I. Macroeconomic forecasts and risks

The April macroeconomic forecasts indicate a recovery of this years' economic activity after the deep decline in the previous one, similar to the October forecasts. Given the prolonged nature of the crisis and outburst of the third wave of the pandemic during the first quarter of 2021, the recovery in 2021would be partial, and the return to a pre-crisis level is expected during 2022. Regarding the domestic factors, the health crisis led to prolonged measures for preserving public health, as well as introducing new restrictions, albeit less rigid than the ones in the beginning of the pandemic. At the same time, the economic support continues, through monetary easing and fiscal impulse. The international factors are expected to stimulate the domestic economy, amid gradual stabilization of the global production chains and growth of foreign demand. The current assessments indicate its more moderate increase in 2021, primarily due to recovery of the service sector, so this revision would not greatly affect the previously expected recovery pace of the domestic economy this year. The foreign demand assessments for 2022 indicate its intensive increase. Such environment, along with the assessments for reduced pressure by the pandemics, with the already initiated immunization will provide more favorable conditions for the next year. Consequently, a growth of the domestic economy is expected, which would be slightly higher than previously expected.

Economic activity growth of 3.9% is expected in 2021 and 2022, in line with the embedded assumptions on the external environment and domestic factors, which is a slight upward revision for 2022 compared to the October forecasts (3.9% and 3.6% in 2021 and 2022, respectively). The expected acceleration of the vaccination both, globally and domestically, which will rapidly resolve the health crisis, as well as improved economic prospects for our major trade partners, will determine intensive recovery of the economy in 2022 and upward revision of the assessment on the growth of the GDP. **The growth of the economy will continue in 2023, with the same expected October rate of 4%.** Regarding the growth structure, there are no significant changes, so that in this cycle of forecast, the GDP growth is expected to result from the domestic demand in both years, while the net-exports will have negative contribution. **Upward revision is made in the inflation rate for 2021 compared to the October forecasts, and is currently assessed at 2.2 (1.5% in the previous forecast),** amid upward corrections in foreign input assumptions related to oil and food prices. **The inflation rate is still expected to be around 2% in 2022 and 2023. The expectations for future movements in the external sector indicate narrowing of the deficit in the current account up to 2.9% of the GDP in 2021,** which is mostly due to improved expectations for the secondary income, amid gradual decreasing negative effects of the pandemic throughout the year. The decrease would continue in the next two years, whereby **in the following two-year period (2022-2023), the current account deficit would average around 2.1% of the GDP.** The foreign reserves will remain at an appropriate level throughout the period of forecast.

1.1. Assumptions in the external environment forecast[1]

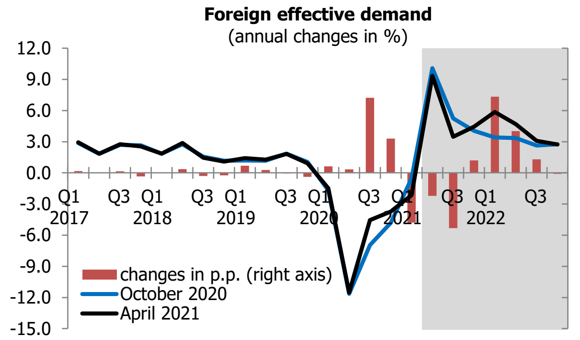
According to the latest assessments, the foreign effective demand[2] for 2021 is revised downward, while upward for 2022, compared to the October forecasts, amid simultaneous less negative performances in 2020 than the expected. The current expectations indicate growth of foreign effective demand in 2021 of 3.6% (4.6% in October), while in 2022, the growth will accelerate, and reach 4.1% (3% in October). The downward revision for 2021 is due to the weaker expected growth of the GDP in all countries compared to October forecasts, out of which Germany has the biggest

[1] EUROSTAT is used as a source of historic data on foreign demand, foreign inflation, exchange rate of the US dollar against the euro and EURIBOR, while the World Bank statistics is used for the prices of oil, food and metals. The forecasts on foreign demand, foreign inflation, the exchange rate of the US dollar and EURIBOR are based on "Consensus Forecast", while the forecasts on the prices of oil, food and metals are based on the forecasts of market analysis. Different reports from IMF, World Bank, ECB, FAO, OPEC and specialized economic portals are used in the analysis.

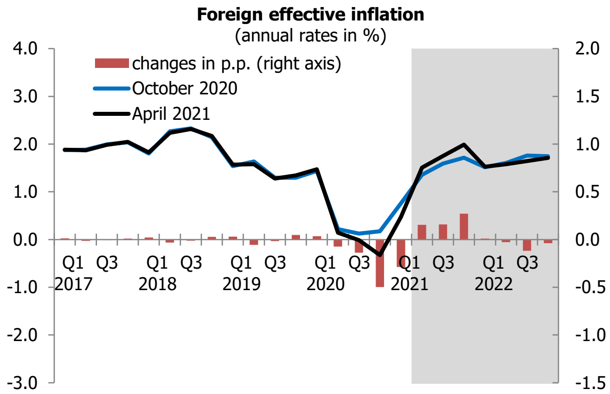
[2] Foreign effective demand is calculated as weighted sum of indices of gross domestic product of the major partners of the Republic of North Macedonia in the field of export. The calculation of this indicator includes Germany, Greece, Italy, Netherlands, Belgium, Spain, Serbia, Croatia, Slovenia and Bulgaria.

contribution, which is assessed to have slower recovery of the service sector due to the restrictions in dealing with the third wave of the pandemic. On the other hand, the assessment for stronger economic growth in Germany in 2022 in comparison to the October expectations are a key factor for upward correction of the foreign effective demand in 2022. Thus, the German economy would increase by 3.4% in 2021, followed by an accelerated growth in 2022 it would reach 3.9% (growth of 4.4% and 2.5% in 2021 and 2022, respectively, in the October forecasts).

