

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



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

September 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 (May – August 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 pandemic. Given the huge uncertainty, the risks regarding such forecasts are still markedly downward. Currently, the main downside risk refers to the re-introduction of measures to prevent the spread of the virus in response to a possible new wave of increase in the number of infected, 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 on the solvency of companies, which will further adversely affect 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 coronary crisis, re-escalation of trade tensions between the US and China, possible further disinflationary pressures, difficulties related to the public debt repayment in some countries, as well as the emergence of social unrest in certain regions of the world. On the other hand, the possibility for faster normalization of the economic activity than expected in some countries that better cope with the pandemic, the advancements in medical treatment of infected people, and the development of vaccines in the foreseeable future pose positive risks to global economic growth.

In terms of **economic developments in the euro area**, after the strong annual decrease in activity in the second quarter of 2020 (of 14.7%), the latest high-frequency data and assessments from household and corporate surveys in July and August indicate an improvement in the situation and deceleration in the annual decrease in the third quarter. In line with such developments, in the September forecasts the ECB made a moderate upward revision of economic growth for 2020 compared to the June forecasts, with almost the same estimates for 2021 and 2022 being maintained. Thus, it is now expected that the GDP decline in 2020 will equal 8%, while for 2021 and 2022 the growth will reach 5% and 3.2%, respectively¹. In Germany, as our most important trading partner, similar to the euro area, in the third quarter the economy is expected to recover and reduce the annual decrease, as indicated by the data on the monthly growth of industrial output in July, including favorable signals from the automotive industry. At the same time, the expectations of the economic agents for the future period are more optimistic in July and August, compared to the previous quarter. Regarding the labor market in the euro area, the second quarter registered the strongest fall in the number of employees so far (from 3.1% on an annual basis), and the unfavorable trend continued in July, when the unemployment rate rose to 7.9% (from 7.5% in the second quarter). In terms of inflation in the euro area, the initial estimate for August shows an annual decrease in prices of 0.2%, compared to the growth of 0.4% in July, and this change is due to the strong slowdown in core inflation (from 1.2% in July at 0.4% in August). According to the latest ECB projections, inflation is expected to be 0.3%, 1% and 1.3% in 2020, 2021 and 2022, with an upward revision only to the inflation rate for 2021 (0.8 % in June). At its regular meeting in September, the ECB did not make any changes to the current monetary policy setup. Hence, **the expectations for the one-month EURIBOR interest rate** are the same as in the April forecasts.

¹ In June, the economy was projected to decrease by 8.7% in 2020 and to increase by 5.2% and 3.3% in 2021 and 2022, respectively.

From the aspect of certain quantitative indicators of the external environment of the Macedonian economy, the estimate of foreign effective demand for 2020 has been revised downwards, while for 2021 a similar growth rate is expected as in the April forecasts. In terms of **foreign effective inflation**, compared to the April estimates, a minimal downward revision for 2020 and a minimal upward correction for 2021 have been made. Current expectations for the US dollar point to its depreciation against the euro in both years, which is a downward revision compared to April. **The latest forecasts for the changes in the prices of primary commodities on the world stock exchanges mostly point to a decline in prices in 2020 and their synchronized growth in 2021, with mainly 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 comparison of the latest macroeconomic indicators from the domestic economy with their projected dynamics within the April forecast round indicates some deviations in certain segments of the economy. According to the published estimated GDP data, in the second quarter of 2020, real GDP decreased by 12.7% on an annual basis, which is in line with the expectations from the April forecasts. This decline in GDP is a result of the health and economic crisis caused by the pandemic of COVID-19, which led to an intensified deterioration of business activity in this period and affected the confidence and expectations of companies and consumers. A significant decrease was observed in all components of GDP, with the exception of public consumption, which registered a small increase. Thereby, domestic demand has a negative contribution to GDP with a strong decrease in private consumption and gross investment. On the other hand, in line with expectations, net exports had a positive contribution, amid a larger decrease in import, as opposed to the decline in export of goods and services (in absolute terms). Regarding the forecasts, the positive contribution of net exports is weaker than expected, with lower decline in imports, while the negative contribution of domestic demand is more moderate than expected, due to lower decline in private consumption and investments. The currently available high-frequency data for the third quarter of 2020 are limited in order to better perceive the situation, but point to more moderate negative effects of the health crisis on economic activity. Namely, in conditions of gradual easing of the restrictive measures against COVID-19, the data for July show a significant slowdown in the decline in industrial production, and partly in the turnover in total trade. **Regarding the changes in consumer prices, the performance in August 2020 (annual inflation rate of 1.5%) is higher compared to the April forecasts.** On average, the price changes in the second quarter and the first two months of the third quarter exceed the expectations according to the April forecasts round. Such higher performances, given revisions in different directions in the external input assumptions, indicate uncertainty about the realization of the inflation projection for 2020 of 0%, so that currently the risks are mostly upward. At the same time, the movement of world prices of primary products in the next period is still very uncertain, especially in conditions of the global pandemic.

Foreign reserves remain appropriate and maintained in a safe zone. In July and August 2020, the largest effect on the change in foreign reserves had the regular repayment of public sector liabilities abroad and foreign exchange market interventions by the National Bank. Available data from the external sector for the third quarter of the year are still relatively limited. The data on the currency exchange market as of the end of August point to the possibility of less favorable performances compared to the forecasts for the third quarter. Regarding the foreign trade statistics data for July, they indicate a risk of higher trade deficit than expected in the third quarter, but due to the limited data of only one month, as well as the unpredictability of the situation, it is difficult to draw more specific conclusions. Regarding the external position in the second quarter, the balance of payments data indicate a lower deficit in the current account, as well as higher net inflows in the financial account, compared to the projected for the second quarter.

Regarding the developments in the monetary sector, the final data for July show that the **total deposits** realized monthly growth of 0.3%, which is a slowdown compared to the previous month (1.4%). From a sectoral point of view, the increase is a result of the equal growth of household deposits and other sectors, given the decrease of corporate deposits. From currency point of view, foreign currency deposits have the largest contribution to the monthly growth of total deposits, with almost unchanged denar deposits (including demand deposits). On annual basis, total deposits in July were higher by 8.0%, mostly due to the growth of household deposits, i.e. deposits in domestic currency. The annual growth of deposits in July exceeds the forecasts for the third quarter of 2020 (4.4%), according to the April projection. **Total loans** to the private sector in July increased by 0.7% on monthly basis, which is also a moderate slowdown compared to the previous month (1.4%). From sectoral and currency aspect, the credit growth is a result of the increase of household loans and denar loans, with almost unchanged corporate loans and foreign currency loans. On annual basis, total loans in July were higher by 8.2%. From a sectoral point of view, the growth is largely due to household loans, but also strengthens the contribution of corporate loans. From the aspect of the currency structure, loans in domestic currency made bigger contribution. The realized annual credit growth in July is above the forecasts for the third quarter of the year (5.2%), according to the April forecasts.

In the period January-July, **the Budget of the Republic of North Macedonia** registered a deficit of Denar 32,080 million. 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. During this period, the Government borrowed once again on the domestic market of government securities and with domestic banks. The realized budget deficit for the first seven months of the year represents 69.5% of the deficit provided by the Budget revision for 2020.

Recent macroeconomic indicators and assessments indicate some deviations from the projected dynamics, but perceptions regarding the monetary policy environment do not differ much from previous assessments. The foreign reserves remain in the safe zone. In the second quarter of the year, the gross domestic product dropped by 12.7%, which corresponds to the projected dynamics. The currently available high-frequency data for the third quarter of 2020 point to more moderate negative effects of the health crisis on the 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, point to upward risks to inflation forecasts for 2020 of 0%. Within the monetary sector, the annual growth of deposits and loans in July is above the projected for the third quarter of 2020, according to the April forecasts.

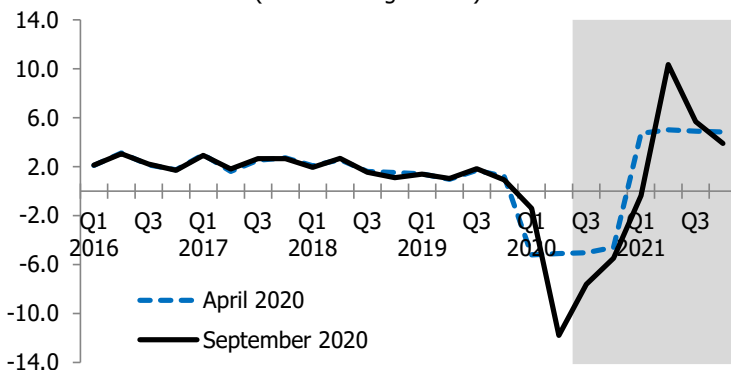
Pandemic effects on the economic activity in the second quarter of 2020

After the minimal economic growth in the first quarter of only 0.2%, in the second quarter of 2020 the health and economic crisis caused by the COVID-19 pandemic led to a deep annual decrease in real GDP of 12.7%, a performance that matches the expectations from the April forecasts of the National Bank. The effect of the crisis is significant and present in almost all production segments of the economy, and it is felt most in industry and activities of the group "trade, transport, hotels and restaurants", as sectors that were most economically affected. The situation is similar on the expenditure side of GDP, where almost all components registered a significant decrease. Consequently, the contribution of domestic demand to growth is markedly negative, with a significant decrease in private consumption and gross investment. Only public consumption increased slightly. On the other hand, with high double-digit rates of decrease in export and import of goods and services, net exports contributed positively to the growth, as a result of the larger downward adjustment of imports (in absolute amounts), which in part neutralizes the unfavorable effect of domestic demand. In the first half of the year, the economy registered an annual decrease of 6.4%.

Selected economic indicators ¹	2019				2020				2020									
	2016	2017	2018	Q1	Q2	Q3	Q4	2019	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.
I. Real sector indicators																		
Gross domestic product (real growth rate, y-o-y) ²	2.8	1.1	2.7	3.8	3.4	3.6	3.4	3.6				0.2				-12.7		
Industrial production ³																		
y-o-y	3.4	0.2	5.4	8.8	1.1	7.1	-1.3	3.7	0.3	3.5	-13.4	-3.7	-33.5	-27.0	-15.1	-25.0	-9.5	
cumulative average	3.4	0.2	5.4	8.8	4.8	5.6	3.7	3.7	0.3	1.9	-3.7	-3.7	-11.2	-14.4	-14.6	-14.6	-13.8	
Inflation ⁴																		
CPI inflation (y-o-y) ⁵	-0.2	2.4	0.9	1.2	1.2	0.6	0.0	0.4	0.6	0.7	0.5	0.6	-0.1	-0.2	1.7	0.5	1.3	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
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
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
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 Indicators⁶ (Central Budget and Budgets of Funds)																		
Total budget revenues	169,256	179,673	188,505	46,042	50,076	50,986	56,718	202,822	15,599	15,727	15,158	46,484	14,241	12,660	14,052	40,953	17,896	
Total budget expenditures	185,407	196,561	200,071	49,243	53,915	52,085	62,202	217,445	16,806	18,824	18,264	53,894	18,968	19,421	21,097	59,486	24,033	
Overall balance (cash)	-16,051	-16,888	-11,566	-3,201	-3,839	-1,099	-5,484	-13,623	-1,207	-3,097	-3,106	-7,410	-4,727	-6,761	-7,045	-18,533	-6,137	
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	
III. Financial indicators ⁶																		
Broad money (M4), y-o-y growth rate	6.2	5.1	11.8	11.7	10.5	10.8	9.3	9.3	8.9	8.2	8.9	8.9	7.5	9.4	9.8	9.8	9.1	
Total credits, y-o-y growth rate	-0.1	5.4	7.3	9.0	8.1	5.6	6.0	6.0	6.8	6.9	5.8	5.8	5.5	5.9	6.6	6.6	6.2	
Total credits - households	7.0	9.2	10.3	9.7	9.9	9.5	10.5	10.5	10.6	11.1	10.1	10.1	9.4	8.6	8.8	8.8	8.8	9.4
Total credits - enterprises	-5.3	2.3	4.5	8.2	6.4	1.7	1.9	1.9	3.2	2.8	1.8	1.8	2.0	3.3	4.6	4.6	7.1	
Total deposits (incl. demand deposits), y-o-y growth rate⁷	6.1	5.0	12.1	11.9	10.6	11.0	9.0	9.0	8.8	7.8	7.9	7.9	6.0	8.6	8.4	8.4	8.0	
Total deposits - households	2.5	6.1	9.5	8.7	9.0	9.3	7.9	7.9	8.5	8.7	8.6	8.6	7.8	8.2	8.7	8.7	8.4	
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	
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
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	
fx rates (aggregated, incl. fx and denar with fx clause)	5.7	5.3	4.9	4.7	4.7	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3	
Deposit rates																		
denar rates	2.5	2.2	2.0	2.0	1.9	1.9	1.7	1.9	1.9	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5	
fx rates (aggregated, incl. fx and denar with fx clause)	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	
IV. External sector indicators																		
Current account balance (millions of EUR)	-275.5	-102.9	-14.9	-158.1	-47.0	178.5	-286.9	-313.5	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	-1.4	-0.4	1.6	-2.5	-2.8	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	-198.4	
Trade balance (% of GDP)	-18.0	-18.1	-16.9	-4.0	-4.2	-3.9	-5.7	-17.8	-1.2	-1.8	-1.6	-4.7	-1.5	-1.1	-1.0	-3.5	-1.8	
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	-1,918.8	-373.7	-455.5	-597.7	-1,426.9	-716.8	
export (millions of EUR)	4,390.3	5,018.7	5,872.4	1,534.0	1,621.2	1,628.9	1,637.4	6,421.6	457.0	519.9	430.8	1,407.7	211.3	339.4	492.0	1,042.6	518.4	
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	-2.4	-31.9	-4.2	
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	-26.8	-8.2	-60.3	-39.3	-7.3	-35.7	-8.1	
Foreign Direct Investment (millions of EUR)	316.9	180.0	603.7	40.2	11.0	62.9	176.5	200.6	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	8,248.5	8,377.2	8,581.0	8,191.2	8,191.2				8,338.9						
public sector	3,445.3	3,461.8	3,756.2	3,970.2	4,035.1	4,074.2	3,836.6	3,836.6				3,814.7						
private sector/GDP (in %)	35.7	34.5	35.1	36.1	35.6	35.9	33.8	33.8				34.9						
private sector	3,771.2	3,910.7	4,087.5	4,154.4	4,302.1	4,506.9	4,354.6	4,354.6				4,524.3						
Gross external debt/GDP (in %)	74.7	73.4	73.3	72.7	73.5	75.7	72.2	72.2				76.3						
Gross official reserves (millions of EUR) 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	####	####	####	3,639.7	####	####

¹ In calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2020, the projected level from NBRN's last forecasting round is used.
² The quarterly data for 2019 are preliminary, while for 2020 are estimated (Press release for quarterly data on GDP as of 07.09.2020). The annual data for 2018 is preliminary data (Announcement for annual data for GDP from 30.09.2019).
³ The changes of index of industrial production are according to base year 2015=100.
⁴ CPI calculated according to COICOP 2019=100.
⁵ The rate on annual basis corresponds to end-year inflation (December current year/December previous year).
⁶ The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since June 2018).
⁷ It encompasses the deposits from non-government sector at Banks and Saving Houses, transferable deposits from Other Financial Corporations in denars and transferable deposits from state and local government in denars.
⁸ As of June 2018 data for active and passive interest rates are compiled according to the new methodology of NBRN.
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.

