact on changes in foreign reserves in the third quarter.





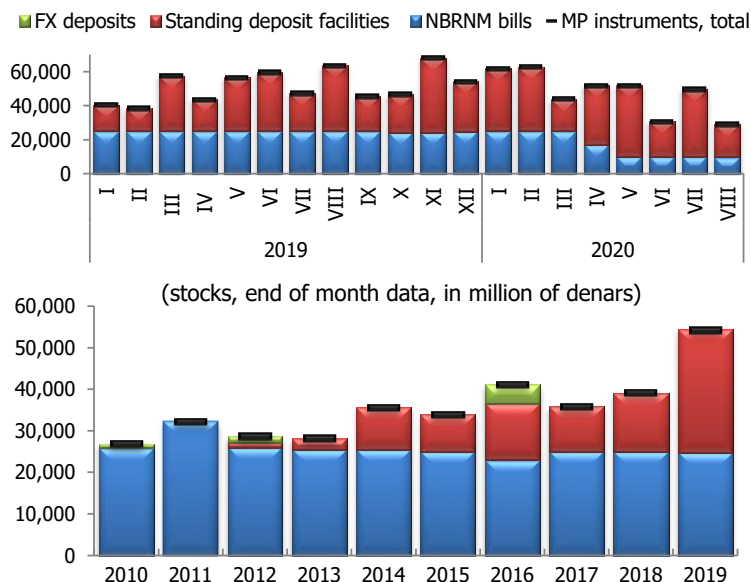
In the third quarter of 2020, on the banks' foreign exchange market, net sale of foreign currency was realized, as opposed to the net purchase in the same period last year. This change is due to the stronger fall in supply compared to the decrease in demand for foreign currency.



Sector analysis shows that such shifts result in most of the lower net purchases from currency exchange offices.

Monetary policy instruments

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



Source: NBRNM

The stock of monetary instruments decreased at the end of August compared to the previous month, due to the decrease in the amount of funds placed by banks in deposits with the National Bank, amid a slight decrease in the balance of CB bills¹⁹. The level of monetary instruments at the end of August is lower than projected for the end of the third quarter of 2020²⁰.

The net foreign assets of the National Bank at the end of August for now are lower than the projected balance for the end of the third quarter of 2020.

The total government deposits with the National Bank in August registered a monthly increase, and their balance at the end of August is higher than forecasted for the end of the third quarter of 2020.

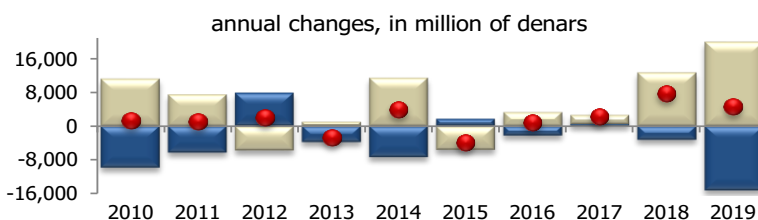
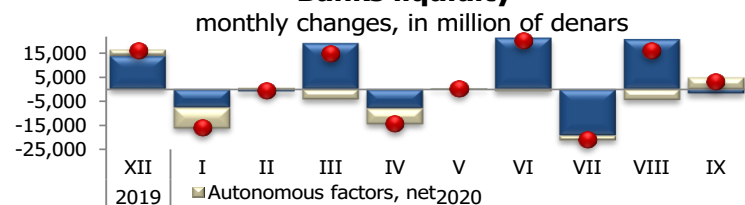
The reserve money in August registered a monthly growth, as a result of the increase in the banks' total reserves with the National Bank, amid a small growth of the currency in circulation. The stock of reserve money is higher compared to the forecast for the end of the third quarter of 2020.

According to the operational data on liquidity flows, the liquid assets of the banking system in September increased on a monthly basis.

¹⁹At the CB bills auction of the National Bank held on 12 August 2020, CB bills in the amount of Denar 10.000 million were offered, while CB bills of Denar 9,786 million were sold, at an interest rate of 1.5% and maturity of 35 days. The reduced amount of realized CB bills is a result of the non-renewed amount of CB bills by a bank whose operating license was revoked in August 2020 and a bankruptcy procedure was initiated.

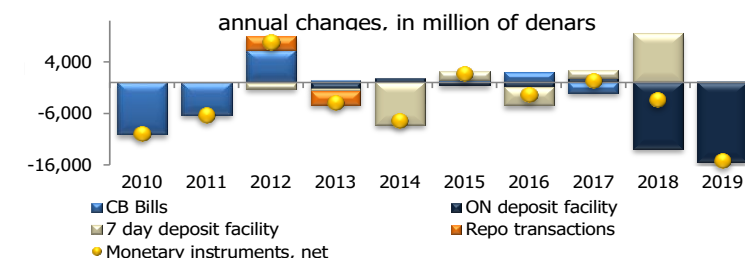
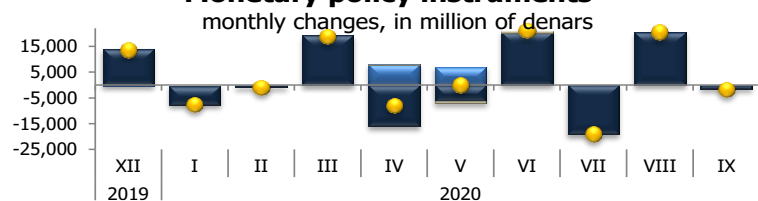
²⁰The performance is compared to April forecasts of the National Bank.