Compared to the October forecasts, the assessment for the foreign effective inflation[3] remained the same for 2021, while a minimal downward revision is made for 2022. Current assessments indicate a growth of 1.4% and 1.6% in 2021 and 2022, respectively (1.4% and 1.7% in 2021 and 2022, respectively in October), while the downward revision for the assessment for 2022 stems from the lower expected price growth in most of the countries from the index.



Source: Consensus forecasts and NBRNM calculations.



Source: Consensus forecasts and NBRNM calculations.

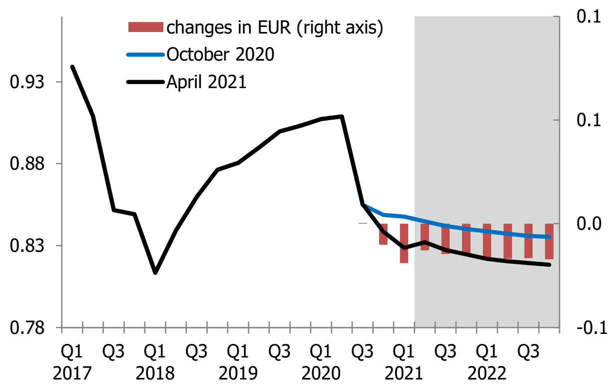
According to the latest assessments on the exchange rate movements euro/US dollar, a downward revision is made in 2021 and 2022 compared to the October forecasts, especially in 2021. Thus, a deeper depreciation of the US dollar against the euro of 5.6% and 1% in 2021 and 2022, respectively, is expected in the current forecasts, as opposed to the previously forecasted depreciation of 4.1% and 0.8% in 2021 and 2022. The downward revision corresponds to the FED decision on extending the adjustable monetary policy until meeting the long-term inflation and employment targets.

A significantly higher growth of the oil price for 2021 is expected in this forecasting, compared to the October. Thus, a growth in the oil price is expected in 2021, of 38.5% (3.4% in October), due to more favorable expectations for the recovery of the global economy from the pandemic, as well as the expectations for further production restraint by the OPEC+[4] member countries. On the other hand, a downward revision is made for 2022 with expected decline in oil price of 5.3% (compared to the expectations for growth of 3.8% in October).

[3] Foreign effective inflation is calculated as weighted sum of consumer price indices of the countries that are major partners of the Republic of Macedonia in the field of import of consumer goods. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia and Serbia. The inflation in Croatia and Serbia is adjusted due to the exchange rate changes.

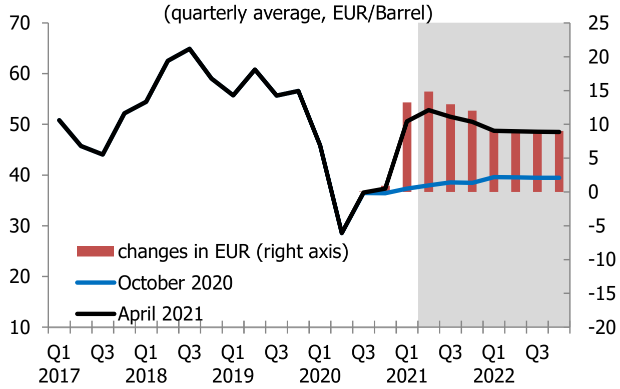
[4] At the meeting on 4 March 2021, the OPEC+ countries decided to keep the level of limited production from March to April 2021, excluding Russia and Kazakhstan which were allowed to increase the production by 130.000 and 20.000 barrels a day, respectively as well as Saudi Arabia to continue to voluntarily decrease its oil production in April 2021 (for additional 1 million barrels a day). At the meeting on 1 April 2021, they decided to prolong the limitation of production for the next three months, but to gradually increase the volume of oil production by 35.000 barrels a day in May and June and by 441.000 barrels a day in July, according to the decision in December 2020 on maximum adjustment of production by 0.5 million barrels a day each month.

EUR/USD exchange rate



Source: Consensus forecasts and NBRNM calculations.

Brent oil
(quarterly average, EUR/Barrel)

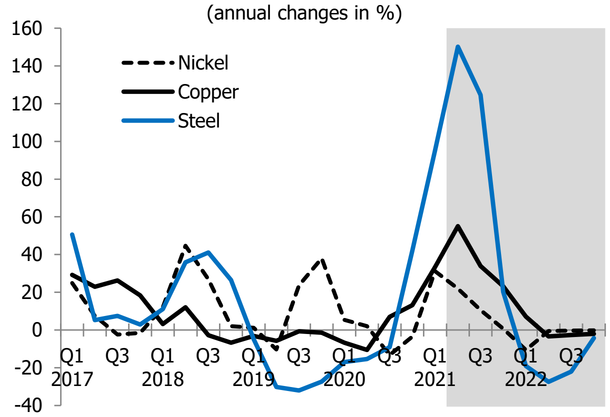


Source: IMF and NBRNM calculations.