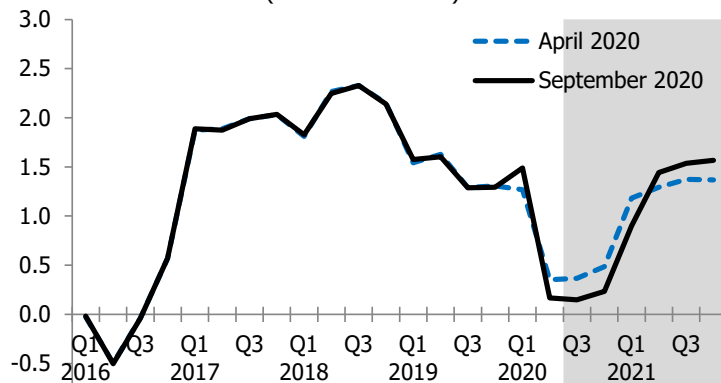
Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, a decrease in foreign effective demand of 6.6% is expected in 2020, which is a downward revision compared to the estimated fall of 5% in the April forecasts. The revision is a result of the deeper projected economic decrease in almost all our trade partners, especially Germany², Greece, Belgium and Italy. For 2021, the expected growth rate of the foreign demand equals 4.8% and it is almost the same as in April (4.9%).

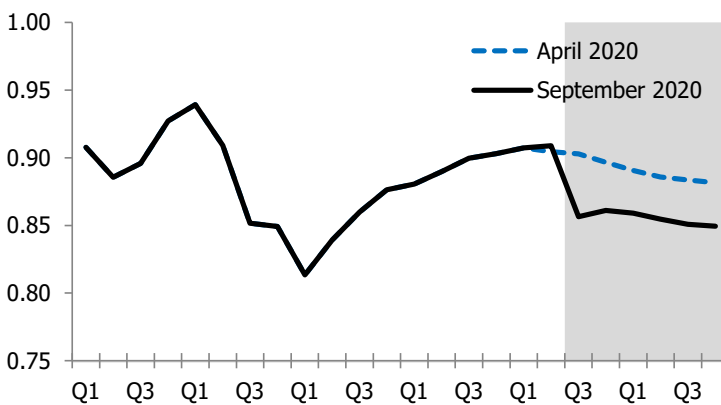
Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

The forecasts of foreign effective inflation for 2020 is minimally revised downwards compared to the April projection, where it is expected to equal 0.5% (0.6% in April), mainly due to the downward correction in Croatia³. On the other hand, in 2021 the foreign inflation is adjusted slightly upwards and it is estimated to equal 1.4% (1.3% in the April forecasts).

EUR/USD exchange rate



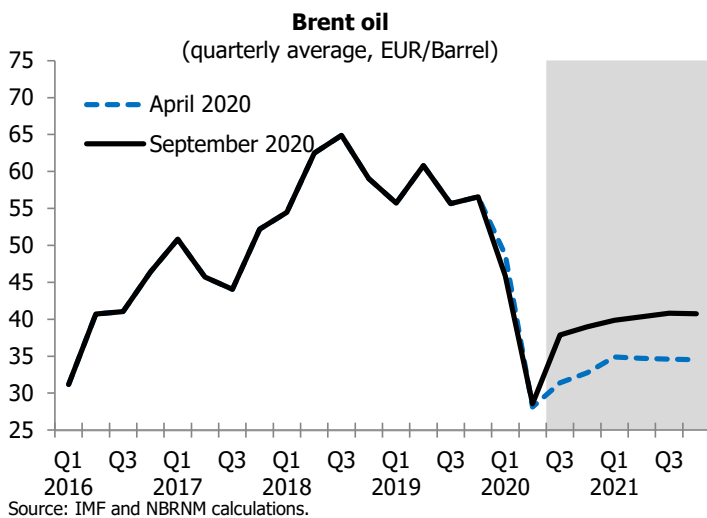
Source: Consensus forecasts and NBRNM calculations.

In terms of the euro / US dollar exchange rate, a small depreciation of the US dollar is expected in 2020, as opposed to the small appreciation projected in April, while for 2021 a larger depreciation than originally forecasted in April is expected. Such revisions are mainly due to the investors' expectations that the interest rates in the USA will remain low for a longer period, in line with the changes within the framework for monetary policy conduct⁴, as well as the unfavorable economic indicators for the USA compared to the euro area.

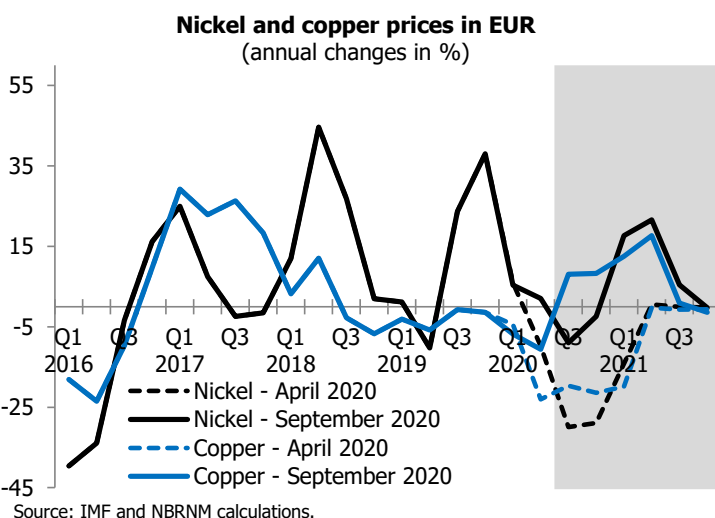
² For 2020, in Germany a fall of 6.3% is forecasted, unlike the fall of 5% in April and growth of 5.2% in 2021 versus the growth of 4.5% in April.

³ Inflation in Croatia has been adjusted for the changes in the exchange rate.

⁴ On 27 August 2020, the FED announced an update of its long-term goals and strategy for implementing monetary policy, with the significant changes being related to: 1) maximum employment, with decisions now based on estimates of downward deviations from the maximum level of employment, instead of the current practice for deviations from the maximum level in both directions; 2) price stability, whereby the FED has adjusted its strategy to achieve the long-term goal - inflation of 2%, by trying to achieve inflation that averages 2% over a period of time, i.e. after periods in which inflation has been consistently below 2%, the respective monetary policy will aim at achieving inflation moderately above 2% in a certain period of time.



Compared to April, the oil price⁵ has been revised upwards for the entire forecast round, now expecting moderately smaller decrease that projected for 2020 and increase in the prices, instead of a decrease in 2021. The upward revision is largely due to the extension of the agreement reached within the OPEC + group to reduce oil production by the end of December⁶, as well as the growth of global demand, especially from China, after the gradual normalization of industrial activity after the abolition of measures for dealing with the pandemic.



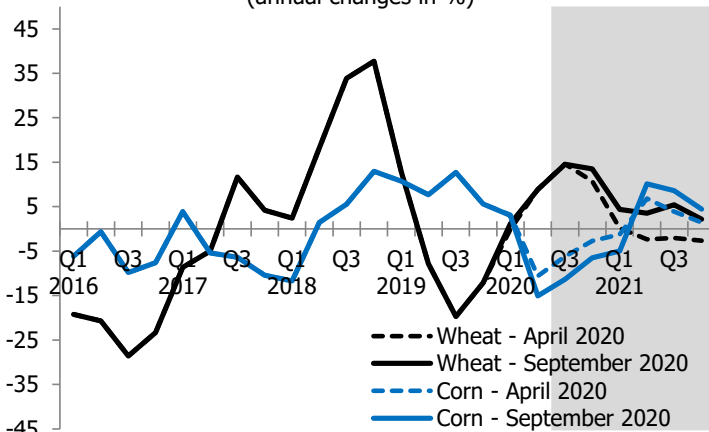
According to the latest estimates, an upward revision of world metal prices for the entire forecasts period was made. Thus, for 2020, a significantly lower decline in the price of copper and nickel is expected compared to April expectations. This change in the price of copper is a result of growing demand from China as the largest consumer of copper, declining global inventories and concerns about future production⁷. The upward revision of the nickel price is mainly due to the growing demand from the steel and electric car industry. A significant upward revision of the prices of both metals has been made for 2021, so now it is expected that they will grow, despite the April estimates for a decline.

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.

⁶ From May to July, oil production of OPEC members + decreased by 9.7 million barrels per day, and from August to December the decrease will equal 7.7 million barrels per day.

⁷ It is expected that there will still be a weak supply on the market, as it will take time for production to reach full capacity after the opening of the mining facilities, which faced closure due to the COVID-19 situation.

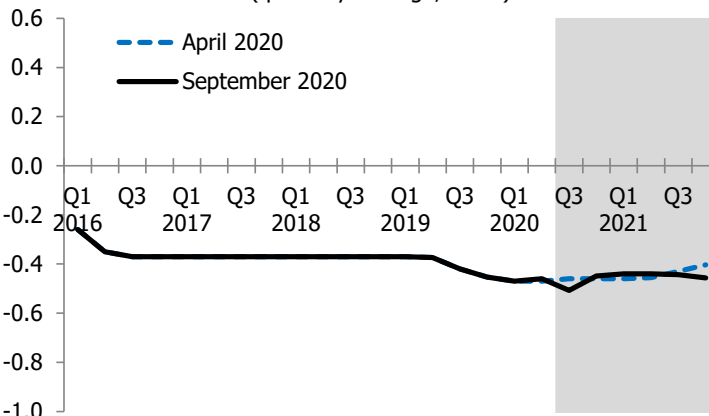
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

The current estimates for the prices of primary food products for 2020 indicate a slight upward revision of the price of wheat compared to the April forecasts, while the price of corn has been corrected downwards. Thus, the price of wheat is expected to grow slightly higher than in April, amid weaker outlook for production in the EU, Argentina and the United States and solid demand. In contrast, the price of corn is projected to fall more than previously estimated, amid expectations of high world corn production, and still weak demand, especially for industrial needs. For 2021, prices have been revised upwards compared to the April forecasts, so that the price of wheat is now expected to grow, instead of to register a small decline, with the price of corn is expected to register higher growth.

1-month Euribor
(quarterly average, in %)

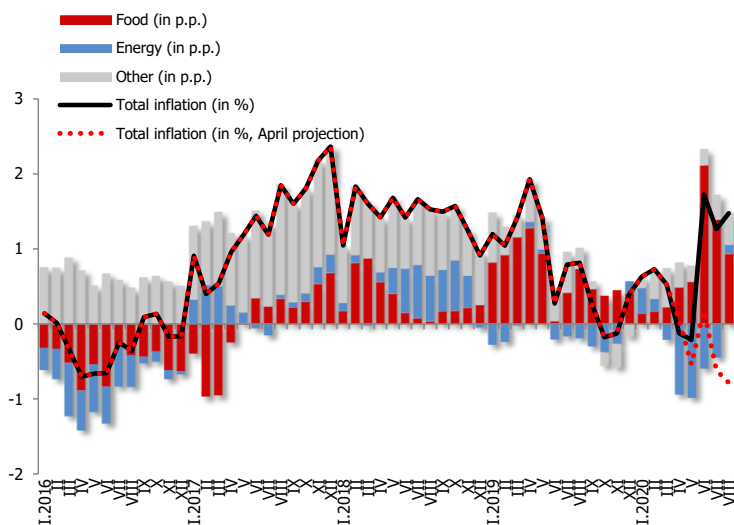


Source: Consensus forecasts and NBRNM calculations.

According to the latest estimates, the one-month EURIBOR does not deviate from the April forecasts, so it is still expected to average -0.47% in 2020 and -0.45% in 2021.

Inflation rate

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



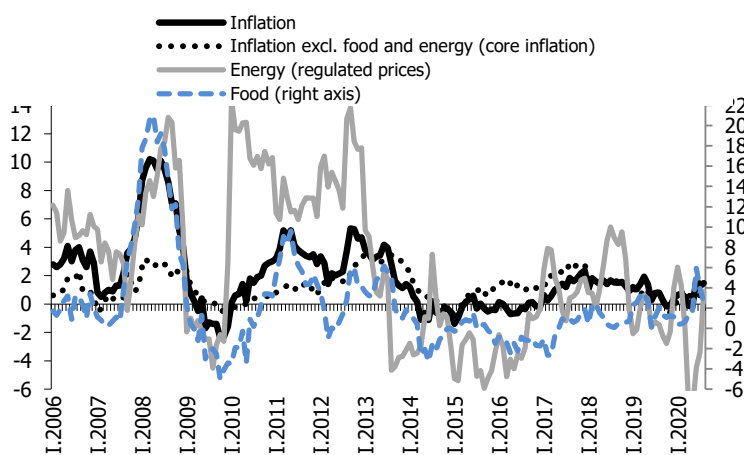
Source: SSO and NBRNM.

In August 2020, domestic consumer prices registered a small increase of 0.5% (in the previous month, a monthly decrease of -0.3% was registered), mostly due to the increase in energy prices, with a small positive contribution of the basic component, and a small negative contribution of the food component⁸. The increase in energy prices is a result of the increase in electricity prices, in accordance with the decision of the Energy Regulatory Commission⁹.

The annual inflation rate in August accelerated slightly and amounted to 1.5% (1.3% in the previous month), which is entirely due to the change in the price of electricity. As before, the annual inflation rate in August is higher than expected according to the April forecasts round. From the aspect of the structure, an upward divergence from the forecasts is noticed in all three components (food, energy and basic component).

Inflation and volatility of food and energy

(annual growth rates, in %)



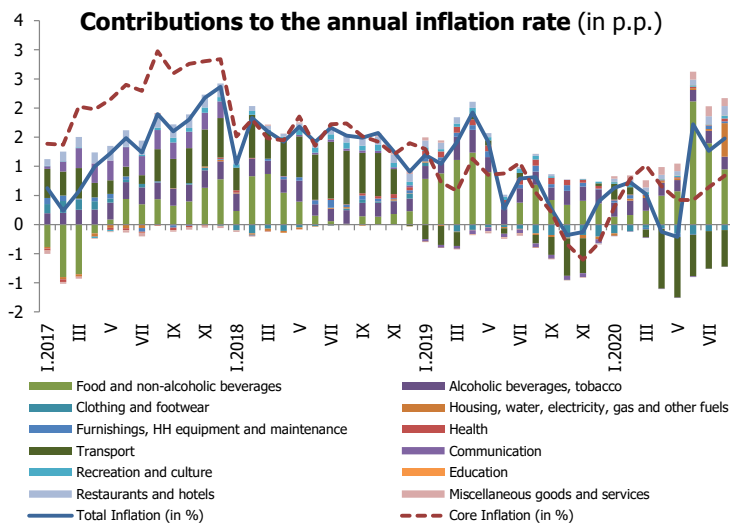
Source: State statistical office and NBRNM calculations.