Banks liquidity*



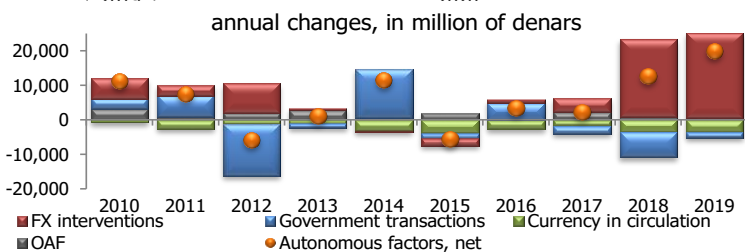
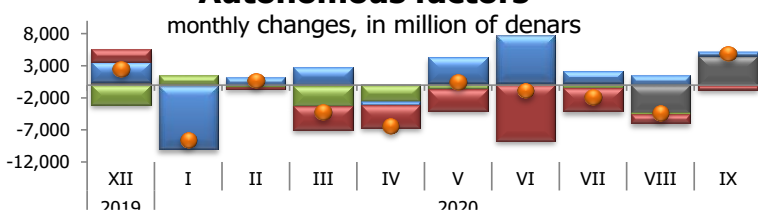
The increase in liquidity is largely due to the change in other autonomous factors²¹, government transactions and the moderate growth of currency in circulation. Monetary instruments on a net basis acted towards liquidity withdrawal, as a result of the higher amount of banks' placements in short-term deposits (primarily overnight deposits), amid the unchanged stock of CB bills²².

Monetary policy instruments*



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

Autonomous factors*



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

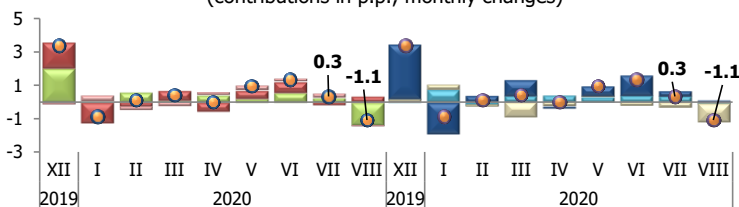
Data on loans and deposits in the banking system as of August 2020 do not include data

²¹ In September, the Deposit Insurance Fund paid funds to the depositors of the bankrupt bank, whose operating license was revoked in August.

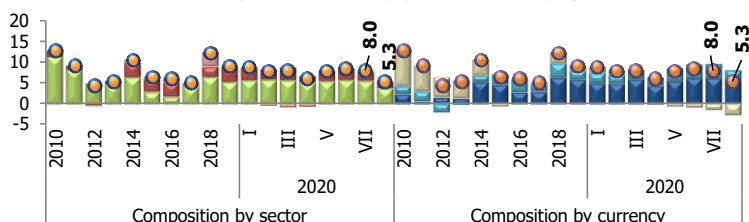
²² At the CB bills auction of the National Bank held on 16 September 2020, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.5% and maturity of 28 days.

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

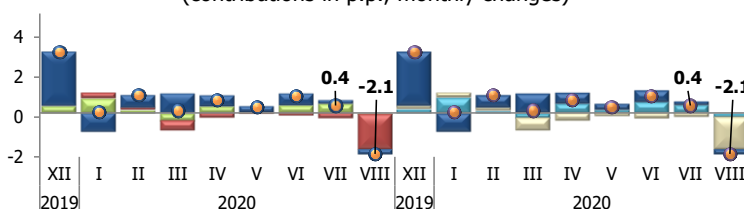
Domestic Currency Deposits
Demand Deposits
Household Deposits

Deposits, monthly/annual changes, in %

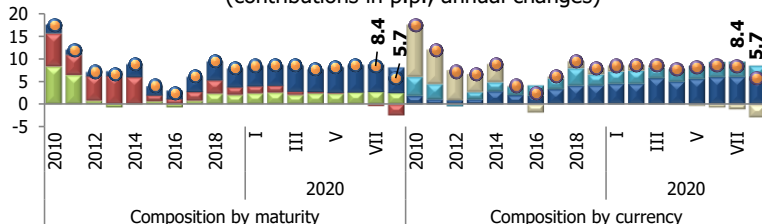
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the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

on one bank whose operating license was revoked in August and for which a bankruptcy procedure has been initiated. In order to perceive the realized flows in the banking system without this effect, in addition to the realization of the total deposit and credit flows in August, the flows in case the July data for the mentioned bank are included are also shown.

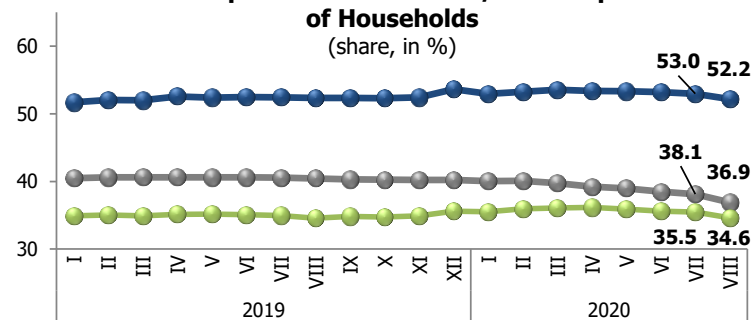
In August, the total deposits²³ registered a monthly decrease of 1.1%, compared to the growth in the previous month. If the data from the bankrupt bank are taken into account, the total deposits increased by 0.5% on a monthly basis.

From a sectoral point of view, the decrease of the total deposits is a result of the household and the other sectors' deposits, given the deposit growth of enterprises. According to the currency structure, the largest contribution to the monthly decrease in total deposits were made by denar deposits (including demand deposits), with a slight decline in foreign currency deposits. Total deposits in the period July-August decreased, despite the expected deposit growth in the third quarter according to the April forecast. If the data from the bankrupt bank are included, then the total deposits in the period July-August increased, thus corresponding to the April forecast.

The annual growth rate of total deposits in August was 5.3% (7% with data from the Bankruptcy Bank included) and is above the projected annual growth for the end of the third quarter of 2020 (of 4.4%). From sectoral and currency aspect, the growth mostly arises from household deposits, i.e. demand deposits.