According to the latest forecasts, a significant upward revision is made in the prices of metals for 2021 and mostly downward one for 2022, compared to the October forecasts. In conditions of shortage on the side of offer and expectations for intensive growth of demand for metals, led by China and the industries for electrical and hybrid vehicles, batteries and energy infrastructure construction, a significant increase of the prices of basic metals on the world market is expected. Thus, in 2021 a double digit growth of the euro prices of copper, nickel and steel is expected, opposite to the expectations for a slight increase in October. The current assessments for 2022 indicate a decline in the prices of nickel and steel, unlike the previous expectations for their slight increase, while the minimum decline of the copper is similar to the one in October.

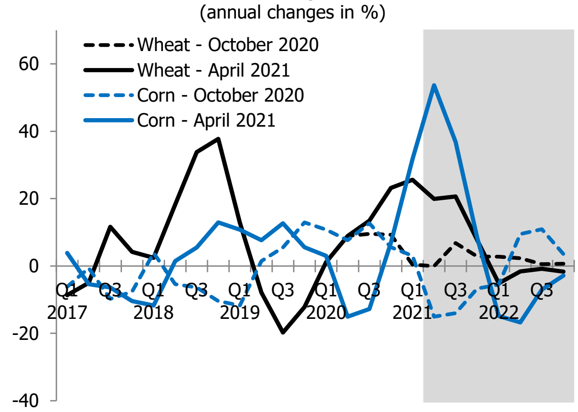
From the aspect of the prices of food products, April assessments for 2021 are significantly revised upwards, while for 2022 the revision is downwards. Thus, in 2021 a more intensive growth of the euro price of wheat and corn is expected compared to the October forecasts. The upward revision of the price of wheat is due to the expectations for stronger growth of demand, the introduced export tax by Russia[5] and the assessments for production lesser than the expected, in line with the less favorable conditions for harvest in certain parts of the world. Similar to this, the more intensive growth in the price of wheat is mostly a result of the assessments for high demand especially from China), which would surpass the expectations for global production, which could result with a decline of stocks in the next period. On the other hand, the prices of wheat and corn will record a decrease in 2022, compared to the moderate increase forecasted in October.

Metal prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

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



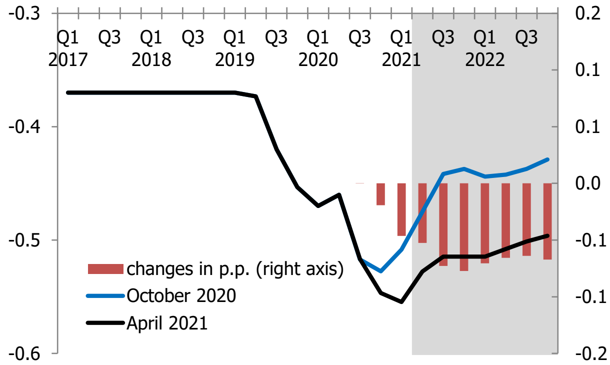
Source: IMF and NBRNM calculations.

Regarding the **interest rate of the one-month EURIBOR**, a downward revision is made for 2021 and 2022, compared to the October forecasts. Thus, the average level for 2021 and 2022 is expected to be -0.53% and -0.50%, respectively, compared to the October expectations for an average level of -

[5] More information on the following link.

0.47% and -0.44% in 2021 and 2022, respectively. Such movements arise from the decision by the ECB in March 2021 on implementing more stimulating monetary policy during the second quarter by increasing the volume and flexibility of the Pandemic emergency purchase program (PEPP), in order to provide favorable financial conditions.

1-month Euribor
(quarterly average, in %)



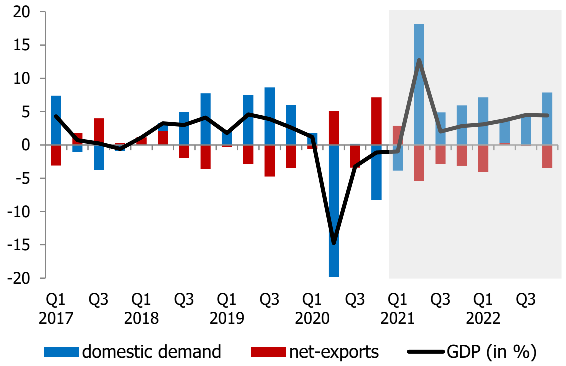
Source: Consensus forecasts and NBRNM calculations.

