

National Bank of the Republic of North Macedonia



Quarterly Report August 2021

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Introduction

The first months of 2021 were affected by new wave of coronavirus infections, imposing the need to reintroduce some of the restrictive measures for protecting public health, which had adverse impact on the sectors with close social interaction, and thus the dynamics of the overall economic recovery. However, **during the second quarter, there was an evident stabilization of the epidemiological situation, intensified mass immunization and easing of restrictive measures, which is expected to have a favorable effect on economic activity.** Although the uncertainty and risks related to the growth perceptions are still present, globally they are assessed as balanced. However, for developing countries where the immunisation pace is slower, the risks are more pronounced, corresponding to the danger of spreading the new pandemic wave caused by the new corona virus variants. As a result, globally, the focus of overcoming the crisis remains on facilitating the access to vaccines and increasing the level of immunization. At the same time, the support from the policy makers continues, aimed at the affected sectors of the economy.

The monetary setup remains adjustable. Having in mind the relaxation made in March 2021 and enduring uncertainty, in the second quarter the National Bank maintained the key interest rate at the current, historically lowest level of 1.25%, which was assessed as appropriate to the current economic and financial conditions. The current decline in the key interest rate, as well as the significant reduction of the offered amount of CB bills, contributed towards increase in the liquidity of the banking system and support the credit flows in the economy. As a result, annually, the growth rates of total deposits and total loans remained solid also in the second quarter of the year, with the projected level being exceeded with loans, while remaining within expectations with the deposits. In the second quarter of the year, the National Bank intervened on the foreign exchange market with a small net purchase of foreign currency, for the first time since the beginning of the pandemic. The level of the foreign reserves remained adequate and maintained in the safe zone, registering growth pace better than expected for the second quarter according to the latest forecasts.

The main risk remains associated with the development of the pandemic and the immunization process. The emergence of new variants of the corona virus raises concerns about the future development of the pandemic and the recovery of the global economy. Furthermore, a possible tightening of global financial conditions increases the risk for countries with an increased need for external financing or increased debt. At the moment when the health parameters allow normalization of the economic activity on a more sustainable basis, gradual reduction of the programs for households and businesses support is expected, however, any early withdrawal of economic support measures could affect the further deterioration of the balance sheets of economic entities, which in turn would have adverse effects on the banking system, as well as longer-term negative effects on the labor market and the growth potential of economies.

On the other hand, the positive risks that could accelerate the recovery of global growth are associated with the concentrated efforts for faster and more balanced implementation of the immunization process in less developed parts of the world, which would reduce regional mobility restrictions, which in turn would also mean a faster recovery of consumer and business confidence. In the medium term, a positive risk for the domestic economy is the potential economic benefits of NATO membership, as well as the possible start of negotiations for full EU membership.



The comparison of the latest macroeconomic indicators of the domestic economy with their forecast dynamics within the April forecasting round indicates certain deviations in individual segments of the economy. The estimated GDP data for the first quarter of 2021 show a decrease of 1.9%, a deepening of the annual fall, which was also expected in the April forecast. Thereby, the domestic demand made a more negative contribution than projected, while the positive contribution to net exports was somewhat more favorable, mainly due to the faster recovery in exports, in line with the intensified activity of some export capacities in the automotive industry. Private consumption made a minimal positive contribution to growth, after four quarters of negative annual growth rates, while gross investment registered substantial decrease, driven by declining inventories. At the same time, a small decline was observed in public spending, which primarily reflects the higher comparison base since the beginning of the pandemic when larger budget support was provided for the health sector. Still weak domestic consumption contributed to further downward adjustment of import of goods and services, despite the growth of exports. The available high frequency data on the economic activity for the second quarter show positive movements, given the stabilization of the third wave of the pandemic, as well as the started immunization in the country and the gradual withdrawal of the restrictive measures, which contributed towards gradual recovery of the services sector. At the same time, data show significantly high annual growth of the turnover in the total trade, industrial output and catering, which is contributed by the low comparison base related to the strict measures introduced to prevent the spread of COVID-19 in the same period last year. On an annual basis, the April forecasts predict GDP growth of 3.9% in 2021 and 2022, as well as 4% growth in 2023. Such assessments are made on the basis of the expectations for gradual depletion of the consequences of the pandemic, an aspect directly related to the degree of immunization, which in turn will mean restoring the confidence of households and businesses, with the further recovery of export-oriented capacity, as well as with the expectations for higher inflow of new foreign investments and intensified realization of the public infrastructure projects.

In the second quarter of 2021, the average annual inflation rate accelerated moderately and equaled 2.8%. An increase in prices on an annual basis was registered in all three main inflation components, with the highest contribution being made by the energy component. The growth of domestic prices continues to reflect the changes which in part are administrative and regulatory, the changes in the demand during the pandemic and the restrictions on the supply side, and at the end of the second quarter reflects the changes in certain segments of the demand related to restrictive measures relaxation. The inflation in this period is close to the one expected for the quarter from the April forecasts, while the world prices of primary products registered an upward correction. According to the April forecasts, inflation of 2.2% is expected for 2021, as well as its stabilization at around 2% in the medium term. The moderate acceleration of inflation from the beginning of the year is expected under the influence of global factors and for the time being no long-lasting inflationary pressures are expected. However, the uncertainty about the future movement of world primary commodity prices in the next period remains pronounced, in line with the uncertain economic effects of the pandemic.

The latest available data on the balance of payments indicate performance in current and financial transactions that is in line with the expectations of the April forecast. In the first quarter of 2021, the current account deficit equals 0.5% of GDP, which is a narrowing compared to the same period last year. This shift mainly results from the narrowing of the trade balance in conditions of further recovery of the export sector and active functioning of the production chains where domestic export facilities participate in, as well. The higher surplus in the secondary income, with higher private and official transfers, as well



as the increased surplus in the trade of services, had a favorable effect on the current account. On the other hand, the primary income deficit registered an annual growth matching the estimations for better performance of the foreign capital companies for this year. At the same time, the financial account recorded positive net flows of 5.5% of GDP, which mostly refer to the issuance of a Eurobond on the international capital market by the Government and the high inflow in portfolio investments on that basis, and net inflows, but to a lesser extent realized on the basis of trade credits and financial loans. The data on the **gross foreign reserves** for the second quarter point to improved growth dynamics than expected in the April forecasts, i.e. they increased, as opposed to the expected decline, while they are still maintained in the safe zone.

The credit activity of the banking sector during the second quarter of the year registered rapid quarterly growth, which is common for this period of the year. Moreover, the accommodative monetary policy, as well as the sound solvent and liquidity position of banks, are factors that act stimulating on credit supply. Observed by sector, most of the quarterly credit growth resulted from the increased lending to the household sector, given a sound positive contribution of corporate loans. On an annual basis, the credit growth at the end of the second quarter reached 5.1%, which is above the forecasted annual growth according to the April forecasts (4%). Regarding the sources of funding, in the second quarter, accelerated growth with the deposit base was also registered, which was mostly due to the increase in corporate deposits, amid solid growth and household deposits. In order to better deal with the consequences of the health crisis, the Government adopted additional economic measures and disbursed funds to companies and households in order to improve their liquidity. The annual growth of total deposits at the end of June amounts to 6.7%, which is a solid growth and is in line with April forecasts (6.8%).

In general, after the third and strongest wave since the beginning of the pandemic, in the second quarter of 2021 there was a noticable reduction in the number of newly infected, mass immunization intensified and gradual measures were lifted, so there are signs of gradual economic recovery. Of course, the accommodative character of the monetary policy and the further fiscal support contributed gratefully to this process. For now, the flows in the economy are stable and without major deviations in the key macroeconomic indicators in relation to the projected trends. In the next period, solid credit support to the domestic economy is expected to continue, amid moderate inflationary pressures and maintenance of foreign reserves in the safe zone. In a time of growing regional divergence in the recovery dynamics, the National Bank will continue to closely monitor performance and potential risks, in order to adequately adjust the monetary setup, if necessary.

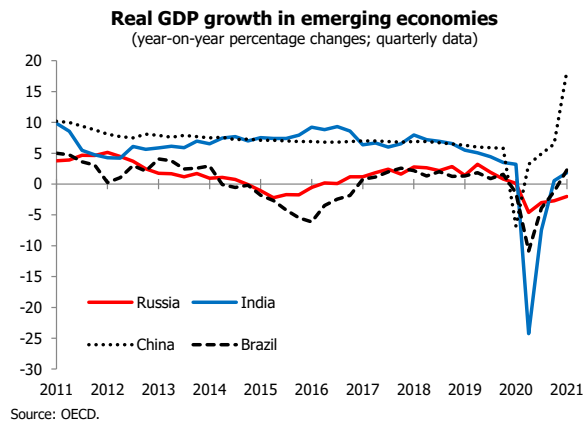
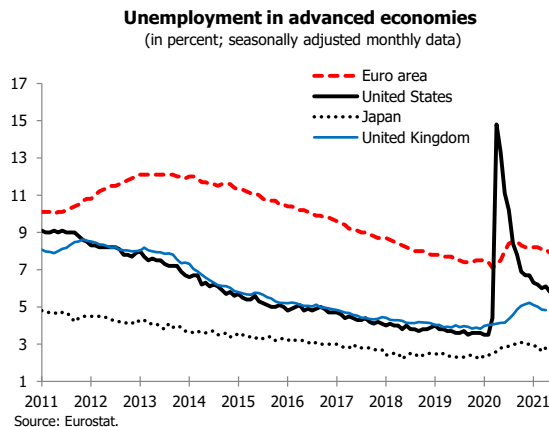


I. Macroeconomic developments

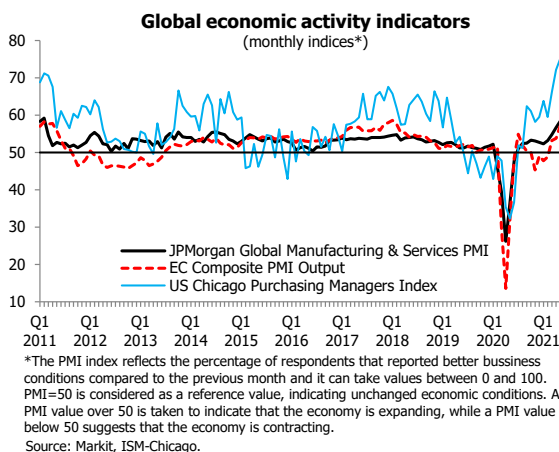
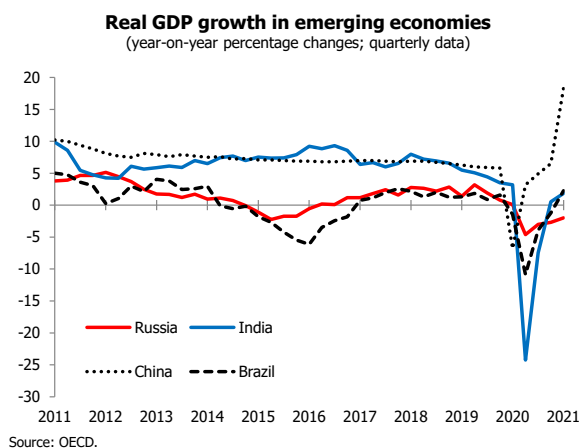
1.1. International economic surrounding

In the first quarter of 2021 the global economic activity continued to recover gradually, but with a different dynamics in different groups of countries. The economic recovery in developed countries is particularly pronounced in the United States, in line with the significant fiscal stimulus, while as for the developing countries, China recorded the highest annual economic growth ever, in part due to the low comparison base. In the first quarter of 2021, the euro area, as our most important trading partner, once again experienced an annual economic decline of 1.3%, but lower than the previous decrease (of 4.7%), given more favorable performance in all components of the gross domestic product. Further immunization and improved health around the world have enabled gradual reduction of the restrictive measures introduced to protect public health. Hence, the latest polls point to significant economic growth in the second quarter of the year, with simultaneous growth of both industry and the services sector. Favorable expectations for the future global economic activity, given the limited supply, conditioned a strong increase in the prices of primary commodities in the second quarter, especially oil. The rise in energy prices is the major factor in accelerating inflation globally. However, these inflationary pressures are considered temporary, so that central banks in the second quarter maintained the adjustable monetary policy, in order to further support economies on their path to full recovery. However, the risks to global growth are still present, but are assessed as predominantly balanced, and are mainly related to the development of the pandemic and the vaccination process.

In the first quarter of 2021, global economic activity has recovered gradually, but still with different dynamics in individual groups of countries. Thus, **within the group of developed countries**, most of the countries registered slower decrease in the economic activity, while the US economy entered the positive zone. Namely, the US economy in the first quarter of 2021 registered a small growth of 0.4% (compared to the decrease of 2.4% in the fourth quarter), largely driven by significantly better performance in the domestic demand components, especially in private consumption. The euro area and the United Kingdom continue registering a downward trend in the economic activity, but at a slower pace than in the fourth quarter. Namely, the euro area registered a decline in economic activity of 1.3% (compared to the decrease of 4.7% in the fourth quarter), amid better performance of all components of gross domestic product. The United Kingdom economy registered a real annual fall of 6.1% in the first quarter of 2021 (compared to the decrease of 7.3% in the previous quarter), mainly due to significantly better performance in net exports, amid further decrease in domestic demand. Only the Japanese economy registered a smaller deepening of the decrease in the economic activity, which in the first quarter of 2021 amounted to 1.5% on an annual basis (decline of 1% in the fourth quarter), due to the larger decrease in domestic demand, with unchanged positive contribution of net exports.



In the group of fast-growing economies, the economic activity recovered in the first quarter of the year, mainly led by China. Thus the Chinese economy registered the largest economic growth of 18.3% so far¹ (6.5% in the fourth quarter), as a result of the strong growth of all components of the gross domestic product, and in conditions of a low comparison basis, when the Chinese economy was strongly affected by the pandemic and recorded a deep annual decrease of 6.8%. India as well registered accelerated economic growth by 1.8% (growth of 0.5% in the fourth quarter), amid growth in all components of gross domestic product. A solid recovery of economic activity with growth of 2.3% on an annual basis was also recorded in Brazil (as opposed to the decline of 1.2% in the fourth quarter), largely driven by better performance in domestic demand. Only the Russian economy continues registering annual fall, although it decelerated to 2% (a decrease of 2.7% in the fourth quarter), largely due to a slowdown in household consumption and exports.

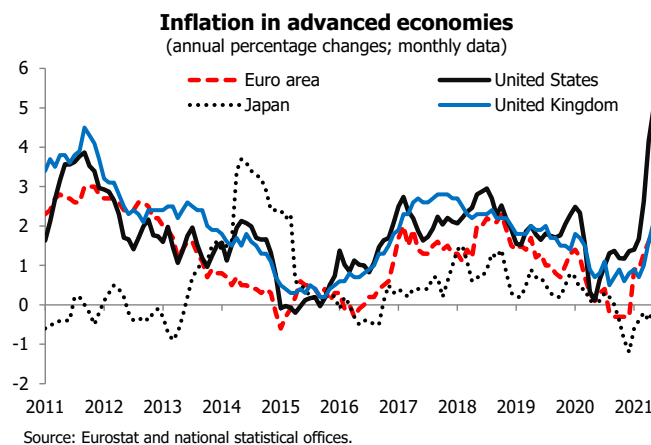


Regarding the estimates for the global growth in the second quarter of 2021, the average value of the global PMI index is 57.2 (compared to 53.4 in the previous quarter), with estimates for significantly higher activity in the services sector and further solid growth of the manufacturing industry. The estimates in the surveys for the euro area and the USA are similar, which indicate expectations for stronger growth in the second quarter of the year.

In the second quarter of 2021, there was an upward movement of global inflation, largely due to the rise in energy prices. Namely, the United States recorded an average inflation rate of 4.8%, compared to 1.9% in the first quarter. Inflation in the United Kingdom was 2% (0.9% in the first quarter of 2021), and a similar annual inflation rate was

¹ Refers to the period since the initiation of the publication of the quarterly GDP data in the first quarter of 1992.

registered in the euro area (1.8%, compared to 1% in the previous quarter). On the other hand, the inflation rate in Japan in the second quarter remained in the negative zone, amounting to -0.1% (-0.4% in the previous quarter).



In the first quarter of 2021, an annual decline in GDP of 1.3% was registered in the euro area, which is a more favorable performance compared to the fall of 4.7% in the fourth quarter of 2020. The relatively better performance is partly due to the adjustment of the economic agents to the pandemic, the support from the fiscal and monetary policy, the gradual recovery of the foreign demand and the resilience of the manufacturing sector. Thus, although the industry registered annual growth, the decrease in the services sector still prevails, especially in those activities with close social interaction, where restrictive measures for protection of public health were still applied. Consequently, private consumption in this quarter also dropped significantly, as well as investments, the effect of which was mitigated by the growth of public consumption and positive performance in net exports. Compared to the previous quarter, the smaller annual decline is a result of the more favorable developments in both domestic demand and net exports. Observed by country, in conditions of low comparison base, about 1/3 of the countries registered growth, including France from the group of larger economies, while other euro area countries registered a slowdown in the real annual decrease. According to the ECB's June forecasts, the real GDP growth in 2021 is projected at 4.6%, and a similar growth rate of 4.7% is expected in 2022, followed by a slowdown in growth to 2.1% in 2023. Compared to the March expectations, the forecasts for 2021 and 2022 have been revised upwards², whereas it is now expected that the pre-crisis level of GDP (fourth quarter of 2019) will be exceeded in the first quarter of 2022, one quarter faster than previously projected. Regarding the labor market in the euro area, in the period April-May, the unemployment rate decreased to 8% (8.2% in the first quarter of 2021). The annual inflation rate in the euro area in the first quarter of 2021 accelerated to 1.8% (1% in the previous quarter), as a result of the upward trend in energy prices. According to the ECB's June forecasts, the inflation rate in the euro area is estimated at 1.9% in 2021, mostly driven by temporary upward factors³, by the rising energy prices and rising costs for input production components due to disrupted supply chains, to then slow to 1.5% and 1.4% in 2022 and 2023, respectively. Compared to the March forecasts⁴, an upward revision for 2021 and 2022 was made, which is mostly due to the expectations for more positive performance of the economy and upward effects of the prices of primary commodities.

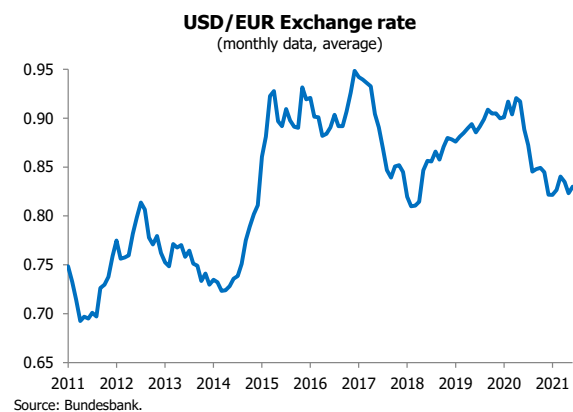
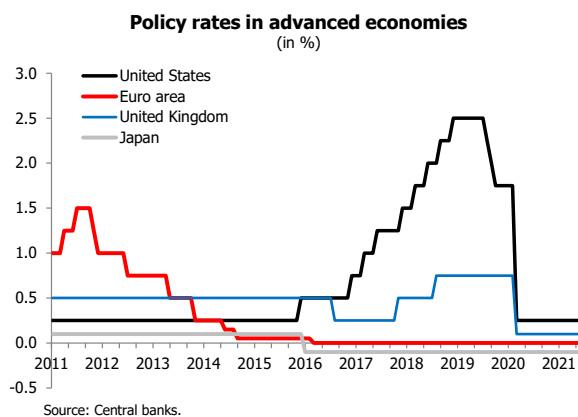
² In March, the GDP growth in the euro area was forecasted at 4% in 2021, 4.1% in 2022 and 2.1% in 2023.

³ One of the most significant one-time factors is the abolition of the temporary measure for VAT reduction (from January 2021), introduced due to the pandemic.

⁴ In March 2021, the increase in inflation in the euro area was forecasted at 1.5% in 2021, 1.2% in 2022 and 1.4% in 2023.



In the second quarter of 2021, developed countries continued their stimulating monetary policy in order to mitigate the negative effects of the pandemic. Namely, the FED kept the interest rate spread at the level of 0-0.25% and extended the measures for purchase of long-term securities in the total amount of US dollar 120 billion until they come closer to the goals in terms of both labor market and price stability. At the June meeting, the FED decided to increase the interest rate on the reserve requirement and excess reserves from 0.1% to 0.15%, and on the reverse overnight repo, from 0% to 0.05%, in order to support the smooth functioning of short-term markets. The Bank of England maintained its interest rate unchanged at 0.1% in the second quarter, while extending the measures for the purchase of government bonds (in the total amount of British pound 895 billion)⁵ in order to support the economy. The ECB interest rates remained unchanged during the second quarter of 2021, and the measures previously taken to maintain favorable financial conditions during the COVID-19 pandemic were also extended. At the meeting in April and June, the March decision for greater realization of the purchase within the program for purchase of securities for immediate support of the economy due to the pandemic (PEPP) during the second quarter was once again confirmed. The Bank of Japan also did not change its interest rate (-0.1%), but in June decided to extend the measures to stimulate economic activity for an additional six months (until the end of March 2022).



Annex: Revision of the ECB monetary strategy

On 8 July 2021, the new revision of the ECB monetary strategy was announced, which was last revised in 2003. The changes are linked to significant structural changes and shocks that have occurred in the euro area and the global economy since 2003. Namely, the reduction of potential economic growth, in conditions of reduced productivity and demographic factors, as well as the increased demand for safe and liquid assets after the great financial crisis led to a significant reduction of real equilibrium interest rates, which reduced the pace of the ECB and other central banks in the world to achieve their goals relying only on changes in interest rates. In addition, the euro area economy faced several major shocks, such as the global financial crisis, the debt crisis and the outbreak of the COVID-19 virus, which led to an economic downturn and downward inflationary pressures, necessitating a significant monetary policy response. Hence, on 23 January 2020, it was announced that the ECB would begin reviewing and revising its current monetary strategy.

According to the new strategy, **attainment of the price stability remains the main goal of monetary policy, and the ECB interest rates are the main instrument for conducting monetary policy.** Other unconventional measures that have been applied so far, such as: guidelines for future monetary policy, securities purchase and long-term repo operations are to be used. The

⁵ At its regular meeting in May and June, the Bank of England decided to keep the volume of corporate bond purchase at British pound 20 billion and to prolong the current bond repurchase program at target amount of British pound 875 billion, with the total volume of assets as a result of these measures is British pounds 895 billion.



main changes pertain to the **defining of target inflation, as well as the expansion of inflation scope**, with an **action plan for climate change** being also approved.

1. **Application of symmetrical target inflation of 2% in the medium term.** With the previous strategy, price stability was defined as inflation less than 2% and within that framework the goal was to achieve inflation close, but below 2%, in the medium term. With the new revision, price stability will be achieved by targeting inflation of 2% in the medium term. Thereby, this inflation goal is determined to be symmetrical, so that deviations below and above it are considered equally undesirable. However, the medium-term orientation of the strategy allows for certain short-term and moderate deviations of inflation above and below its target value, as well as certain delays in the transmission of monetary policy on the economy and inflation. However, in the event of large and longer-term deviations, which could destabilize long-term inflation expectations, monetary policy will react to avoid longer-term deviations in both directions.
2. **The harmonized price / consumer price index remains an appropriate measure of inflation, but it is recommended to include the costs associated with owning a home.** The Council of Governors reaffirmed that the harmonized consumer price index remains an appropriate measure of inflation, but also believes that the index should include costs related to owning a home, which will better reflect the inflation rate relevant to households. Currently, the index covers only part of the costs related to owning, maintaining and living in your own home. The inclusion of these costs in the consumer price index is a multi-year project and is planned to take place in 4 phases, in cooperation with Eurostat. In the meantime, in its assessments of monetary policy decisions, the ECB will take into account the initial estimates of these costs as part of its broader set of inflation indicators.

Considering that climate change has a strong impact on price stability, through its effect on the structure and cyclical dynamics of the economy and financial system, the ECB Board of Governors is committed to implementing an **ambitious climate change action plan**. This action plan includes further involvement of climate change in monetary policy analysis, by increasing the analytical capacity for macroeconomic modeling and strengthening statistics to assess the effects of climate change, as well as adjusting the operational framework of monetary policy by including climate change in areas such as risk assessment, corporate purchase of assets and collateral framework.