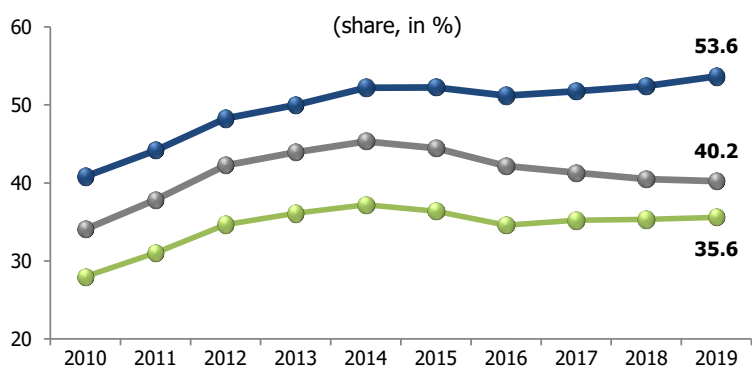
²³The data refer to the deposits of the non-government sector in the banks and savings houses, the assets of the other financial institutions on the accounts with the NBRSM and the assets of the local self-government units on the accounts with the NBRSM. The data correspond to the methodological changes of the NBRSM from June 2018. More information on methodological changes can be found at the following link: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

Denar Deposits of Households/Total Deposits of Households



Household deposits in August dropped by 2.1% on monthly basis. Denar deposits have the largest contribution to the monthly decrease in household deposits, amid moderate decline in foreign currency deposits. Long-term deposits made an additional contribution to the decrease, given almost unchanged short-term deposits. **On annual basis, the growth of household deposits in August amounted to 5.7%.**

The share of denar deposits (with demand deposits) in the total household deposits registered monthly decrease and at the end of August it was 52.2% (53.0% in the previous month).



— Share of total household deposits (with demand deposits)

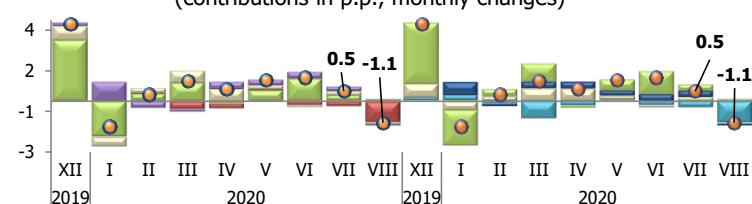
— Share of total household deposits (without demand deposits)

* Includes deposits at Banks and Saving Houses

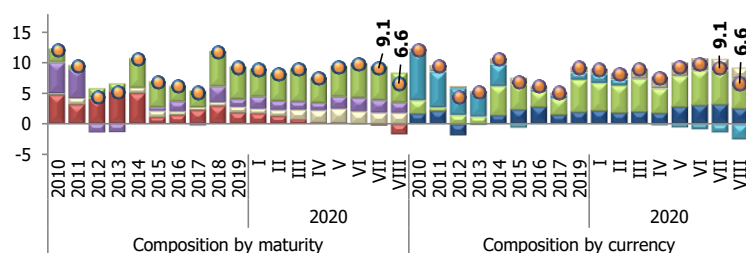
Source: NBRNM.

Broad Money M4

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Composition by maturity

Composition by currency

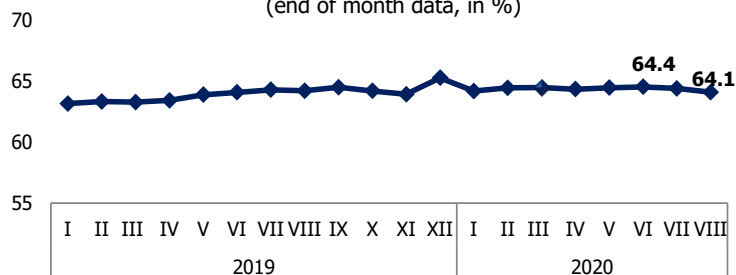
■ CC Outside Depository Corporations
■ Demand Deposits
■ Total Short-term Deposits
■ Total Denar Deposits

Source: NBRNM.

The money supply, expressed through the broadest monetary aggregate M4, in August realized a monthly fall of 1.1%. The decrease is mostly due to long-term deposits and deposits in domestic currency. With the most liquid component of the money supply, no significant change was observed, given simultaneous slight decrease in the currency in circulation, i.e. an increase in the demand deposits. **On annual basis, the money supply in August is higher by 6.6% thus exceeding the forecasted annual increase of 5.4% for the third quarter of 2020.**

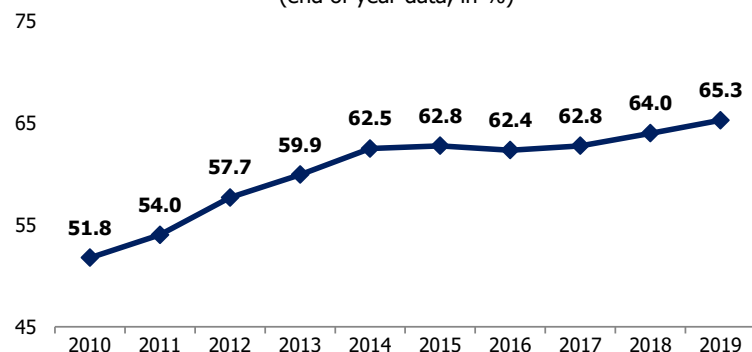
Share of Denar M4 in total M4

(end of month data, in %)



The denar share in the total broad money M4 at the end of August equals 64.1% (64.4% in the previous month).

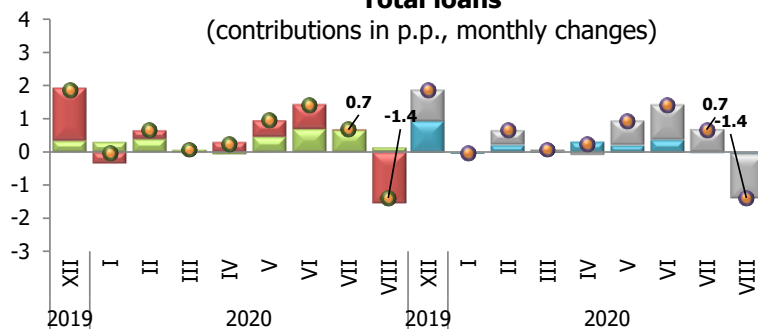
(end of year data, in %)



Source: NBRNM.