1.2. Forecast and effects on monetary policy

April macroeconomic forecasts on domestic economy are mostly similar to the October scenario, with a similar structure of growth and downward risks. In addition, the latest forecasts indicate a stable external position of the economy and foreign reserves which in the next period will be maintained at an appropriate level. *Namely, with the moderate recovery of the domestic economy this year, and the projected trajectory of growth in the following one, heavier import pressures and wider deficit are expected, but not in a volume that would cause a deterioration of the external balance. The recovery of the private transfers abroad is expected to contribute to the strengthening of the external position, according to the enhanced process of immunization in the developed countries and expectations for eased measures for movement of passengers from the second half of 2021. Consequently,* ***gradual narrowing of the current account deficit is expected, throughout the forecast period.*** *Therefore, the current account deficit will continue to be moderate and* ***mainly financed by the borrowing of the public sector and the inflows from foreign direct investments. The latest assessments on the foreign interest rate, as an important external factor for implementing domestic monetary policy, are slightly lower compared to the October forecasts,*** *whereby the on-month EURIBOR interest rate will remain in the negative zone throughout the forecast period. Namely, the ECB policy setup still indicates maintaining the adjustable monetary policy on longer terms and providing favorable financial conditions.* ***Risks underlying the baseline macroeconomic scenario are still assessed as downward and are mainly related to the COVID-19 pandemic.*** *The major downward risk is related to the possible slower immunization which is tightly connected to the purchase and distribution of vaccines, as well as to the re-intensification of the pandemic with the occurrence of new virus mutation and their greater resilience to the to the already existing vaccines, which could lead to re-introduction of more vigorous restrictive measures for the virus spread prevention. Possible materialization of these risks could lead to repeated deterioration of the production chains and demand as well as significantly slower dynamics of the economic recovery, thereby to difficulties in existence of companies and slower recovery of the labor market.* ***On the other hand, faster vaccination than expected and the progress in the medical treatment of the coronavirus and developing vaccines resilient to the new mutations, are potential positive risks.*** *If the threat from the coronavirus is overcome faster than the expected, the enhanced confidence could significantly encourage the global, and accordingly the domestic economic activity. In addition, the membership of our country in NATO and the commencement of the negotiations for full membership in the EU remain a positive risk to the forecast, in the medium run.*

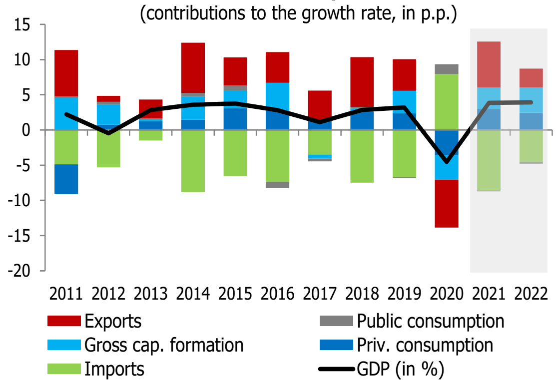
After the decline of the economy of 4.5% in 2020, the high-frequent data and assessments on the first quarter indicate further decrease of the economic activity, amid third wave of COVID-19 pandemic and introduced restrictive measures for public health protection. Given the presence of the more restrictive measures in the beginning of the second quarter, the high expected annual growth of the economic activity in the second quarter will reflect the relatively low comparison basis from the previous year. Economic recovery is expected from the second half of the year with moderate annual growth rates, amid expectations for foreign demand recovery, easing the restrictive measures, rapid immunization of the population which will increase the consumers and investors' confidence, amid further favorable price conjuncture in export and economic support through fiscal measures and maintaining favorable financial conditions. Hence, **a growth of 3.9% is expected throughout 2021**, amid positive contribution from the household consumption and investments, and a negative one from the net export, amid intensive growth and export of goods and services. A similar growth structure is expected in the forthcoming period, where **in 2022 and 2023 a growth of the economy of 3.9% and 4% is expected, respectively.** According to the forecasted growth trajectory for the period ahead, the economy is still expected to return to the pre-crisis period level (i.e. to the level of 2019) during 2022.

Growth decomposition
(contributions to the y-o-y rate, in p.p.)



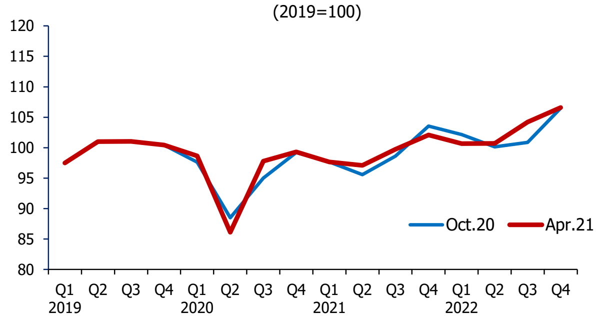
Source: SSO and NBRNM calculations.

Growth decomposition
(contributions to the growth rate, in p.p.)



Source: SSO and NBRNM calculations.

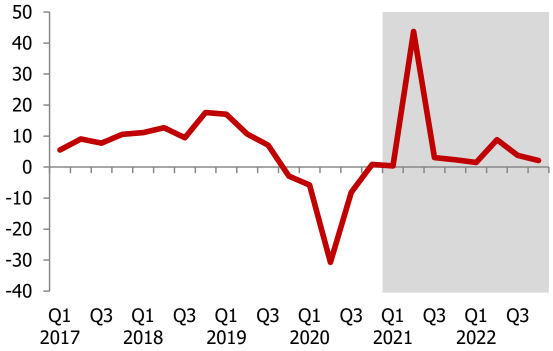
Real GDP level
(2019=100)



Source: State Statistical Office and NBRNM calculations.