The analytical framework has also been revised so that monetary policy decisions are going to be based on an integrated assessment of two interrelated analyzes: economic analysis and monetary and financial analysis. The economic analysis will focus on real and nominal economic developments⁶, while the latter will analyze the monetary and financial indicators, with a special focus on the monetary transmission process and the possible risks of long-term financial instability on price stability in the medium term. The revised analytical framework reflects the changing views of the ECB's economic and monetary analysis from 2003 onwards, emphasizes the importance of monitoring the monetary transmission mechanism in calibrating monetary policy instruments, and confirms that financial stability is a prerequisite for stability.

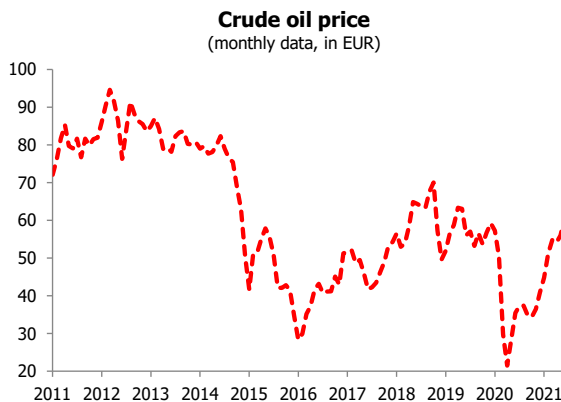
The revised monetary strategy of the ECB is applied from 22 July 2021.

In the second quarter of 2021, the value of the US dollar against the euro, on average, remained at the same level as in the previous quarter, amounting to Euro 0.83. Such movements were influenced by further announcements of maintaining an adjustable monetary policy in order to support the recovery of the economy, amid a relatively

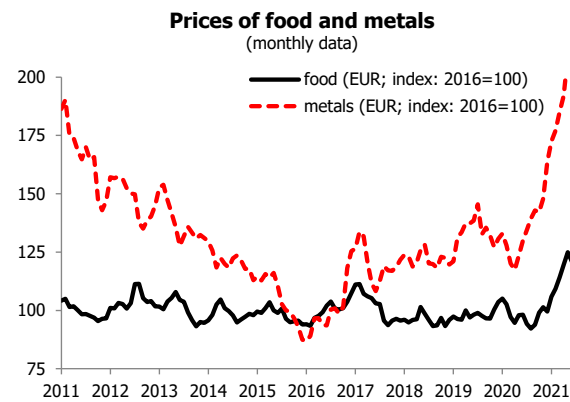
⁶It refers primarily to short-term indicators of economic growth, employment and inflation, assessment of the drivers of shocks affecting the euro area economy, the ECB's medium-term forecasts and a comprehensive evaluation of the risks to growth and price stability. Additional emphasis will be given to the regular analysis of structural trends and their implications for inflation, potential GDP and equilibrium real interest rate; the role and importance of heterogeneity and non-linearity; and the use of newly available more detailed data, including expectation surveys, such as the new pilot Consumer Expectations Survey since January 2020.

slower recovery in the US labor market than previously expected. On annual basis, the value of the US dollar against the euro depreciated by 8.7%.

In the second quarter of 2021, the price of oil increased by 13.2%, compared to the previous quarter, where the average price was around Euro 57 per barrel. The increase in oil prices is a reflection of the reduced oil stocks, while maintaining the measures to limit oil production by OPEC + countries⁷, amid expectations of higher growth in global demand driven by a more positive outlook for the global economy. On an annual basis, the price of oil in the second quarter almost doubled, which is largely due to the low base of the previous year.



Source: IMF monthly database and NBRNM calculations.



Source: IMF monthly database and NBRNM calculations.

Prices of non-energy primary products⁸ (in euros) registered a growth of 9.9% in the second quarter of 2021 compared to the first quarter of 2021. Analyzed by product groups, the growth is largely due to the increase in food and metal prices. Thereby, the basic metals index⁹ increased by 15.9% compared to the previous quarter, amid rising prices of almost all metals, which is largely due to increased demand in conditions of a gradual recovery of the global economy driven by reduced restrictive measures in larger countries. The food price index¹⁰ increased by 11%, mainly due to the increase in prices of vegetable oils, sugar and cereals. In the case of cereals, the growth of the price of corn and wheat have the greatest contribution, in conditions of increased demand, especially from China, and unfavorable weather conditions in different parts of the world. On an annual basis, the growth of the euro prices of primary non-energy products was substantial and it equaled 28%.

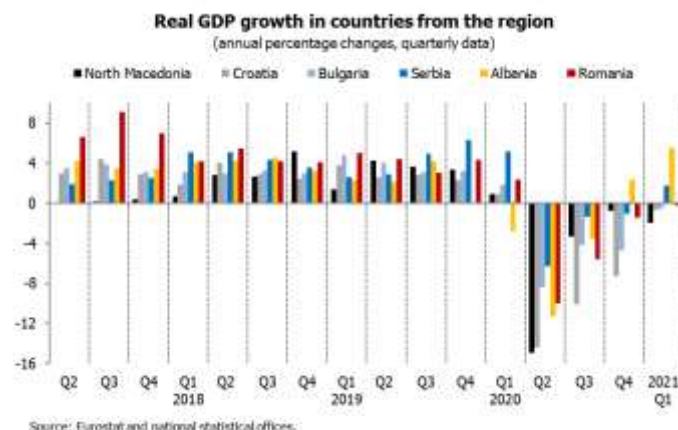
In terms of countries in the region, in the first quarter of 2021, Albania and Serbia registered an economic growth, while other countries recorded a real annual decline in economic activity, but significantly more moderate than the one in the previous quarter. Namely, the economic growth of Albania in the first quarter of the year accelerated to 5.5% (2.4% in the fourth quarter), as a result of the stronger growth of domestic demand, especially gross investment, while the Serbian economy grew by 1.7%, compared to the fall in the fourth quarter (from 1%), amid significantly higher positive contribution from net exports. The more favorable performance of domestic demand was the main factor in slowing down the decline in Romania, Bulgaria and Croatia, which in the first quarter in these economies was minimal.

⁷ On 1 June 2021, the OPEC + countries decided to adhere to the April decisions on limiting oil production. Namely, at the meeting in June, it was decided to gradually increase oil production between May and July by 2.1 million barrels per day. Consequently, in July, production limit quotas will average 5.8 million barrels per day.

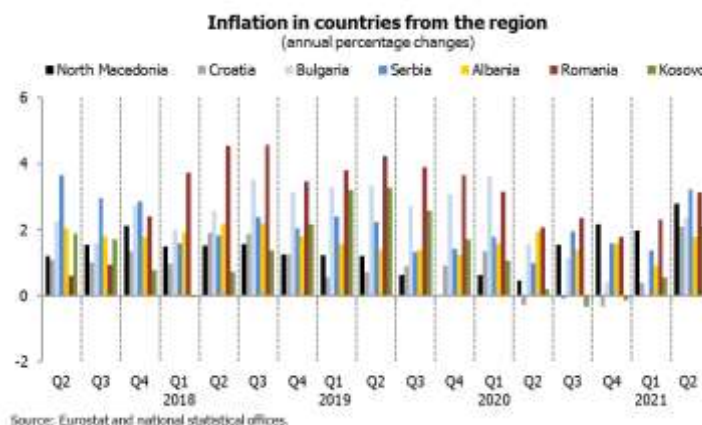
⁸ This aggregate index includes the Precious Metals Index, the Food and Beverage Index, the Agricultural Raw Materials Index and the Basic Metals Index.

⁹ This index includes the following metals: Aluminum, cobalt, copper, iron, steel, molybdenum, nickel, tin, uranium, and zinc.

¹⁰ This index includes the following food products: Cereals, vegetable oil, meat, sea food, sugar and other food.



In the second quarter of 2021, all countries in the region registered an acceleration of the annual inflation rate. In almost all countries, the accelerated inflation growth is largely due to the high growth of energy prices, and in Albania the acceleration is a result of higher rise in food prices.



1.2. Domestic supply

In the first quarter of 2021, the export of goods registered a real fall of 1.9% on an annual basis. The decrease is partly a reflection of last year's comparison base, given that for most of the first quarter last year the economy was in a "normal phase" of functioning. The outbreak of the third wave of COVID-19 infections had an additional effect. From the production point of view, the biggest impact on the decline in domestic GDP has the industry, mainly due to weaker performance in the production of clothing and textiles, the production of motor vehicles and the production of fabricated metal products. The available high-frequency data on the supply side for the second quarter of the year show positive developments, in line with the base effect and the stabilization of the epidemiological situation in the country. The assessments of the managers for the business situation of the enterprises in the manufacturing industry, construction and service sector in the second quarter of 2021 are more favorable compared to the previous quarter, while in the retail trade there are slightly lower rates. As for their expectations for the next period, they are generally more favorable compared to the previous quarter, in all sectors.



In the first quarter of 2021, the domestic economy registered a real decrease of 1.9% on annual basis, which is a slight deepening compared to the decline in the previous quarter (-0.7%), with a quarterly decrease of 0.6% (seasonally adjusted). Such performance reflects the comparative base from last year, when for most of the first quarter the economy was in a "normal phase" of operation, and an additional effect had the appearance of the third wave of COVID-19 which had a negative impact on the economic recovery dynamics. Structurally speaking, in the first quarter of the year, the industry, namely the manufacturing industry, had the largest negative contribution, as a result of the weaker performance in the production of clothing and textiles, the production of motor vehicles, as well as the production of fabricated metal products.

GDP and components- annual growth rates (in %)

	annual growth rates, in %									
	2016	2017	2018	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q4 2021
Agriculture	-0.4	-12.5	8.3	-0.3	1.7	2.5	4.0	5.2	-3.2	0.3
Industry	-3.0	1.4	5.3	5.2	-10.0	-3.9	-25.1	-10.4	-0.6	-6.7
Manufacturing	-1.5	1.6	6.2	2.4	-10.6	-2.1	-30.5	-9.1	0.0	-6.2
Construction	-2.8	1.6	-11.0	3.0	-2.1	1.4	-12.0	3.4	-1.4	1.7
Trade and transport	8.7	7.1	5.0	4.8	-7.9	-1.5	-28.2	-2.3	-0.1	-0.4
Information and communication	7.2	7.6	-4.1	6.2	2.8	12.9	-3.5	3.3	-0.4	-0.9
Financial and insurance activities	1.5	1.9	2.6	0.1	-1.6	0.3	-6.5	-1.0	1.0	-0.7
Real estate activities	-3.2	-1.6	0.1	0.5	1.0	5.0	-1.7	-1.3	2.0	0.5
Professional, scientific and technical activities	11.5	8.8	7.9	3.4	-2.4	-1.6	-2.8	-3.7	-1.6	-0.3
Public administration	3.5	-2.2	2.0	0.8	-1.0	-1.6	-0.6	-1.3	-0.4	-2.9
Other service activities	7.2	3.1	6.6	4.2	0.4	7.6	4.5	-6.6	-3.6	-3.8
Gross Domestic Product	2.8	1.1	2.9	3.2	-4.5	0.9	-14.9	-3.3	-0.7	-1.9

*From the release for GDP of 07.06.2021

Source: State Statistical Office and NBRNM calculations.

GDP and components-Contributions to the GDP growth (in percentage points)

	contribution in GDP growth, in p.p.									
	2016	2017	2018	2019	2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q4 2021
Agriculture	0.0	-1.1	0.7	0.0	0.1	0.2	0.3	0.4	-0.3	-0.1
Industry	-0.5	0.2	0.9	1.0	-1.8	-0.7	-4.5	-1.9	-0.1	-1.2
Manufacturing	-0.2	0.2	0.8	0.3	-1.4	-0.3	-4.2	-1.2	0.0	-0.8
Construction	-0.2	0.1	-0.7	0.2	-0.1	0.0	-0.6	0.2	-0.1	0.0
Trade and transport	1.6	1.3	1.0	0.9	-1.6	-0.3	-5.7	-0.5	0.0	-0.1
Information and communication	0.2	0.2	-0.1	0.2	0.1	0.5	-0.1	0.1	0.0	0.0
Financial and insurance activities	0.0	0.1	0.1	0.0	0.0	0.0	-0.2	0.0	0.0	0.0
Real estate activities	-0.4	-0.2	0.0	0.1	0.1	0.6	-0.2	-0.1	0.2	0.0
Professional, scientific and technical activities	0.4	0.3	0.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Public administration	0.4	-0.3	0.2	0.1	-0.1	-0.2	-0.1	-0.2	-0.1	-0.4
Other service activities	0.2	0.1	0.2	0.1	0.0	0.2	0.1	-0.2	-0.1	-0.1
Gross Domestic Product	2.8	1.1	2.9	3.2	-4.5	0.9	-14.9	-3.3	-0.7	-1.9

*From the release for GDP of 07.06.2021

Source: State Statistical Office and NBRNM calculations.

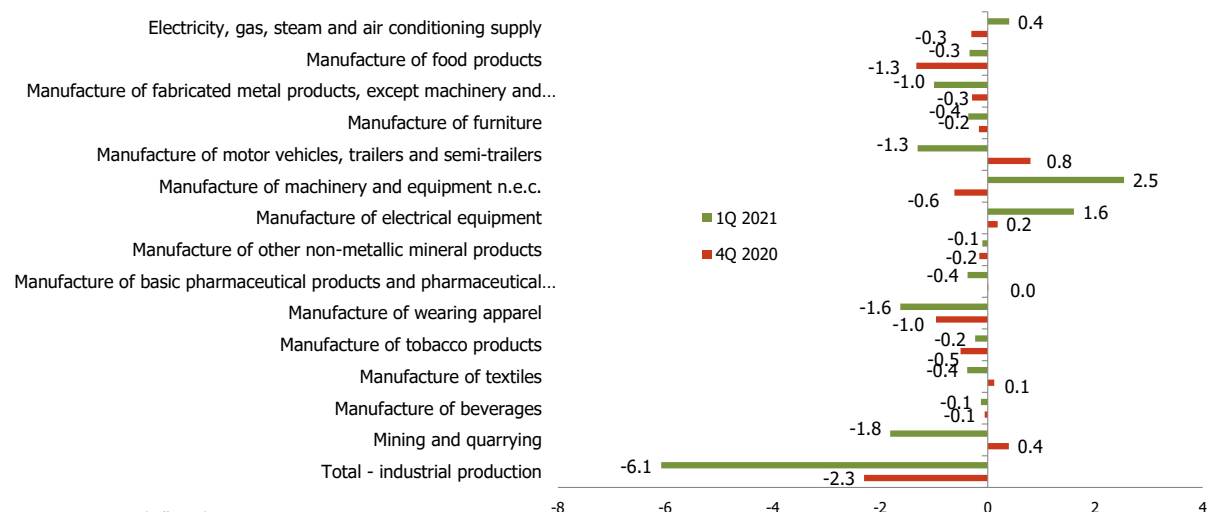
Source: NBRNM calculations.

In the first quarter of the year, industrial output registered a real decrease in activity of 6.1% on annual basis, which is a deepening of the decrease compared to the previous quarter. Analyzed by activities, through the industrial output index¹¹, the most influential is the negative contribution of the manufacturing industry, mining has a

¹¹ The analysis of trends in industry uses data on the SSO's monthly data for the industrial output indices.

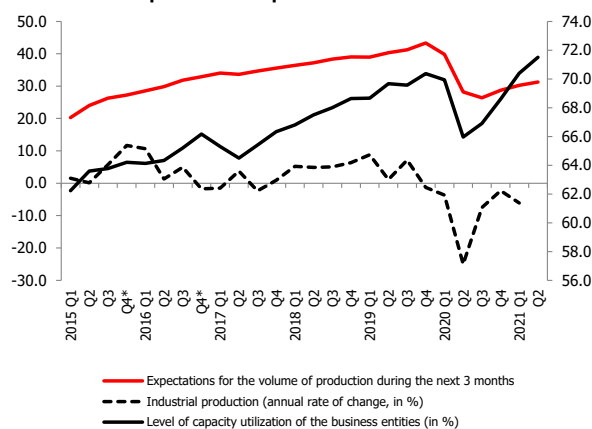
smaller negative contribution, while the energy sector registers a small growth. The decrease in the first quarter within the manufacturing industry is still widely dispersed, with the most pronounced negative contribution being made by the production of clothing and textiles, the production of motor vehicles, as well as the production of fabricated metal products, except machinery and equipment. On the other hand, a significant positive contribution has the activity of production of machines and devices and the production of electrical equipment, where foreign export facilities are active, as well as the production of chemicals and chemical products. In the period April-May 2021, the industrial output registered a high real annual growth of 30.3%, on a low comparative basis, which is related to the restrictive measures taken to prevent the spread of the pandemic in this period last year, which had a major negative impact on production activity, as well. Observed by main activities, the largest positive contribution was made by the manufacturing industry, with growth being also registered in mining. On the other hand, the energy sector is characterized by a small negative contribution. Managers in the industrial sector have more favorable assessments of the business situation in the second quarter of 2021 compared to the previous quarter, as well as more optimistic expectations in terms of production movements and prices for the coming period.

Contributions of selected industries to the total industrial production, annual rate of change (in percentage points)



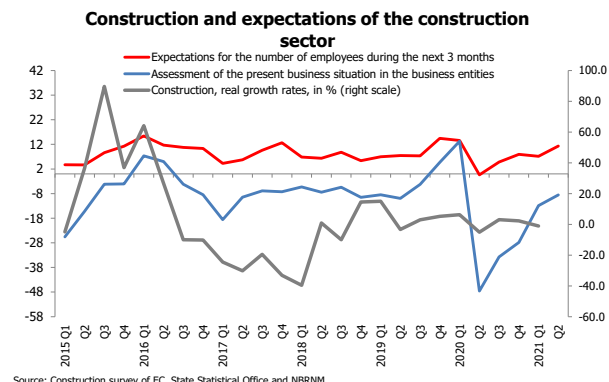
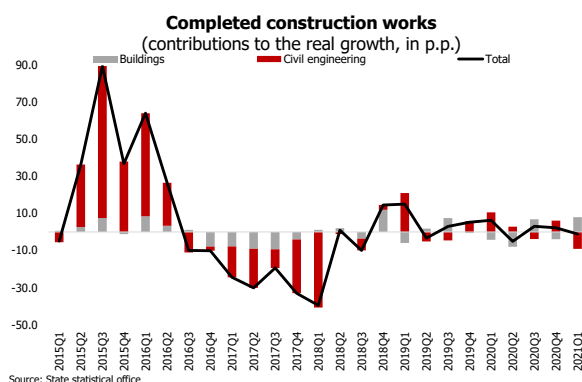
Source: State Statistical Office and NBRNM.

Industry, capacity utilization and managers' expectations for production volume

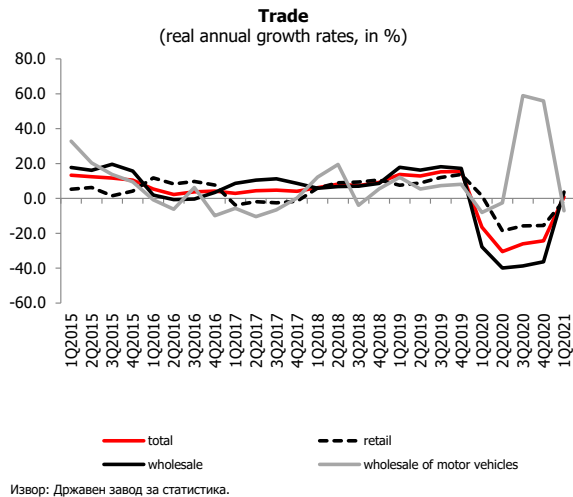


Source: State Statistical Office.

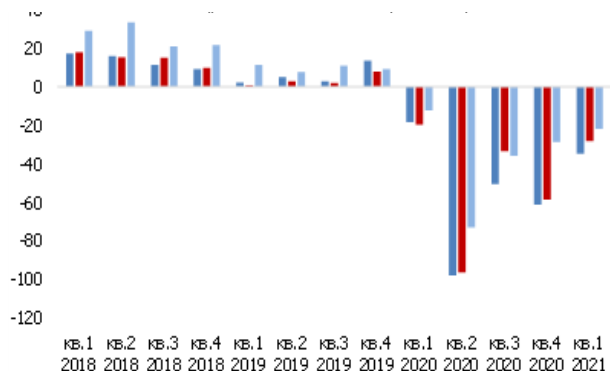
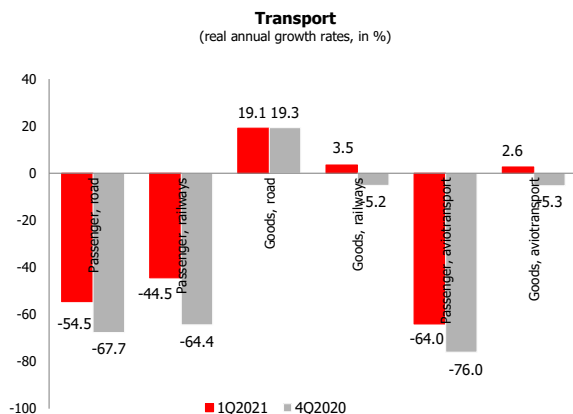
After the last quarter decrease, the value added in the construction sector registered a small real annual growth in the first quarter of 2021. According to the available high-frequency data for the construction sector, in the first quarter of the year, high real annual growth was registered in the performed in high-rise construction works (compared to the decrease in the previous quarter), given a decrease in civil engineering (versus growth in the previous quarter). In April, the value of the performed construction works declined slightly on an annual basis, as a result of the weaker performances in the civil engineering, while the high-rise construction increased. The assessments of the managers of the enterprises in the construction sector for the movement of their activity in the second quarter of 2021 are more favorable compared to the previous quarter. Also, the expectations for the next period are more favorable in terms of the number of orders, employment, as well as prices, which indicates a gradual return of optimism.



In terms of trade activity, high-frequency data for the first quarter of 2021 indicate a small annual real growth in trade turnover, which is a significant improvement over the large decrease in the previous quarter. This is entirely due to the growth of the wholesale trade, which registered a severe drop in the previous quarter. On the other hand, the contribution of other types of trade is negative, although the decline in retail trade has slowed significantly. In the April - May 2021 period, the total trade turnover continued to register high real annual growth, which is significant acceleration compared to the minor increase in the first quarter. Thereby, the favorable performance in the total trade is due to the high growth in all types of trade (wholesale, retail trade and motor vehicle trade), given the favorable monthly movements and the low comparison base registered in the same period in the previous year. The assessments of the managers of the enterprises in the "retail trade" sector for their turnover during the second quarter of 2021 are slightly less favorable compared to the assessments from the previous quarter. However, when it comes to expectations for the next period in terms of orders, business activity, as well as prices, they are more favorable compared to the previous quarter.



In the first quarter of 2021, the **transportation** registered movements in different directions. Thus, in the freight traffic (road, rail and air) there are positive performances, which are generally more favorable compared to the previous quarter. On the other hand, passenger traffic (air, road and rail) still has high rates of real decline on an annual basis, although slightly more moderate compared to the previous quarter.



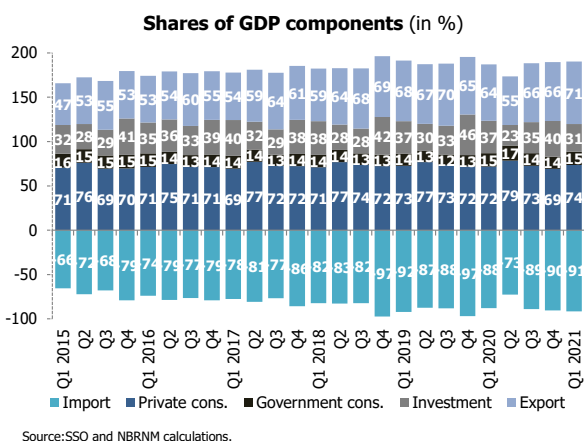
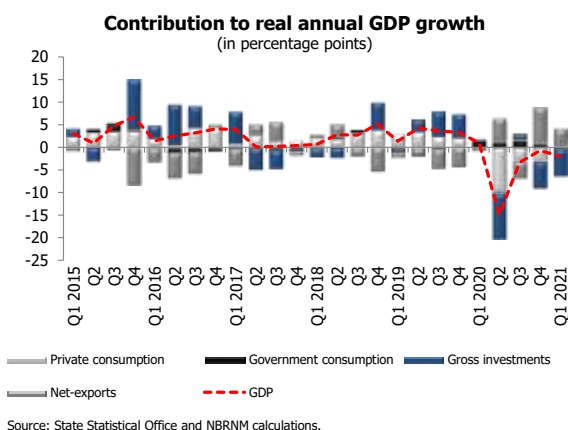
Source: State Statistical Office.