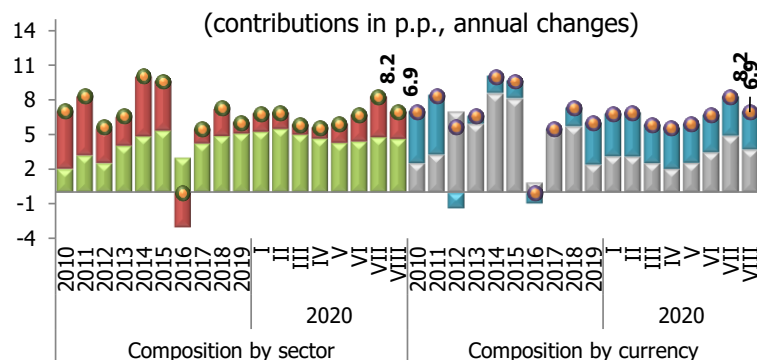
Total loans

(contributions in p.p., monthly changes)



In August, total credits dropped by 1.4% on monthly basis, compared to the growth in the previous month. If the data from the bankrupt bank are included, then the total credits in August increased by 0.3% on monthly basis. From a sectoral point of view, the decrease in total loans is entirely a result of the decline in corporate loans, amid a small increase in household loans. By currency, the monthly decrease in the total loans is a result of the denar loans, given almost unchanged foreign currency loans. Total loans in the period July-August experienced a monthly decrease, compared to the forecasted increase in loans in the third quarter of the year, according to the April forecast. If the bankrupt bank data are included, the total loans in the period July-August increased, which is above the projected growth.

(contributions in p.p., annual changes)



Composition by sector

Composition by currency

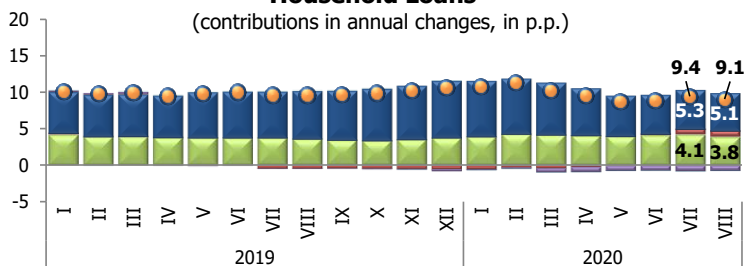
- Foreign Currency Loans
- Domestic Currency Loans
- Enterprise Loans
- Household Loans

Source: NBRNM.

The annual growth rate of total loans in August was 6.9% (8.8% with the bankrupt bank) and is above the forecasted annual growth of 5.2% for the third quarter of 2020, according to the

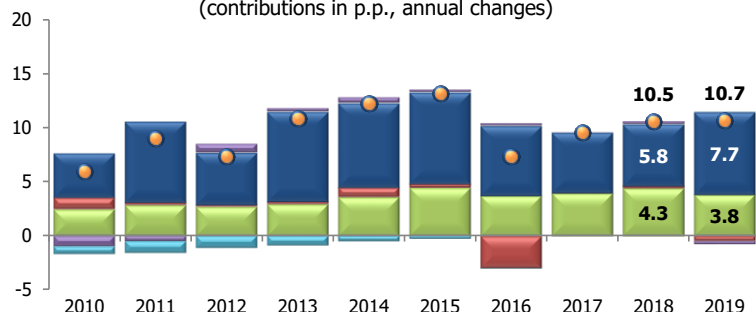
Household Loans*

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



April forecast. From a sectoral point of view, the growth is still largely a result of household loans, with a positive contribution of corporate loans. Regarding the currency structure, loans in domestic currency have a larger contribution to the annual credit growth, with a positive contribution also of foreign currency loans (including the denar loans with currency clause).

(contributions in p.p., annual changes)

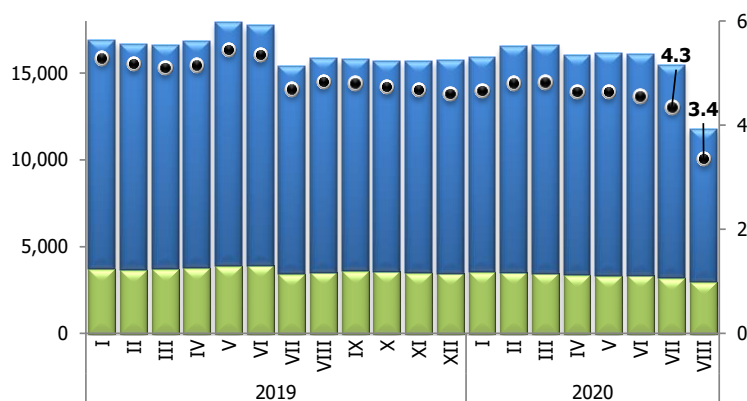


The annual increase in household loans²⁴ in August equaled 9.1%, mainly arising from the consumer loans, that contributed with 5.1 percentage points, given solid positive contribution of housing loans, as well (of 3.8 percentage points).

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

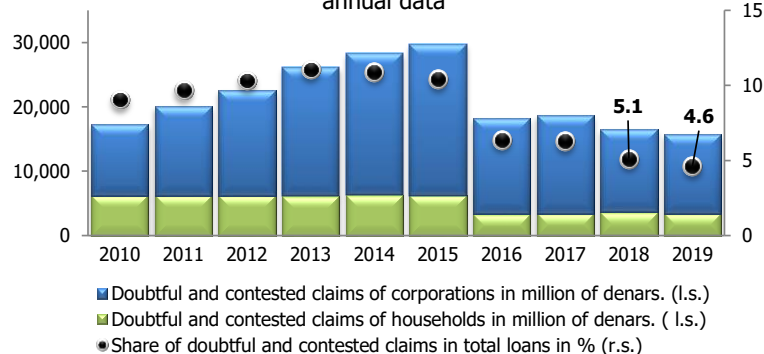
Doubtful and contested claims

(composition by sector and share in total loans)
monthly data



The share of doubtful and suspicious claims in total loans in August equaled 3.4% and was lower compared to the previous month (4.3% in July). This change is almost entirely due to the monthly decrease in doubtful and suspicious claims of enterprises, with a small downward change in households. From the aspect of the sectoral structure, most of the total amount of non-performing loans still comes from the corporate sector, while the share of non-performing loans in the households sector is significantly lower.