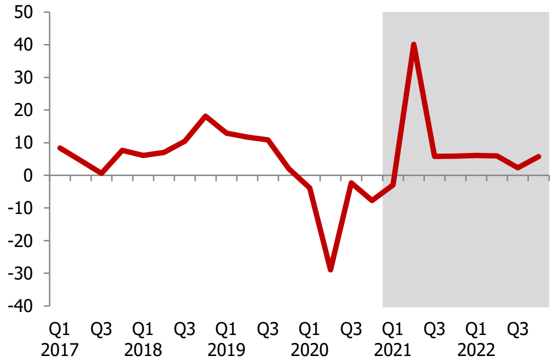
From the aspect of the GDP components, the real export of goods and services is assessed to be one of the major impulses for increase of the economic activity in the current and the next year. In conditions of relatively rapid recovery of the global supply chains and gradual exhaustion of the negative effects of the crisis, the recovery of the export activity from 2020 will continue throughout the year, when a significant intensification of the growth is expected, and will continue in 2022, but at a slightly moderate pace. Such expectations in export of goods and services are in line with the recovery of the economic activity among our trade partners, especially Germany, whose growth would stem from the industry, especially car industry, amid increased export orders from the Asian market. Hence, our export capacities, which are part of the car industry chain, are expected to enhance their activities in the forthcoming period, especially in the second half of 2021. At the same time, increase of the export is expected among other capacities, especially from the metal industry, amid expectations for more favorable prices of metals.

Exports of goods and services
(y-o-y changes, in %)



Source: SSO and NBRNM calculations.

Imports of goods and services
(y-o-y changes, in %)



Source: SSO and NBRNM calculations.

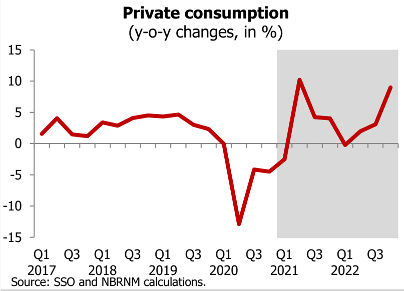
Gross investments will become a leading component for the growth of domestic demand, as solid recovery dynamics is expected in the current year and an additional accelerated growth in the following one. Stronger recovery of the investment activity is assumed in the second half of 2021, amid gradual increase of confidence and expectations for growth of private investments, amid further intensive credit support by banks and government economic measures for favorable credit lines, enhanced infrastructure projects, growth of foreign demand and export, and increased foreign direct investments.

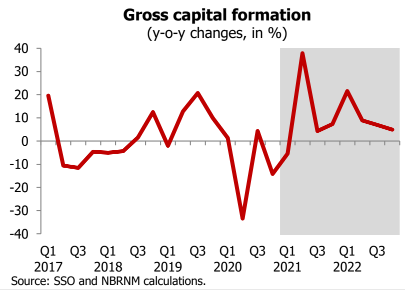
After the sharp decline in 2020, determined by the great restraint from consumption, a partial recovery in **personal consumption** is expected in 2021, and intensive growth in the following year. It is estimated that in conditions of third pandemic wave, there will be restraint from consumption until the second quarter of the year. In line with the expectations for intensive immunization of population, increased optimism and gradual increase of inclination for consumption are expected, and thus more intensive growth of consumption in the forthcoming period. At the same time, growth of the disposable income is expected, amid positive but moderate number of employees, wages and pension bill in 2021 and their intensive growth in 2022, amid significant recovery of private transfers, in line with the recovery of global growth and gradual abolition of the restrictions for international movement of passengers. Further credit support is also expected by the banks, supported by the monetary policy measures, as well as certain positive effects expected from the undertaken fiscal measures for support of the employee's wages. Hence, solid growth rates of personal consumption are forecasted for the period 2021-2022.

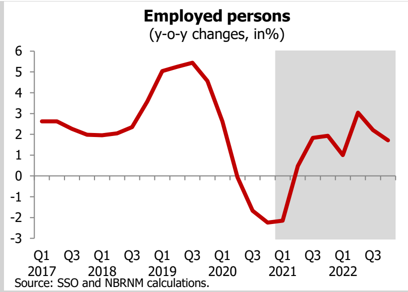
Regarding **public consumption**[6], a slight decrease is expected in 2021 and slightly larger decrease in the following year, in line with the expectations for gradual exhaustion of the effects from the crisis and gradual consolidation of the costs of health protection in the forecasted period.

More pronounced growth of **import demand** is expected in 2021 and a more moderate increase in the following year. Such dynamics primarily stems from the significantly upward movement in export, with additional pressures which are expected from the recovery of personal consumption and investments. Negative contribution from the net export to overall economic growth is expected in the period 2021-2022.

[6] Public consumption forecasts are based on the information from the 2021 budget and revised fiscal strategy of RNM for 2021-2023 (with perspectives until 2025) from December 2020.







Current forecasts indicate solid lending activity in 2021 and moderate acceleration of the growth rates in the following two years. Namely, the solid growth of loans in the first quarter of 2021, is expected to continue in the second quarter with assessments for its gradual acceleration in the second half of the year. Such assessments are due to the expectations for reduced pressures from the health crisis and intensified economic activity in the second half of 2021, thus a gradual restoring of confidence and increased credit demand from households and companies. The measures undertaken by the National Bank on maintaining favorable financial conditions by reducing the key interest rate in March to its historic lowest, as well as the announced economic measures such as credit lines to support the enterprises in mitigating the negative effects from the pandemic, will have positive impact on the future lending activity. Thus, at the end of 2021, the credit growth is assessed to be 5.8% (4.7% at the end of 2020), with a gradual acceleration of the lending activity in the following period, with an average rate of 7.0% in the period 2022-2023. In conditions of existing health crisis, the restraint for consumption and investments is expected to be more pronounced with deposits in the first half of 2021, along with further support through economic measures for companies and households. Hence, the growth of deposits will accelerate by reaching 7.5% by the end of 2021 (5.7% in 2020). In conditions of slight uncertainty and intensive economic recovery, greater inclination for consumption and investments is expected, due to which the growth of deposits will stabilize in 2022, after which it will moderately accelerate by reaching 8% in 2023.