In **catering**, in the first quarter 2021, the annual fall in the number of tourists, overnight stays, as well as total turnover continued, although the decline in all these categories is significantly smaller compared to the one in the previous quarter. Regarding the number of tourists and overnight stays, the decline is largely due to the decrease in the number and overnight stays of foreign tourists. On the other hand, in April, the catering industry has extremely high annual growth rates regarding the total number of tourists, overnight stays, as well as the total real turnover, which is largely due to the extremely low comparison base from April last year, but also the favorable monthly movements in this sector. The assessments of the managers of the companies in the services sector for their business situation, demand and employment in the second quarter of 2021 are more favorable compared to the assessments from the previous quarter, and also the expectations for the next period in terms of demand, employment and prices in this sector.

1.3. Aggregate demand

Viewed from the aspect of demand, the real annual GDP decline of 1.9% in the first quarter of 2021 is entirely due to the negative contribution of domestic demand, which in addition to a comparison base, is a consequence of further uncertainty and restraint of economic entities due to the outbreak of the third wave of COVID-19. Thus, gross investment registered a severe drop, which is driven by the reduction of inventories, with a small decline also being registered in public consumption. At the same time, the recovery in private consumption continued, which registered a small increase, after the steady decrease during 2020, which contributed to mitigate the decline in domestic demand. According to the intensified activity of some of the export capacities with foreign capital, the annual growth of the export in the first quarter of the year accelerated, which is a component with the highest individual positive contribution to GDP. In conditions of faster growth of exports than the growth of imports, net exports also had a positive contribution in this quarter.

The structural analysis of the GDP components¹² in terms of demand shows that the decline this quarter is fully explained by the negative contribution of domestic demand, while net exports once again registered a positive contribution. The larger drop is mainly due to the negative effects of the health crisis on economic activity, which may be related to the outbreak of the third wave of COVID-19, which caused further restraint of economic entities and affected the economic recovery dynamics. From the aspect of the individual components, the decrease in domestic demand, similar to the previous quarter, is due to the deeper decrease in gross investment, while this quarter, the public consumption registered a small negative contribution. Unlike last year, when private consumption continuously decreased, in the first quarter of 2021 it registered a small increase. The growth of exports accelerated significantly, which is a component with the highest individual positive contribution to GDP, in line with the increased activity of some of the export facilities with foreign capital. In conditions of recovered export, as well as private consumption, this quarter moderate growth was registered in imports. However, in conditions of faster growth of exports than imports, net exports had a positive contribution and contributed to mitigating the decline in GDP in the first quarter.



¹²The quarterly GDP growth and its components are calculated using seasonally adjusted data.

	Real annual growth rates (%)								Contributions to real annual growth (in p.p.)**							
	2018	2019	2020	2020-Q1	2020-Q2	2020-Q3	2020-Q4	2021-Q1	2018	2019	2020	2020-Q1	2020-Q2	2020-Q3	2020-Q4	2021-Q1
Private consumption	3.7	3.5	-5.6	-0.3	-13.0	-4.1	-4.3	0.4	2.5	2.3	-3.7	-0.2	-8.9	-2.7	-2.8	0.3
Government consumption	1.5	-0.8	10.1	10.7	9.8	13.5	6.6	-2.2	0.2	-0.1	1.4	1.6	1.4	1.8	0.9	-0.4
Exports of goods and services	12.8	7.2	-10.9	-5.9	-30.8	-8.4	1.3	8.6	7.1	4.4	-6.8	-3.7	-19.1	-5.4	0.8	5.1
Imports of goods and services	10.7	8.9	-10.5	-3.7	-29.4	-2.4	-7.2	2.0	-7.4	-6.4	8.0	2.9	21.6	1.7	5.9	-1.4
Gross capital formation	1.7	9.5	-10.2	1.0	-34.4	4.2	-13.0	-16.6	0.5	3.1	-3.5	0.3	-9.8	1.3	-5.6	-5.4
Domestic demand	2.9	4.7	-5.3	1.3	-15.9	0.0	-6.3	-4.9	3.2	5.3	-5.8	1.8	-17.4	0.3	-7.5	-5.6
Net exports*	4.9	13.8	-9.5	2.6	-24.8	20.9	-24.6	-15.4	-0.3	-2.1	1.3	-0.9	2.5	-3.7	6.7	3.6
Statistical discrepancy									0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	2.9	3.2	-4.5	0.9	-14.9	-3.3	-0.7	-1.9	2.9	3.2	-4.5	0.9	-14.9	-3.3	-0.7	-1.9

*decrease represents lower deficit

** Contribution components do not sum to total GDP due to statistical discrepancies in real amounts.

In order to comply with the official real growth rates, the statistical discrepancy is included in the aggregate GDP.

Source: SSO and NBRNM calculations.

1.3.1. Private consumption

After the severe decrease in 2020, in conditions of household restraint due to the uncertainty arising from the corona virus spread, in the first quarter of 2021 private consumption registered slight annual rise of 0.4% (growth of 2.5% on a quarterly basis), acting to mitigate the decrease in domestic demand. In terms of consumption financing, disposable income increased in the first quarter, mainly due to the growth of private transfers, which have previously recorded high rates of decrease due to the pandemic and reduced cross-border travelling. At the same time, pensions continue to grow, although at slower pace, while the bank lending to households continues to register solid growth. Only in the amount of wages registers slight decline. Such movements can be partly explained by the slower growth of net wages¹³ during this period, as well as due to the inability to pay wages in time to the sectors affected by the pandemic and the restrictive measures taken to deal with it.

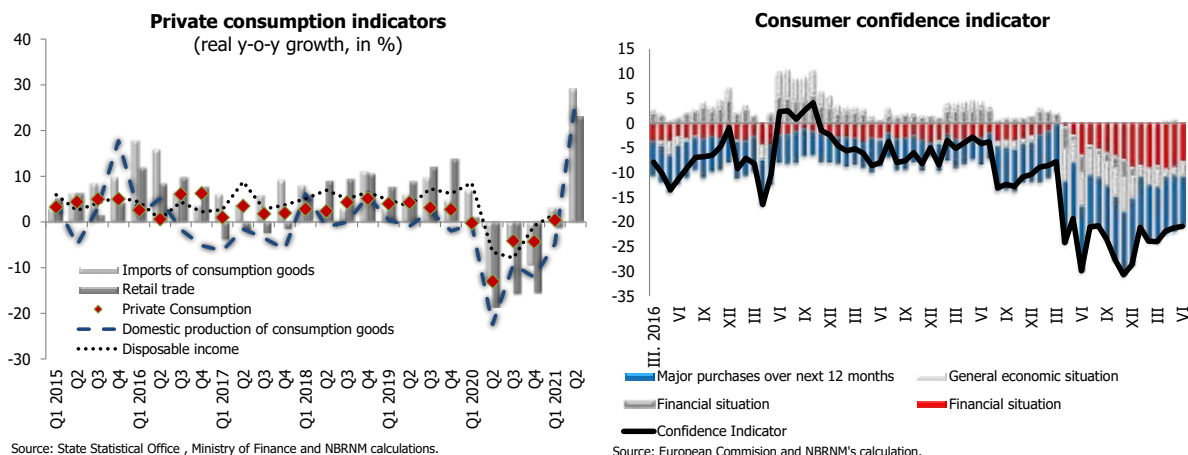
The indicators for the movements in **private consumption**¹⁴ point to the growth of consumption in the second quarter of the year and mainly reflect the low comparison base from the previous year, but also the more favorable shifts on a quarterly basis in line with the stabilization of the epidemiological situation and immunization in the country. Thus, retail trade now shows double-digit annual growth rates, and there is high growth in domestic production of consumer goods, imports of consumer goods and gross VAT revenues. On the other hand, regarding the sources of financing private consumption, the available data for this period point to further growth in disposable income, amid significant acceleration of annual growth in wages and accelerated growth of household loans, as well as relatively stable movements in pensions. The results of the Lending Survey from June show further net easing of total credit terms and further net increase in demand for total household loans. The Consumer Confidence Indicator¹⁵ points to more favorable (i.e. less negative) expectations for

¹³ For more details, see section 1.3. Employment and wages.

¹⁴ Data on wages are as of April 2021, while data on household loans retail trade, domestic production of consumer goods, import of consumer goods and VAT gross revenues refer to the period April-May 2021.

¹⁵ European Commission's Consumer Survey as of June 2021. The chart shows the consumer confidence index as a net percentage of responses. This index is an integral component of the total index of economic confidence. 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.

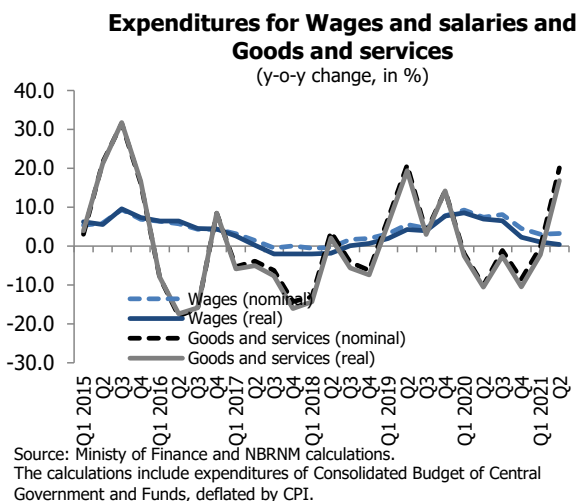
the general economic situation in the second quarter of 2021 compared to the previous quarter and positive expectations for the financial situation in the coming period.



1.3.2. Public consumption

After five quarters of continuous growth, public consumption in the first quarter of 2021 registered an annual decrease of 2.2% (quarterly fall of 2.4%). According to the budget data, this decrease is mostly due to the further reduction of expenditures based on goods and services, with slight decline in transfers to local authorities being also registered during this quarter. On the other hand, wage expenditures continue to grow, but more slowly, while transfers to the Health Fund, after the high growth rates in the past quarters, this quarter remained unchanged on an annual basis.

The budget execution in the period April-May 2021 indicates an annual growth in **public consumption** in the second quarter of the year, mainly due to the higher costs of goods and services.



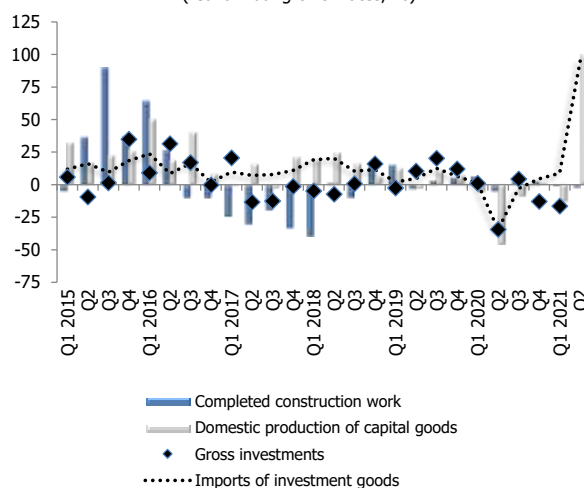
1.3.3. Investment consumption

In the first quarter of 2021, the decrease deepening in gross investments, which was observed in the last quarter of last year, continued. Thus, gross

investments registered high annual and quarterly decrease of 16.6% and 11.9%, respectively. According to SSO data, such movements in gross investments are explained by the reduction of inventories (investments in working capital). From the aspect of the indicative categories of investments, decrease is registered in the foreign direct investments and in the domestic production of capital products (after the growth in the previous quarter), while in the other indicative categories for the investments in fixed assets the movements are positive, while the import of machinery grows, as well as equipment, government capital investment, corporate tax revenues, and long-term corporate loans.

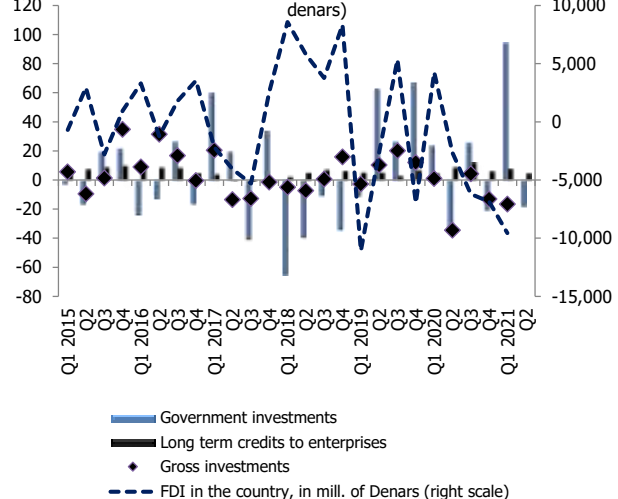
High-frequency data on **gross investments**¹⁶ in the period April-May 2021 are generally highly positive and similar to private consumption, mostly reflecting the low comparison base from last year. Thus, in this period there is a high annual growth in the total industrial output, domestic production of capital products and the import of means of operations. Additionally, further growth is registered in the profit tax, as well as in the long-term bank lending to enterprises. The results of the Credit Activity Survey for the second quarter indicate a further, but weaker net tightening of the overall credit conditions and a net increase in the demand for corporate loans. On the other hand, government capital investments declined (after growth in the first quarter), and a slight real decline was observed in construction.

Gross investment and indicative series
(real annual growth rates, %)



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

Gross investments and determinants
(nominal annual growth rates, %, only for FDI in million denars)



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

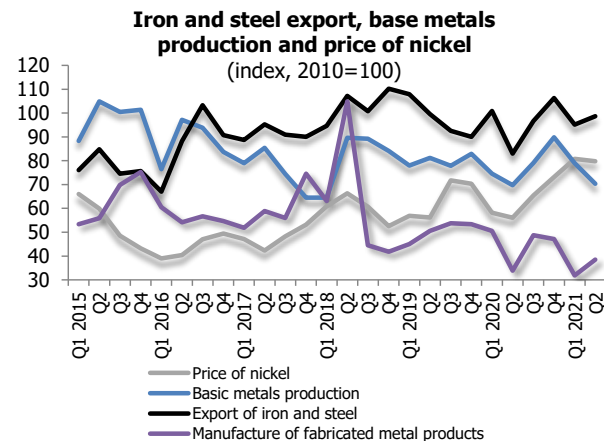
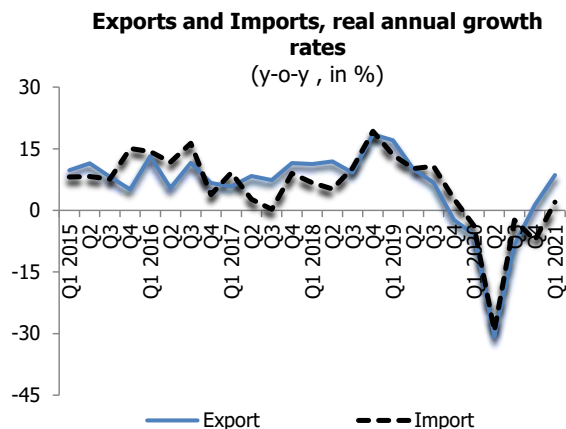
1.3.4. Net external demand

In conditions of significant acceleration of export growth and moderate growth of imports, in the first quarter of 2021 net exports had a positive contribution to GDP and contributed to mitigate the negative contribution of domestic demand. Such movements are a reflection of the continuous recovery of the export sector, after the initial strong shock of the pandemic in the second quarter of 2020. Namely, the export activity realized annual growth of 8.6% (with quarterly growth of 7.5%), which is largely due to the intensified export activity in part of the export-oriented capacities from the automotive industry, as well as the better performances in the export of iron and steel driven by the favorable price conjuncture. As a result, the exports made the greatest

¹⁶ Data on completed construction works are as of April 2021, while data on long-term corporate loans, government capital investments, industrial output, import of investment products and domestic production of capital goods refer to the April - May 2021 period.

individual positive contribution to the GDP. On the other hand, the recovery of imports is more moderate, due to the weak domestic demand, so that in the first quarter of 2021 the import of goods and services registered an annual growth of 2.0% (with a quarterly growth of 3.9%).

Foreign trade data in the period April-May 2021 indicate potential deficit expansion in the second quarter of the year compared to the same period last year, amid higher growth of the import than the export of goods in absolute amounts.

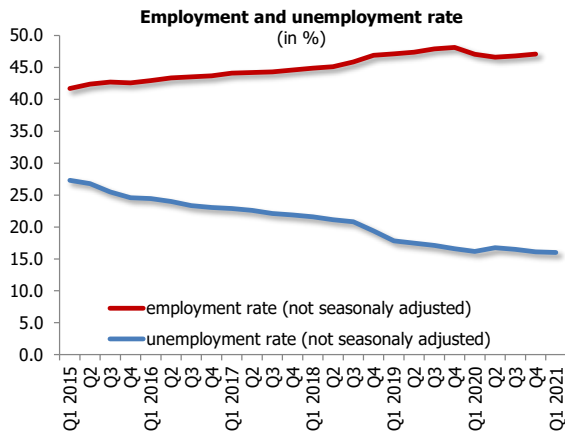


1.4. Employment and wages

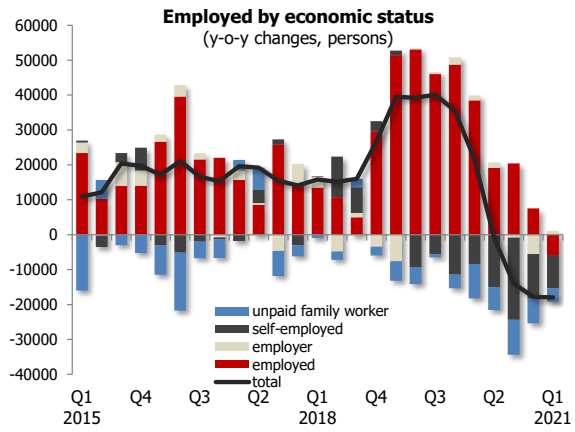
The shifts in the labor market during the first quarter of 2021 indicate further impact of the COVID-19 pandemic on this segment of the economy. Thus, in this period, the number of employees continued to decrease, recording an annual decrease of 2.2%. At the same time, the number of unemployed persons decreased by 3.7%, which contributed to further reduction of the unemployment rate, which was reduced to 16%. Such movements have led to further high growth of the inactive population, reflecting on the supply of labor, through the reduction of the active population, a trend that began in the second quarter of 2020 due to the crisis caused by COVID-19. Business trend surveys point to significantly improved expectations of corporate executives regarding new employment in the second quarter of 2021, compared to expectations for the previous quarter, with more optimistic expectations for the next period. Competitiveness indicators continue to show favorable developments, with labor productivity growing slightly in the first quarter, and the growth of unit labor costs continued to slow down.

The impact of the health and economic crisis caused by the COVID-19 pandemic reflected on the labor market in the first quarter of this year, which led to a further, although still moderate decrease in the number of employees (by 2.2% on an annual basis and by 0.2% on a quarterly basis). Observed by separate activities, the activities "transport and storage", "accommodation facilities and food service activities", as well as "agriculture, forestry and fisheries" have the greatest contribution to the

decline in employment. In terms of economic status¹⁷, the decrease in the number of employees is explained by the decrease in the categories "self-employed", "employed" and "unpaid family workers". Regarding the measures for preservation of jobs in times of crisis, they were provided for this period of the year, but implemented with certain delay.

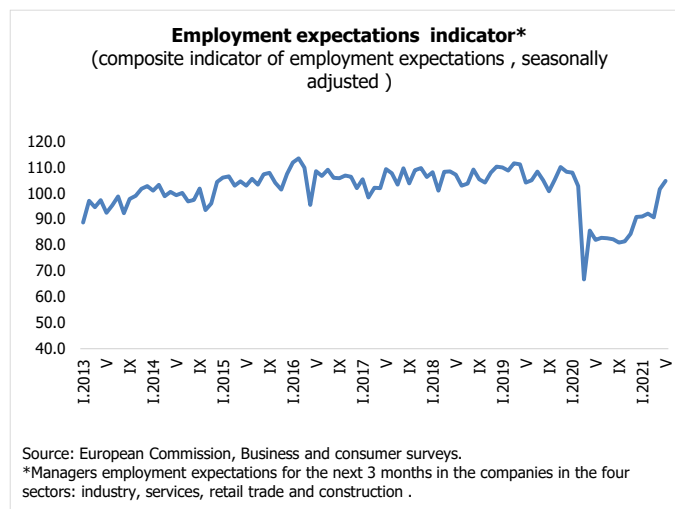


Source: State Statistical Office, Labour Force Survey.



Source: State Statistical Office, Labour Force Survey.

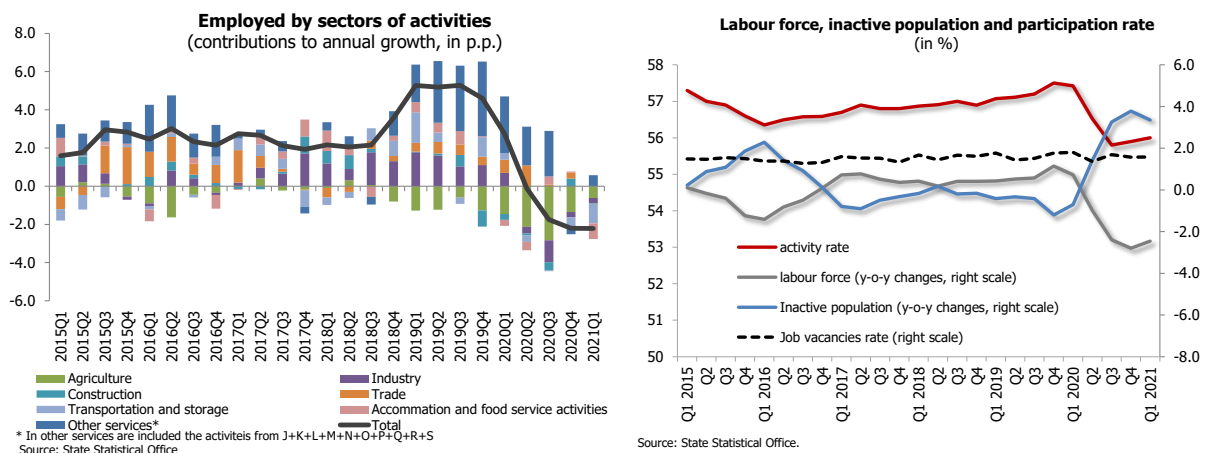
In the first quarter of 2021, the employment rate amounted to 47.1%, which is an annual decrease of 1 percentage points. The aggregated signals from business tendency surveys¹⁸ mainly suggest increased optimism among managers of business entities regarding the expectations for employment in the second quarter of 2021, amid stabilization of the third pandemic wave, as well as initiated immunization in the country. According to the surveys conducted in June, the expectations for increase in the number of employees are also more optimistic for the period ahead.



¹⁷ The classification by economic status applies to the following groups: **employers** - persons who operate their own business entity or engages independently in their own shop, or farm owners who hire other employees; **employees** - persons who work in government institutions, business entities in public, mixed, cooperative and undefined ownership or for private employer; **own-account workers** - persons who operate their own business entity, company, engage independently in their own business and work on a farm in order to generate income, while not hiring other employees; **unpaid family workers** - persons who work without pay in a business entity, shop or farm (owned by a family member).

¹⁸ Source: The European Commission, business tendency Surveys, expectations for employments in the following 3 months in industry, services, retail trade and construction (surveys conducted in April, May and June 2021).

In the first quarter of 2021 **the job vacancy rate¹⁹ equals 1.6%** (1.8% in the same quarter of 2020). The job vacancy rate has been relatively stable over a long period, which points to possible improvement of the connection process of the supply with the demand for skills in the labor market. Analyzed by activities, the highest rates of job vacancies are registered in construction (5%), "information and communication" (3.6%), "administrative and support service activities" (3.5%), "mining and quarrying" (3.2%), as well as transport and storage (2.2%).



Similar to demand, the downward adjustment of the supply of labor force which started in the second quarter of 2020 when the effects of the COVID-19 crisis were felt for the first time, continued in the first quarter of 2021. Thus in the first quarter, the total labor force decreased by 2.5% annually, while the activity rate equaled 56% (57.4% in the same quarter of 2020).

The stronger annual decline of supply of labor force regarding the decline in demand in the first quarter of 2021 resulted in further fall in unemployment. Thus, the number of unemployed in the fourth quarter decreased by 3.7% annually, while the unemployment rate equaled 16% (annual fall of 0.2 percentage points). Given the reduction of the number of employees, this movement of the unemployment rate is entirely a result of the increase in the inactive population (growth of 3.4% annually).