Core inflation in August was 0.3% on monthly basis, and on annual basis it was 0.8%. The structure of the annual core inflation rate in August is similar to the previous month, i.e. the highest positive contribution still accounts for the tobacco prices¹⁰. The prices of catering services and accommodation services, the prices of tourist arrangements, as well as the prices of electrical appliances for personal hygiene and other appliances also have a positive contribution during this month. On the other hand, the biggest negative contribution accounts for the the lower prices of clothing and shoes, the prices of reception equipment, recording and reproduction of sound and images, as well as the prices of IT equipment.

⁸ Observed by groups of products, the largest positive contribution to the monthly increase in prices in August have the prices of electricity, accommodation services prices and tourist arrangements prices. On the other hand, the prices of fruits, vegetables and meat, the prices of clothing and shoes, as well as the prices of liquid fuels and lubricants have the biggest negative contribution.

⁹ Starting from 1 August, the electricity price is higher by 7.4%, i.e. the high tariff equals 5.95 den/kWh, the low tariff equals 2.99 den/kWh, while for single-tariff metering it equals 4.77 den/kWh (<https://www.erc.org.mk/pages.aspx?id=153>).

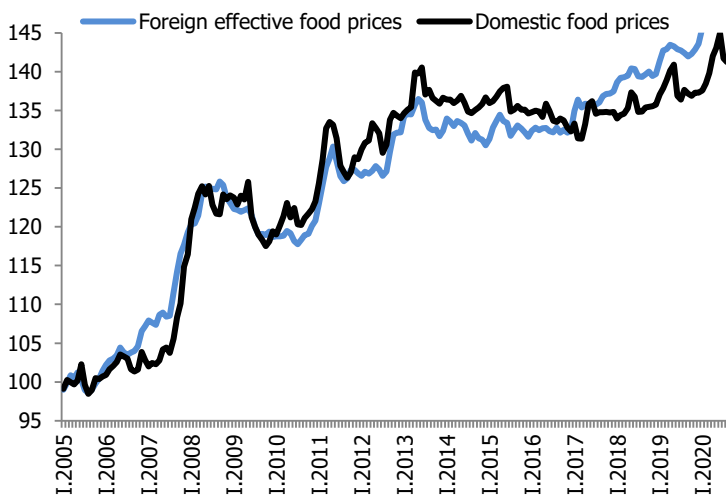
¹⁰ The annual increase in the price of tobacco in August is a reflection of the increase in cigarette prices in March 2020, in accordance with the projected annual increase in excise duties on cigarettes by 0.20 denars / piece, as of 1 July 2023.



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

Source: SSO and NBRNM.

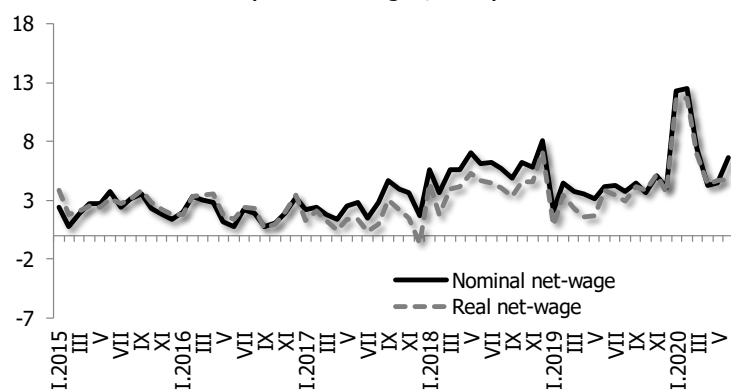
Foreign effective food prices* and domestic food prices



The higher realized inflation than the projected one according to the April forecasts, in conditions of revisions of the external assumptions in different directions, still points to the uncertainty for achieving the inflation forecast for 2020 of 0%, with the risks being currently mostly upward. At the same time, the movement of world prices of primary commodities in the next period remains very uncertain, in accordance with the uncertain economic effects of the global pandemic and its duration.

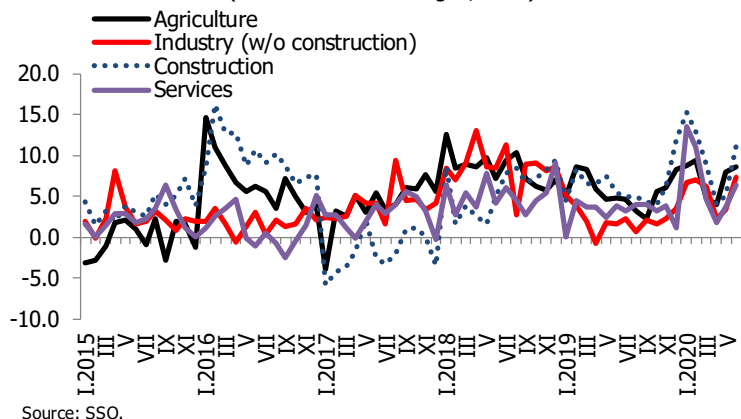
* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia.
Source: State statistical office, Eurostat and NBRNM calculations.

Average net-wage
(annual changes, in %)



In June 2020, the nominal annual growth of the average net wage equaled 6.6%, while the solid growth, as previously, mainly reflects the rise in the minimum wage¹¹, the increase in the wages in the public sector¹², as well as the effect of the measure for subsidizing contributions due to wage increase¹³. Compared to the previous month, the growth has accelerated (annual growth in May of 4.4%), in conditions of initiated easing of some of the restrictive measures for dealing with the new viral infection.

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



Wage growth was registered in most of the activities, with the most prominent one being registered in the activities related with "finance and insurance", "mining and quarrying", "education", "construction", "other services' categories", "information and communication", "agriculture", "professional, scientific and technical activities", as well as "healthcare and social protection"¹⁴.

During the annual growth of the consumer prices, **the real annual growth of the net wage in June was 4.8%.**

The realized annual wage growth in the second quarter is more favorable compared to the expectations for wage decline within the April forecasts.

In the second quarter of 2020, real GDP decreased by 12.7%, on an annual basis, in line with the expectations from the April forecasts. The decrease in GDP is a result of the health and economic crisis caused by the COVID-19 pandemic. In the first half of 2020, GDP registered a real annual decrease of 6.4% (with

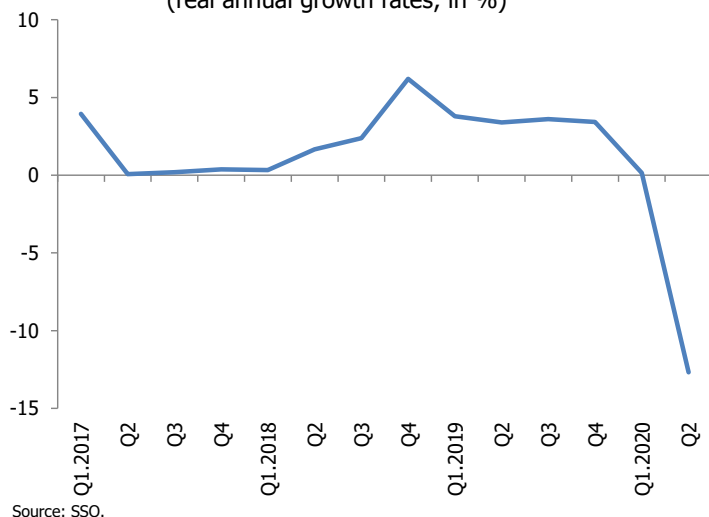
¹¹ During 2019, the minimum wage increased twice, in April and December. In April, the minimum wage increased from Denar 12,165 to Denar 12,507 net wage (gross from Denar 17,370 to Denar 17.943) in accordance with the adjustment with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth (with one third of the growth of each indicator, respectively, Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 59/19). With the additional increase in December (of around Denar 2000, net), the amount of minimum wage which is paid for the period from December 2019 to March 2020 is Denar 14,500, net (Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 239/19). With a Government Decree, the amount of Denar 14,500 was extended until June 2020, i.e. until the end of the state of emergency.

¹² 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).

¹³ 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).

¹⁴ A more pronounced reduction in wages in June 2020 was observed in the most affected sectors of the economy from the coronary crisis, in the activities related to "accommodation facilities and food service activities", "arts, entertainment and recreation" and "transport and storage," but more moderate.

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



a minimal growth of 0.2% in the first quarter and a decrease of 12.7% in the second quarter).

In terms of demand, a significant decrease was observed in almost all components of GDP. Thereby, domestic demand has a negative contribution to GDP with a strong decrease in private consumption and gross investment, while public consumption increased slightly. Net exports, on the other hand, had a positive contribution, amid a larger fall in imports, as opposed to the decline in export of goods and services (in absolute terms).

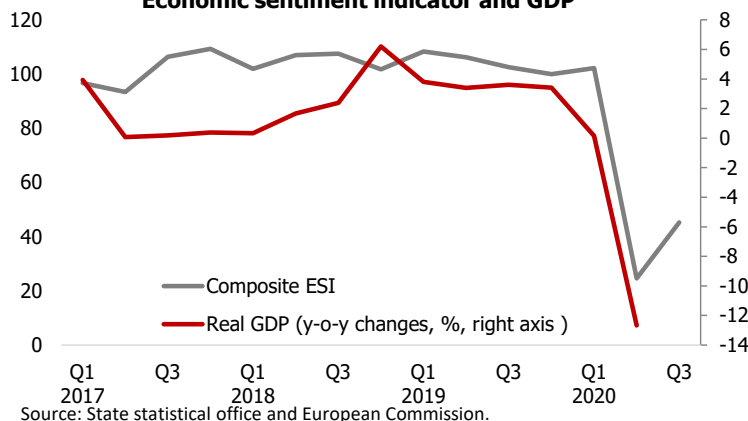
Regarding the projection of the components of GDP in the second quarter of the year, there are some deviations in the intensity of change. Thus, the positive contribution of net exports is weaker than expected, with a smaller decline in imports. On the other hand, the negative contribution of domestic demand is more moderate than expected, mainly due to the smaller decline in private consumption and investment.

From the production side, in the second quarter of 2020 the decline in activity is dispersed, and the biggest impact on the decline in GDP have the most affected sectors of COVID-19, namely industry and activities trade, transport, tourism and hospitality. The activities "professional, scientific and technical activities" "administrative and auxiliary service activities" and "financial and insurance activities" have an additional negative contribution, but to a lesser extent. Growth was observed only in "agriculture", "information and communications", as well as in the activities "public administration and defense"; "education"; "health care and social protection".

Given the limited volume of available data, it is difficult to obtain a more accurate assessment of the overall state of the economy in the third quarter of 2020. The gradual relaxation of the measures for dealing with COVID-19 had a favorable effect on the perceptions of the economic agents about the situation in the economy¹⁵. Thus, the results of the survey for the third quarter of 2020 indicate more optimistic perceptions compared to the

¹⁵ 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

Economic sentiment indicator and GDP

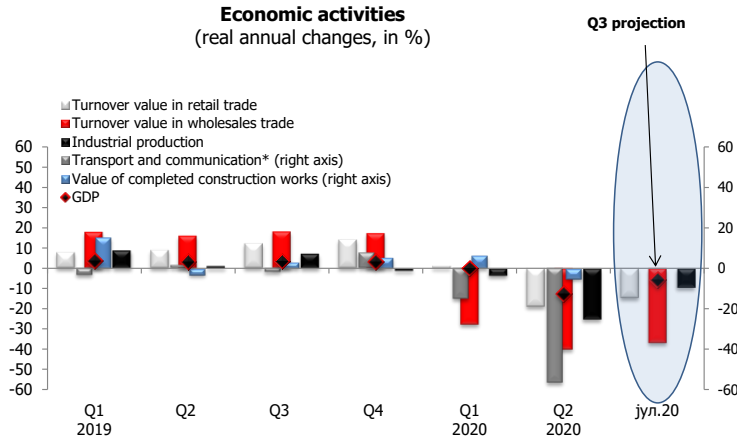


previous quarter, which indicates expectations for a gradual economic recovery.

When it comes to high frequency data on the supply side for the third quarter of the year, data on trade and industrial output are available as of July.

The total trade turnover in July dropped by 25.4% on annual basis, reflecting the unfavorable performances and the decline in the turnover in the wholesale and retail trade, while the trade in motor vehicles registered a high real growth. However, in July, the decline in total trade turnover, as well as in wholesale and retail trade, was smaller compared to the decline recorded in the second quarter.

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 July slowed down significantly, falling to 9.5% on an annual basis (compared to a 25% decline 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 the energy sector. The decline within the manufacturing industry is widely dispersed, with the largest negative contribution accounting for the group of activities where operate foreign export facilities related to the automotive industry, such as the production of machinery and equipment and the production of motor vehicles. When it comes to traditional activities, a more pronounced negative contribution is noticed in the production of both, the beverages and the clothing, as well as in the production of other non-metallic mineral products and the production of furniture. On the other hand, within the manufacturing industry, the production of food products has the highest positive contribution, and a solid positive contribution has also been registered in the production of basic pharmaceutical products, as well as in the production of chemicals and chemical products.