Lower current account deficit is expected in the current year by 0.5 p.p. of the GDP, which would amount to 2.9% of the GDP. Such expectations are almost entirely due to the forecasted recovery of current transfers, a category which was most severely affected by the adverse effects of the pandemics. Namely, gradual easing of the restrictive measures in the EU countries, in line with the expectations for rapid immunization will contribute to growth of inflow of remittances through formal channels, as continuation of the changes that began in 2020, initiated by the limited international movement of passengers. On the other hand, a deterioration of the balance of goods and services, amid unfavorable expectations for trade deficit and lower forecasted surplus in the balance of services. Significant upward adjustment of the export component is expected in the foreign trade exchange, which arises from the stabilization of the expectations, growth of foreign demand, primarily in the field of industry, recovery of the global supply chains and increased foreign export capacities in the car industry, complemented with favorable exchange conditions in metal industry. The growth of export, as well as the recovery of the domestic consumption, but primarily the growth of crude oil and energy prices, will contribute to higher upward movement in import, and by that to widening of the trade deficit. A decrease of the surplus is expected in the balance of exchange of services, pressured by the recovery of import of services. Further slight narrowing of the deficit is forecasted in the primary income, in line with the expectations for partial economic recovery, which would mean overflow of the consequences from the last-year's crisis towards the financial result of the domestic companies with foreign capital in the current year. **The current transactions deficit in 2021 is expected to be financed through government borrowing from foreign sources, primarily through Eurobond, as well as foreign direct investments and long-term borrowings in the form of financial loans of other sectors of the economy.** On the other hand, net outflows in the currency and deposits category are expected to continue, but at a more moderate pace, amid decreased uncertainty and graduate stabilization of expectations and confidence. **In the following two-year period, 2022-2023, the current account deficit will additionally decrease, and will average around 2.1% of the GDP,** amid expectations for further improvement in the secondary income, better position of the balance of services and narrowing of the trade deficit influenced by the stable export performances and slightly moderate import pressures. The normalization of the conditions would have a positive effect on the profitability of the domestic companies owned abroad, and moderately increase the primary income deficit. The inflows from foreign direct investments are estimated as major financing sources of the current account deficit in the last two years, complemented with external long-term borrowing, especially in the public sector. **Further increase of the foreign reserves and their maintenance at an appropriate level is expected throughout the forecasted period**.

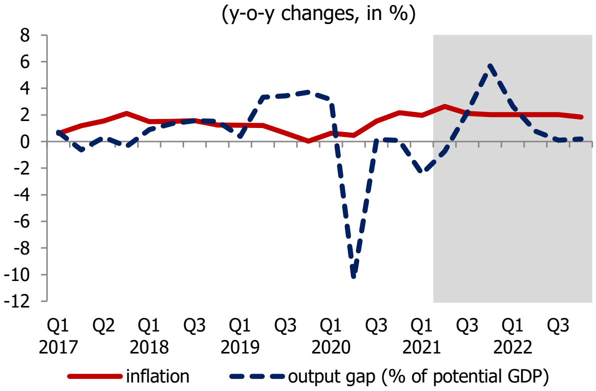
Balance of Payment forecast (% of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023
Current account	**-2.9**	**-1.0**	**-0.1**	**-3.3**	**-3.5**	**-2.9**	**-2.3**	**-1.8**
Balance of goods & services	-15.2	-14.1	-12.7	-14.5	-12.8	-13.7	-13.5	-13.0
Goods, net	-18.8	-17.8	60.2	62.1	58.1	62.2	61.6	62.9
Services, net	3.5	3.7	72.9	76.5	70.9	75.9	75.0	75.9
Primary income, net	-4.0	-4.0	-4.2	-4.6	-3.8	-3.6	-3.8	-4.2
Secondary income, net	16.4	17.0	16.8	15.8	13.2	14.4	15.0	15.4
Private sector, net	15.4	15.9	15.8	15.4	12.2	13.6	14.3	14.7
Capital account	**0.1**	**0.2**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**-6.3**	**0.5**	**-5.0**	**-6.1**	**-4.2**	**-3.2**	**-2.5**	**-4.4**
FDI, net	-3.3	-1.8	-5.6	-3.2	-1.9	-3.0	-3.2	-3.4
Portfolio Investment, net	-4.4	0.2	-3.0	1.3	-2.6	-1.3	0.4	-0.1
Other Investment, net	1.4	2.1	3.6	-4.2	0.4	1.0	0.4	-0.9

Source: NBRNM.

The average inflation rate in 2021 will be 2.2% (1.2% in 2020). Amid current expectations for significant increase of import prices of food and energy, and gradual recovery of domestic demand, a positive contribution from all three inflation components is expected. In conditions of stabilization of primary products prices and further moderate pressures by demand, **the inflation in the period 2022-2023 is forecasted to be 2%.** Major risks in terms of inflation forecasts are still related to high volatility of the stock exchange prices of primary products and uncertainty in terms of the future dynamics, in line with uncertain effects from the health and economic crisis on the supply and demand. Amid possible narrowing of the profit margins, there is a risk for a more rapid and overall transmission of the growth of prices of the input towards the final prices of the products.