The average net and gross wages paid in the fourth quarter marked a further annual growth, yet at a slower pace. Thus, net and gross wages in the first quarter registered an annual growth of 4%²⁰, respectively (growth in the previous quarter of 6.9% and 7.3%, respectively). The growth of wages is partly explained with the new increase of wages in health²¹, a spillover effect of the increase in wages in this sector since the beginning of the last year²², the effect of the adjustment

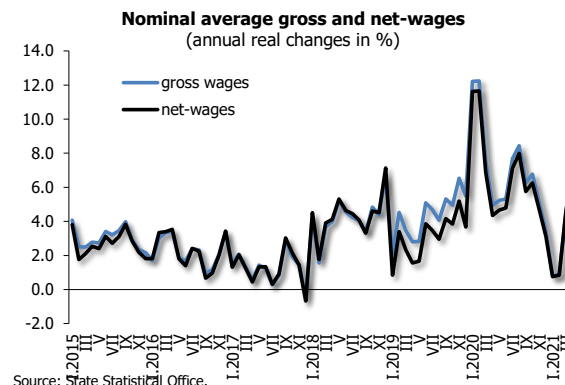
¹⁹ The job vacancy rate is defined as the ratio between the number of job vacancies and the total number of jobs. Usually, the job vacancy rate is considered along with the unemployment rate (a relationship known as the Beveridge Curve). The placement of these two indicators gives information on labor market performance in terms of potential mismatches between demand profiles and those available on the job market at a given moment (skill mismatches). In particular, if both indicators are moving simultaneously, they are temporary, cyclical fluctuations, while in the case of the unemployment rate decreasing, with a stable vacancy rate, these are structural changes that is, improving the efficiency of the labor market.

²⁰ The rates at which contributions are paid in 2020-2021 are 18.8% for compulsory pension and disability insurance and 7.5% for compulsory health insurance (previously these rates were 18.4% and 7.4%, respectively).

²¹ In March 2021, wages of all health care employees increased by 5% (<http://zdravstvo.gov.mk/filipche-martovskata-plata-za-5-za-site-vrabotenii-vo-zdravstvenite-ustanovi/>).

²² In February 2020, the wages of employees in health were increased (growth of 25% for specialists, 15% for general practitioners, and 10% for nurses, and by 5% for health associates and ancillary-technical staff).

of the legally determined minimum (increase of 3% in July 2020²³). The slowdown of the annual growth in wages is partly due to the exhausted effect of the increase in the wages in education in January 2020. Analyzed by activities, an annual growth in wages is registered in most of the economic activities, and besides in health, the growth is also pronounced in "information and communication", "arts, entertainment and recreation", as well as agriculture, construction and manufacturing industry. In the first quarter, given the growth of consumer prices of 2%, **the real annual growth of net and gross wages amounted to 2%**. In April 2021, the nominal annual growth of the average net wage significantly accelerated and amounted to 10.1%. This dynamics in wages is primarily due to low base effect influenced by the measures undertaken to prevent the spread of COVID-19 in April last year and delay in the regular adjustment of the minimal wage (the adjustment was made in July 2020 instead of April 2020), amid regular adjustment of the minimum wage²⁴ in April 2021.

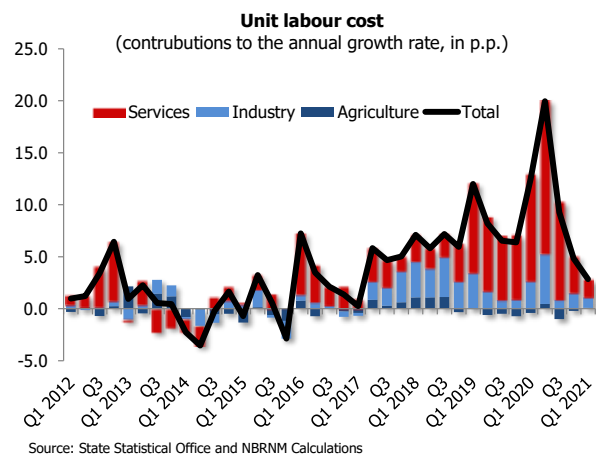
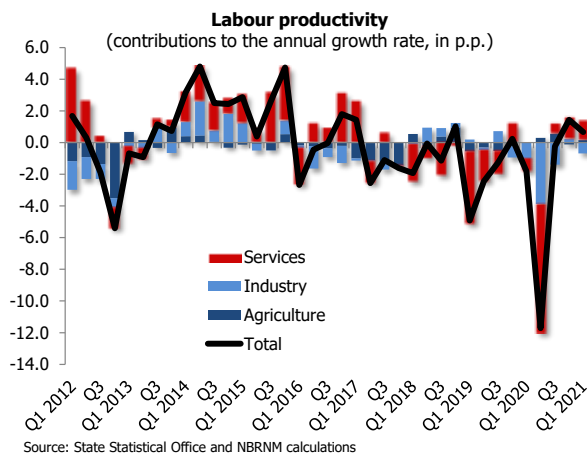


Labor productivity²⁵ also remained in the positive area in the first quarter of 2021 registering an annual growth of 0.7% (growth of 1.4% in the previous quarter). The growth of productivity in the first quarter is a result of the smaller decline in the economic activity compared to the decrease in employment. Analyzed by sectors, the productivity growth mostly comes from the services sector, coupled with the productivity growth in agriculture. **Amid positive developments in productivity, as well as slower growth in wages, the growth of unit labor costs was more moderate and reduced to 2.8% in the first quarter of the year** (4.8% in the previous quarter). Moreover, larger part of the growth is still explained with the costs in the services sector, amid growth in labor costs and industry and minimum growth in agriculture.

²³ According to the announcement of the Ministry of Labor and Social Policy, issued in the Official Gazette of the Republic of North Macedonia No.75/20 and the Decree with legal force on the enforcement of the Law on Minimum Wage in the Republic of Macedonia Official Gazette of the Republic of North Macedonia No. 88/20, the minimum net wage in July 2020 increased by 3%, i.e. by Denar 434. The minimum wage in gross amount, starting from July 2020 to March 2021 is Denar 21,776 (previously Denar 21,107), i.e. the minimum wage in net amount is Denar 14,934 (previously Denar 14,500). The regular adjustment for increasing the minimum wage (with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth - one third of the growth of each indicator, respectively) was made even before the crisis caused by the COVID-19 pandemic, but with a Decree, the Government put it under moratorium until the end of the state of emergency (i.e. for the period April-June 2020). Previously, in addition to the regular adjustment in April 2019, the minimum wage was extraordinarily increased in December 2019 (by about Denar 2000, net) and amounted to Denar 14,500, net (Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 239/19).

²⁴Regular adjustment for increasing the minimum wage (with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth-one third of the growth of each indicator, respectively) was made in April 2021. According to the announcement of the Ministry of Labor and Social Policy, published in the Official Gazette of the Republic of North Macedonia No. 80/21 enforcing the Law on Minimum Wage in the Republic of Macedonia Official Gazette of the Republic of North Macedonia No. 11/12.30/14, 180/14, 81/15, 129/15, 132/17 and 140/18 and Official Gazette of the Republic of North Macedonia No. 124/19 and 239/19), the minimum net wage increased by 1.7%, i.e. by Denar 260. The minimum wage in gross amount, starting from April 2021 to March 2022 is Denar 22,146 (previously Denar 21,776), i.e. the minimum wage in net amount is Denar 15,194 (previously Denar 14,934).

²⁵ Total labor productivity is a weighted sum of productivity of each sector. Sector productivity is the ratio of the sector's value added to the number of employees.



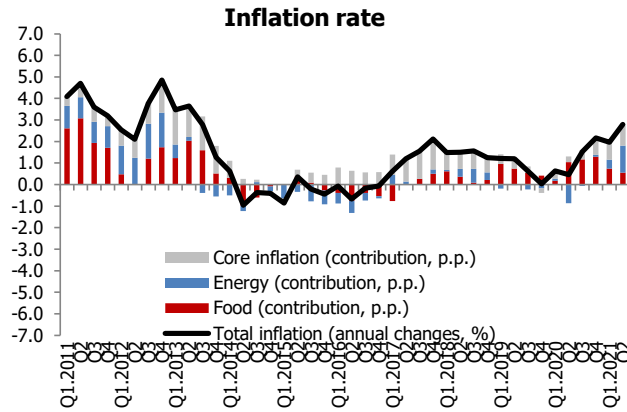
1.5. Inflation

In the second quarter of 2021, public consumption registered an annual growth of 2.8%. The annual growth of prices is registered in all three main components of inflation, with the largest contribution made by the energy component. The changes in energy prices are explained by the high annual growth of oil derivatives which follow the prices on world stock markets, as well as by the transmitted effect of the increase in the domestic price of electricity from August last year. Regarding the factors likely to affect future short-term rate of consumer prices, a moderate acceleration of the growth rate of domestic producer prices and foreign imported inflation is registered, while the growth in unit labor costs decelerated. In the absence of pressures from domestic demand, these factors, as before, are not expected to cause more serious prolonged upward pressures on the prices of final products. Regarding the inflation expectations in the period ahead, according to the National Bank Survey, economic analysts expect an inflation rate of 2.3% this year, followed by a gradual slow down to 2.1% in 2022 and to 2% in 2023. Such expectations are similar to the National Bank forecasts, as well as the expectations of international institutions.

1.5.1. Current inflation

In the second quarter of 2021, the annual inflation rate was 2.8% (2% in the previous quarter)²⁶. The acceleration of consumer price growth in this period was mainly driven by the increased contribution of the energy component of inflation, and less by the core inflation. On the other hand, the positive contribution of food prices is relatively stable. The changes in energy prices are explained by the high annual growth of oil derivatives, as well as by the transmitted effect of the increase in the domestic price of electricity in August last year. Generally, the growth of domestic prices still reflects the changes which are partly of administrative and regulatory nature, changes in demand during pandemics and supply-side constraints, while in the last part of the quarter it reflects the changes in certain segments of demand related to relaxation of the restrictive measures.

²⁶ On a quarterly basis, domestic consumer prices increased by 1.6%, and by 0.9% seasonally adjusted.



Core inflation in the second quarter was 2% on an annual basis (1.6% in the previous quarter). The growth of core inflation is due to higher prices in several index categories, primarily prices of restaurants and accommodation services and package tours, in accordance with the stabilization of the epidemiological situation and relaxation of the restrictive measures, followed by tobacco prices due to regulatory amendments²⁷, pharmaceutical products, as well as prices of non-performing products for household maintenance. On the other hand, a negative contribution was made by the prices of air traffic, as well as by the prices of audiovisual equipment and communication. The other inflation sub-indices, which exclude the most volatile prices, also increased in the second quarter of 2021, with a moderate acceleration compared to the previous quarter. Thus, the total index, excluding energy²⁸, liquid fuels and lubricants (for transport) and unprocessed food registered an annual growth of 2.2% (1.9% in the previous quarter), while the total index excluding energy, liquid fuels and lubricants (for transport), unprocessed food, tobacco and alcoholic beverages registered an annual growth of 2.1% (1.5% in the previous quarter).

	(annual changes, in %)								(contributions to annual changes, in p.p.)							
	2019	Q1	2020	Q2	Q3	Q4	2020	2021	2019	Q1	2020	Q2	Q3	Q4	2020	2021
Consumer price index - all items	0.8	0.6	0.5	1.5	2.2	1.2	2.0	2.8	0.8	0.6	0.5	1.5	2.2	1.2	2.0	2.8
Food	1.9	0.5	2.9	3.3	3.6	2.6	2.1	1.5	0.7	0.2	1.0	1.2	1.3	0.9	0.7	0.6
Energy	-1.1	0.7	-6.4	-0.5	0.6	-1.4	3.1	9.9	-0.2	0.1	-0.8	-0.1	0.1	-0.2	0.4	1.3
Electricity	0.0	0.0	0.0	4.9	7.4	3.1	7.4	7.4	0.0	0.0	0.0	0.4	0.5	0.2	0.5	0.5
Heat energy	-4.3	-6.4	-6.4	-2.2	0.0	-3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fuels and lubricants	-3.2	3.4	-22.8	-11.8	-12.9	-11.3	-3.5	25.3	-0.1	0.1	-0.8	-0.4	-0.5	-0.4	-0.1	0.7
Food and energy (volatile prices)	1.0	0.6	0.4	2.3	2.8	1.5	2.3	3.6	0.5	0.3	0.2	1.1	1.4	0.7	1.1	1.8
Core inflation calculated by the NBRM (total index - food and energy (categories 01.1, 04.5, 07.2.2))	0.5	0.7	0.5	0.9	1.6	0.9	1.6	2.0	0.3	0.4	0.3	0.4	0.8	0.5	0.8	1.0
Overall index excluding energy, liquid fuels and lubricants and unprocessed food (SSO)	0.8	1.7	1.7	1.6	2.1	1.8	1.9	2.2								
Overall index excluding energy, liquid fuels and lubricants, unprocessed food, tobacco and alcoholic beverages (SSO)	0.5	1.4	1.5	1.4	1.7	1.5	1.5	2.1								

Source: State Statistical Office and NBRNM calculations.

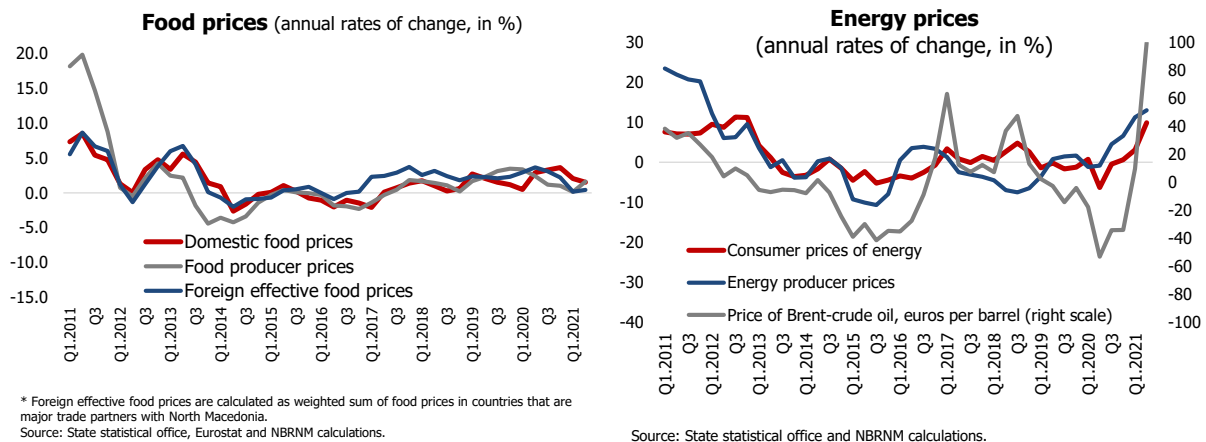
The prices of food in the second quarter of 2021 registered a more moderate annual growth of 1.5% (2.1% in the previous quarter), which is generally explained by the decline in prices of fruit and vegetables compared to the same period last year when these prices registered significant upward movement. Analyzing the structure, the annual food prices growth mainly arises from the prices of oil and fat, as well as the prices of bread and cereals, caused by the surge in oil and cereal prices on world markets. The prices of meat and sugar have more moderate contribution to the growth of domestic prices of food. In the second quarter of 2021, foreign effective food prices continued to grow, amid simultaneous accelerated growth of sales prices of domestic food producers²⁹. The prices of energy in

²⁷ The annual growth of tobacco price in the second quarter reflects the increase in cigarette prices in July 2020, in line with the annual scheduled increase in cigarette excise duties by Denar 0.20 per piece as of 1 July 2023. The increase was also caused by the amendments to the Law on Tobacco and Tobacco Products which require all packs of cigarettes to have 20 cigarettes by November 2020 (previously there were packs of 19 cigarettes), which together with the increased excise charged per cigarette rose producer costs.

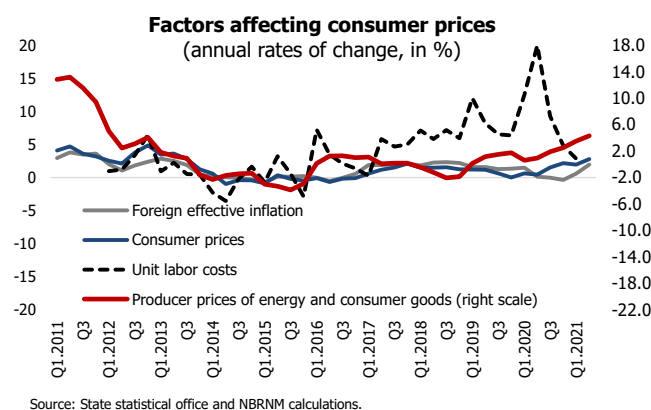
²⁸ The category "energy" refers to electricity, gas, liquid and solid fuels for heating and central heating.

²⁹ The analysis of sales prices of domestic food producers and foreign effective food prices refers to the first two months of the second quarter.

the second quarter continued to grow, reflecting the transmitted effect from the regulatory increase in the domestic price of electricity in August 2020³⁰, coupled with the high growth of prices of oil derivatives (which in the previous quarter remained in the negative growth zone) according to the upward movements of the "Brent" oil price on the world markets.



The producer prices of industrial products registered further accelerated growth which in the first quarter reached 5.6% (3.3% in the previous quarter). Also, **producer prices of energy and consumer goods**, as an aggregate category, as well as one of the factors that influence the dynamics of consumer prices, registered an annual growth of 4.3% (3.5% in the previous quarter)³¹. **Foreign effective inflation**³², as an indicator inflation, accelerated in the second quarter to 2% (0.6% in the previous quarter). On the other hand, the growth of unit labor costs continued with pronounced deceleration on an annual basis, reducing to 2.8% in the first quarter of 2021 (4.8% in the fourth quarter). Given the estimates for a small positive output gap³³ in the domestic economy, the movement of these factors is not expected to create serious and long-term upward pressures on domestic prices of final products in the future.



In the second quarter of 2021, apartment prices as measured by the Hedonic index³⁴ increased annually by 4% which is a moderate acceleration compared to the previous

³⁰ By the decision of the ERC, as of 1 August 2020, the price of electricity is higher by 7.4%, i.e. for a high tariff it is 5.95 den/kWh, for a low tariff it is 2.99 den/kWh, while for one-tariff measurement it is 4.77 den/kWh (<https://www.erc.org.mk/pages.aspx?id=153>).

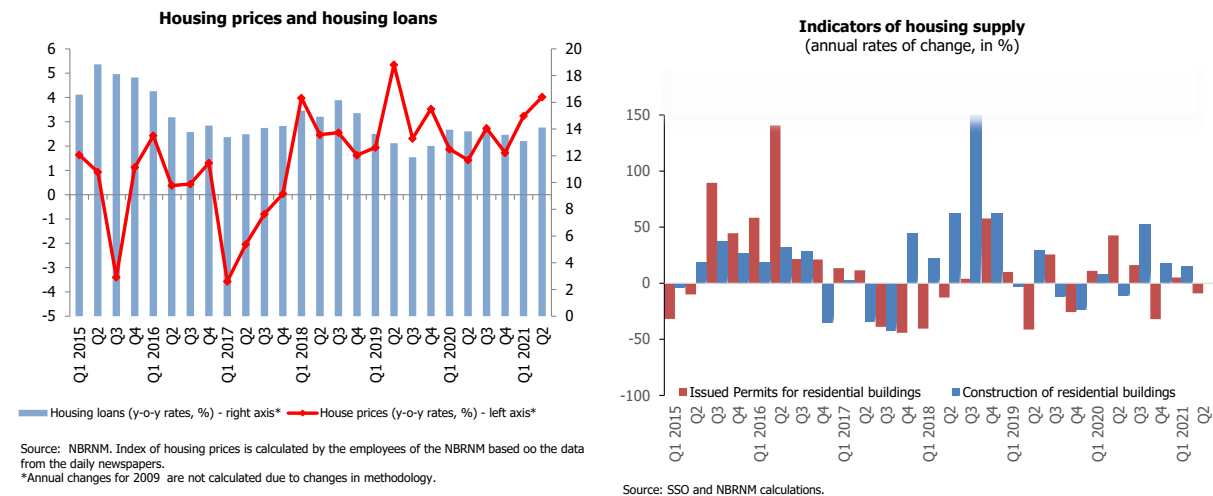
³¹ The analysis on producer prices of industrial products and producer prices of energy and consumer goods refers to the first two months of the second quarter of 2021.

³² The calculation of foreign effective inflation derives from the weighted sum of consumer price indices of the countries that are major partners of the Republic of North Macedonia in the field of import of consumer goods. The weight structure is based on the normalized shares of nominal imports from each country in the total nominal imports in the period 2010-2012. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia and Serbia.

³³ The National Bank assessments show that domestic output is slightly above potential (slight positive output gap) in 2021 and 2022.

³⁴ Hedonic index of housing prices, prepared by the National Bank on the basis of notices of sale in the capital city, and published by real estate agencies. The apartment price is a function arising from the size of the apartment, the location, the floor, whether the apartment has central heating and whether the apartment is new.

quarter. Observing the supply, the value of residential buildings increased rapidly in the first quarter of 2021, while the available data on the value of issued building permits in the second quarter of 2021 indicate a decrease³⁵, on an annual basis. Analyzing housing demand, it is still supported by two-digit rise of housing loans³⁶.



1.5.1. Inflation expectations

In terms of the future movement of prices, most of the domestic and international institutions expect a moderate acceleration of the inflation rate in the current year and a gradual slowdown in the next two years, according to the expectations for a gradual recovery of the economic activity, both globally and in the domestic economy as well as reduced pressures from primary products prices. Similar are the expectations of the economic analysts expressed in the **Inflation and Real GDP Expectations Survey**³⁷ conducted in June, according to which, they expect an inflation rate of 2.3% in 2021, followed by a moderate slow down to 2.1% in 2022 and 2% in 2023.

Forecasts and expectations for the inflation rate

	2021	2022	2023
Economic analysts	2.3	2.1	2.0
IMF	2.0	1.5	1.6
Consensus Forecast	2.0	1.9	/
Ministry of Finance	2.1	1.8	2.0
NBRNM	2.2	2.0	2.0

Source: Inflation and real GDP growth expectations survey, June 2021; IMF World Economic Outlook, April 2021; Consensus Forecast, June 2021; Ministry of Finance, Fiscal Strategy 2022-2024, May 2021; and NBRNM, April 2021.

Similar are the short-term expectations of consumers and corporate executives for the price movements expressed in surveys in the second quarter of 2021. Thus, according to the **consumer expectations for price changes in the next 12 months**³⁸, those who expect an accelerated increase in prices in the next 12 months exceed those who expect them to reduce or remain unchanged. Analyzing the expectations in the **corporate sector**³⁹, the executives of construction and retail trade companies expect a significant increase in prices of their products in the next three months, compared to the previous quarter. At the same time, the corporate managers in industry also expect more pronounced price growth, while the managers in service sector expect their prices to grow at a more moderate pace.

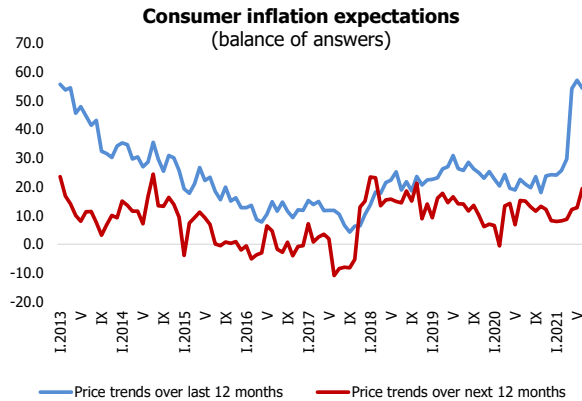
³⁵The analysis refers to the first month of the second quarter of 2021.

³⁶ Available data for the first two months of the quarter.

³⁷ Starting from October 2017, the National Bank changed the current Inflation Expectations Survey. The new Inflation and Real GDP Expectations Survey is conducted on a sample of economic analysts, extending the Survey subject in line with the practice of the European Central Bank (ECB).

³⁸ European Commission's Consumer Survey as of June 2021.

³⁹ European Commission's business tendency surveys in industry, retail trade, construction and services sector as of June 2021.



Source: European Commission.



Source: European Commission.