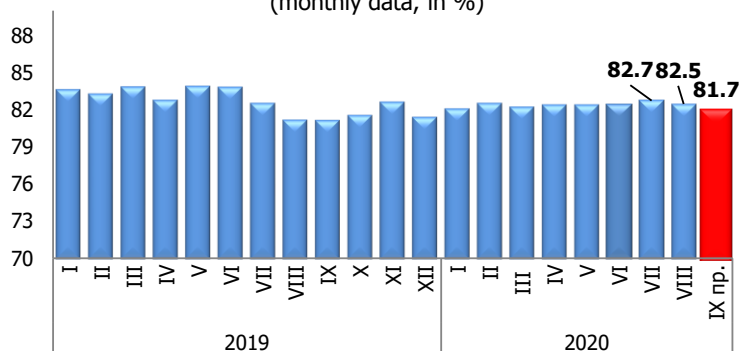
annual data



Source: NBRNM.

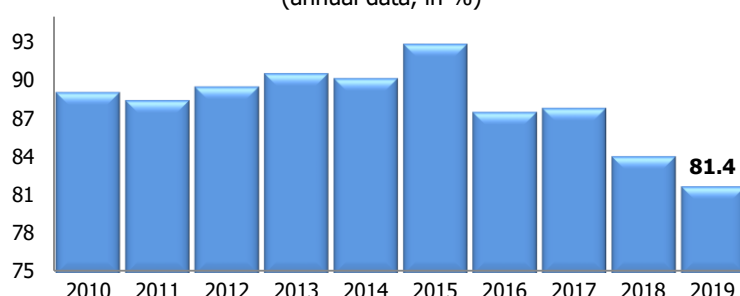
²⁴Без кредитите на самостојни вршители на дејност со личен труд.

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



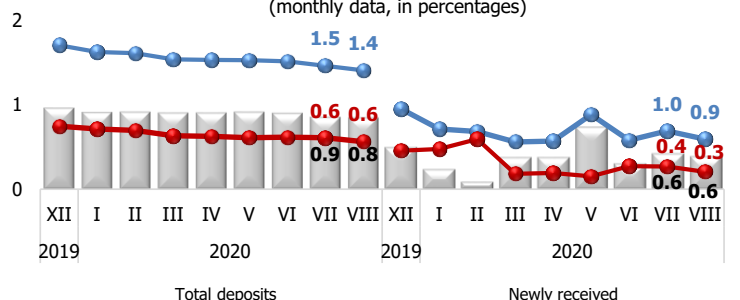
The indicator for the utilization of the deposit potential of the banks for lending to the private sector in August was **82.5%**, being higher than the projected value of this indicator for the end of the third quarter of 2020 (81.7%), according to the April forecast.

(annual data, in %)



Source: NBRNM.

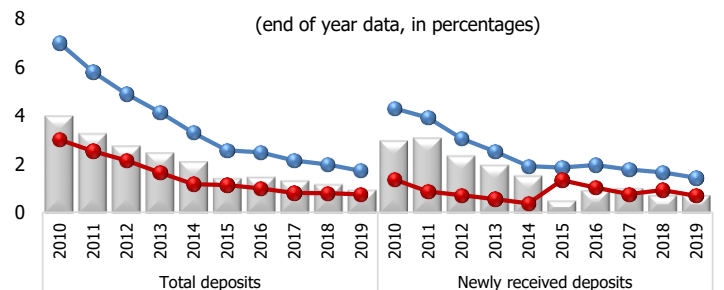
Total deposits interest rates
(monthly data, in percentages)



Total deposits

Newly received

(end of year data, in percentages)



Total deposits

Newly received deposits

Interest rate spread

Interest rate of denar deposits

Interest rate of foreign currency deposits

Source: NBRNM.

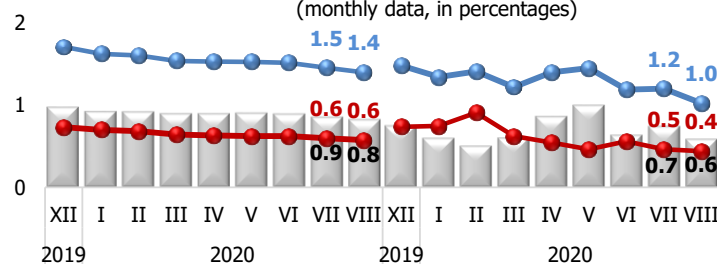
In August, the interest rate²⁵ on denar deposits registered slight monthly decrease of 0.1 percentage point, given unchanged interest rate on foreign currency deposits, thus narrowing the spread between these two interest rates, which now equals 0.8 percentage points. With the **newly accepted deposits**²⁶, the interest rate spread did not changed and equaled 0.6 percentage points, given slight decline in the interest rates on denar and foreign currency deposits by 0.1 percentage point, respectively.