Inflation
(y-o-y changes, in %)



Source: SSO and NBRNM calculations.

1.3. Comparison with the previous forecast

The latest April macroeconomic forecasts point to certain changes in relation to the October cycle. The economic growth forecast in 2021 remains unchanged compared to October, while in conditions of improved global growth prospects, the growth forecast in 2022 is moderately revised upwards. Regarding the prices movements, an upward revision at the inflation rate is made for 2021, mainly due to the upward corrections of prices of primary products on world stock market, while there are no changes for 2022. More *pronounced growth of prices of energy and a large part of primary products on world stock market would lead to higher averaged current account deficit in the period 2021-2023 compared to the October forecast. This is mainly due to deteriorated expectations for trade deficit, amid favorable expectations for the balance of services, although on cumulative basis, the expectations have not significantly changed in the last three years, compared to October forecasts. There are no changes in the expectations of net inflows in the financial flows, than previously planned.*

Forecast of selected macroeconomic variables

	2021 forecast		2022 forecast		2023 forecast
	Oct.	Apr.	Oct.	Apr.	Apr.
GDP, %	**3.9**	**3.9**	**3.6**	**3.9**	**0.0**
Private consumption	3.4	3.8	3.3	3.5	0.0
Gross capital formation	8.1	8.6	9.1	10.1	0.0
Public consumption	0.8	-1.1	-3.8	-1.6	0.0
Exports of goods and services	4.1	10.2	6.1	4.1	0.0
Imports of goods and services	4.5	10.3	5.7	4.9	0.0
Inflation	**1.5**	**2.2**	**2.0**	**2.0**	**0.0**
Current account deficit, % of GDP	**-2.6**	**-2.9**	**-1.7**	**-2.3**	**0.0**

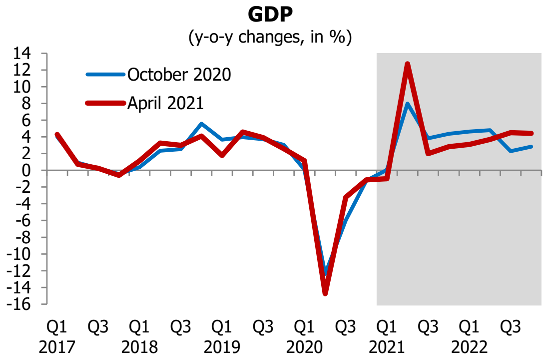
Source: NBRNM.

In the latest April projections, the October assessment on growth of the GDP in 2021 of 3.9% remains. Although the foreign effective demand suffered downward revisions this year, it is mainly related to unfavorable movements in the service sector, while the assessments on industry sector with our major trade partners are positive. Hence, such changes don't affect the assessments on domestic growth for 2021. **The recovery of the economy in 2022 is expected to continue with the rate of 3.9%, opposite to the October assessments for its moderate deceleration (3.6%).** The changes in the growth dynamic is in line with the expectations for rapid immunization both globally and domestically, which will lead to faster overcoming of the health crisis and more intensive growth in foreign demand than previously expected. However, despite such revisions, major factors that explain the economic growth and overall macroeconomic image, remain same as in the previous forecast, amid unchanged expectations for gradually reduced negative effects of the COVID-19 during the second half of 2021. Domestic demand remains the key holder of the growth in 2021, with a higher contribution to the GDP, due to the upward adjustment in number of its components. More specifically, it is assumed that in 2021 gross investments will perform a slightly higher positive contribution than in October, amid announcements for new private investments in the construction sector and higher export demand. At the same time, slightly upward adjustment is made in personal consumption, which is mainly based on the expectations for more intensive decrease in the consumption restraint of the population, due to the immunization, a factor which was not included in the October forecasts, as well as on lower comparison basis in 2020.

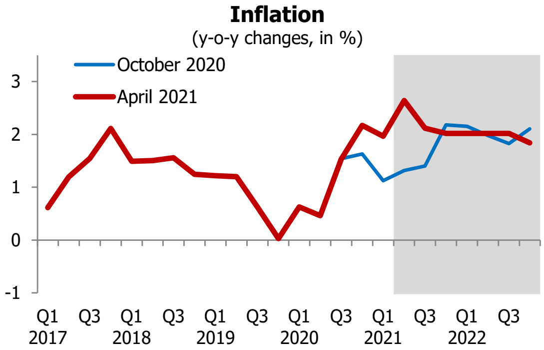
In the assessment of certain components of net export demand, more significant changes were made, compared to October. Thus, the real export of goods and services is expected to become more important for the growth of domestic economy in 2021, amid expectations for higher increase of production in the second half of the year in export oriented companies related to car industry, amid rapid recovery of supply chains and more favorable market conjuncture for part of the traditional activities, especially for metal industry. Such developments in both exports and domestic demand components, determine upward revisions in the real import growth rate forecast, which is reflected by increase of its negative contribution towards economic growth. As a result of increased upward adjustment in the negative export contribution, on a cumulative basis, the contribution of net exports to the growth of the GDP in 2021 is expected to be negative, compared to October assessments, so this adjustment minimally prevails, compared to the positive deviation in the contribution of domestic demand.