1.6. Balance of payments

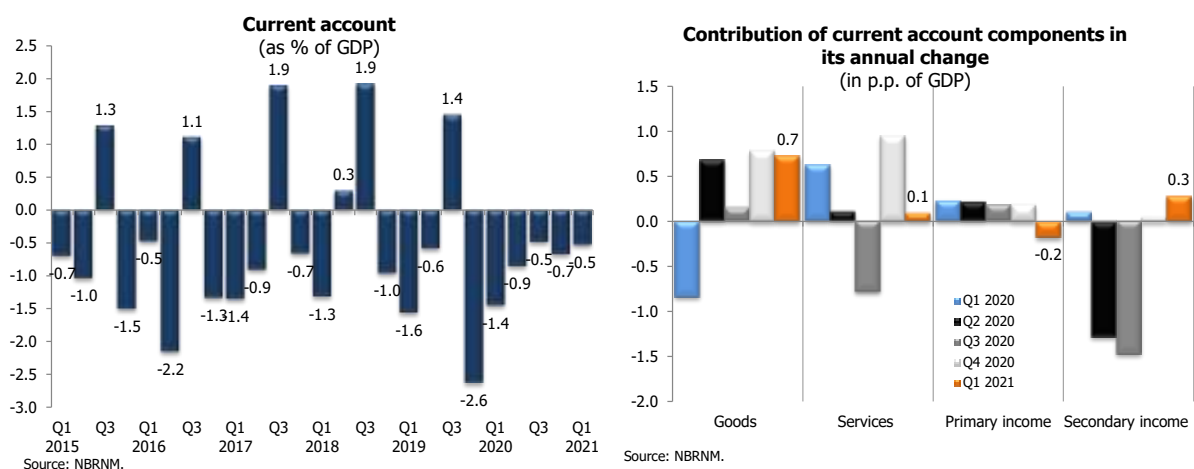
The current account deficit in the second quarter, narrowed annually, amid further recovery of the export sector and functioning of production chains that include domestic export capacity. The higher surplus of the secondary income had a favorable effect on the current account, amid higher private and official transfers, as well as increased surplus in the trade of services. On the other hand, the primary income deficit registered an annual growth, line with the estimates for more favorable performance of the foreign capital companies for this year. Within the financial account, the first quarter registered high net inflows which mostly result from government borrowing abroad through issuance of the Eurobond, and less from trade credits and loans. There was a net outflow in this quarter in foreign direct investments and in category currency and deposits the shifts in the balance of payments enabled high growth of foreign reserves in the first quarter of 2021, thus keeping them in the safe zone.

	2019		2020				2021		2019		2020				2021	
	Ka.1	I-XII	Ka.1	Ka.2	Ka.3	Ka.4	I-XII	Ka.1	Ka.1	I-XII	Ka.1	Ka.2	Ka.3	Ka.4	I-XII	Ka.1
In millions of euro																
% of GDP																
I. Current account	-175.0	-372.3	-156.1	-91.9	-52.7	-72.4	-373.0	-61.2	-1.6	-3.3	-1.4	-0.9	-0.5	-0.7	-3.5	-0.5
Goods and services	-373.1	-1619.8	-381.5	-247.4	-320.4	-427.7	-1377.0	-315.9	-3.3	-14.5	-3.5	-2.3	-3.0	-4.0	-12.8	-2.7
Credit	1623.5	6957.8	1513.9	1173.0	1717.3	1853.5	6257.7	1792.5	14.5	62.1	14.1	10.9	16.0	17.2	58.1	15.5
Debit	1996.5	8577.6	1895.4	1420.4	2037.7	2281.2	7634.6	2108.5	17.8	76.5	17.6	13.2	18.9	21.2	70.9	18.2
Goods	-475.1	-1969.6	-546.3	-352.4	-403.5	-506.6	-1808.8	-504.1	-4.2	-17.6	-5.1	-3.3	-3.7	-4.7	-16.8	-4.3
Services	102.0	349.8	164.8	105.0	83.1	78.9	431.8	188.1	0.9	3.1	1.5	1.0	0.8	0.7	4.0	1.6
Primary income	-129.9	-519.6	-100.4	-99.1	-106.0	-107.0	-412.4	-128.6	-1.2	-4.6	-0.9	-0.9	-1.0	-1.0	-3.8	-1.1
Secondary income	328.0	1767.1	325.8	254.6	373.7	462.3	1416.4	383.3	2.9	15.8	3.0	2.4	3.5	4.3	13.2	3.3
II. Capital account	0.6	8.2	0.3	4.3	1.1	3.6	9.3	-3.7	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	-174.4	-364.1	-155.8	-87.6	-51.5	-68.8	-363.7	-64.9	-1.6	-3.2	-1.4	-0.8	-0.5	-0.6	-3.4	-0.6
III. Financial account	-170.5	-679.8	78.6	-674.9	116.1	32.3	-447.9	-642.0	-1.5	-6.1	0.7	-6.3	1.1	0.3	-4.2	-5.5
Direct investment	-59.3	-363.3	-135.9	6.7	7.8	-84.3	-205.7	25.9	-0.5	-3.2	-1.3	0.1	0.1	-0.8	-1.9	0.2
Portfolio investment	22.3	151.2	31.6	-632.5	77.5	239.5	-283.8	-636.9	0.2	1.3	0.3	-5.9	0.7	2.2	-2.6	-5.5
Currency and deposits	35.0	73.6	71.8	130.5	175.6	111.4	489.4	-20.6	0.3	0.7	0.7	1.2	1.6	1.0	4.5	0.2
Loans	-16.9	-225.2	113.0	-166.7	-83.0	-132.8	-269.4	#REF!	-0.2	-2.0	1.0	-1.5	-0.8	-1.2	-2.5	-0.2
Trade credit and advances	-153.2	-317.3	-1.9	-13.2	-61.2	-100.3	-176.6	-39.5	-1.4	-2.8	0.0	-0.1	-0.6	-0.9	-1.6	-0.3
Other accounts receivable/payable	0.0	-0.2	0.0	0.1	-0.2	-1.1	-1.2	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special drawing rights (Net incurrence of liabilities)	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV. Net errors and omissions	-1.7	59.0	-14.8	16.7	13.8	14.8	30.4	34.3	0.0	0.5	-0.1	0.2	0.1	0.1	0.3	0.3
V. Reserve assets	-5.6	374.6	-249.3	604.0	-153.8	-86.3	114.6	611.5	0.0	3.3	-2.3	5.6	-1.4	-0.8	1.1	5.3

Source: NBRNM.

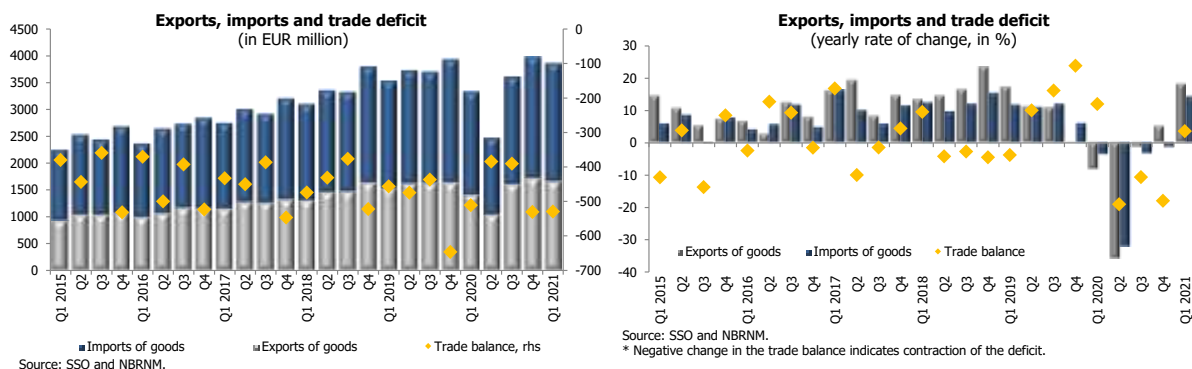
1.6.1. Current account

In the first quarter of 2021, current account deficit was Euro 61.2 million or 0.5% of GDP⁴⁰. The analysis on an annual basis indicates a lower current account deficit (by 0.9 percentage points of GDP), which largely stems from improved balance in the foreign trade of goods. The higher growth in export than the growth of import component indicate further recovery of the overall foreign trade, amid positive movements in energy balance, while the non-energy balance extended, primarily due to higher raw material imports for some of the export-oriented production facilities, mainly from the automotive industry. The higher surplus in secondary income realized in conditions of growth in private transfers (mainly remittances entering the country through official channels) and higher government transfer have a significant contribution in the narrowing of the current account deficit. The annual growth of the surplus in services is generally due to increased surplus in travel, realized in conditions of significant decline in outflows based on these services, amid third pandemic wave and further restrictions in sectors with greater social interaction. On the other hand, the primary income deficit registered a growth, amid estimate of a larger amount of newly created profit compared to last year, and thus a larger deficit in investment income.



Annex: Foreign trade in goods and movement of the Nominal and the Real Effective Exchange Rate (NEER and REER)⁴¹

In the first quarter of 2021, the foreign trade amounted to euro 3,851.9 million or 33.2% of GDP, which is higher by Euro 525.4 million or 2.3 percentage points of GDP, compared to the first quarter of previous year, when the first negative effects of the pandemic on the foreign trade were felt. The growth of foreign trade is a result of the high growth in the import and the export component, which indicates a recovery in this segment of the economy in the first quarter of 2021.

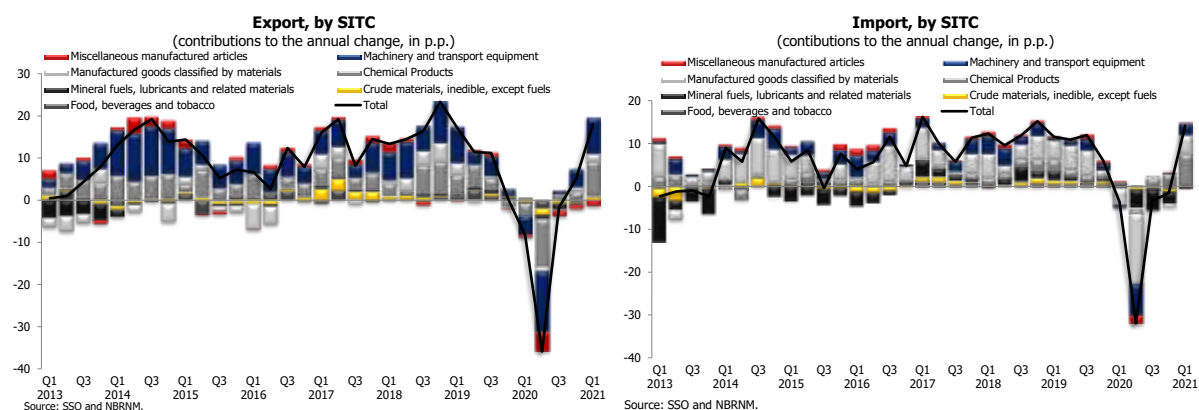


⁴⁰ The calculations use the projected amount of the nominal GDP (from April 2021).

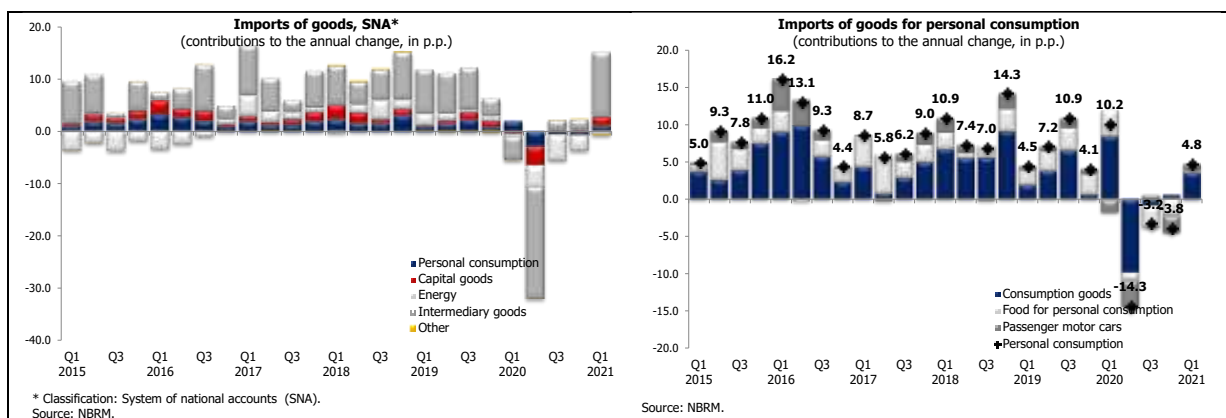
⁴¹ According to the Foreign Trade Methodology, data on export of goods are published on an f.o.b. basis, and on import of goods, on a c.i.f. basis.

The growth in export of goods in the first quarter of the year was 18% on an annual basis, more intensive compared to the positive rate of change in the previous quarter, which also reflects the low base effect. Namely, the global spread of the coronavirus started in the first quarter of 2020, causing a contraction of the export in this period, which was mostly pronounced in automotive companies, which were the first to feel the negative effects of the pandemic and face a contraction of the foreign demand and disrupted supply chains since the first quarter of 2020. Hence, the favorable export performances of the production facilities in the automotive industry are the key driver of the export growth in the first quarter of 2021. The higher exports of these companies is reflected in the higher export of machinery and equipment and chemical products, where the exports of this sector is mostly concentrated. Additionally, positive export performances were registered in metal processing and mining sector, which reflects the higher exports of iron and steel, metal ore in this quarter, as a result of more favorable movements of stock market prices of metals. On the other hand, the exports performances in textile industry also continued during this quarter. **Annual double-digit growth of 14.2% was also registered in the imports of goods,** which is a first positive change after four consecutive quarters of decrease. In accordance with the export performances, the growth of import in this quarter is driven by the import of raw materials of the export capacities from the automotive industry. Additionally, somewhat higher import of iron, steel and metal ore is registered, as inputs in the production of manufacturing industry. On the other hand, the energy imports continued to reduce annually, yet at a significantly slower pace. Moreover, the fall was driven by the still lower demand for oil derivatives, which affected the lower imported quantities, amid rapid recovery of the stock exchange market prices of oil on an annual basis which reflected with growth of import prices of derivatives. **Such performances in both components of foreign trade in the first quarter of the year led to mild widening of the trade deficit by 3.6% compared to the same period in 2020.** Analyzed by balance, the widening is due to non-energy balance, amid favorable changes in energy balance annually.

Data for April and May 2021 indicate a significant growth in both exports and imports of the foreign trade compared to the same period last year. The annual export growth was 111.4%, driven by the high growth of chemical products and equipment and machinery, basic export categories of automotive companies, while the export growth of iron and steel and furniture made a significantly lower contribution. On the import side, the annual growth was 98.2%, and in accordance with the export performances, the raw materials component of the export-oriented companies made the highest contribution to the growth, more specifically equipment and machinery, non-ferrous metals and chemical products, and to a lesser extent the energy import.



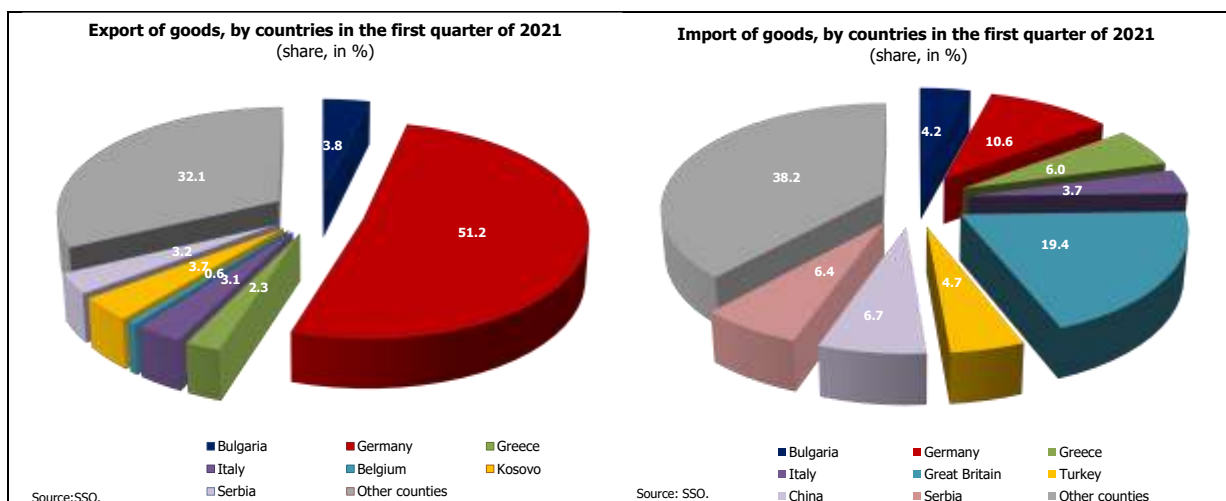
According to the analysis of imports of goods in the System of national accounts, the growth of imports in the first quarter of 2021 was due to higher imports of non-energy categories, with the highest contribution of the import of intermediate goods. The analysis of the imports for private consumption points to growth of this component driven by the higher imports of consumer goods, as well as the increased import of private consumption food and passenger vehicles. Analyzed dynamically, import of private consumption registered an annual growth after three consecutive quarters of decrease, which does not indicate significant pressures on the total imports.



The analysis of the foreign trade according to the trading partners in the first quarter of 2021 indicates further dominant share of the EU countries in total foreign trade of domestic economy, with a share of 60.5% in this quarter⁴². From the aspect of trading partners in exports, nearly 75% of the growth is due to higher exports to Germany, a result of the higher exports of equipment and machinery and chemical products to export-oriented companies from automotive industry. Higher exports is additionally registered to Italy, dispersed among higher exports of meat, copper and electrical machinery and equipment. Intensified exports of the capacities in the automotive industry is the reason for higher export to Great Britain, Slovakia, Hungary and Czech Republic, while the good export performances of the metal processing industry contributed to higher exports to Finland and the USA. On the other hand, lower exports compared to the first quarter of the previous year was registered to Belgium, due to reduced global requirement for specific products from the automotive sector caused by the pandemic, as well as lower exports of iron and steel to Netherlands. The analysis on the import side indicates that the growth of imports is also dominantly driven by the imports from one trading partner, Great Britain⁴³, which is due to the increased import of precious metals on an annual basis. The higher import of raw material component of the export capacities in the automotive sector indicated growth in imports from Germany and Poland. The investment imports of equipment and machinery is the basic factor for higher import from the Chinese economy during the first quarter. On the other hand, lower import was registered from Russia, driven by the decreased import of iron and steel and energy annually, as well as from the USA, due to lower imports of precious metals and equipment and machinery. Regarding the balances in trade with individual trading partners, the annual widening of the trade deficit is generally due to higher deficit in the trade with Great Britain, and to a significantly lesser extent to deteriorated balance in the trade with Belgium, registering a deficit in the first quarter of 2021 compared to the surplus in the same period last year. Additionally, the higher deficit towards China and Poland acted in the same direction. On the other hand, the surplus in the trade with Germany registered a significant annual improvement, while the lower negative balance with the USA and Russia also contributed to the decrease in the total deficit, compared to the same period last year

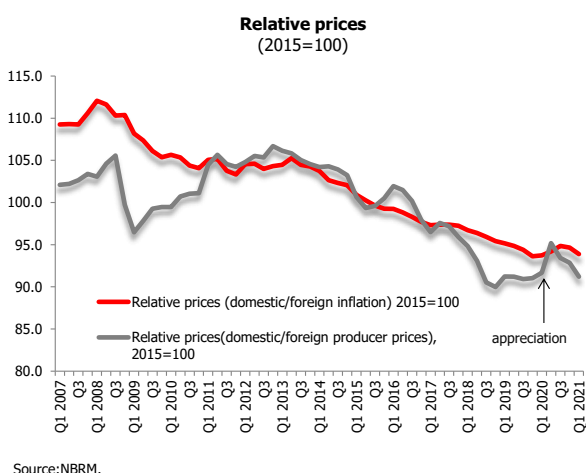
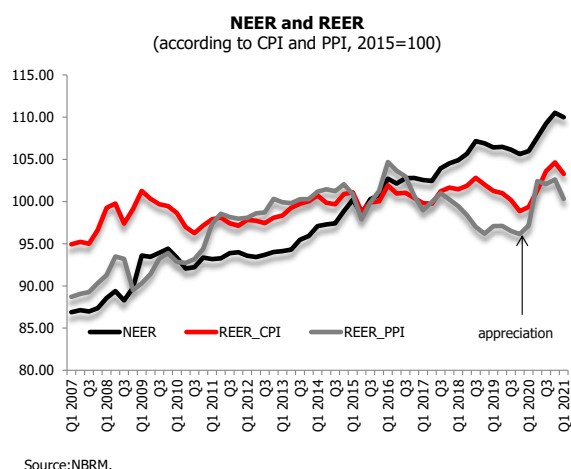
⁴² Taking into account the Brexit, trade data with the European Union do not include trade with this partner. Indicatively, including the Great Britain, the share is 73.1% of total foreign trade, which is an increase of 3.5 percentage points compared to the same period last year.

⁴³ 75% of the import growth is explained by the higher imports from the UK on an annual basis.



Price competitiveness indicators of the domestic economy in the first quarter of 2021

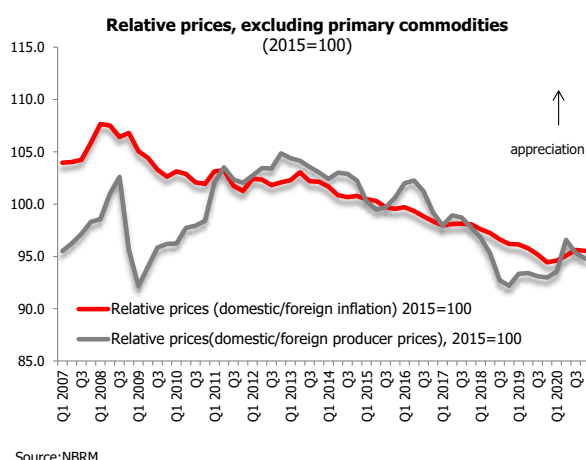
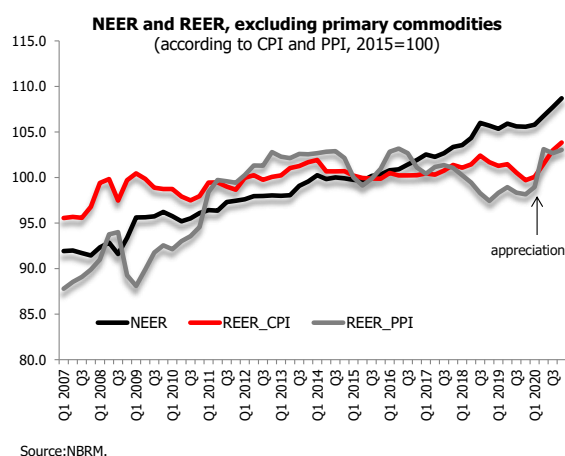
indicate an annual appreciation. Namely, the real effective exchange rate deflated by the cost of living appreciated by 3.9% on an annual basis, while the appreciation of the index deflated by producer prices was somewhat lower and equaled 3.2%, which is a slowdown compared to the appreciation registered in the previous quarter. Such performances are generally due to appreciation of the nominal effective exchange rate by 3.8% compared to same period last year, due to pronounced depreciation of the Russian ruble and Turkish lira against the denar. On the other hand, the relative prices trend is favorable, amid almost unchanged relative consumer prices (minimum growth of 0.2%) and lower producer prices by 0.5%, compared to the first quarter of 2020.