INDUSTRIAL OUTPUT AND OTHER ECONOMIC ACTIVITIES

	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	May	Jun	Jul
	<i>real annual changes in %</i>												
Gross domestic product	0.3	1.7	2.4	6.2	3.8	3.4	3.6	3.4	0.2	-12.7	-	-	-
Industrial output*	5.2	4.9	5.1	6.4	8.8	1.1	7.1	-1.3	-3.7	-25.0	-27.0	-15.1	-9.5
Construction	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-5.1	2.5	-4.0	-
Building	3.2	6.1	-11.4	28.1	-9.3	5.1	23.7	-1.1	-8.5	-20.4	-17.2	-17.2	-
Civil Engineerings	-65.2	-1.7	-9.3	4.5	58.3	-8.0	-6.7	11.1	21.3	4.7	16.0	4.6	-
Retail and wholesale trade	5.8	8.2	7.3	9.2	13.9	12.8	15.3	15.5	-16.7	-30.6	-36.8	-24.3	-25.4
Retail trade	5.8	8.9	9.4	10.5	7.6	8.8	12.0	13.8	1.0	-18.6	-20.5	-13.6	-14.5
Wholesale trade	5.2	6.8	7.0	8.6	18.0	16.0	18.1	17.3	-27.8	-40.1	-49.2	-34.7	-36.9

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

The slowdown in the annual decrease in industrial output in July, compared to the decrease in the second quarter, is mainly due to the more moderate fall in the manufacturing industry, given the slowdown in the production of machinery and equipment, motor vehicles and

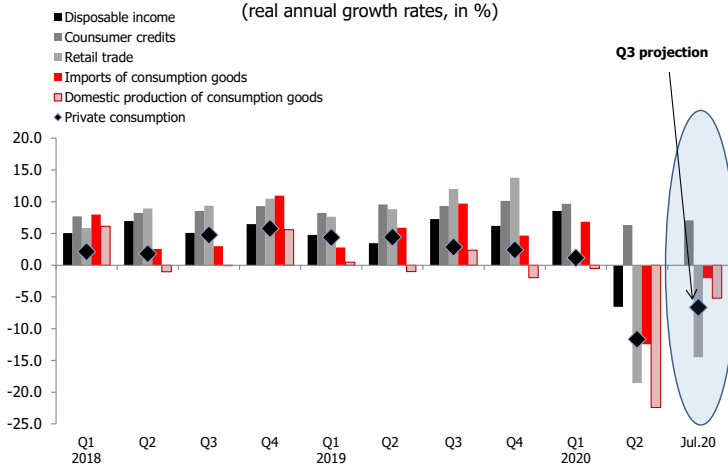
electrical equipment, as well as production of clothing, textiles and food products.

The available **aggregate demand** indicators point to a decline in economic activity in the third quarter of the year, although not as pronounced as in the previous quarter.

At the beginning of the third quarter of the year, the indicators for the movements in **private consumption** still point to a lower tendency towards consumption, but less pronounced than in the past period, which could be partly related to the Government measures aimed at supporting the private consumption¹⁶. The Consumer Confidence Index also shows a slight decrease in consumer pessimism, in line with their 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. In terms of sources of financing private consumption, the available data so far indicate further growth in some components of disposable income (data available only on pensions), and there is an acceleration of growth in household loans. Short-term indicators of the dynamics of private consumption remain unfavorable, but their decline significantly decelerated. Thus, a slowdown in the decline in July compared to the annual decline in the second quarter was registered in retail trade and gross VAT revenues, and a significantly lower decrease was registered in the domestic production of consumables and import of consumer goods.

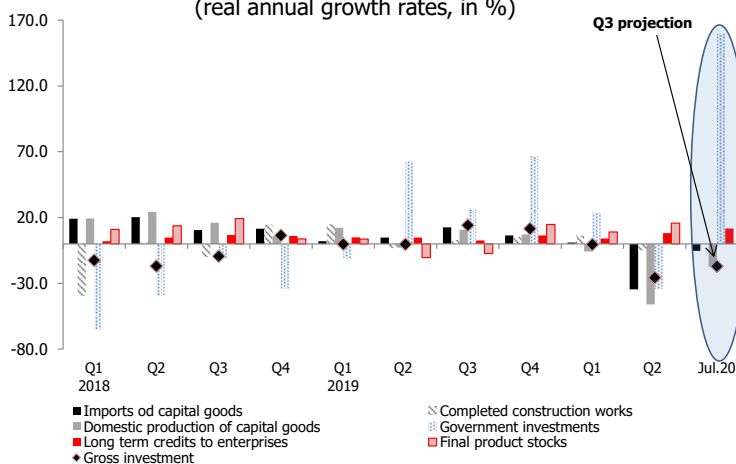
The available high-frequency data on **gross investments** for July are moving in different directions. Thus, a decrease, but significantly lower compared to the previous quarter, is observed in industrial output, domestic production of capital goods and import of capital goods. Such are the assessments of the managers of the enterprises from the construction and industry, which point to a slowdown in the decrease in this period. The only acceleration of the annual decrease was recorded in the profit tax. On the other hand, the accelerated growth in the long-term lending to enterprises by banks continued, which was contributed by the series of measures taken to

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



Source: SSO and NBRNM calculations.

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



Source: SSO and NBRNM calculations.

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, issuance of a home payment card to selected categories of citizens, in a total value of Euro 28 million was envisaged. The deadline for using these funds was 15 August 2020. More information at the following links: <https://vlada.mk/node/21426> и <https://finance.gov.mk/mk/node/8798>.

improve liquidity conditions and ease of financing conditions, with growth acceleration being also registered in government capital investments.

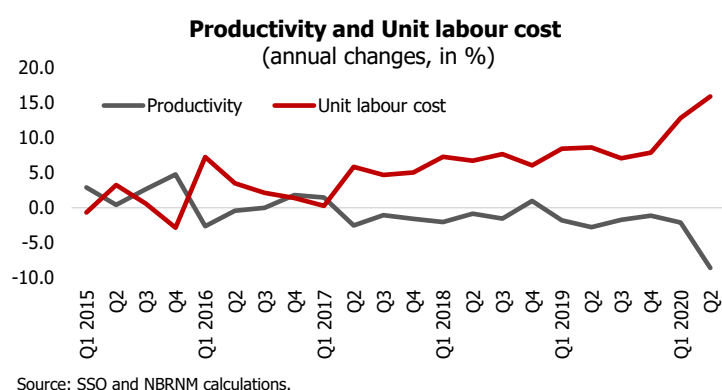
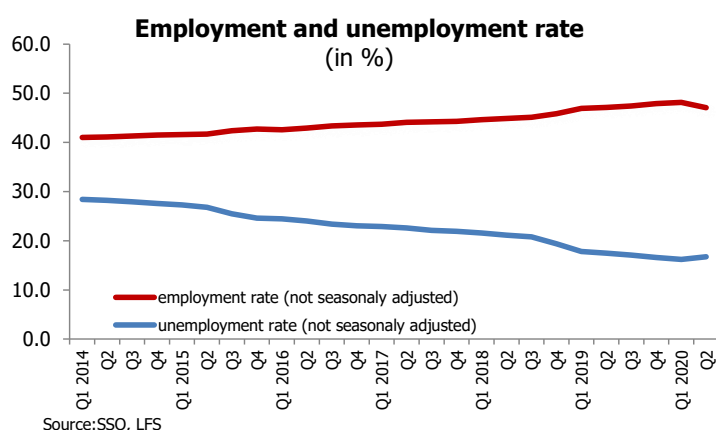
The data on **foreign trade** in July 2020 indicate a potential widening of the deficit in the third quarter of the year compared to the same period last year, amid a larger nominal decrease in export than import of goods.

Budget revenues as of July 2020 point to further annual growth of **public consumption** in the third quarter, amid growth in most of the main categories of public consumption. Thus, in July, there were higher transfers for health care and transfers to local authorities, as well as higher expenditures for wages, while a decrease was registered only in the expenditures for goods and services.

In terms of employment, the unfavorable situation related to the new viral infection and the measures taken to deal with it, had a negative impact on the shifts of this segment of the labor market. Namely, after eight years of continuous reduction of the unemployment rate, in the second quarter of 2020, the **unemployment rate increased slightly and amounted to 16.7%** (16.2% in the previous quarter), while the number of employees registered a minimal annual decline of 0.1%¹⁷.

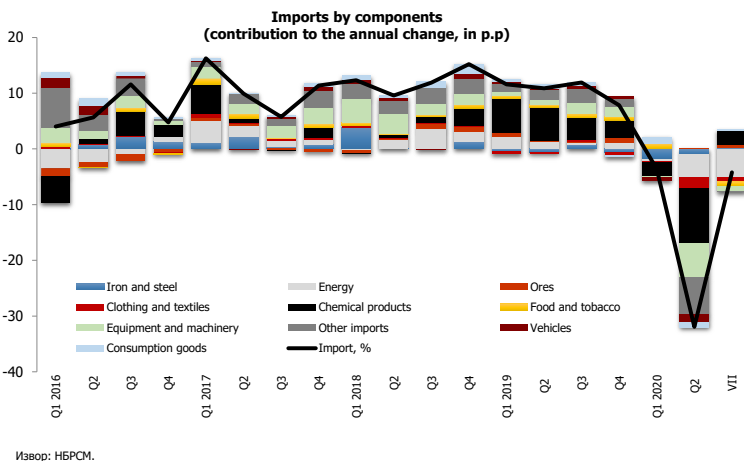
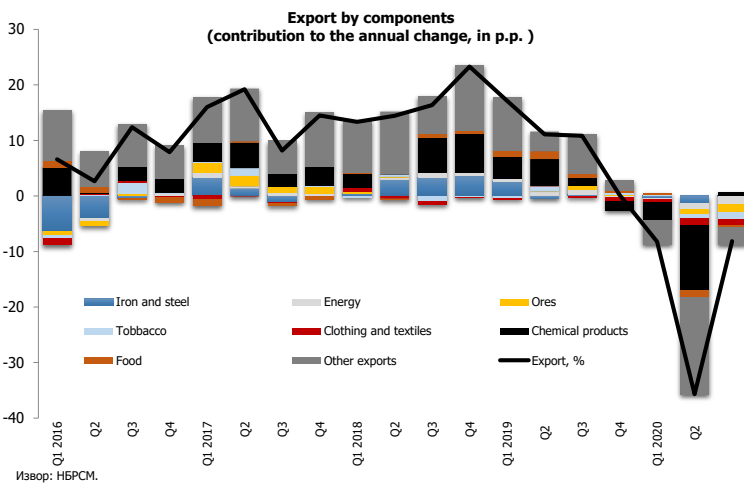
The decrease in the labour productivity¹⁸, in the second quarter of 2020 additionally deepened and equaled 8.6% (decrease of 2.1% in the preceding quarter) given significantly smaller decrease in the employment compared to the decrease in the economic activity as a result of health and economic crisis caused by the viral infection.

At the same time, in the second quarter, unit labor costs increased by 15.9% on annual basis (12.8% in the previous quarter), amid growth of gross wage in conditions of declining productivity.



¹⁷ The activities related to "agriculture, forestry and fishery", followed by "accommodation and food service activities", "professional scientific and technical activities", "water supply, wastewater disposal, waste management" and waste and environmental remediation activities, "transport and storage" and activities related to "electricity, gas, steam and air conditioning supply" have the greatest contribution to the decline in employment.

¹⁸ Total productivity is calculated as a weighted sum of the calculated productivity at the level of the individual sector. Within each sector, productivity is calculated as the ratio between the value added in that sector and the number of employees.



In July 2020, the trade deficit widened by 7.9% on an annual basis, amid a larger decrease in export compared to the import component, in conditions of a gradual stabilization of foreign trade following the shock caused by the COVID-19 pandemic in the second quarter.

The export of goods in July dropped moderately by 8.1% on annual basis. In terms of individual export categories, the decrease is dispersed, and the highest contribution to the annual decline in exports was made by the reduced exports of some of the new facilities in the economy, although in July the decrease in exports significantly decelerated in this category. The export of ores, energy, tobacco and textiles also made a significant contribution to the fall in total exports in July. All other export categories contributed as well to the decrease in exports, but their contribution was significantly smaller.

Compared to the April forecasts, the performances in July 2020 indicate the possibility of higher exports than expected for the third quarter of 2020. The exports of new facilities in the economy, as well as export of iron and steel registers substantial upward divergence. On the other hand, the performance in tobacco and ores is slightly lower.

In July 2020, the import of goods registered a decrease of 4.2% annually, mostly as a result of the energy component¹⁹. Also, compared to the same period last year, lower imports were realized in the categories of equipment and machinery and food, while higher raw material imports of some of the new export facilities in the economy caused an increase in total imports during July.

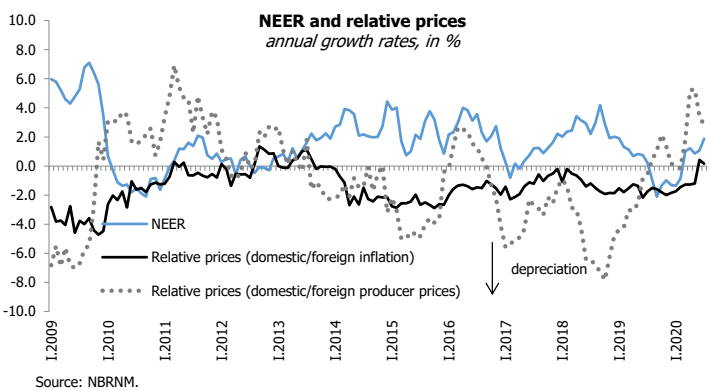
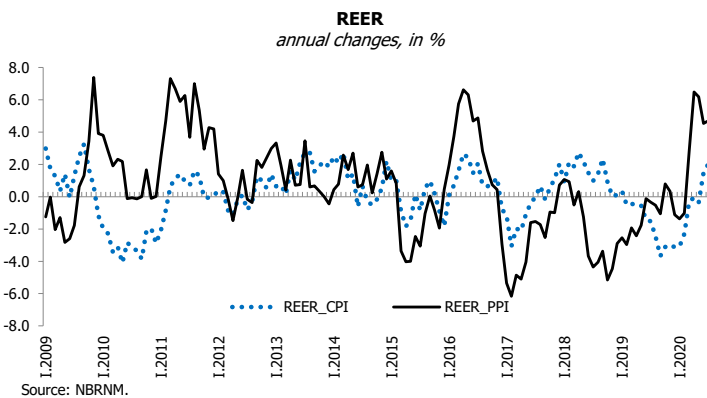
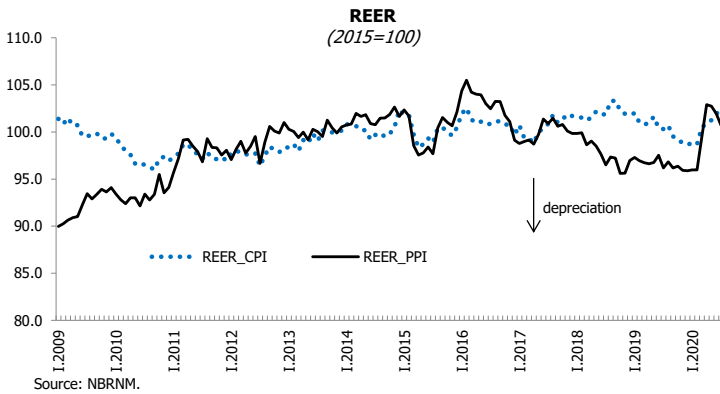
Current performances in the import of goods in July 2020 indicate the possibility of higher imports than expected for the third quarter in accordance with the April forecasts as a result of upward deviations in most import categories, and mostly in raw material imports of some of the new export facilities, the import of equipment and machinery, vehicles, iron and steel and other

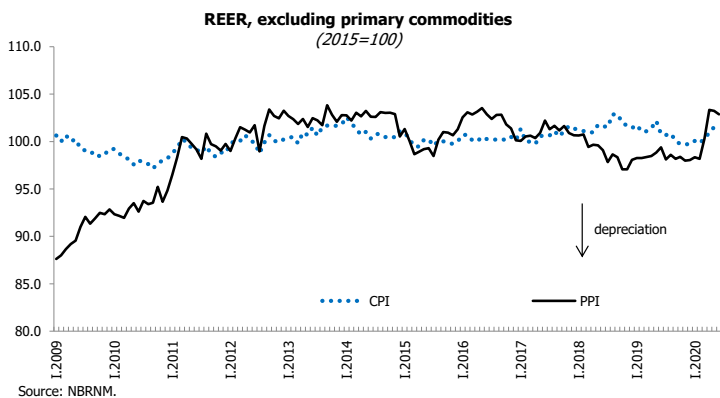
¹⁹ The lower import of energy in July compared to the same period of the previous year largely stems from the import of oil derivatives, while the decrease is a combination of price and quantity effect.

imports. On the other hand, the energy imports reduced.