²⁵Data 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.nbm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

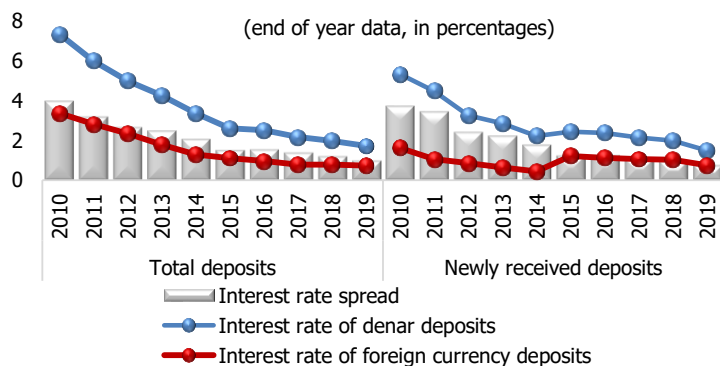
²⁶Regarding the interest rates on the newly accepted deposits, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly accepted deposits results from the fact that they are determined by the volume of newly accepted deposits (which varies from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

Households' deposits interest rates

(monthly data, in percentages)



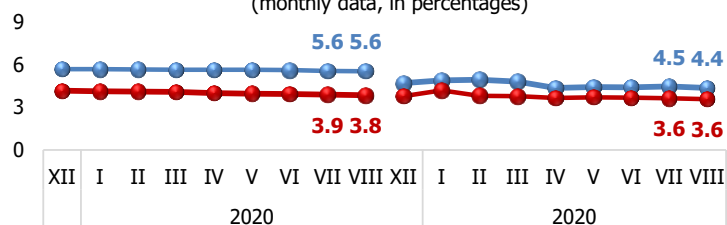
As for the total interest rates on households, the interest rate on denar deposits declined by 0.1 percentage point on monthly basis, with unchanged interest rate on foreign currency deposits, whereby the spread between these two interest rates narrowed to 0.8 percentage points. For the newly accepted household deposits, the interest rate spread slightly narrowed by 0.1 percentage point, as a result of the reduction of the interest rates on denar and foreign currency deposits by 0.2 percentage points, respectively.



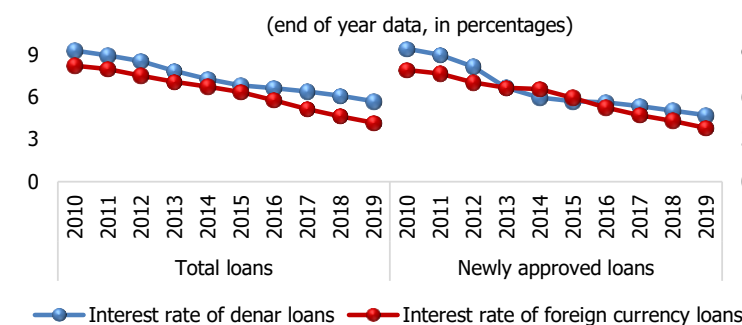
Source: NBRNM.

Total loans interest rates

(monthly data, in percentages)



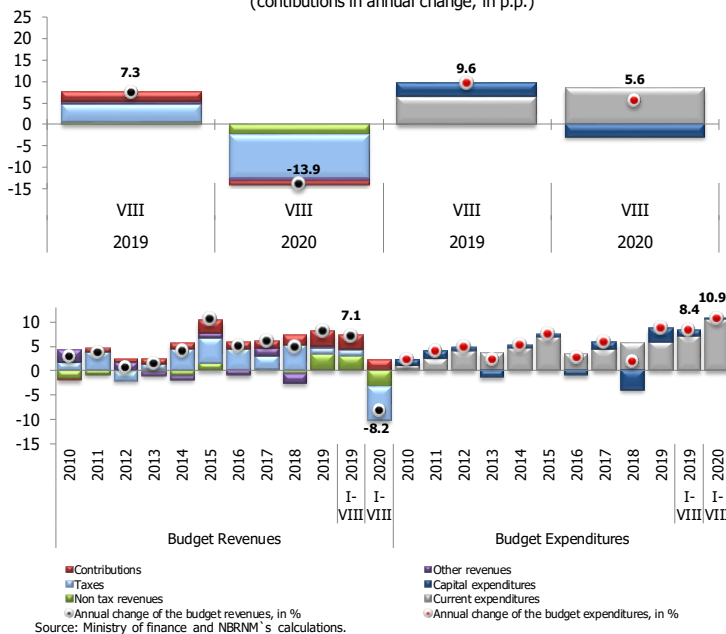
In August, the interest rate on total corporate loans decreased by 0.1 percentage point on monthly basis, with unchanged interest rate on household loans, and they equaled 3.8% and 5.6%, respectively. Regarding the newly approved loans²⁷ in August, The interest rate on enterprises did not change on a monthly basis, while the interest rate on households decreased by 0.1 percentage point, and they equaled 3.6% and 4.4%, respectively.



Source: NBRNM.

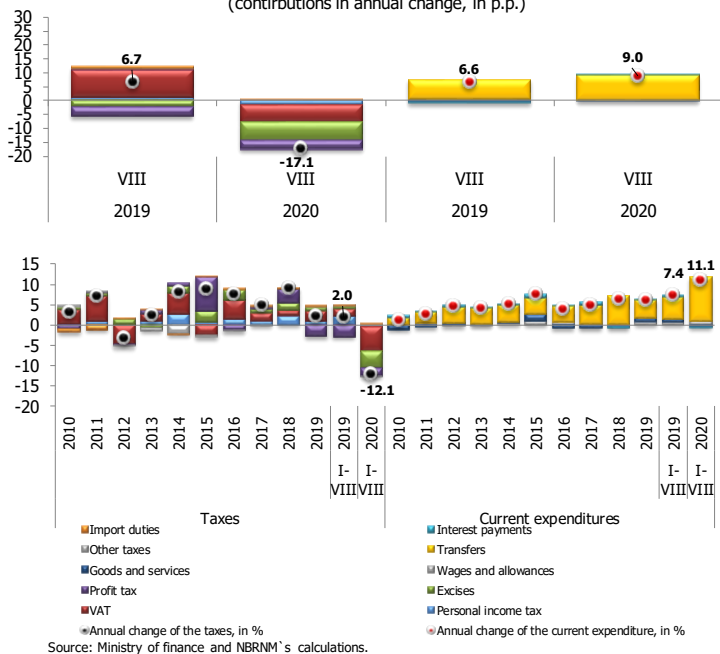
²⁷ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to 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 fund budgets), in August 2020, in contrast to the favorable performances in the previous month, total budget revenues decreased significantly on an annual basis. Total budget expenditures continued to increase on an annual basis, but at a slower pace compared to the previous month. The decrease in budget revenues by 13.9% mostly results from the reduction of taxes and non-tax revenues (10.2 percentage points and 2.4 percentage points, respectively), with a lower negative contribution also of contributions and other revenues²⁸ (0.8 percentage points and 0.6 percentage points, respectively). Tax revenues continued to decrease in August, but significantly more intensive compared to the previous month. The decrease in tax revenues of 17.1% on an annual basis results from lower inflows of excises, VAT, corporate income tax and personal income tax, while moderate increase was recorded in import duties. The increase in **budget expenditures** by 5.6% on annual basis is entirely due to the contribution of current expenditures (8.5 percentage points), while capital expenditures have a negative contribution (2.9 percentage points). Current expenditures in August increased by 9.0% on annual basis, mostly due to the growth of transfers²⁹.