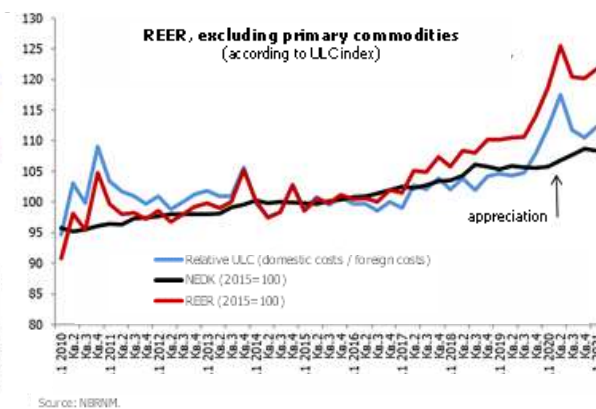
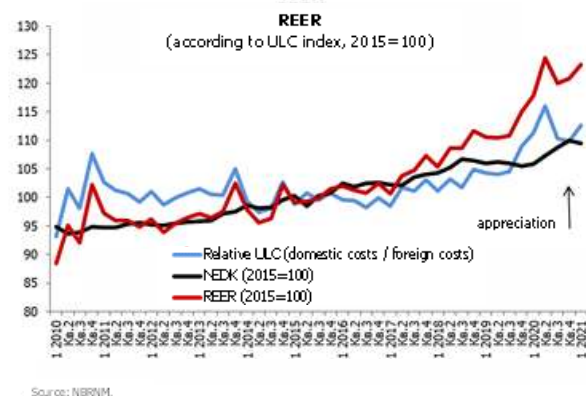
The performances of the REER indices as measured using foreign trade weights without primary commodities⁴⁴ are in similar direction, whereby the REER deflated by consumer prices appreciated by 2.6% annually, and REER deflated by producer prices appreciated by 2.4%. In conditions when the nominal effective exchange rate appreciated by 2.4%, the relative prices registered no visible shifts on an annual basis, more specifically the relative consumer prices grew by only 0.2%, while the relative producer prices were unchanged on an annual basis. The depreciation of the Turkish lira against the denar is once again the dominant factor for the change of the nominal effective exchange rate. Data on the price competitiveness for April and May 2021 indicate divergent movements of indices. More specifically, the REER deflated by consumer prices continued to appreciate on an annual basis, by 2.7% these two months, while the index deflated by producer prices decreased by 1.8% compared

⁴⁴ Primary products not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the foreign capital facilities. For more detailed information on the methodology for calculating the real effective exchange rate visit: http://nbrm.mk/WBStorage/Files/Statistika_REDK_Informacija_za_promenite_na_metodologijata_za_presmetuvanje_na_realno_t_efektiven_devizen_kurs_na_denarot_mak.pdf

to the same period last year. The movements in the index as measured using weights based on the foreign trade without primary commodities are in the same direction, with an annual growth the REER deflated by consumer prices of 2.2% and depreciation of the index deflated by producer prices trial products by 0.8%.



The appreciation of the REER index deflated by unit labor costs continued in the first quarter of 2021, although at a slower pace compared to the previous period. More specifically, the REER deflated by total foreign trade increased by 4.6% on an annual basis, mostly driven by appreciation of the nominal effective exchange rate (of 3.4%), amid simultaneous increase of relative labor costs (by 1.2%). The index calculated with the weights based on foreign trade without primary commodities shows a more moderate appreciation in this quarter amounting 2.5% on an annual basis, amid increased NEER (by 2.4%) and slight change in relative consumer prices (of 0.1%).



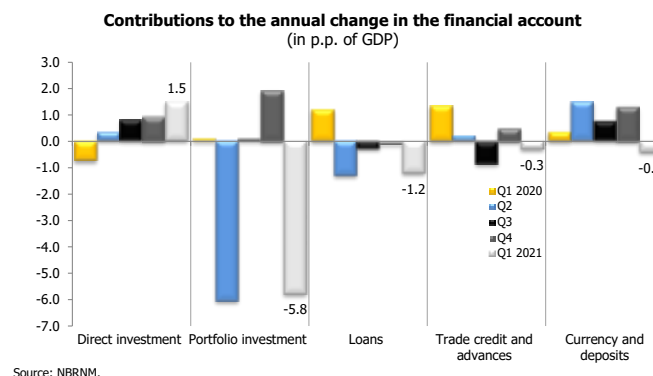
1.6.2. Financial account

In the first quarter of 2021, the financial account of the balance of payments registered net inflows of Euro 642 million, or 5.5% of GDP. The high net inflows are mostly due to issuing Eurobond on the international capital market by the government and high inflow in the portfolio investments⁴⁵, while the trade credits and financial loans also registered a net inflow, yet at a lesser extent. Net outflows based on foreign direct investments and currencies and deposits acted in the opposite direction. The assets registered higher growth within the direct investments, on a gross bases, compared to the growth of liabilities and consequently, direct investments registered net outflows, cumulatively on a net basis. Analyzed by individual components, net outflows in direct investments are generally due to net outflows in intercompany debt and equity, amid growth of net

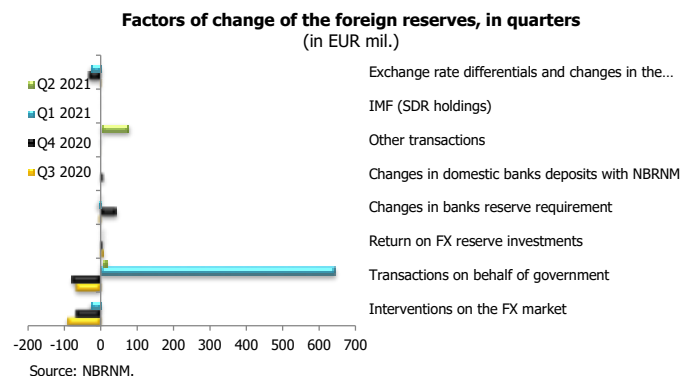
⁴⁵16 In March 2021, the Ministry of Finance issued the eight Eurobond in the amount of Euro 700 million, with a maturity of 7 years and at an interest rate of 1.625%.

inflows in reinvested profit. The flows in other sectors (mainly in the household sector) were the main reason for net outflows in the category currencies and deposits, amid net inflows in depository institutions.

The annual analysis indicates higher net inflows in the financial account in the first quarter of 2021. Thus, more favorable annual movements were registered in the net inflows from portfolio investments (due to the issued Eurobond) and from financial loans, compared to the net outflows in these categories in the first quarter last year. The more favorable shifts in financial loans result from the lower government repayments, and in conditions of almost unchanged flows in depository institutions and other sectors. Also, net inflows in trade credits increased, while net outflows in currency and deposits decreased. On the other hand, the flows in foreign direct investments were mostly under the influence of the net outflows on the basis of debt instruments, unlike the net inflows registered in the same quarter of last year.



At the end of the first quarter of 2021, the gross foreign reserves amounted to Euro 3,939.1 million, which is a quarterly increase of Euro 579.3 million. The increase in the foreign reserves is driven by the transactions on behalf of the government, while the other categories had a more moderate effect on the growth of the foreign reserves in this period.



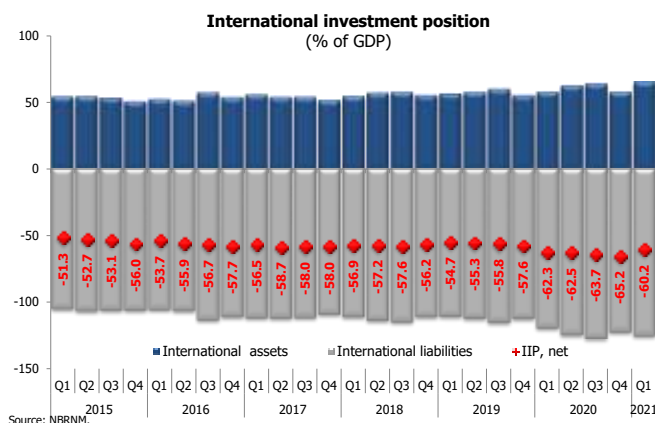
At the end of the second quarter of 2021, gross foreign reserves stood at Euro 4,031.3 million, which is an increase of Euro 91.9 million compared to the end of the first quarter. Observed through the factors of change, for the most part, the change in foreign reserves was driven by foreign reserves management and transactions on behalf of the government. The remaining flows had a moderate impact on the shifts in foreign reserves in the analyzed period.

1.6.3. International investment position and gross external debt

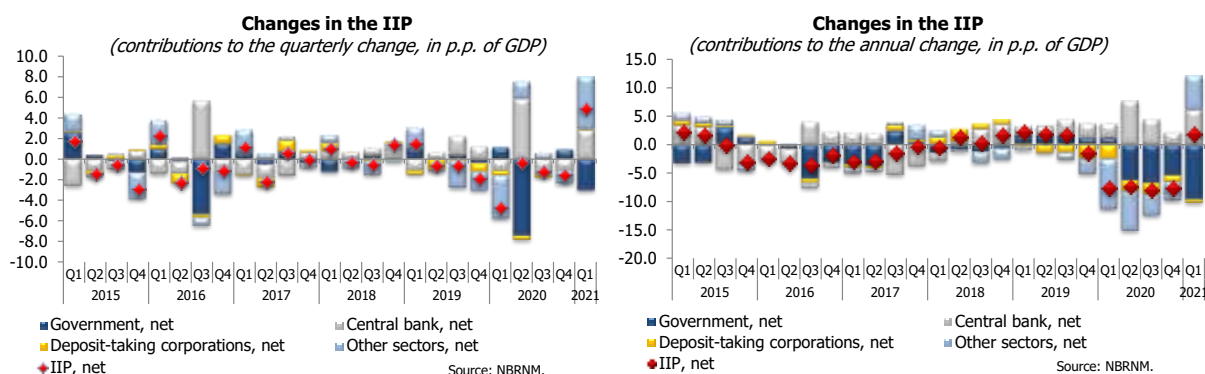
At the end of the first quarter of 2021, the net debt position of the Macedonian economy amounted to Euro 6,984.6 million, or 60.2% of GDP⁴⁶. Compared to the end of 2020, the net international investment position (net IIP) improved by 5 percentage points of GDP, in conditions of higher growth of international assets relative to the growth of international liabilities. Observed by sector, the quarterly change is mostly due to the growth of the net assets of the central

⁴⁶ The calculations use the projected amount of the nominal GDP (from April 2021).

bank (due to the growth of foreign reserves) and the reduced net liabilities in other sectors (due to a fall in the net liabilities to foreign investors and the growth of the net assets in portfolio investments). An additional contribution to the quarterly decline was also made by the lower net liabilities in the banking sector, as a share in GDP⁴⁷. On the other hand, the government net liabilities grew, as a result of the government borrowing on the international capital market through the issuance of a new Eurobond.



The annual change in the international investment position also points to a decrease (of 2 percentage points of GDP), as a result of the higher growth of international assets relative to the growth of international liabilities (by 7.7 and 5.7 percentage points of GDP, respectively). Observed by sector, the annual fall is mainly due to the increased net assets of the central bank (as a result of the increase in foreign reserves) and the reduced net liabilities in other sectors, mainly due to the higher net assets in portfolio investments on the basis of equity securities and the reduced net liabilities to foreign investors. On the other hand, the increased net IIP was due to the higher external government borrowing in the form of debt securities and long-term loans and to a lesser extent the net position of depository institutions (lower net assets in currency and deposits, higher net liabilities in loans and direct investments).

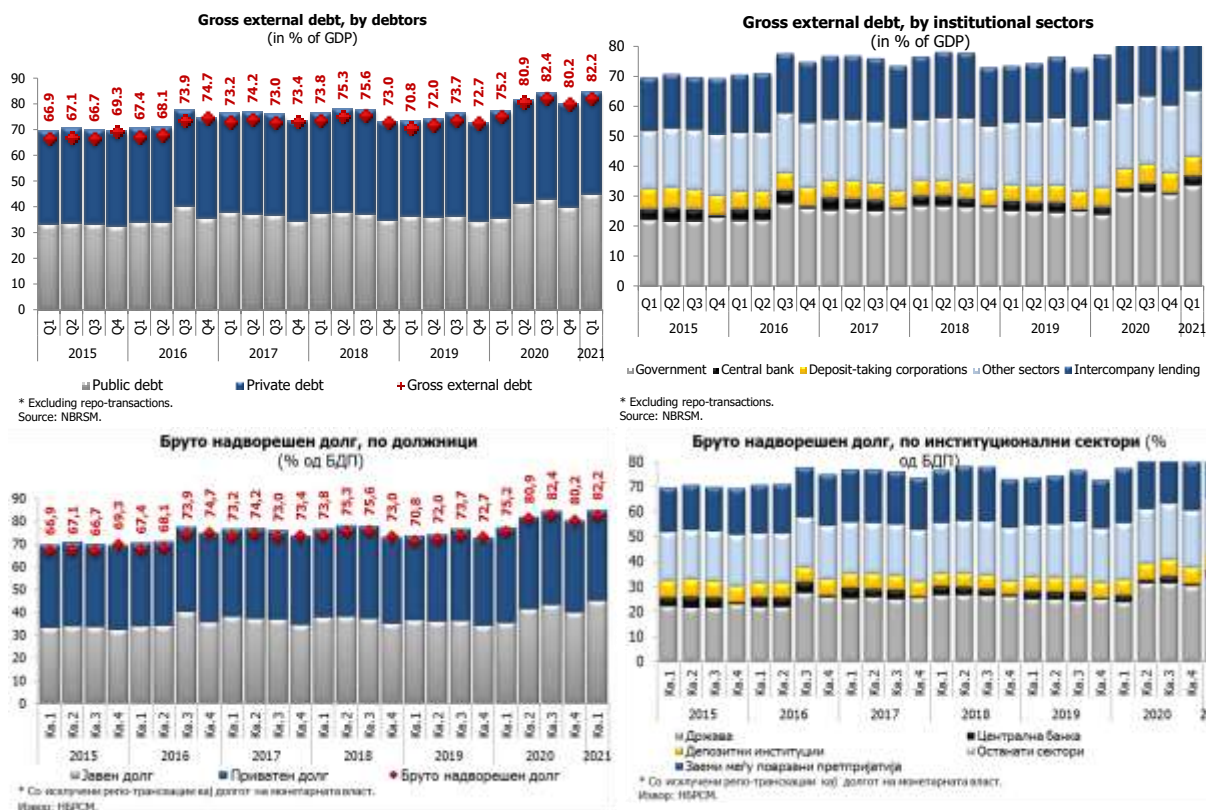


At the end of the first quarter of 2021, the level of the gross external debt was Euro 9,833.4 million, or 84.8% of GDP, which is an increase of 4.7 percentage points of GDP, compared to the previous quarter. By excluding the effect of the specific activities for managing the foreign reserves of the National Bank⁴⁸, the gross external debt registers a quarterly growth of 2 percentage points of GDP. Observed in relative indicators, this shift in the level of the gross external debt entirely results from the growth of the public external debt, in conditions of a slight decline in the private sector debt⁴⁹. The quarterly increase in the public debt is almost entirely due to the external government borrowing in the form of long-term securities through the issuance of a Eurobond. On the other hand, the change in the private debt mainly results from the reduction of the intercompany debt, as well as from the reduced liabilities of the banking sector.

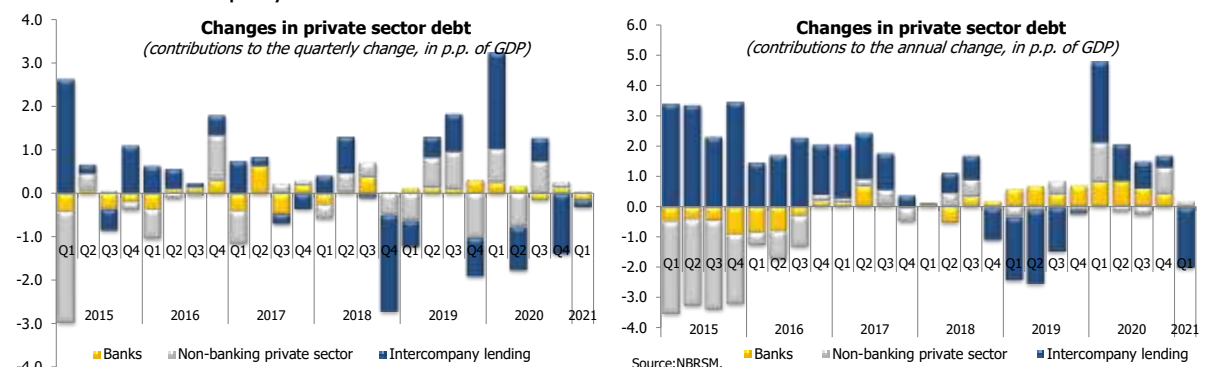
⁴⁷ Observed in absolute amounts, the net liabilities of depository institutions registered a moderate quarterly growth on an annual basis.

⁴⁸ The specific foreign reserves management activities of the central bank include repo agreements and other foreign reserves management operations.

⁴⁹ In nominal amounts, in the first quarter the growth of gross debt is due to the higher public debt and to a lesser extent to the growth of private debt.

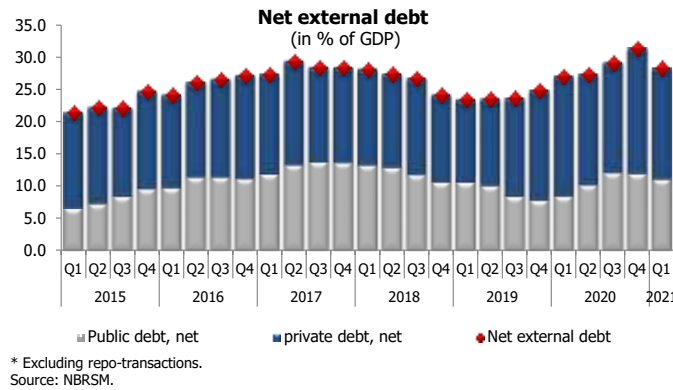


The annual change in the gross external debt indicates an increase of 7 percentage points of GDP, registered in circumstances of growth in the public debt (by 8.8 percentage points of GDP) and fall in the private sector debt (by 1.8 percentage points of GDP). The annual change in the public debt is mostly due to the higher government debt in the pandemic period⁵⁰, and to a lesser extent from the increased debt of the public banks. The lower indebtedness of the private sector mainly results from the lower intercompany debt.



As of 31.03.2021, the net external debt equaled Euro 3,296.5 million, or 28.4% of GDP, which is a quarterly fall of 3.1 percentage points of GDP, amid lower net debt of the private and public sector (by 2.2 percentage points and by 0.9 percentage points of GDP, respectively).

⁵⁰ In the past one-year period (April 2020 - March 2021), the government issued two Eurobonds on the international financial markets (in May 2020, the seventh Eurobond in the amount of Euro 700 million and at an interest rate of 3.675% was issued, while in March 2021, the eight Eurobond in the amount of Euro 700 million and at an interest rate of 1.625% was issued) and took out loans from the international financial institutions, in particular from the International Monetary Fund (IMF), whereby on the basis of the Rapid Financing Instrument it withdrew funds in the amount of Euro 176.8 million, then funds were withdrawn from the European Commission in the amount of about Euro 80 million and from the World Bank in the amount of about Euro 32 million.



External indebtedness indicators of the national economy remain in the safe zone. Gross external debt to GDP ratio still classifies our economy in the group of highly indebted countries, while all other solvency and liquidity ratios point to low indebtedness of the country.

Indicators for external indebtedness	Solvency				Liquidity		
	Interest payments/ Export of goods and services and other inflows	Gross debt/ Export of goods and services and other inflows	Gross debt/ GDP	Debt servicing/ Export of goods and services and other inflows	Foreign reserves/ Short- term debt	Foreign reserves/ Short-term debt, with residual maturity**	Short-term debt/ Overall debt
	in %				ratio	ratio	in %
31.12.2010	3.2	140.4	59.7	13.9	1.5	1.0	27.9
31.12.2011	3.1	148.4	64.6	16.8	1.8	1.2	25.2
31.12.2012	2.9	142.1	67.6	13.1	1.6	1.0	26.7
31.12.2013	2.5	137.3	67.3	15.8	1.6	1.1	23.3
31.12.2014	3.0	149.1	74.0	17.2	1.8	1.1	22.3
31.12.2015	2.7	143.9	73.2	20.0	1.7	1.1	21.3
31.12.2016	2.4	149.4	79.3	14.9	1.7	1.2	21.9
31.03.2017	2.7	138.7	76.6	12.7	1.5	1.0	23.5
30.06.2017	2.7	140.7	77.7	12.7	1.3	0.9	24.2
30.09.2017	2.7	138.2	76.4	12.7	1.3	0.9	24.6
31.12.2017	2.7	139.2	76.9	12.7	1.3	0.9	23.9
31.03.2018	2.2	132.8	78.3	15.8	1.3	0.9	25.1
30.06.2018	2.2	135.5	79.9	15.8	1.3	1.0	25.6
30.09.2018	2.2	136.0	80.1	15.8	1.3	1.0	25.6
31.12.2018	2.2	131.4	77.4	15.8	1.4	1.0	25.8
31.03.2019	2.1	119.5	74.4	8.9	1.4	1.0	25.8
30.06.2019	2.1	121.5	75.6	8.9	1.4	1.0	26.4
30.09.2019	2.1	124.4	77.4	8.9	1.4	1.0	27.6
31.12.2019	2.1	123.2	76.6	8.9	1.6	1.0	25.5
31.03.2020	2.5	121.8	73.9	16.8	1.4	1.0	26.6
30.06.2020	2.5	121.8	73.9	16.8	1.4	1.0	26.6
30.09.2020	1.9	127.9	81.3	13.7	1.7	1.0	23.0
31.12.2020	1.9	124.5	79.1	13.7	1.9	1.1	21.0
31.03.2021	2.3	132.0	85.2	17.4	1.9	1.2	21.6
Moderate indebtedness criterion*	12 - 20%	165 - 275%	30 - 50%	18 - 30%	1.00		

*The moderate indebtedness criterion is according to the World bank's methodology of calculating indebtedness indicators, which implies 3-year moving averages of GDP and exports of goods and services in the calculation of the indicators.

In compliance with "External debt statistics: Guide for compilers and users," published by the IMF.

to the "Greenspan-Guidotti rule", a country should maintain full coverage of short-term debt at remaining maturity with gross foreign reserves.

Short-term debt at remaining maturity is calculated by addition of the long-term external debt (original maturity), with final contractually scheduled payment of less than a year, to the short-term debt (original maturity).

Source: NBRNM.

II. Monetary policy⁵¹

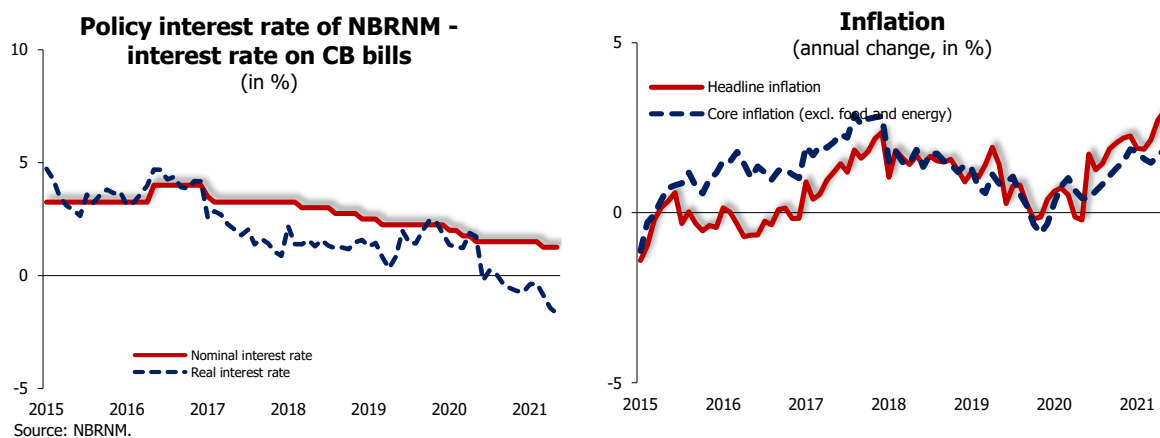
During the second quarter of the year, the National Bank maintained the policy rate unchanged, at the historically lowest level of 1.25%, continuing to maintain the relaxed monetary policy position. Such monetary stance aims to continue to contribute to

⁵¹ For more information on the new monetary measures, see the National Bank website: http://www.nbrm.mk/content/Hronologija_na_promenite_vo_postavenosta_na_monetarnite_instrumenti_na_NB_1-13_9-20.pdf



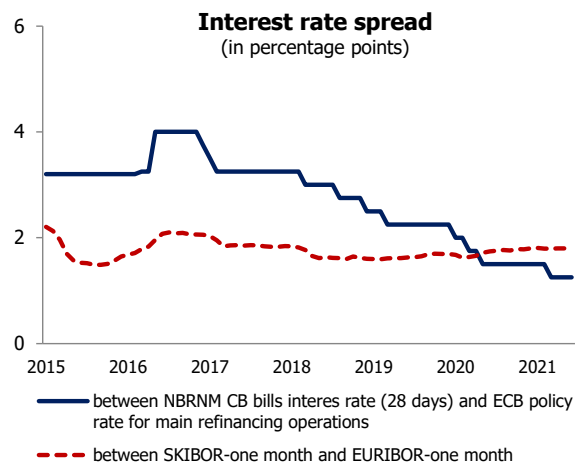
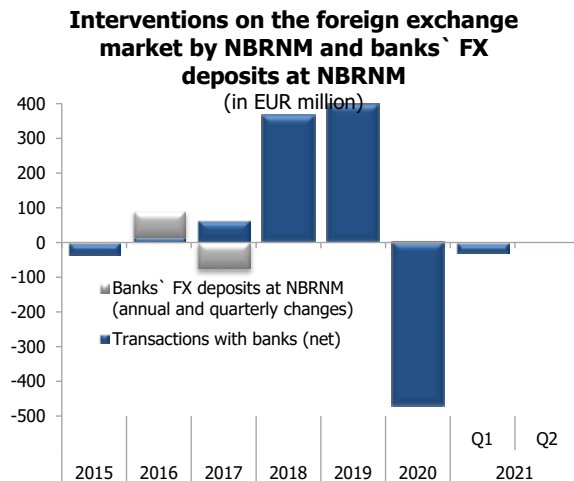
maintaining credit flows in the economy and easing financial conditions in order to mitigate the adverse effects of the pandemic on the domestic economy. Foreign reserves are still at an appropriate level and are maintained in the safe zone. The solid annual growth rates of total deposits and total loans were maintained also in the second quarter of the year. In conditions of uncertainty arising from the further course of the pandemic, the National Bank will continue to carefully monitor the indicators and potential risks of the domestic and external environment, in order to adequately adjust the monetary policy setup.