The process of mass immunization both globally and domestically, exhaustion of negative effects from the pandemic and improved economic prospects are expected to **create more favorable prospects**

for growth of the GDP, which in 2022 would continue with the same pace as in 2021 (versus previous assessment for its moderate slowdown). Highest contribution is again expected in the growth of domestic demand, which will be higher compared to the October forecasts. Gross investments will be the most important domestic component, which would record a slightly higher growth rate since October, in line with the longer lasting character of the announced investment cycle in both public and private sector, as well as recovery of the confidence and inclination for investments by economic entities with the overcoming of the pandemic. The personal consumption will also be one of the domestic components which will significantly contribute to overall economic growth in 2022, performing higher growth rate compared to October assessments, which is based on the positive adjustments in forecasts for most of the disposable income components, amid expectations for intensive economic growth. Regarding the public consumption, its negative contribution is still expected in 2022, at a more moderate pace than in October. In conditions of intensive recovery of real import of goods and services, the net exports is expected to perform higher negative contribution towards the growth of the GDP in 2022, compared to October.

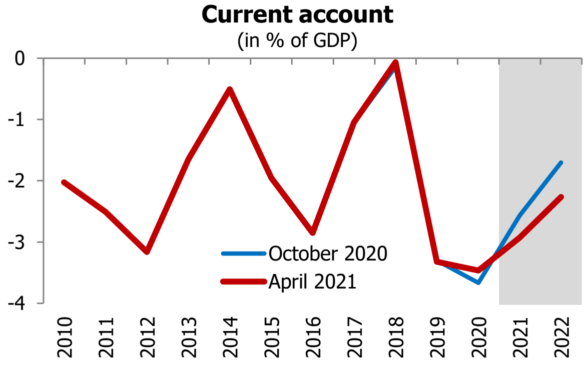


Source: SSO and NBRNM calculations.



Source: SSO and NBRNM calculations.

The inflation in the first quarter of 2021 was close to the October assessments. However, significant upward adjustment were made in the import prices, which led to **upward revision of the inflation rate forecast for 2021, which would currently amount 2.2% versus 1.5% in October.** The upward revision refers to all individual inflation components. The executive revision in the energy component has the largest contribution, given the higher performance in the first quarter and assessments for significantly higher growth of oil price on the world stock market throughout this year compared to October. More significant upward revision is made in the core inflation rate, mainly due to the expected transmission effects from the growth of domestic prices of energy over this component. At the same time, the food inflation is expected to perform higher growth in 2021 compared to October assessments, which is in line with the upward revisions in the prices of the primary food products on the world stock market. On the other hand, the forecast of the movement of domestic prices in 2022 did not suffer changes in comparison to the October assessments, where the inflation rate is still forecasted to be moderate in the amount of 2%.



Source: NBRNM.

With the current April forecast, a slightly higher averaged current account deficit is forecasted for the period 2021-2023 compared to the October 2020 forecast (2.3% versus 1.9% of the GDP, respectively). The changes are rather equally dispersed between the three years and in line with the expectations for each year, closer to the October ones. **The upward adjustment of the current account deficit is 0.3 p.p. of the GDP**, which is due to the higher forecasted deficit in exchange of goods, as well as higher deficit of the primary income. More pronounced expected growth of crude oil prices on the world stock market would cause more unfavorable performances of the energy deficit compared to October, while non-energy component would remain unchanged, amid more pronounced increase of both exports and imports of goods compared to October forecasts. The primary income adjustment, on the other hand, is due to the assessments for higher newly created value of foreign companies, compared to October expectations. Opposite to the predictions for these two components, slightly higher inflows in the secondary income are expected with the current forecast, due to more favorable performances in the previous year and first quarter of this year in private transfers and the higher forecast for official government transfers. The shifts are also more favorable in the surplus of services, compared to October forecast in line with the improved performances and improved export expectations in this category. **In the next two years, 2022 and 2023, the forecast of the current transactions deficit is slightly higher, compared to October forecasts (by 0.4p.p. of the GDP),** in line with the expectations for rapid recovery and more intensive economic growth, amid almost unchanged secondary income. **In the financial flows, observed cumulatively for the period 2021-2023, the forecasted net inflows remain unchanged, compared to October forecast,** amid unchanged expectations for overall external borrowing of the state and foreign direct investments.

Comparison of GDP and inflation forecasts for North Macedonia from various organisations

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2021	2022	2021	2022
IMF	April 2021	3.8	4.0	2.0	1.5
World Bank	April 2021	3.6	3.5	1.6	2.0
European Commission	May 2021	3.7	3.8	1.7	1.7
EBRD	September 2020	3.0	-	-	-
Consensus Forecast	April 2021	4.0	3.9	1.7	2.0
Ministry of Finance	December 2020	4.1	4.6	1.5	1.8
National Bank of the Republic of North Macedonia	April 2021	3.9	3.9	2.2	2.0

Source: IMF, World Economic Outlook, April 2021; World Bank, Western Balkans Regular Economic Report, Spring 2021; European Commission European Economic Forecast, Spring 2021; EBRD Regional Economic Prospects, September 2020; Consensus Forecast, April 2021; Ministry of Finance, Revised Fiscal Strategy 2021-2023, December 2020; and the National Bank of the Republic of North Macedonia, April 2021.