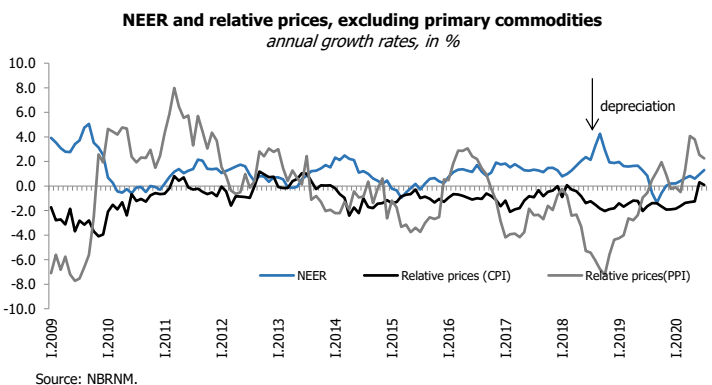
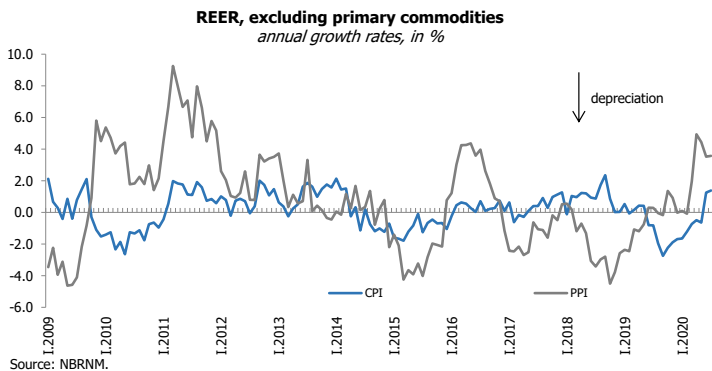
The more pronounced upward deviation in the import relative to the export of goods in July 2020 indicates the possibility of achieving a higher trade deficit than expected in the April forecasts. However, the assessment period is quite short for more specific findings in this area, especially given the current situation and the uncertainty caused by the pandemic.

In July 2020, the price competitiveness indicators of the domestic economy deteriorated on an annual basis. The REER index deflated by the consumer prices appreciated by 2% while the REER index calculated with the producer prices appreciated by 4.7%. The relative consumer prices increased by 0.2%, while the relative prices of industrial producers increased by 2.8%. The NEER also contributed to the lower competitiveness, recording a appreciation of 1.9%, which is mostly due to the depreciation of the Russian ruble and the Turkish lira.



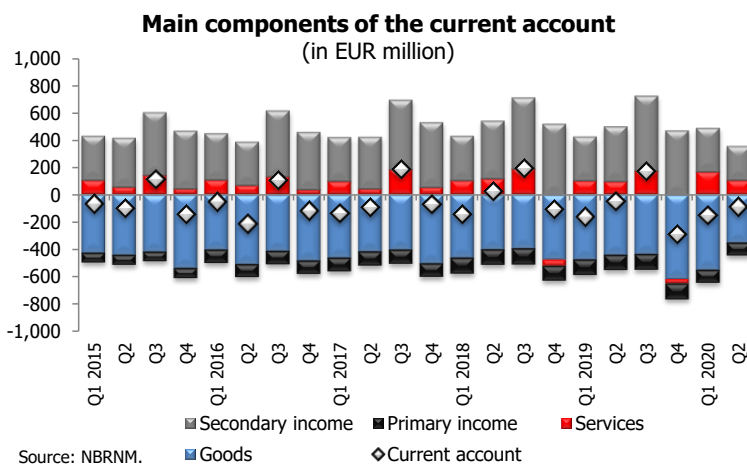


The REER indices calculated by weights based on foreign trade without primary products in July 2020 also deteriorated on an annual basis. Thus, the REER index deflated by the consumer prices appreciated by 1.4%, while the REER deflated by the prices of industrial products appreciated by 3.6%. Thereby, the relative consumer prices increased by a minimum of 0.1%, while the relative prices of the producers of industrial products increased by 2.2%, given appreciation of the the nominal effective exchange rate of 1.3% on annual basis.



In the second quarter of 2020, the deficit on the balance of payments' current account equals Euro 85.9 million, or 0.8% of GDP²⁰, which is lower than expected for the second quarter in the April forecasts.

The lower current account deficit than expected according to the April forecasts is entirely due to the better performance of the balance of goods and services. Thereby, the most pronounced deviation is in the surplus of services, with better performance in almost all major categories of services, and most in the surplus of production services for finishing goods in foreign ownership. At the same time, the smaller realized trade deficit is due to the higher positive deviation in

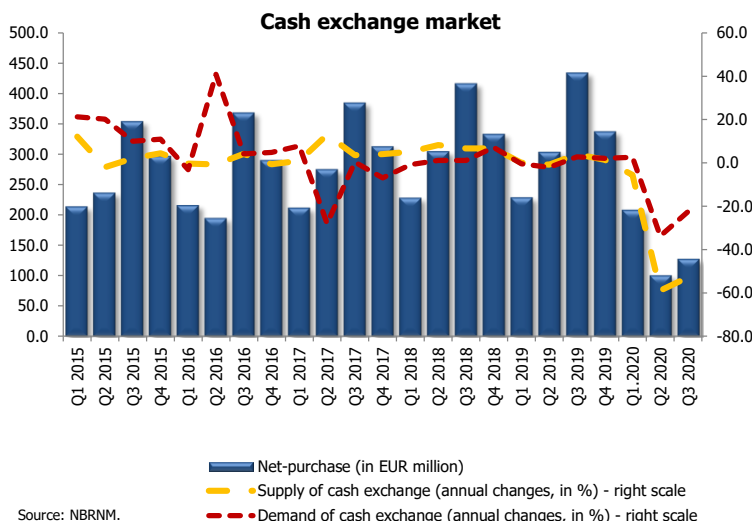
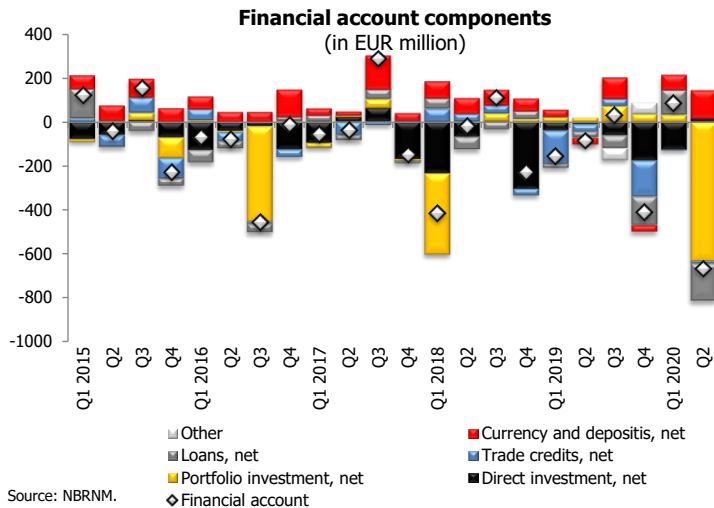


²⁰ The analysis uses the NBRNM April forecasts for the nominal GDP for 2020.

exports compared to the import of goods. On the other hand, the secondary income surplus is lower than expected mainly due to the lower net repurchased cash from currency exchange operations, while the primary income deficit is slightly higher than expected, mainly due to the higher income from direct investments.

In the second quarter of 2020, the financial account registered net inflows²¹ in the amount of Euro 667.5 million (or 6.1% of GDP), which are slightly better than expected for the second quarter with the April forecasts.

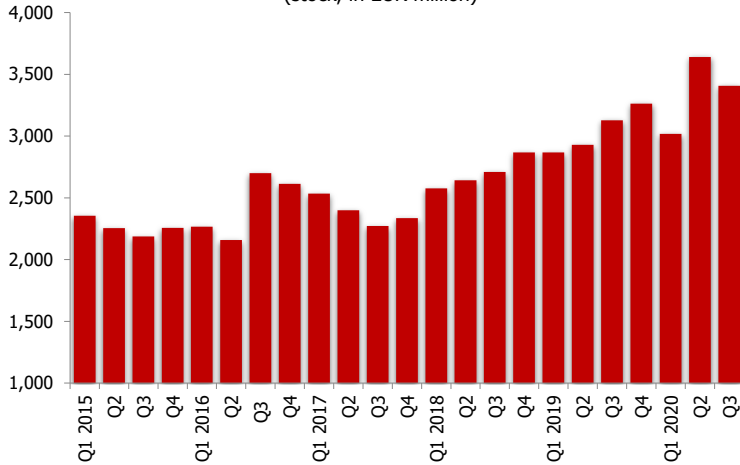
Better performance compared to the April forecasts is recorded in portfolio investments, in conditions of higher amount of the issued Eurobond than expected. The performance of trade credits with net inflows (instead of the expected net outflows) also improved. On the other hand, direct investments recorded net outflows, instead of the expected net inflows, primarily due to net outflows based on intercompany borrowing (mainly due to the reduction of intercompany debt on the side of liabilities). Net inflows based on long-term loans are lower than expected mostly due to lower government borrowing, while net outflows in currencies and deposits are slightly higher compared to expectations from the April forecasts.



The realized net purchase on the currency exchange market in the period July-August 2020 amounts to Euro 127.8 million, which is a decrease of 59.5% on annual basis. Such performances result from the higher decrease in supply than the decline in demand for foreign currency (by 52.8% and 22.5%, respectively).

²¹ According to the new methodology for compiling the balance of payments (BPM6), the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.

Foreign exchange reserves
(stock, in EUR million)

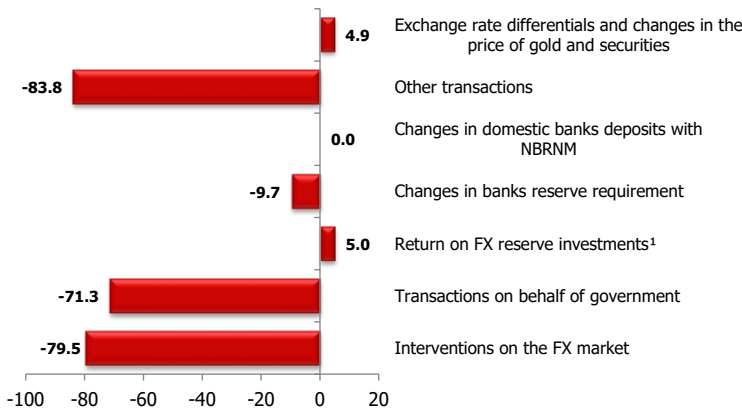


Source: NBRNM.

The balance of the gross foreign reserves on 31 August 2020 is Euro 3,406.4 million.

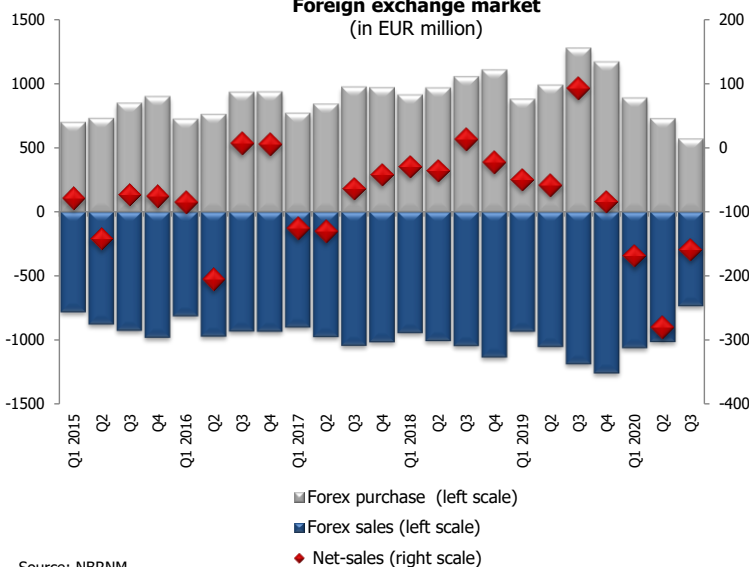
The largest effect on the change in foreign reserves compared to the end of the second quarter had the regular repayment of public sector liabilities abroad, foreign exchange market interventions by the National Bank, as well as regular transactions undertaken within the foreign reserves management. Other flows had a more moderate impact on the changes in foreign reserves in the analyzed period.

Factors of change of the foreign reserves in July and August 2020
(in EUR million)



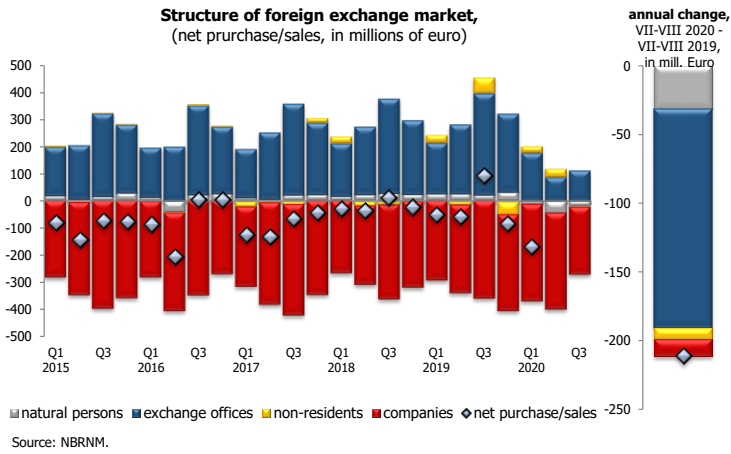
Source: NBRNM.

Foreign exchange market
(in EUR million)



Source: NBRNM.