In the second quarter of 2021, the National Bank kept the relaxed monetary policy position, maintaining its policy rate at the historically lowest level of 1.25%. Taking into consideration the performed relaxation in the first quarter of 2021, amid the still present uncertainty related to the pandemic, in the second quarter it was decided the interest rate on CB bills to be kept at the current level, which was assessed as appropriate to the current economic and financial conditions. The current decline in the key interest rate, as well as the significant reduction of the offered amount of CB bills, contributed to increasing liquidity of the banking system, easing financial conditions and supporting credit flows in the economy.



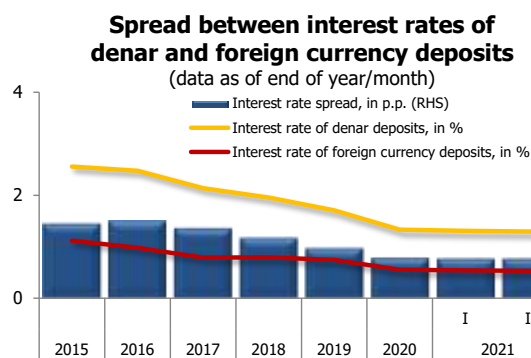
The performances⁵² of the main macroeconomic indicators in the domestic economy are mainly within the expectations according to the April forecasting round. The average annual growth rate of consumer prices in the period April - May was 2.9%, and is in line with the expectations for this period. Regarding the economic activity, in accordance with the published estimated GDP data, in the first quarter of 2021, the real GDP registered a real fall of 1.9% on an annual basis, amid a higher base effect, but also in conditions of a third COVID-19 wave which adversely affected the dynamics of the economic recovery. The available high-frequency data for the second quarter of 2021 are limited to fully grasp the situation, but indicate positive signals in accordance with the stabilization of the third wave of the pandemic and the started immunization in the country. Foreign reserves during the second quarter were maintained at an appropriate level and in a safe zone. Compared to the previous quarter, foreign reserves at the end of June increased. Moreover, the National Bank intervened on the foreign exchange market with a small quarterly net purchase of foreign currency, for the first time since the beginning of the pandemic. In terms of the movements in total deposits and total loans, the data as of May point to their further annual growth, with slightly faster dynamics relative to the April forecast.

⁵² It refers to the available information during the second quarter of 2021 that was taken into account when making the decisions on the monetary stance in that period.

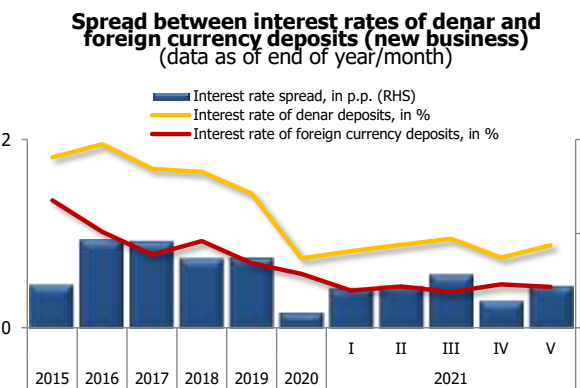


In the second quarter of 2021, the ECB continued to implement relaxed monetary policy in order to maintain favorable financial conditions. Amid unchanged policy rates of the ECB and of the National Bank, the spread between these two interest rates in the second quarter remained at the same level. Regarding the indicative market interest rates of 1m EURIBOR and 1m SKIBOR, no changes were noticed in this period, whereby the spread between them remained stable.

In the domestic economy, the spread of interest rates on total deposits (in denars and in foreign currency) in May marginally narrowed compared to the end of the first quarter and amounted to 0.7 percentage points, as a result of the decrease in the interest rate on denar deposits of 0.1 percentage points. In total newly accepted⁵³ deposits, the interest rate spread in May recorded a slight narrowing and amounted to 0.4 percentage points (from 0.6 percentage points in March), as a result of the minimal decline in the denar interest rate, amid a simultaneous increase in the foreign currency interest rate.



Source: NBRNM.

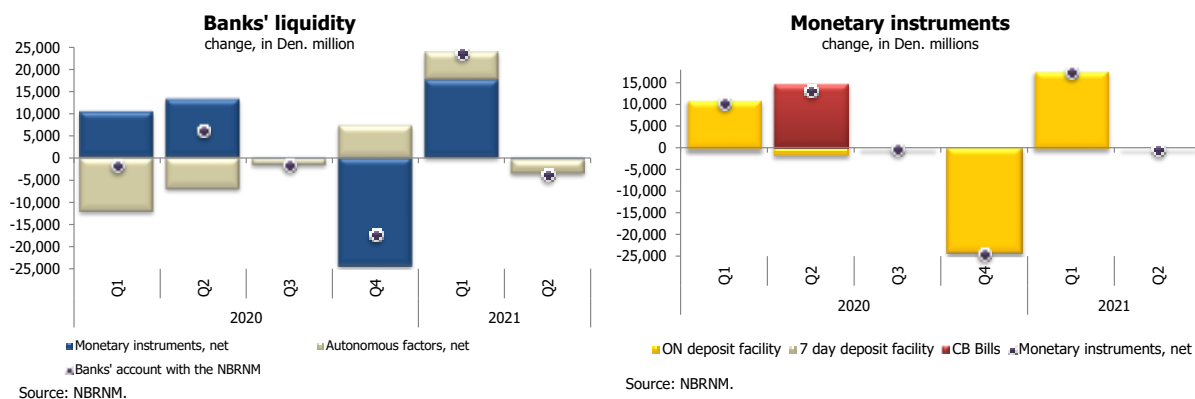


Source: NBRNM.

2.1. Bank liquidity

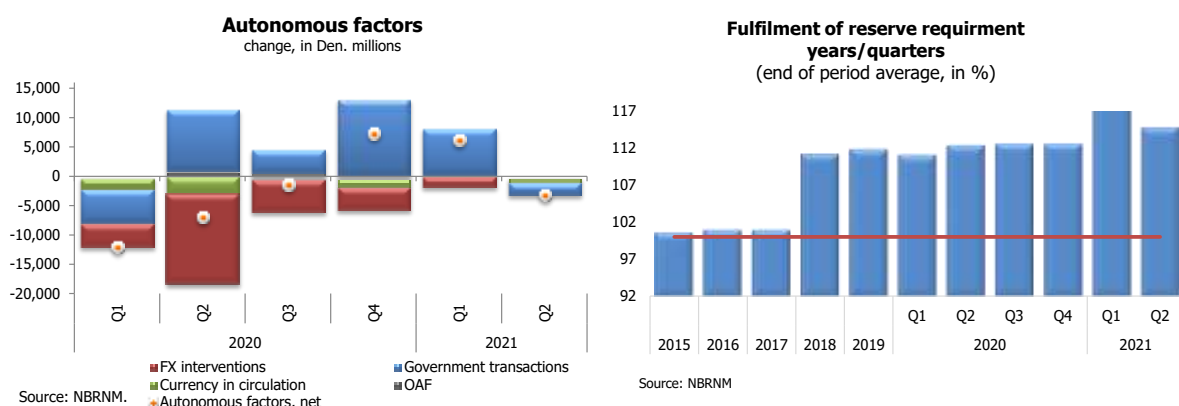
In the second quarter of 2021, the banks' denar liquidity decreased, which mostly results from the change in the autonomous factors, and the small change in the monetary instruments also acted in the same direction.

⁵³ 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.



Thus, the autonomous factors, net, in the second quarter contributed to withdrawing liquidity in the amount of Denar 3,170 million. This change is a result of government transactions, primarily of the increase in government denar deposits, as well as in currency in circulation.

At the same time, the banks' deposit facilities with the National Bank in the second quarter contributed to withdrawing liquidity (by Denar 321 million), amid an increase in the stock of the overnight deposit facility (by Denar 250 million) and in the 7-day deposit facilities (by Denar 71 million). At the end of the second quarter, the stock of the main instrument - the CB bills of the NBRNM was Denar 10,000 million and registered no changes compared to the end of the previous quarter. In the second quarter of the year, the banks' interest in placing their foreign assets in a foreign currency deposit with the National Bank was moderate and remained at a relatively stable level. This instrument, which was activated in the second half of 2020 amid increased uncertainty on the international markets, gives the banks in the country a chance to place part of their foreign assets in short-term and safe instruments of the central bank.



In the second quarter of the year, the banks continued to have more allocated funds on the accounts with the National Bank than the determined amount of the reserve requirement in denars, on average by about 15%.

III. Financial market developments

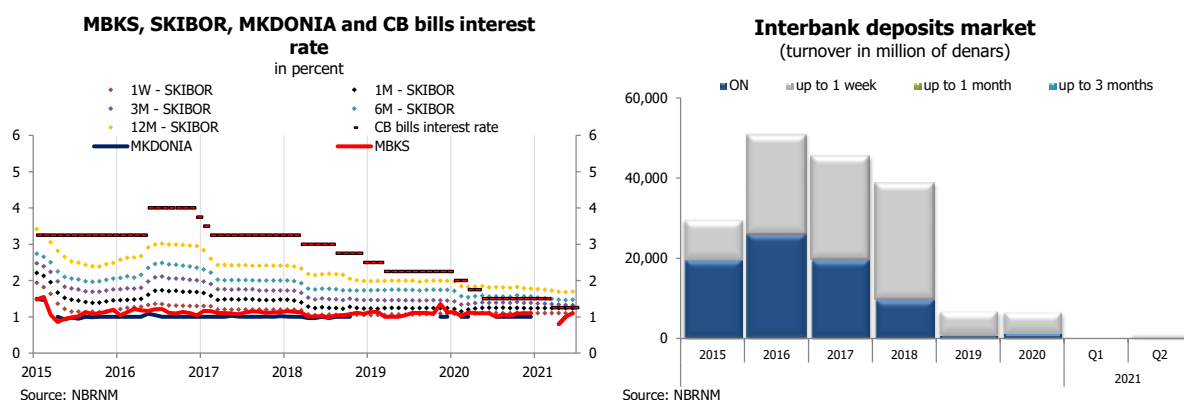
The interest rate on the interbank deposit market in the second quarter remained at a low and stable level and averaged around 1%. In conditions of an unchanged key interest rate of the National Bank, there were small downward changes in almost all SKIBOR quotations, with the exception of the one-week and the one-month quotations which remained stable. In the primary government securities market, the new issues were mainly in longer maturities, while on the secondary market, there was mostly trading with treasury bills. On the Macedonian Stock Exchange, the stock exchange turnover increased by 1.8%,

amid growth of the value of the MBI-10 of 9.0%, which is in line with the movements of the regional stock exchange indices. In the international financial markets, the volatility indices on the bond and stock markets⁵⁴, i.e. the VIX and MOVE indices on a daily basis registered a downward change, which indicates some stabilization of global market uncertainty. The increase in the yields on Macedonian Eurobonds amid a simultaneous slight increase also in the yields of German government bonds, contributed to expanding the spreads between these two bonds.

3.1. Interbank market for uncollateralized deposits

In the second quarter of the year, the average interest rate on the interbank deposit market (MBKS) remained stable and amounted to about 1%, in conditions of an unchanged key interest rate of the National Bank (1.25%). The trading on the interbank deposit market amounted to Denar 1,256 million (Denar 300 million in the previous quarter), primarily as a result of transactions with maturity up to 7 days and to a lesser extent of overnight transactions. A small downward shift on a quarterly basis was registered in almost all average SKIBOR quotations, with the exception of the one-week and the one-month quotations, which remained stable.

The interest rates on SKIBOR quotations on average registered small downward shifts, in the quotations with maturity of three, six and twelve months.



3.2. Government securities market

The stock of the issued government securities on the primary market in the second quarter of the year increased by Denar 9,881 million on a quarterly basis and amounted to Denar 136,205 million⁵⁵. From structural point of view, the growth is largely a result of the newly issued seven-year government bonds, coupled with growth of the fifteen-year government bonds. Government bonds remain dominant category (with a share of 79.1%) in the stock of total government securities issued on the primary market. Observing maturity, the second quarter registered a minimal quarterly growth of the share of the fifteen-year government bonds, from 38.4% to 38.6%, while the share of the twelve-month treasury bills on a quarterly basis decreased from 23.2% to 20.9%, at the expense of the share of the newly issued seven-year bonds (4.6%). Such performances are in line with the strategy of the Ministry of Finance for issuing government bonds with longer maturities, in order to reduce the debt refinancing risk.⁵⁶ In terms of currency structure, government securities without currency clause

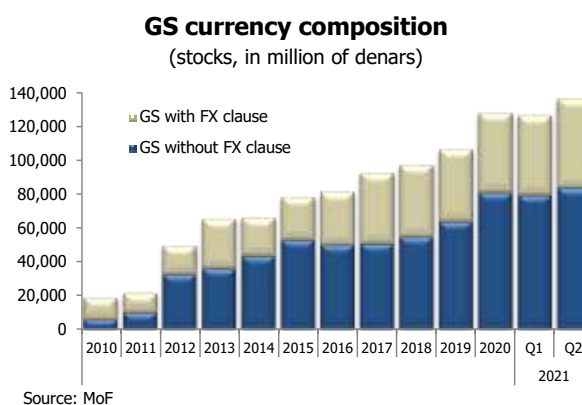
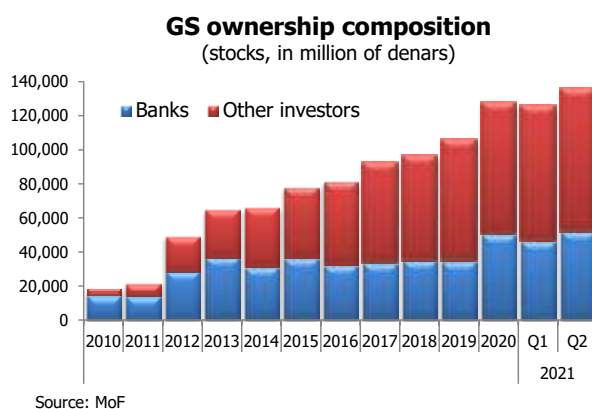
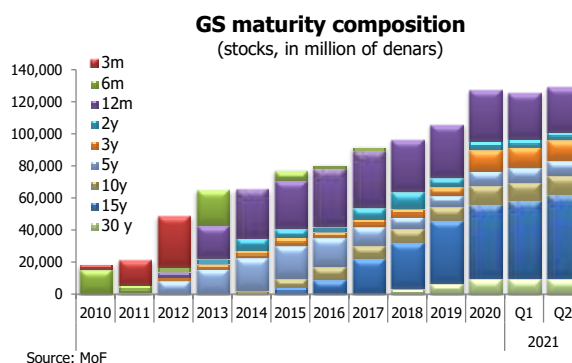
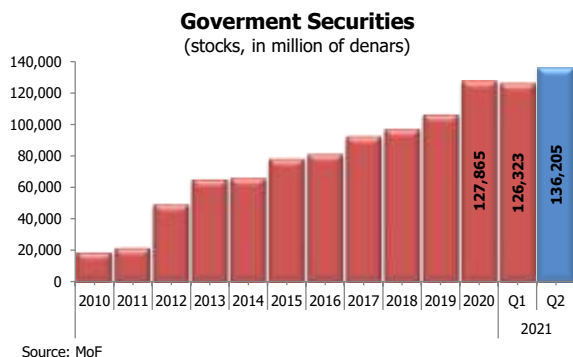
⁵⁴ The MOVE index (Merrill Lynch Option Volatility Estimate) shows the volatility of the US government bond markets. The VIX index (Volatility Index) is constructed based on the implied volatility of S&P500 index options. Investors use both indices as indicators of the conditions and expectations for the financial markets volatility. Downward path in the indices indicates a decrease in volatility.

⁵⁵ On 30 March 2021, the Ministry of Finance also held auctions of 7-year government bonds without and with a currency clause at interest rates of 1.625%, respectively, whose realized amounts are included in the total stock of government securities for April 2021.

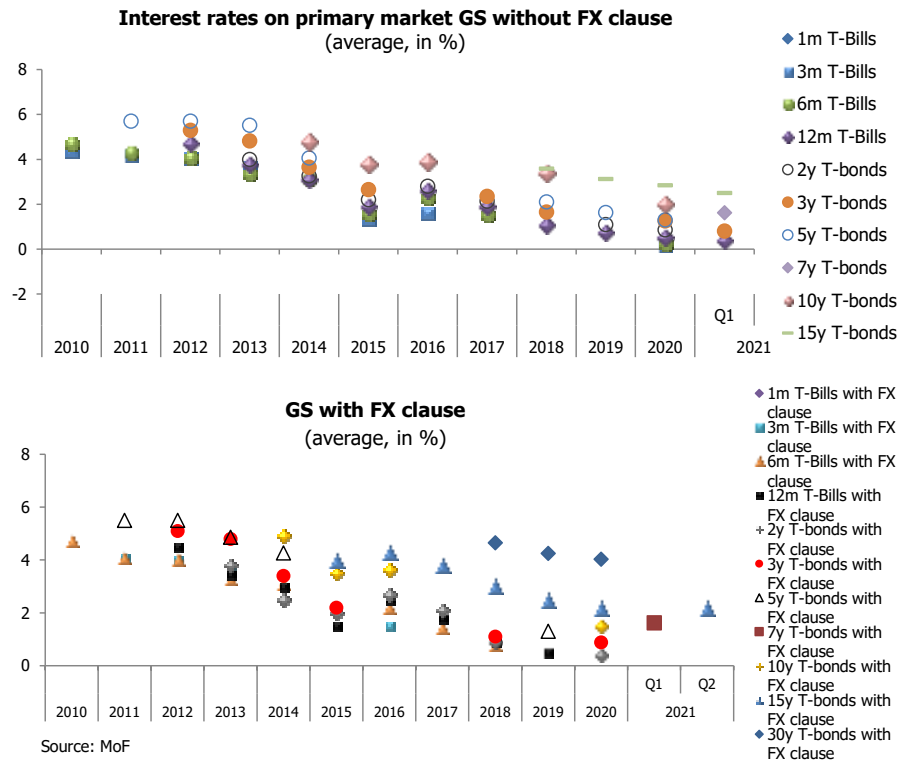
⁵⁶ Fiscal Strategy of the Republic of North Macedonia for 2022-2024 (with prospects until 2026), Ministry of Finance, May 2021.



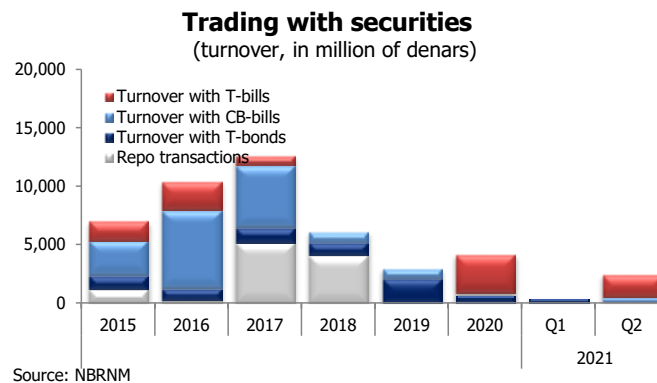
maintained their dominant share, making up 61.5% of total government securities (62.9% in the previous quarter). Moreover, the banks in this quarter increased the share in the ownership structure of the government securities from 36.9% to 38.2%, while the other investors reduced the share. Within the other investors (61.8%), dominant holders of government securities are still the pension funds (with a share of 42.7%).



Interest rates on government securities during the second quarter of 2021 hardly changed compared to the previous quarter. Thus, on the primary market, there was a sale of twelve-month treasury bills without currency clause at an interest rate of 0.5% (0.4% in the previous quarter), five-year government bonds without currency clause at an interest rate of 1.2% as well as fifteen-year government bonds without and with currency clause at interest rates of 2.5% and 2.2%, respectively.



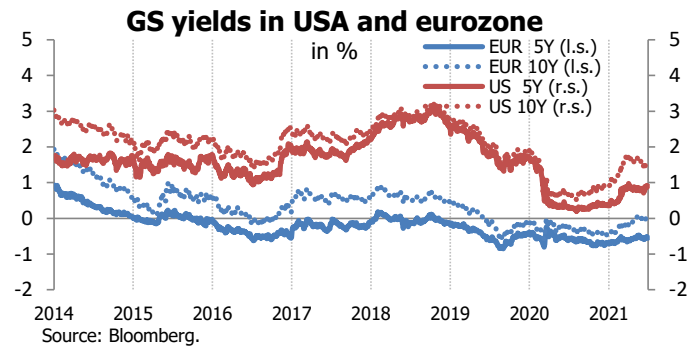
Trading with securities on the secondary market in the second quarter of the year was higher compared to the previous quarter and amounted to Denar 2,472 million, whereby transactions with treasury bills were mostly concluded on this market segment, and to a lesser extent there were transactions with CB bills and government bonds. Observing maturity, there were transactions with residual maturity of 7 days, from 1 to 3 months, 3 to 6 months, 6 to 12 months and 10 to 15 years (with an average yield to maturity of 0.4%, 0.4%, 0.4%, 0.4% and 3.2%, respectively).



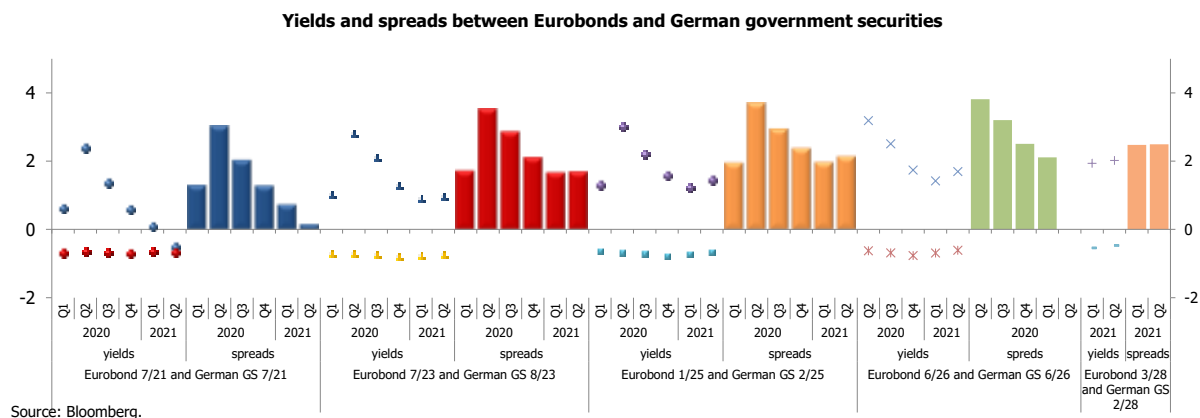
At global level, in conditions of a third COVID-19 wave, policy makers continued to respond with additional measures intended to support lending and economies. In such circumstances, on the financial markets in the euro area, in the second quarter of 2021, the yields of the 10-year government securities⁵⁷ registered an upward movement and averaged around 0% (-0.3% in the previous quarter), while the yields of the US 10-year government bonds⁵⁸ amounted to 1.6% (1.3% in the previous quarter of the year).