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



In the period January - August 2020, total budget revenues were lower by 8.2% compared to the same period last year. The decrease in this period of the year is mostly a result of the lower performances in taxes and non-tax revenues (contribution of 6.9 percentage points and 3.3 percentage points, respectively), while the contributions registered positive performance (with contribution of 2.2 percentage points). On the other hand, total budget expenditures are higher by 10.9%, which is mostly due to higher current expenditures (mainly due to increased transfers), amid a slight increase in capital expenditures.

Compared to the Budget Revision³⁰ for 2020, in the period January - August 2020, 60.9% of the planned budget revenues were realized (61.9% in 2019), while the realization of the budget expenditures was 61.1% (61% in 2019). The

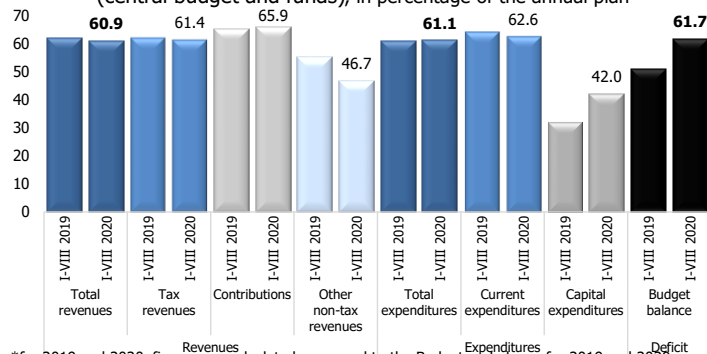
²⁸Other revenues include capital revenues, foreign donations and revenues from recovered loans.

²⁹The growth of transfers is mostly related to the pensions costs, health care costs, and increase in "other transfers" category.

³⁰At the session held on 4 October 2020, the Government of the Republic of North Macedonia adopted the Budget Revision for 2020, the second from the beginning of the year, and it is in a parliamentary procedure.

Budget implementation , per categories

(central budget and funds), in percentage of the annual plan*

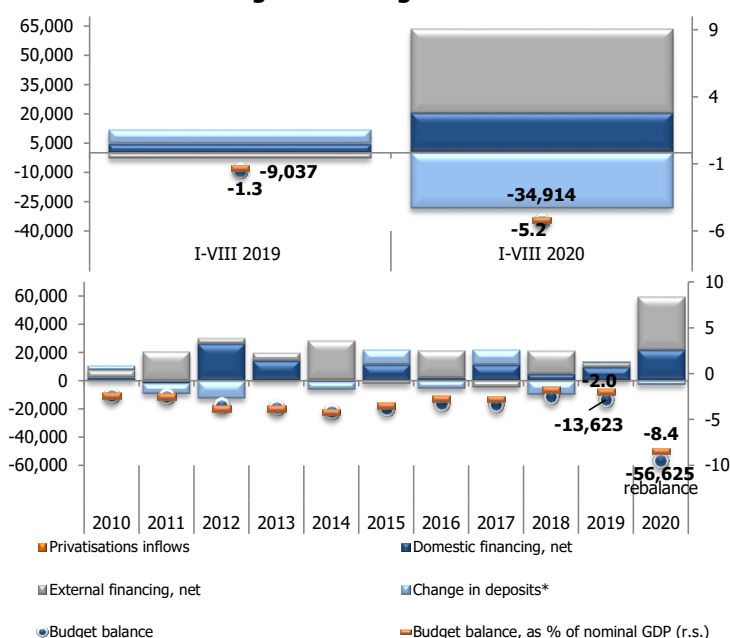


*for 2019 and 2020, figures are calculated compared to the Budget rebalance for 2019 and 2020, respectively.

Source: Ministry of Finance and NBRNM's calculations.

realized budget deficit in the amount of Denar 34,914 million represents 61.7% of the supplementary budget for 2020 (realization of 51.1% in the same period of 2019).

Financing of the budget balance



The realized budget deficit in the period January - August 2020 of Denar 34,914 million (or 5.2% of nominal GDP³¹) is mostly financed by foreign³² and domestic government borrowing³³, with most of the inflows being retained as government deposits with the National Bank.

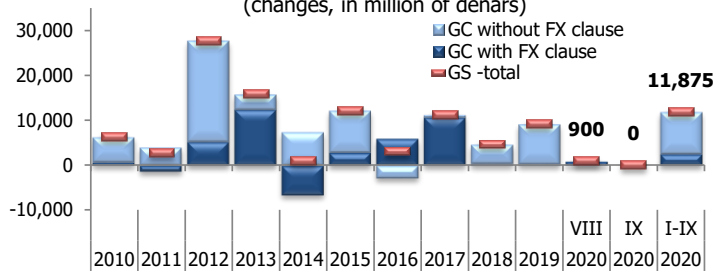
³¹The analysis uses the National Bank's April forecasts for the nominal GDP for 2020.