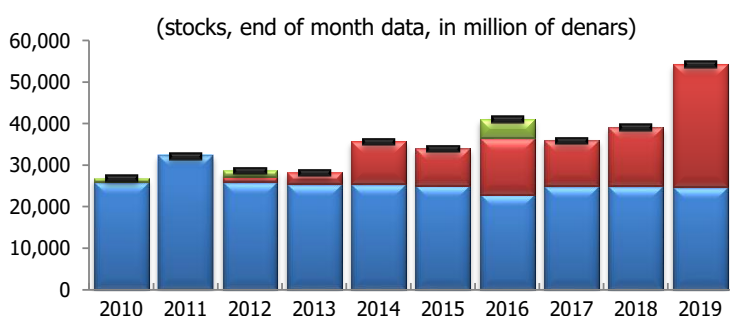
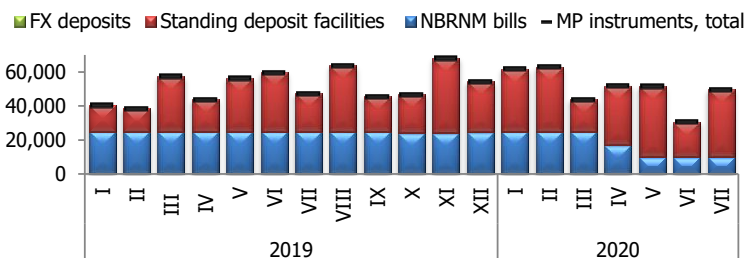
In the period July - August 2020, net sale of foreign currency was realized on the banks' foreign exchange market, compared to the same period last year when net purchase was realized. This change is due to the significantly lower supply in relation to the decline in demand for foreign currency.



Sector analysis shows that such shifts arise from all segments of the foreign exchange market, but for the most part the high net sales of currency exchange offices.

Monetary policy instruments

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



Source: NBRNM

The stock of monetary instruments at the end of July increased compared to the previous month, due to the increase in the amount of funds placed by banks in deposits with the National Bank, amid unchanged amount of the CB bills²². The level of monetary instruments at the end of July is moderately higher than projected for the end of the third quarter of 2020 ²³.

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

Total government deposits with the National Bank in July decreased monthly²⁴, and their balance at the end of July was moderately higher than projected for the end of the third quarter of 2020

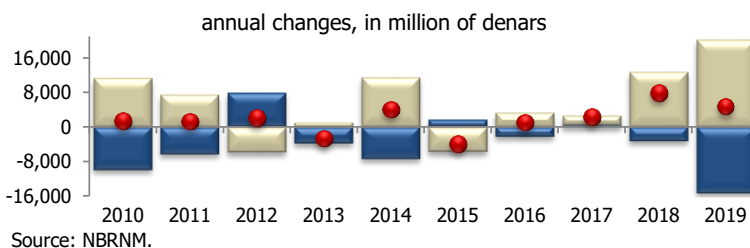
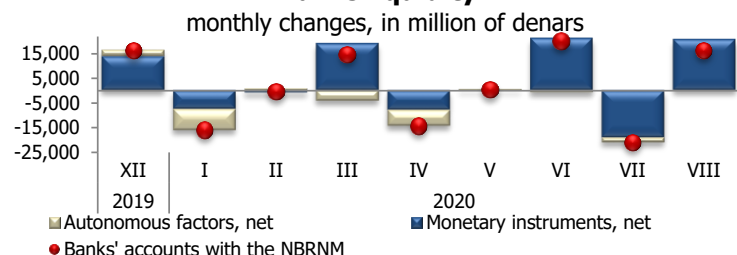
The reserve money in July registered a monthly decline, as a result of the decrease of the total reserves of the banks with the National Bank, with a slight increase of the currency in circulation. The stock of reserve money is currently lower compared to the forecasts for the end of the third quarter of 2020.

²² At the CB bills auction of the National Bank held on 16 July 2020, Denar 10,000 million of CB bills was offered and sold at an interest rate of 1.75% and maturity of 27 days.

²³ The performance comparisons are against the April forecasts of the National Bank.

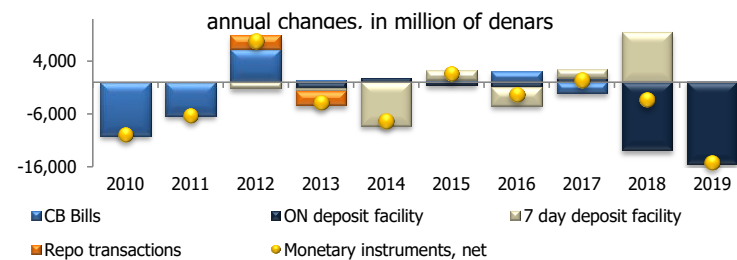
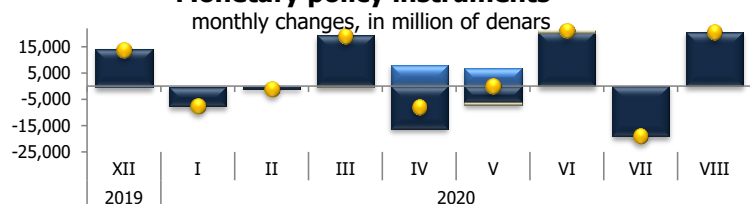
²⁴ In July, the government made regular repayment of its liabilities, which are mostly related to the payment of interest on Eurobonds.

Banks liquidity*



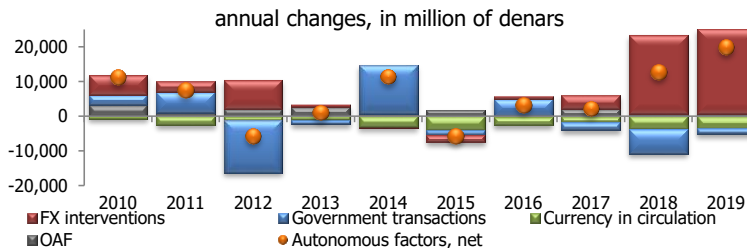
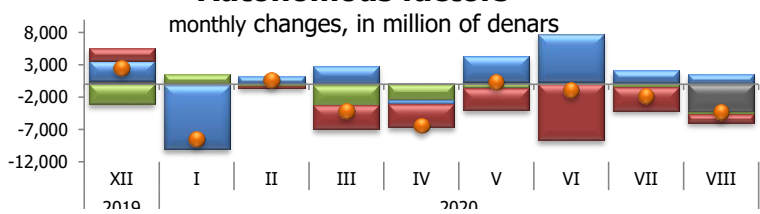
According to the operational data on liquidity flows, the liquid assets of the banking system in August increased on a monthly basis. The change is mostly due to the lower amount of bank placements in short-term deposits (primarily overnight deposits), with a slight decrease in the stock of CB bills²⁵. Autonomous factors on a net basis contributed to the reduction of the banking system liquidity as a result of the change in other autonomous factors, the foreign exchange interventions of the National Bank, as well as the small growth of currency in circulation, while government transactions contributed to the increase in liquidity.

Monetary policy instruments*



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

Autonomous factors*

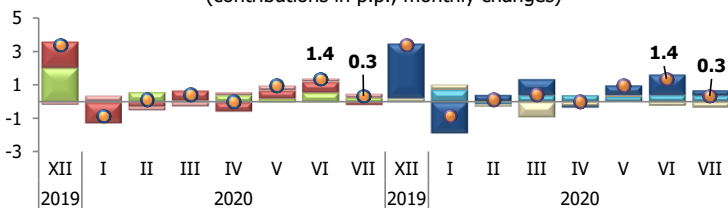


* positive change: liquidity creation, negative change: liquidity withdrawal

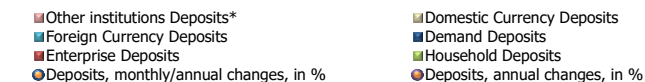
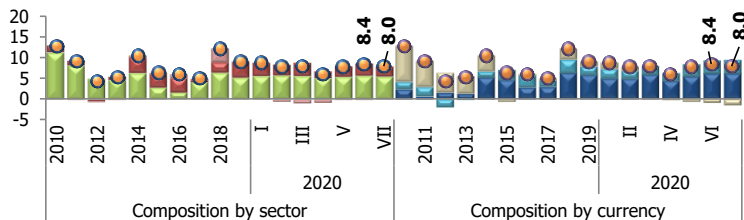
²⁵ At the CB bills auction of the National Bank held on 12 August 2020, Denar 10,000 million of CB bills were offered and Denar 9,789 million were sold at an interest rate of 1.5% and maturity of 35 days.

Total Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



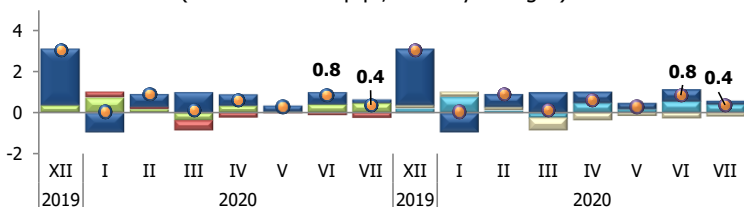
* The Other Institutions Deposits include the deposits of other financial institutions, deposits of local government and deposits of nonprofit institutions serving households at the banks and also the domestic currency transferable deposits of other financial institutions and local government at the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

The total deposits²⁶ registered monthly increase of 0.3% in July, which is moderate deceleration compared to the previous month. From a sectoral point of view, the increase is a result of the equal contribution of household deposits and other sectors, given a decrease in corporate deposits. According to the currency structure, the largest contribution to the monthly growth of total deposits was made by the foreign currency deposits, given almost unchanged denar deposits²⁷ (including demand deposits). Total deposits in July registered monthly growth, which is in line with the expected increase in deposits in the third quarter in accordance with the April forecasts.

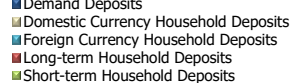
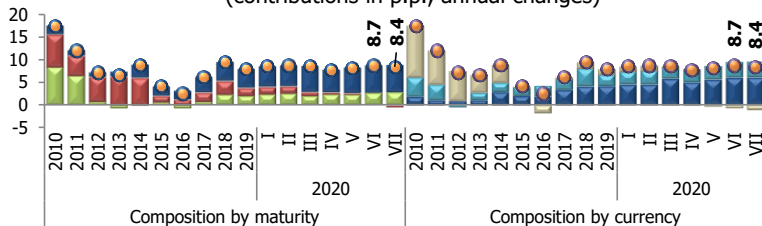
The annual growth rate of total deposits in July was 8.0% and was above the projected annual growth for the end of the third quarter of 2020 (of 4.4%). From sectoral and currency aspect, the growth mostly arises from household deposits, i.e. from deposits in domestic currency (entirely as a result of demand deposits).

Household Deposits

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



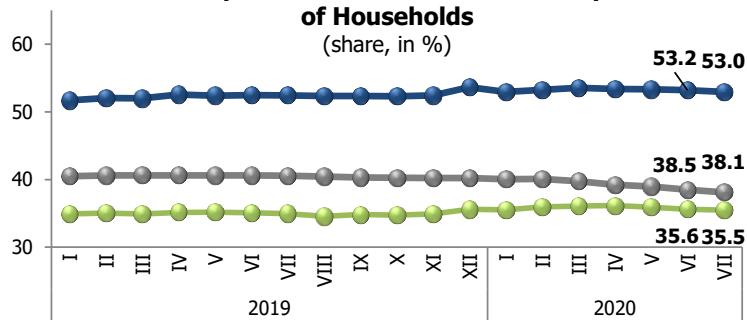
Source: NBRNM.

The household deposits registered a monthly increase of 0.4% in July, which is deceleration compared to the preceding month. Foreign currency deposits made the largest contribution to the monthly growth of household deposits, amid moderate growth of demand deposits. Short-term deposits contributed additionally to the growth, given fall in the long-term deposits. On annual basis, the household deposits growth in July equals 8.4%.

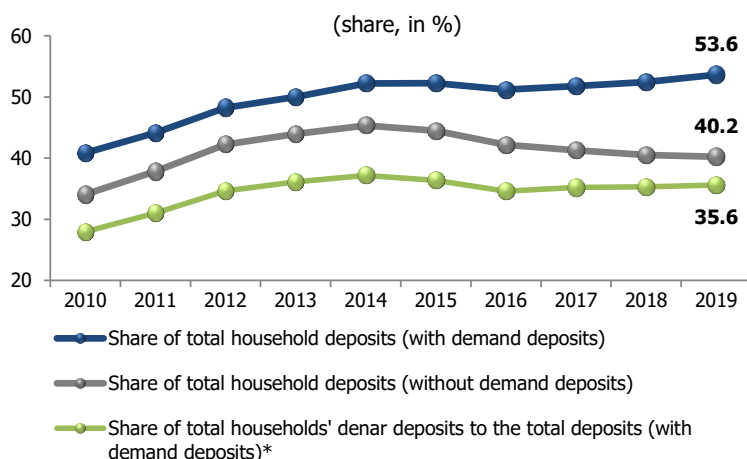
²⁶ Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.x.

²⁷ It is fully due to the increase in demand deposits, given simultaneous decrease in denar term deposits.

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



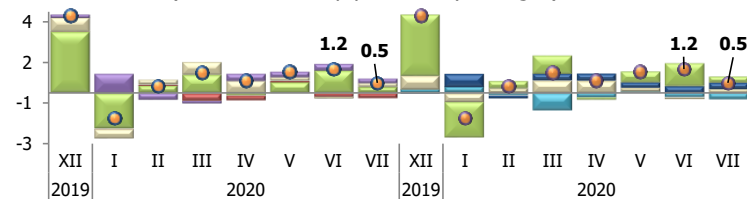
The share of denar deposits (with demand deposits) in the total household deposits is still relatively stable and at the end of July it was 53.0% (53.2% in the previous month).



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

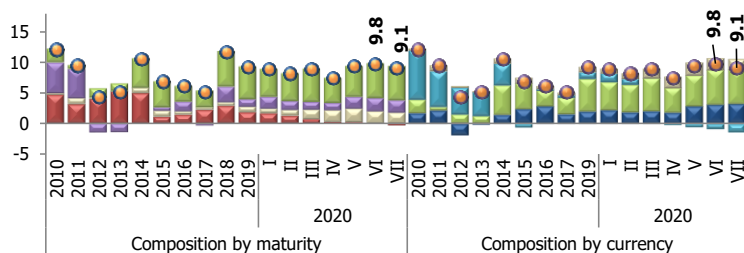
Broad Money M4

(contributions in p.p., monthly changes)



In July, the broad money, measured through M4, registered a monthly increase of 0.5%. The increase is mostly due to the most liquid component of the money supply, i.e. the simultaneous growth of currency in circulation and demand deposits. The other components made an additional contribution to the growth, primarily short-term deposits and foreign currency deposits, amid moderate decline in long-term deposits. **Annually, the money supply is higher in July by 9.1%, exceeding the forecasted annual growth of 5.4% for the third quarter of 2020.**

(contributions in p.p., annual changes)

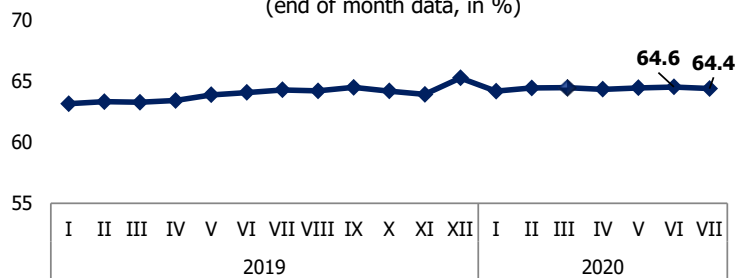


Legend:
 ■ CC Outside Depository Corporations
 ■ Demand Deposits
 ■ Total Short-term Deposits
 ■ Total Denar Deposits

Source: NBRNM.