³²At the beginning of April, the International Monetary Fund confirmed financial support for our country, through the Rapid Financing Instrument, in the amount of around Euro 176 million. In addition, inflows based on newly issued Eurobond was registered in June.

³³Besides 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.

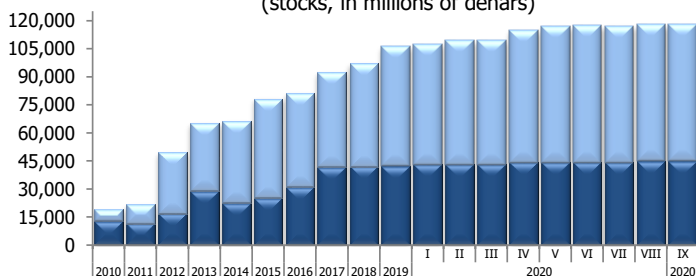
Government securities

(changes, in million of denars)



In September 2020, no change was registered in the balance of the issued government securities³⁴ on the primary market, whereby at the end of the month the value of the total government securities remained at the level of Denar 118,228 million. The unchangeability arises from the growth of fifteen-year government bonds in domestic currency, while reducing the twelve-month treasury bills in domestic currency, with the same dynamics. Compared to the end of 2019, the stock of government securities at the end of September is higher by Denar 11,875 million.

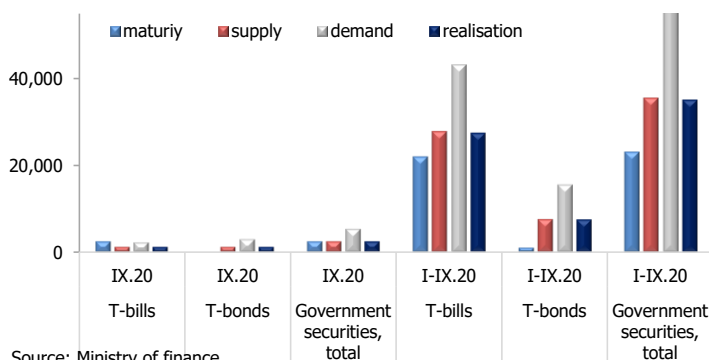
(stocks, in millions of denars)



Source: MoF.

Government securities auctions

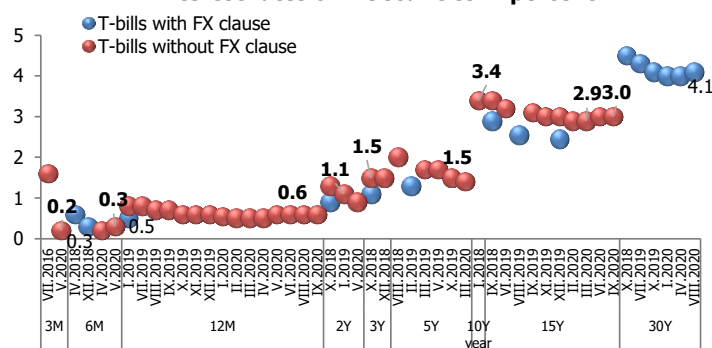
in million of denars



Source: Ministry of finance.

The new issues of government securities in September 2020³⁵ were with a maturity of twelve months and fifteen years, with the interest of market participants being higher than the offered amount. In conditions of issuance of government securities with the same amount as the due amount, their balance at the end of September did not change.

Interest rates of T-Securities in percent



Source: Ministry of Finance

In September, the Ministry of Finance maintained the same interest rates on newly issued twelve-month treasury bills and fifteen-year government bonds without a currency clause (0.6% and 3.0%, respectively).

³⁴ For 2020, according to the Budget Revision in October, net domestic borrowing (continuous government securities) of the Government in the amount of Denar 21,525 million is planned, i.e. growth of the government securities to the level of Denar 127,879 million.

³⁵ In September 2020, twelve-month treasury bills matured.

Box 1: Indicative private consumption and gross capital formation categories

INDICATIVE VARIABLES FOR PRIVATE CONSUMPTION

	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	June	July	August
	<i>real annual growth rates in %</i>												
Retail trade*	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-18.6	-13.6	-14.5	-18.5
VAT revenues*	3.9	6.5	7.5	6.9	3.5	1.4	7.5	6.6	1.8	-20.0	-3.4	-11.9	-12.8
Imports of consumption goods*	8.0	2.6	3.0	11.0	2.8	5.9	9.7	4.7	6.8	-12.4	4.4	-1.9	-5.6
Domestic production of consumption goods	6.1	-1.0	-0.1	5.6	0.5	-1.0	2.4	-2.0	-0.5	-22.4	-11.7	-5.2	-9.7
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	9.7	6.3	6.3	7.1	6.2
Average net wage*	3.4	4.7	3.9	5.4	2.2	2.4	3.5	4.2	10.0	4.6	4.8	7.1	-
Private net transfers*	5.6	9.1	4.3	2.0	-2.2	-4.7	5.7	2.1	-2.7	-40.2	-27.2	-	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	5.7	6.2	5.1	6.1	5.9

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

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

INDICATIVE VARIABLES FOR INVESTMENTS

	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	June	July	August
	<i>real annual growth rates in %, except for FDI in million denars</i>												
Imports of capital goods*	19.1	20.2	10.5	11.6	1.9	4.8	12.5	6.4	0.9	-34.6	-7.3	-5.2	-4.2
Completed construction works**	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-5.1	-4.0	-0.9	-
Domestic production of capital goods	19.3	24.2	16.0	5.7	12.3	-2.9	10.7	7.1	-5.7	-46.0	-22.5	-17.4	-12.4
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	23.8	-34.4	-51.8	158.1	-49.9
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-12128.9	-3653.4	4093.0	-7892.4	5327.7	-1568.5	-908.1	-	-
Long term credits to enterprises*	2.0	4.7	6.6	5.9	4.9	4.8	2.6	6.4	4.1	8.2	8.2	11.7	11.2

* 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.