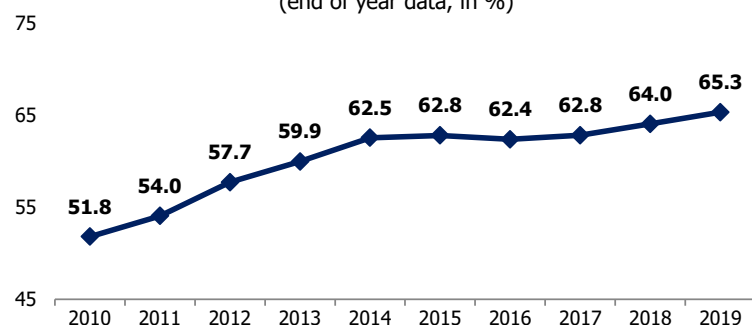
Share of Denar M4 in total M4

(end of month data, in %)



The share of the denar part in the total broad money M4 at the end of July equals 64.4% (64.6% in the previous month).

(end of year data, in %)



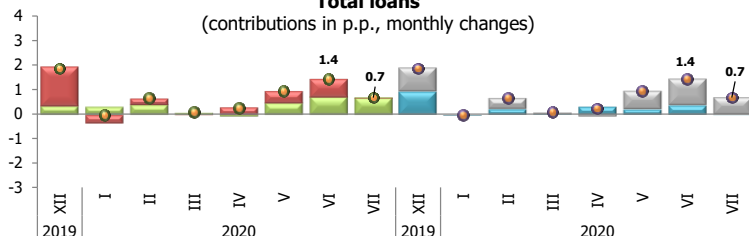
Source: NBRNM.

In July, total credits registered monthly growth of 0.7%, which is a slowdown compared to the previous month.

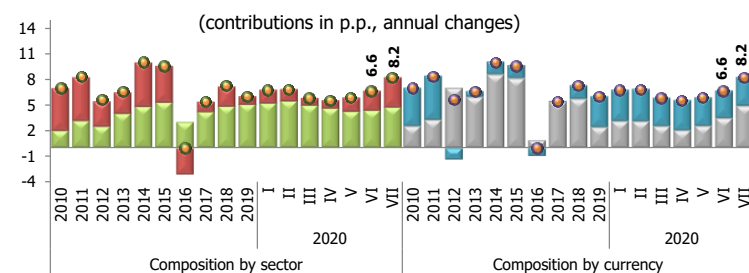
From a sectoral point of view, the credit growth is a result of the increase in household loans, with almost unchanged corporate loans. From currency point of view, the monthly growth of the total loans is a result of the denar loans, with almost unchanged foreign currency loans. Total loans in July registered monthly growth, which is above the projected increase in loans in the third quarter of the year, according to the April forecasts.

Total loans

(contributions in p.p., monthly changes)



(contributions in p.p., annual changes)



Legend:
 ■ Foreign Currency Loans
 ■ Enterprise Loans
 ● Loans, monthly/annual changes, in %
 ■ Domestic Currency Loans
 ■ Household Loans
 ● Loans, annual changes, in %

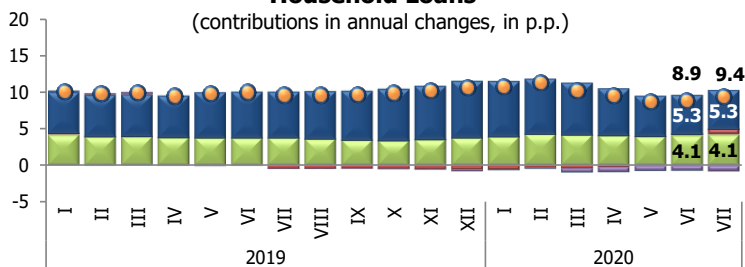
Source: NBRNM.

The annual growth rate of total loans in July was 8.2% and was above the projected annual growth of 5.2% for the third quarter of 2020, according to the April forecasts.

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

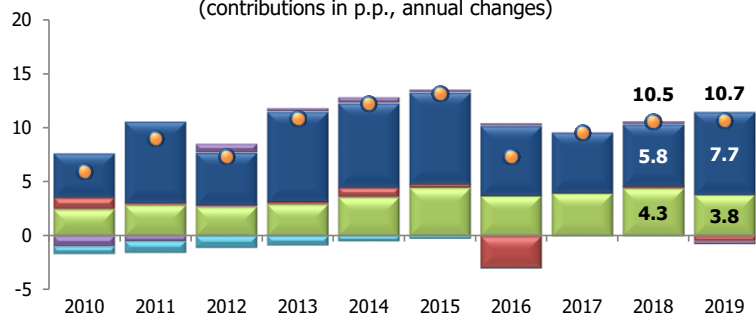
Household Loans*

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



The annual increase in household loans²⁸ in July equals **9.4%**, mostly stemming from the consumer loans, with a contribution of 5.3 percentage points, given solid positive contribution of housing loans as well (of 4.1 percentage points).

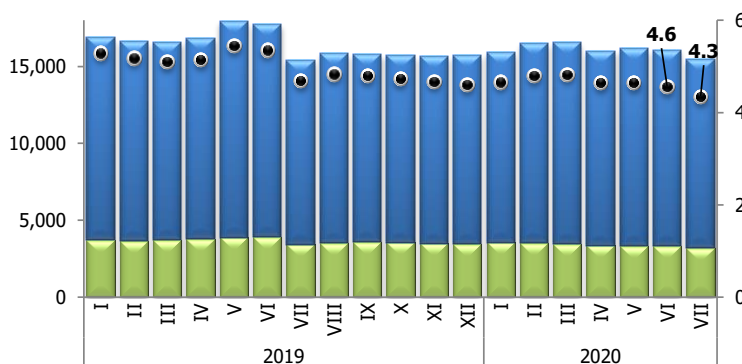
(contributions in p.p., annual changes)



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

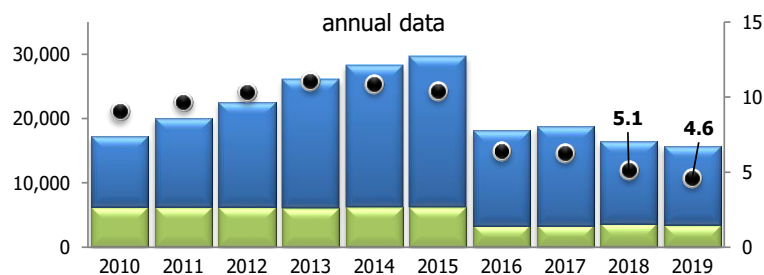
Doubtful and contested claims

(composition by sector and share in total loans)



The share of doubtful and contested claims in the total loans in July equaled **4.3%** and is lower compared to the previous month. By sector, the largest portion of the total amount of non-performing loans still comes from the "corporate" sector, while the share of non-performing loans in the "household" sector is significantly lower.

annual data

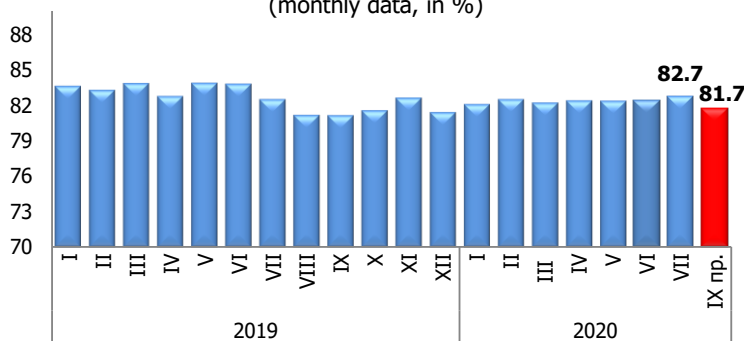


■ Doubtful and contested claims of corporations in million of denars. (l.s.)
■ Doubtful and contested claims of households in million of denars. (l.s.)
● Share of doubtful and contested claims in total loans in % (r.s.)

Source: NBRNM.

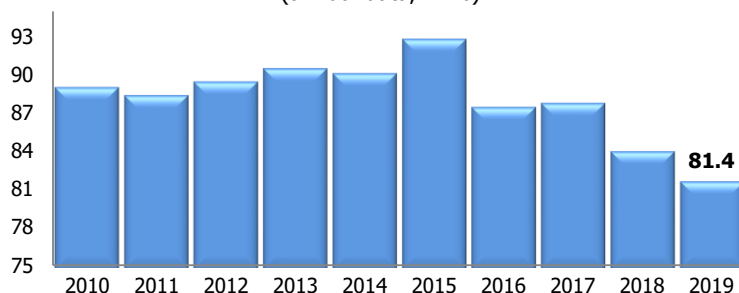
²⁸Excluding loans of self-employed individuals.

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



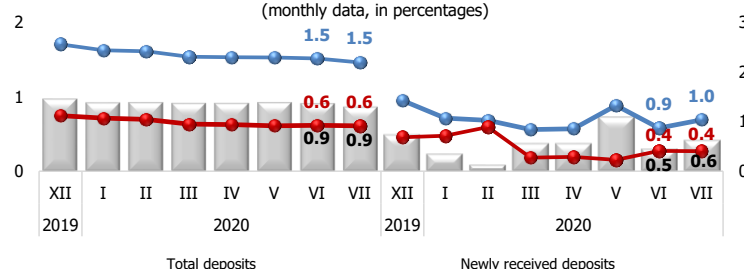
The indicator for the utilization of the banks' deposit potential for lending to the private sector in July was **82.7%**, being higher than the projected value of this indicator for the end of the third quarter of 2020 (81.7%), according to the April forecasts.

(annual data, in %)



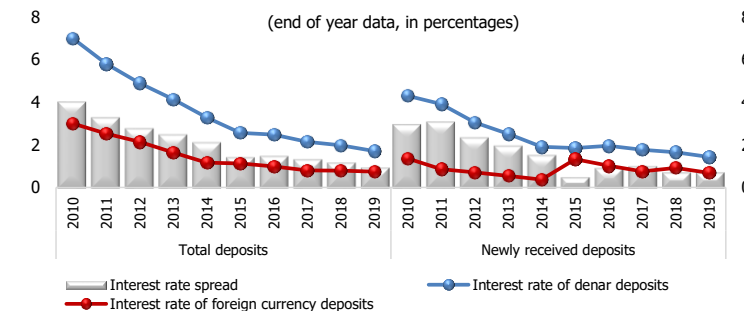
Source: NBRNM.

Total deposits interest rates
(monthly data, in percentages)



In July, the interest rates on the total deposits (denar and foreign currency)²⁹ remained the same as in the previous month, with the spread between these two interest rates remaining 0.9 percentage points. Regarding the newly accepted deposits³⁰, the interest rate spread registered minor widening by 0.1 percentage point, as a result of the increase in the interest rate on the denar deposits by 0.1 percentage point, given unchanged interest rate on the foreign currency deposits.

(end of year data, in percentages)

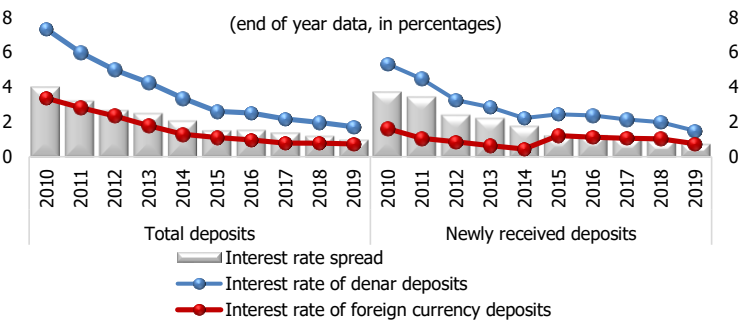
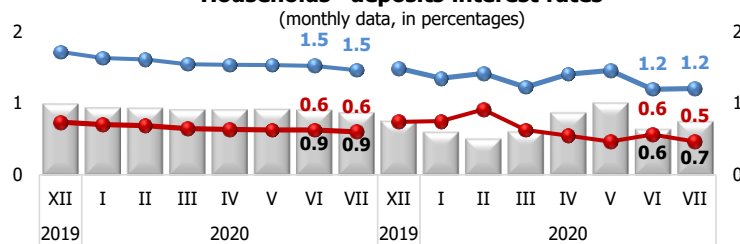


Source: NBRNM.

²⁹ 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.nspj.

³⁰ 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.

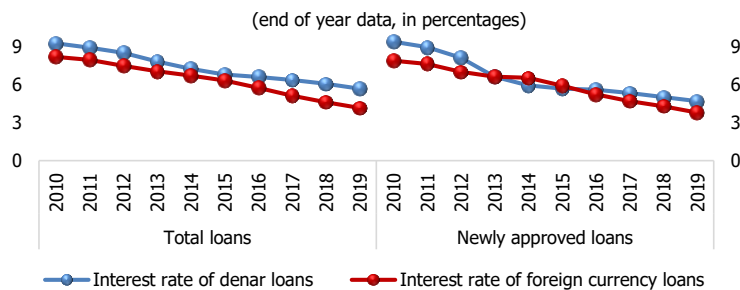
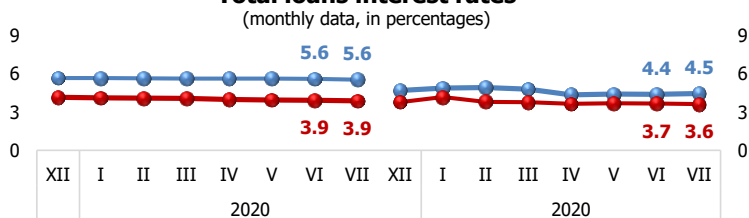
Households' deposits interest rates



Source: NBRNM.

The interest rates on the total household deposits (denar and in foreign currency) did not change compared to the previous month and the interest spread still equals 0.9 percentage points. Regarding the newly accepted household deposits, the interest rate spread widened slightly by 0.1 percentage point, as a result of the decrease in the interest rate on the foreign currency deposits by 0.1 percentage point, given unchanged interest rate on denar deposits.

Total loans interest rates



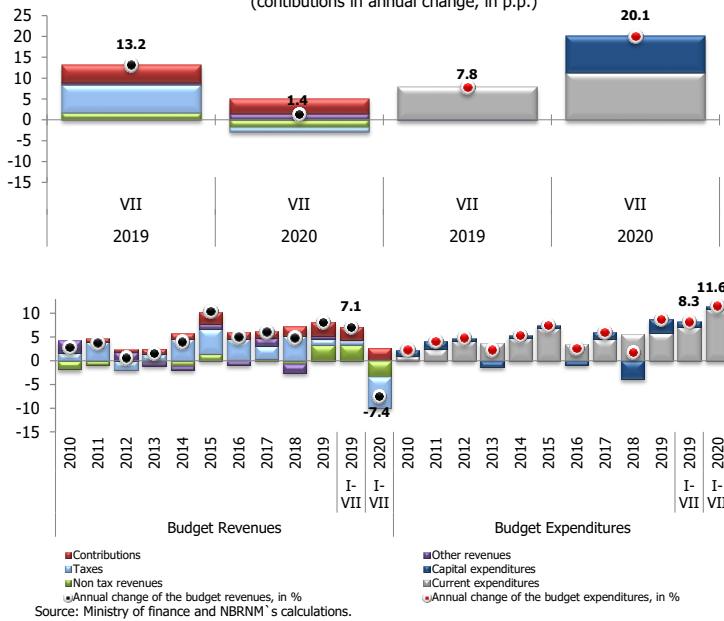
Source: NBRNM.

In July, interest rates on total loans extended to corporate sector and households did not change compared to the previous month, amounting to 3.9% and 5.6%, respectively. Regarding the newly approved loans³¹ in July, the interest rate on enterprises decreased by 0.1 percentage point compared to the preceding month, while the interest rate on households increased by 0.1 percentage points, and equaled 3.6% and 4.5%, respectively.

³¹ 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.)



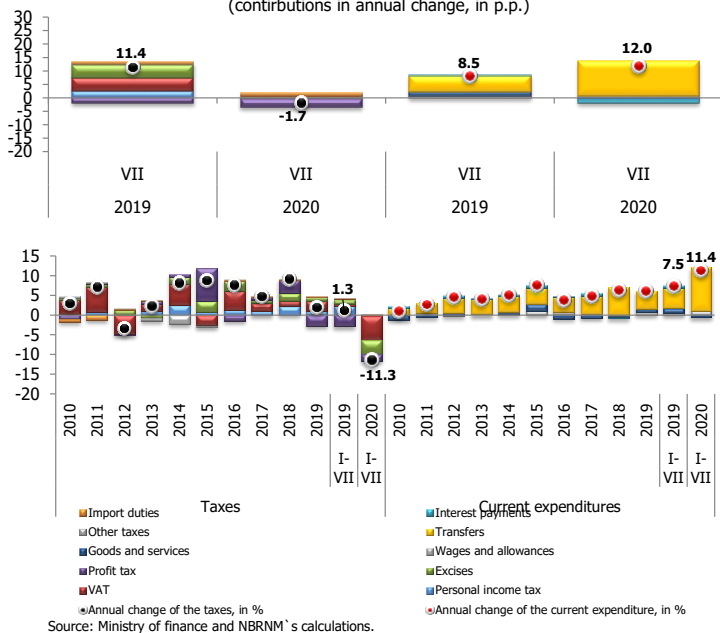
In July, there were favorable developments in the Budget of the Republic of North Macedonia (central budget and funds' budgets). Namely, in July 2020, total budget revenues increased on an annual basis, after the decrease recorded in the previous four months. Total budget expenditures continue to increase on an annual basis, with almost the same dynamics as in the previous month.

The increase in the **budget revenues** of 1.4% stems from the higher contributions³² and other revenues³³ (positive contributions of 3.6 percentage points and 1.4 percentage points, respectively), given decrease in the non-tax revenues and taxes (contributions of 2.0 percentage points and 1.0 percentage point). The decrease in tax revenues in July was significantly mitigated, in contrast to the decrease in the previous four months, and reduced to 1.7% on an annual basis, given lower inflows of profit tax and excises, and higher in import duties, VAT and personal income tax³⁴. **Budget expenditures** are higher by 20.1% on annual basis, resulting from higher current and capital expenditures (contributions of 11.3 percentage points and 8.8 percentage points, respectively). Current expenditures in July increased by 12.0% on annual basis, mostly due to the transfers growth³⁵.

In the period January - July 2020, total budget revenues were lower by 7.4% compared to the same period last year. The decrease is mostly due to lower performance in taxes and non-tax revenues (contributions of 6.4 percentage points and 3.4 percentage points, respectively), while contributions increased (2.6 percentage points). On the other hand, total budget expenditures are higher by 11.6%, which is mostly due to higher current expenditures (mainly due to increased transfers), with a slight increase in capital expenditures.

Taxes and current expenditures

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



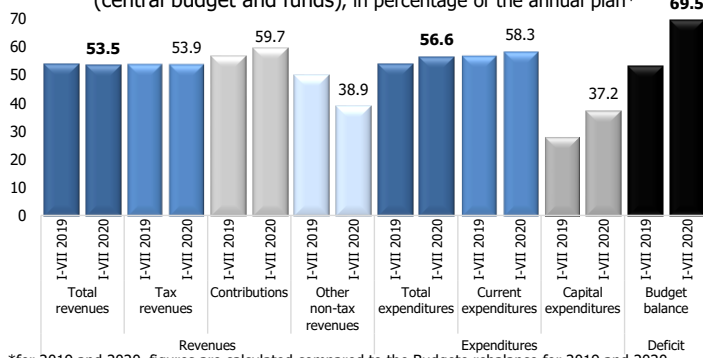
³² The increase in the income from contributions is related to the increased rates for mandatory pension and disability insurance (from 18.4% in 2019 to 18.8% in 2020) and for compulsory health insurance (from 7.4% in 2019 to 7.5% in 2020). Also, the increase in the contributions is related to the increased basis as a result of the increase in the minimum net wage to Denar 14,500 in December 2019, the increase in the wages in the public sector, as well as the effect of the measure for subsidizing the contributions due to the wage growth.

³³ Other revenues include capital revenues, foreign donations and revenues from recovered loans.

³⁴ The positive contribution is related to the increase in the minimum net wage to Denar 14,500 in December 2019, the increase in wages in the public sector, as well as the effect of the measure for subsidizing the contributions due to the wage growth.

³⁵ The growth of transfers is mostly related to the pensions costs, health care costs, the payment of subsidies in agriculture and the payment of subsidies to the wages of companies affected by the coronavirus crisis.

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

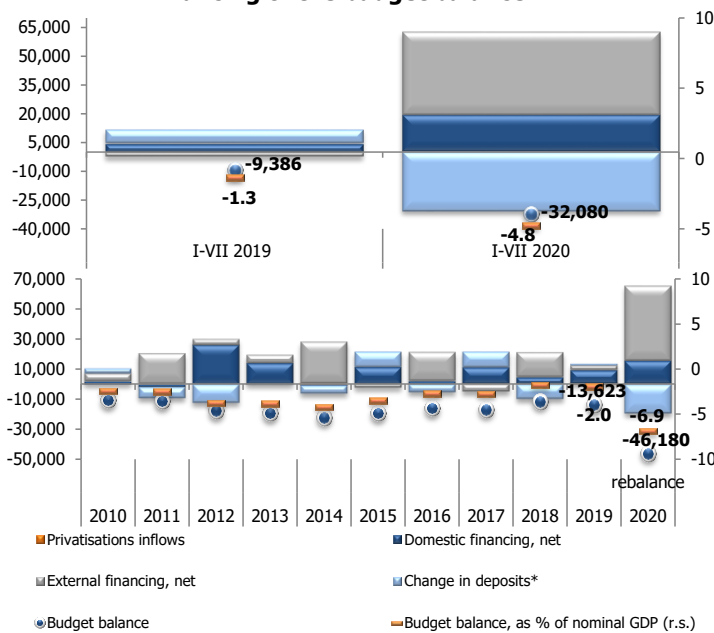


*for 2019 and 2020, figures are calculated compared to the Budgete rebalance for 2019 and 2020, respectively.

Source: Ministry of Finance and NBRNM's calculations.

Compared to the Budget revision³⁶ for 2020, in the January – July 2020 period, 53.5% of the budget revenues were realized (54% in 2019), while the realization in the budget expenditures equals 56.6% (54% in 2019). The realized budget deficit in the amount of Denar 32,080 million represents 69.5% of the revision for 2020 (realization of 53% in the same period of 2019).

Financing of the budget balance



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

The budget deficit registered in the period January - July 2020 of Denar 32,080 million (or 4.8% of the nominal GDP³⁷) is mostly financed from foreign loans³⁸ and domestic borrowings of the Government³⁹, with most of the inflows being retained as government deposits with the National Bank.

³⁶ The Government of the Republic of North Macedonia, at its session held on 15 May 2020, adopted a decree with legal force amending the Budget of the Republic of North Macedonia for 2020 during the state of emergency ("Official Gazette of RSM", No. 126 from 15.5.2020).

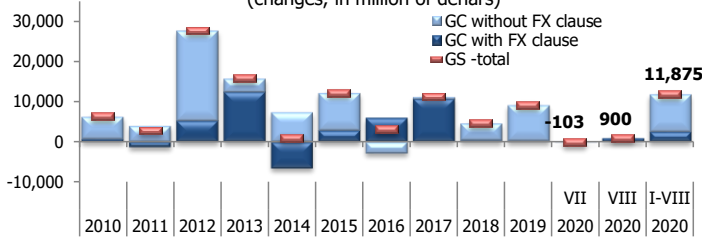
³⁷ The analysis uses the National Bank's April forecasts for the nominal GDP for 2020.

³⁸ At 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.

³⁹ Besides 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

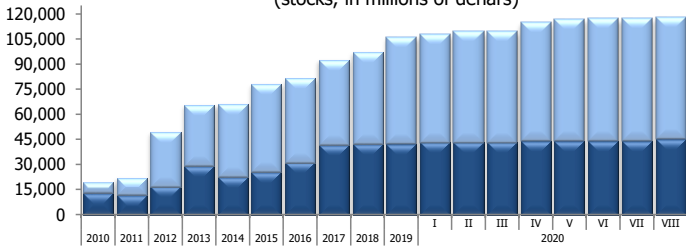
Government securities

(changes, in million of denars)



In August 2020, the stock of issued government securities on the primary market increased on a monthly basis by Denar 900 million and at the end of the month reached Denar 118.228 million. Monthly growth stems from the increase in government securities with a currency clause. Compared to the end of 2019, the stock of government securities at the end of August is higher by Denar 11,875 million.

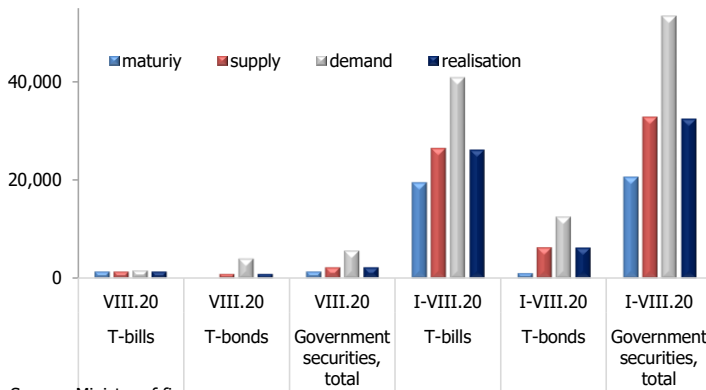
(stocks, in millions of denars)



Source: MoF.

Government securities auctions

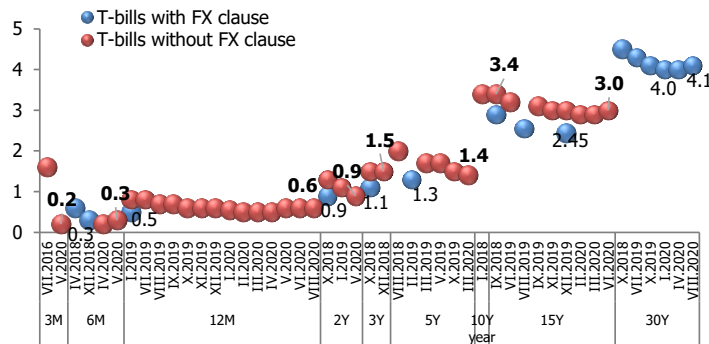
in million of denars



Source: Ministry of finance.

The new issues of government securities in August⁴⁰ 2020 had a maturity of twelve months and thirty years, with the interest of market participants being higher than the offered amount. In conditions of issuance of government securities in a larger amount than the due amount, their stock increased at the end of August.

Interest rates of T-Securities in percent



Source: Ministry of Finance

In August, the Ministry of Finance maintained the same interest rates on the newly issued twelve-month government securities without currency clause (0.6%), while the interest rates on the thirty-year government securities with currency clause minimally increased (from 4.0% to 4.1%).

⁴⁰ In August 2020 the three-month and the twelve-month treasury bill fell due.

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	May	June	July
	<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	-20.5	-13.6	-14.5
VAT revenues*	3.9	6.5	7.5	6.9	3.5	1.4	7.5	6.6	1.8	-20.0	-30.7	-3.4	-11.9
Imports of consumption goods*	8.0	2.6	3.0	11.0	2.8	5.9	9.7	4.7	6.8	-12.4	-17.6	4.4	-2.0
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	-25.2	-11.7	-5.2
Consumer credits*	7.7	8.2	8.5	9.3	8.2	9.6	9.3	10.1	9.7	6.3	8.4	6.3	7.1
Average net wage*	3.4	4.7	3.9	5.4	2.2	2.4	3.5	4.2	10.0	4.6	4.7	4.8	-
Private net transfers*	5.6	9.1	4.3	2.0	-2.2	-4.7	5.7	2.1	-2.7	-40.1	-40.7	-27.2	-
Pensions*	2.1	3.4	2.6	4.4	4.1	2.2	3.9	2.1	5.7	6.2	7.9	5.1	6.1

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

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

INDICATIVE VARIABLES FOR INVESTMENTS													
	2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	May	June	July
	<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	-41.6	-7.3	-5.3
Completed construction works**	-39.6	0.9	-10.0	14.6	15.1	-3.3	3.0	5.3	6.3	-5.1	2.5	-4.0	-
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	-47.1	-22.5	-17.4
Government investments*	-65.0	-39.5	-10.7	-34.1	-11.1	62.7	26.3	66.5	23.7	-34.4	-51.5	-51.8	159.7
Direct Investments***	8470.6	5711.2	3716.7	8238.3	-12128.9	-3653.4	4093.0	-7892.4	5327.7	-1568.8	-1929.5	-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	8.2	11.7

* 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.