⁵⁷ Those are generic government bonds derived from the yield curves of government bonds of Germany and France.

⁵⁸ Those are generic yields derived from the yield curve of government bonds of the United States.



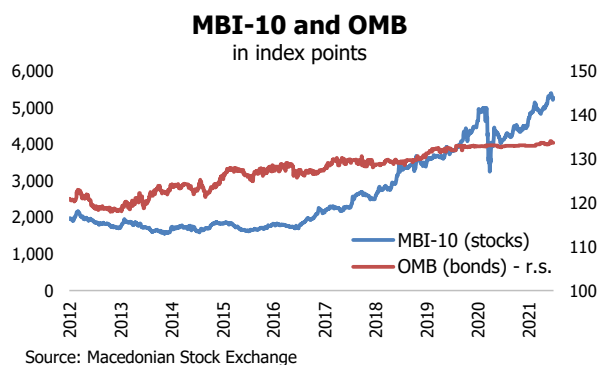
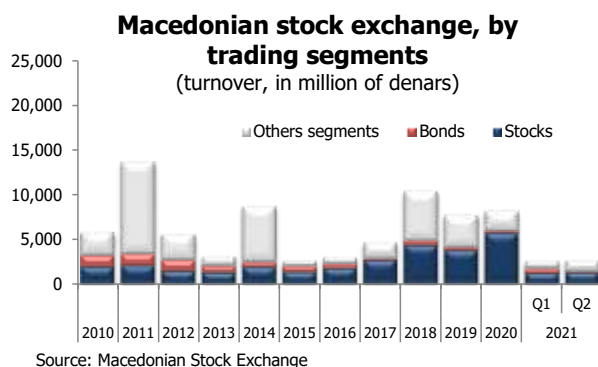
Also, the yields on Macedonian Eurobonds⁵⁹ in the second quarter of the year generally registered an increase on average, amid a simultaneous slight increase in the yields of German government bonds, which led to a slight widening in some of the spreads between these two bonds, which averaged 0.2 percentage points, 1.7 percentage points, 2.1 percentage points, 2.3 percentage points and 2.5 percentage points, respectively.



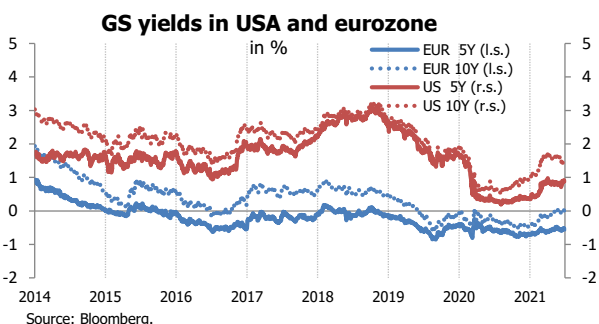
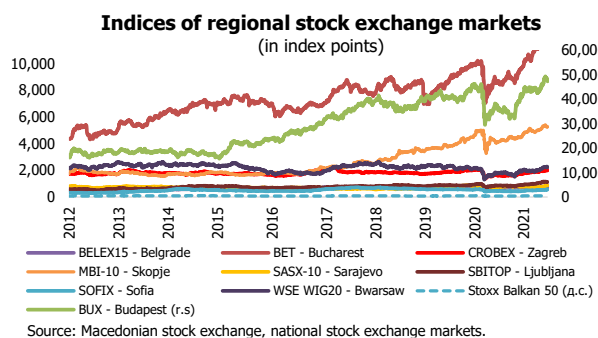
3.3. Stock markets

On the Macedonian Stock Exchange, the value of the stock exchange index MBI-10 increased by 9.0% in the second quarter of 2021 (3.0% in the previous quarter) and reached 5,281 index points. At the same time, the stock exchange turnover registered a quarterly growth of 1.8% mostly as a result of the increased turnover on the basis of block transactions, as well as of the stocks turnover (quarterly growth of 48.6% and 5.7%, respectively), amid reduced bonds turnover (by 83.7% on a quarterly basis). The value of the bond index (OMB) during the quarter remained at a stable level of 134 index points.

⁵⁹ It refers to the Macedonian Eurobonds issued in July 2014, in July 2016, in January 2018, in June 2020 and March 2021. Eurobonds are issued in the nominal amount of Euro 500 million, Euro 450 million, Euro 500 million, Euro 700 million, and Euro 700 million, respectively, with a maturity of 7, 7, 7, 6 and 7 years, respectively, and annual interest rates of 3.975%, 5.625%, 2.75%, 3.675% and 1.625%, respectively.



In the second quarter of 2021, the stock exchange indices of the region continued to grow, and registered a total average growth of 8.5% (growth of 5.1% in the previous quarter). A more significant upward movement was registered in the Polish, Bosnian and Slovenian indices, which registered an average quarterly growth of about 13%. The remaining indices on the other stock exchanges of the region registered a more moderate growth. Volatility indices on the bond and stock markets⁶⁰, i.e. the VIX and MOVE indices on a daily basis registered an average fall of 10%, which indicates stabilization of global market uncertainty.



IV. Monetary and credit aggregates⁶¹

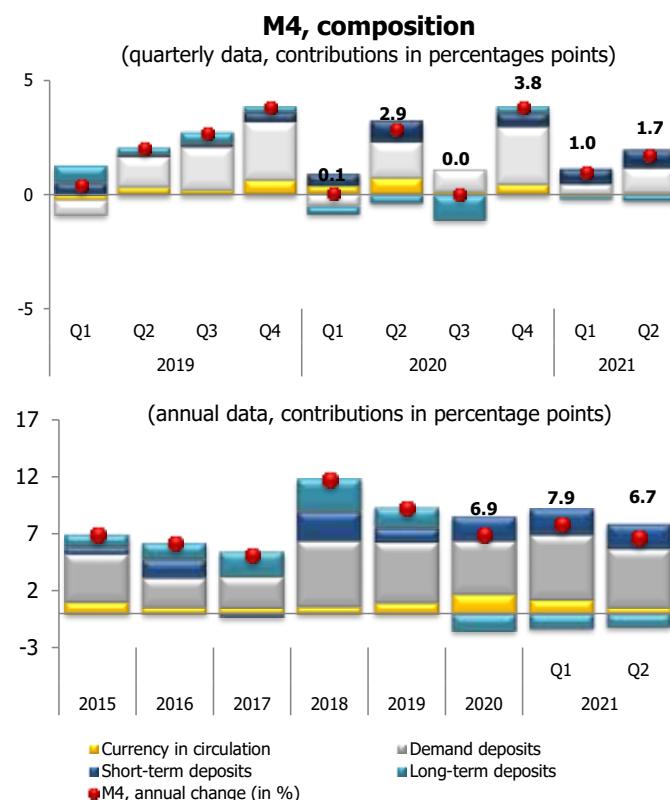
In the second quarter of 2021, there was an acceleration in the growth of the broadest monetary aggregate M4, which, in addition to the seasonal factors, in part is also due to the funds paid to the private sector within the economic support measures. Structurally observed, the acceleration is mostly due to the most liquid component - demand deposits, amid a more moderate positive contribution of savings which comes from the growth of short-term deposits. The growth in lending also accelerated, which is typical for this time of year, amid a more pronounced acceleration in corporate loans. The results of the Bank Lending Survey for the second quarter indicate an increase in credit demand by enterprises and households. At the same time, there was weaker net tightening of the credit conditions for the corporate sector, amid slight net easing of the conditions for approving total household loans.

⁶⁰ The MOVE Index (Merrill Lynch Option Volatility Estimate) shows the derived volatility in the US government securities markets. The VIX index (Volatility Index) is constructed based on the implied volatility of S&P500 index options. Investors use both indices as indicators of the conditions and expectations for the financial markets volatility. Downward path in the indices indicates a decrease in volatility.

⁶¹ Monetary aggregates, and total deposits and loans data since August 2020 do not include data on a bank whose founding and operating license was revoked and which went into bankruptcy in August 2020.

4.1. Monetary aggregates

During the second quarter of 2021, the growth of the broad money M4 registered a moderate acceleration compared to the previous quarter (quarterly growth of 1.7%, after the growth of 1% in the previous quarter). This change in the money supply is mainly a reflection of seasonal factors, and can partly be explained by the funds paid from the measures to support the economy and deal with the consequences of the pandemic. In terms of the structure of the money supply, the acceleration in the growth mostly results from the most liquid component, i.e. from demand deposits⁶² (contribution of 1.1 percentage points to the growth), and to a small extent from currency in circulation (contribution of 0.1 percentage points to the growth), amid a stable positive contribution of savings. The analysis of deposits from maturity aspect points to an increase in short-term deposits (with a contribution of 0.8 percentage points), amid a further decrease in long-term deposits (with a negative contribution of 0.2 percentage points). Regarding the currency structure, denar deposits (excluding demand deposits) continue to have a negative contribution of 0.6 percentage points in the quarterly growth of the broad money M4, with a positive contribution of foreign currency deposits (1.2 percentage points). Accordingly, the share of foreign currency deposits in M4 at the end of the second quarter registered an uptick to 36.5% (35.9% at the end of the previous quarter). On an annual basis, the growth of the monetary aggregate M4 at the end of the second quarter registered a moderate slowdown compared to the previous quarter, from 7.9% to 6.7%, as a result of the high base effect related to the higher funds payments to the private sector in accordance with the economic support measures in the second quarter of 2020.



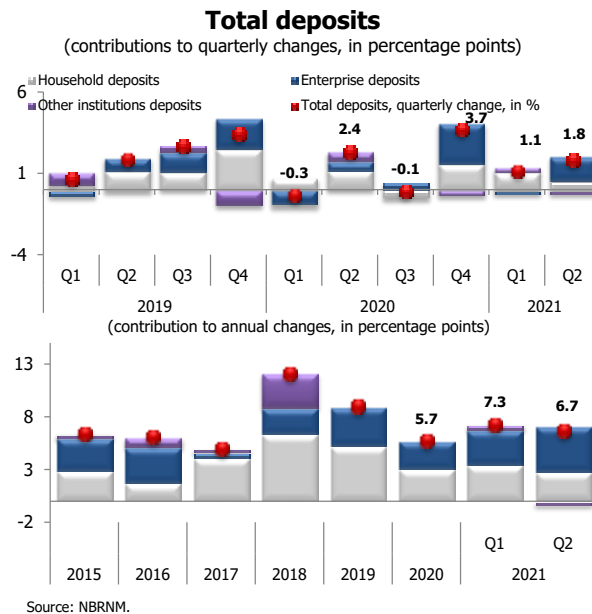
Total financial system deposits⁶³ in the second quarter of 2021 increased by 1.8% on a quarterly basis (after the quarterly growth of 1.1% in the previous quarter). Analyzing by sector, the deposit increase is largely due to the growth of corporate deposits, amid growth of household deposits, with decrease in other sectors' deposits. Observing by currency, growth was registered in both denar (due

⁶² In the second quarter of 2021, the government paid subsidies due to wage payment, as well as subsidies to farmers.

⁶³ 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: https://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspj.



to the growth of demand deposits, amid decline in term deposits) and in foreign currency deposits. Analyzing the maturity structure, the growth entirely reflects short-term deposits, amid fall in long-term deposits. On an annual basis, the growth of total deposits equaled 6.7% at the end of June (7.3% at the end of the previous quarter).



Total deposits

	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total deposits	-0.3	2.4	-0.1	3.7	1.1	1.8
contributions to quarterly growth, p.p.						
Deposit money	-0.5	1.7	1.1	2.7	0.5	1.2
Denar deposits	-0.7	-0.4	-1.4	-0.4	-0.2	-0.7
FX deposits	0.9	1.0	0.3	1.4	0.8	1.3
Short-term deposits	0.6	1.0	0.0	0.7	0.7	0.9
Long-term deposits	-0.4	-0.4	-1.2	0.3	-0.1	-0.3
Households	0.7	1.2	-0.5	1.6	1.1	0.5
Enterprises	-0.9	0.6	0.5	2.5	-0.3	1.5
Other institutions deposits	-0.1	0.6	-0.1	-0.4	0.3	-0.2

Source: NBRNM.

In the second quarter of the year, household deposits continued to grow, but at a more moderate pace (quarterly growth of 0.8%, after the growth of 1.7% in the previous quarter). Observing by currency, the total denar deposits registered a minimal decline, while the foreign currency deposits registered an increase. Analyzing the maturity structure, short-term deposits increased, amid further decline in long-term deposits. The annual increase in total household deposits was 4.2% at the end of June (5.2% in March).

Corporate deposits in the second quarter registered a quarterly increase of 5.6% (fall of 0.9% in the first quarter). Analyzing the currency structure, the growth of the total corporate deposits is almost equally a result of the increase in the foreign currency and denar deposits (entirely due to the growth of demand deposits). Analyzing the maturity, growth was recorded in both short-term and long-term deposits. Annually, at the end of June corporate deposits increased by 16.7% (12.9% at the end of the previous quarter).

Household deposits

	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total household deposits	1.1	1.8	-0.7	2.4	1.7	0.8
contribution to quarterly change of total deposits, in p.p.						
Deposit money	0.7	1.5	0.5	2.0	0.6	0.5
Denar deposits	-0.2	-0.9	-1.7	-0.1	0.1	-0.6
FX deposits	0.6	1.2	0.5	0.6	1.0	0.9
Short-term deposits	0.5	0.8	0.7	0.5	1.1	1.0
Long-term deposits	-0.1	-0.4	-1.9	-0.1	-0.1	-0.7

Source: NBRNM.

Enterprise deposits

	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total household deposits	-3.4	2.2	1.8	9.5	-0.9	5.6
contribution to quarterly change of total deposits, in p.p.						
Deposit money	-3.9	2.0	2.8	6.7	-0.3	3.1
Denar deposits	-1.4	-0.4	-1.0	-0.7	-0.3	-0.4
FX deposits	2.0	0.6	-0.1	3.6	-0.3	2.9
Short-term deposits	1.5	0.2	-1.1	1.8	-0.7	1.3
Long-term deposits	-1.0	0.1	0.1	1.0	0.1	1.2

Source: NBRNM.

The analysis of the returns⁶⁴ on the new savings shows that in May, the interest rates on the newly accepted⁶⁵ denar and foreign currency deposits of the households were 0.9% and 0.4%, respectively (1.1% and 0.4%, respectively in the previous quarter). In such conditions, the interest rate spread between the new denar and foreign currency savings of households in May recorded a slight

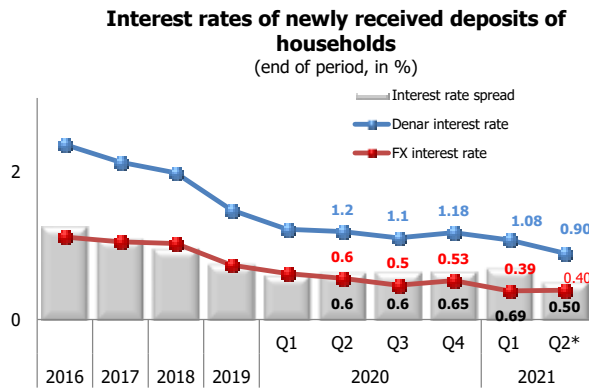
⁶⁴ Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit:

http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

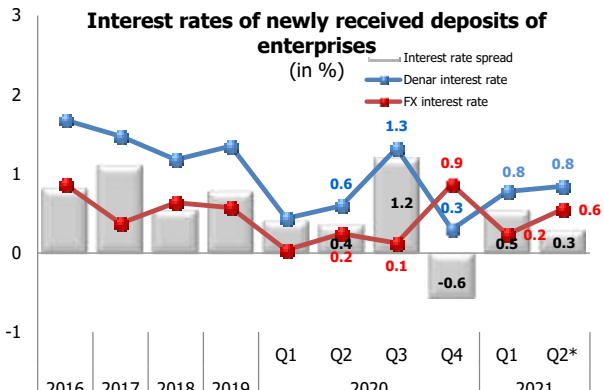
⁶⁵One should have in mind that the interest rates on the newly accepted deposits are volatile. Volatility of interest rate on newly accepted deposits results from the fact that they are driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.



narrowing and equaled 0.5 percentage points. Interest rates on newly accepted denar and foreign currency corporate deposits in May amounted to 0.8% and 0.6%, respectively (0.8% and 0.2%, respectively in March). With such shifts, the interest rate spread between the newly accepted denar and foreign currency corporate deposits at the end of May narrowed and equaled 0.3 percentage points. Regarding the total accepted deposits (denar and foreign currency), the interest rates on household and corporate deposits in May amounted to 0.8% and 1.2%, respectively (0.9% and 1.1%, respectively in March).



*end of May
Source: NBRNM.



*end of May
Source: NBRNM.

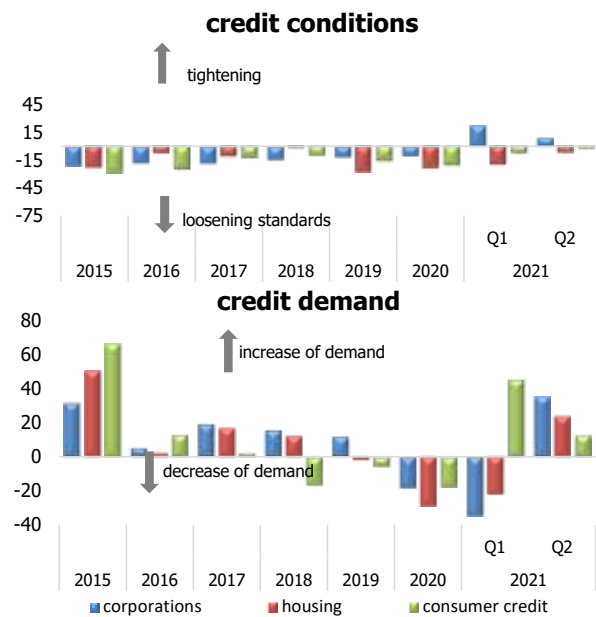
4.2. Lending activity

The lending activity of the banks in the second quarter of the year registered an acceleration in the quarterly growth from 1.2% to 2.6%, which is typical for this time of year. Analyzing credit standards, according to the results of the Bank Lending Survey, the second quarter witnessed weaker net tightening of credit standards for the corporate sector, amid slight net easing of the conditions for approving total household loans. However, the largest percentage of banks still indicates unchanged credit standards for both sectors. There was also an upward movement of total credit demand by corporations and households. For the third quarter of 2021, banks expect a net increase in the total demand for loans by both sectors and slight net tightening of the credit standards.

Total credits of private sector

	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total credits of private sector	0.7	2.6	0.03	1.3	1.2	2.6
Contribution in quarterly change of total credits (in p.p.)						
Denar credits	0.5	1.7	-0.1	0.6	0.7	1.8
Foreign currency credits	0.2	0.9	0.1	0.6	0.5	0.8
Short-term credits	0.1	-0.4	-1.2	0.4	0.5	0.6
Long-term credits	0.3	2.7	2.2	1.0	0.5	1.9
Households	0.8	1.1	1.4	0.7	0.8	1.4
Corporations	-0.1	1.5	-1.4	0.5	0.4	1.1

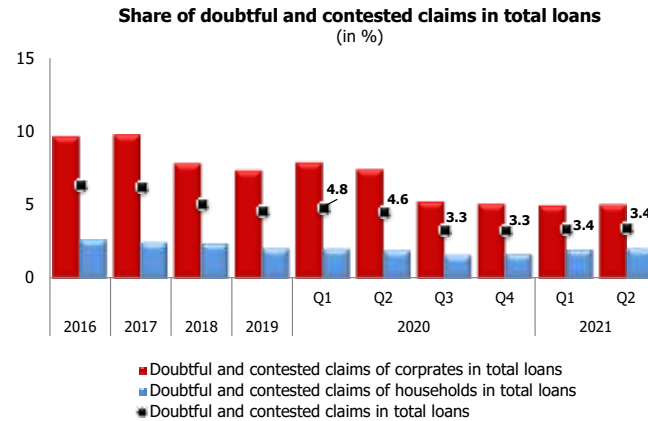
Source: NBRNM.



Source: Bank lending Survey, NBRNM.



The analysis of sectoral structure of loans to the private sector indicates an increase in lending to both sectors, but with a larger contribution of household loans. Analyzing the currency, the growth primarily arises from denar loans, as well as foreign currency loans⁶⁶. Analyzing maturity structure, the quarterly growth of total loans primarily stems from the accelerated growth of long-term loans, amid growth of short-term loans. Additionally, the share of doubtful and contested claims in total loans registered no changes compared to the end of the first quarter and in June amounted to 3.4%.



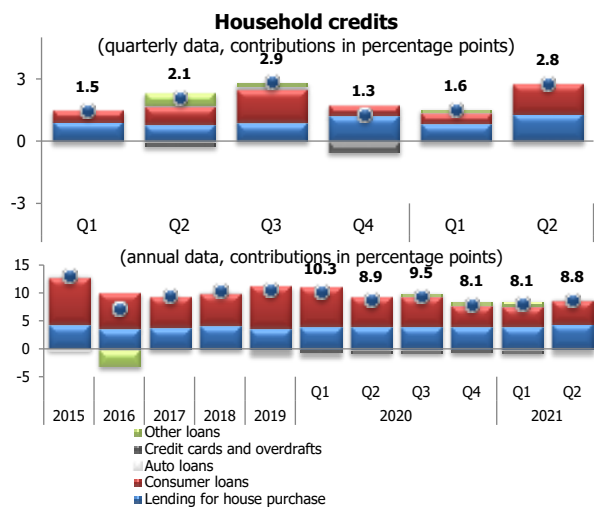
Annually, total loans at the end of the second quarter increased by 5.1%, which is similar dynamics compared to the previous quarter (5.2%). Loan growth is primarily due to the rise of household loans, amid positive contribution of corporate loans. Moreover, loan to deposit ratio at the end of June equaled 81.2% (80.6% at the end of March).

In the second quarter of 2021, the growth of household lending accelerated compared to the previous quarter. The quarterly growth of 2.8% (1.6% in the first quarter) largely stems from the increase in housing and consumer loans, with a smaller positive contribution of other loans, while credit cards and overdrafts registered a slight decline. The results of the Bank Lending Survey for the second quarter in the household sector indicate a net increase in the demand for housing and consumer loans, with a slight net easing of the credit standards. Observing by currency, the growth of household loans results from the almost equal positive contribution of denar and foreign currency loans (mostly as a result of loans with foreign currency clause). Analyzing the maturity structure, the quarterly growth continued to be driven mostly by long-term loans, amid minimal contribution of short-term loans. Annually, at the end of June total loans to households increased by 8.7% (8.1% in March).

Total credits of households

	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total credits of households	1.5	2.1	2.8	1.3	1.6	2.8
Contribution in quarterly change of household credits (in						
Denar credits	0.9	1.6	2.5	0.6	1.0	1.3
Foreign currency credits	0.6	0.5	0.3	0.7	0.5	1.4
Short-term credits	0.01	-0.4	0.03	-0.1	0.2	0.1
Long-term credits	1.5	1.9	2.6	1.3	1.1	2.7

Source: NBRNM.



*Total loans to households do not include loans to self-employed individuals.
Source: NBRNM.

⁶⁶ Foreign currency loan data also include denar loans with currency clause.

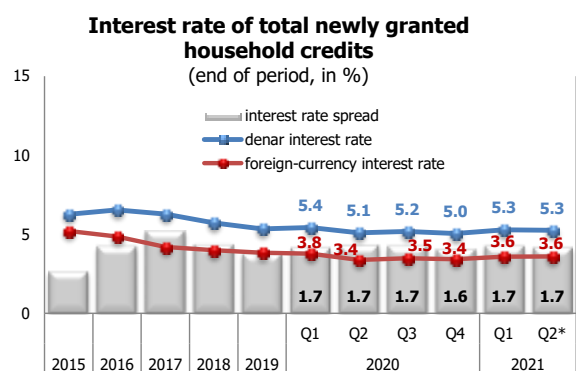
In the second quarter of 2021, the quarterly growth of total loans granted to the corporate sector accelerated to 2.3% (0.8% in the first quarter). The results of the Bank Lending Survey for the second quarter indicate a net increase in the corporate loan demand (net decrease in the previous survey), amid small net tightening of credit standards. Analyzing the currency, the growth of total corporate loans is primarily a result of the increase in denar loans, amid a minimal contribution of foreign currency loans (including loans with foreign currency clause). Analyzing the maturity structure, the quarterly change arises from the equal contribution of short-term and long-term loans. Annually, at the end of June, total corporate loans increased by 1.2% (2.1% at the end of March).

Total credits of corporations

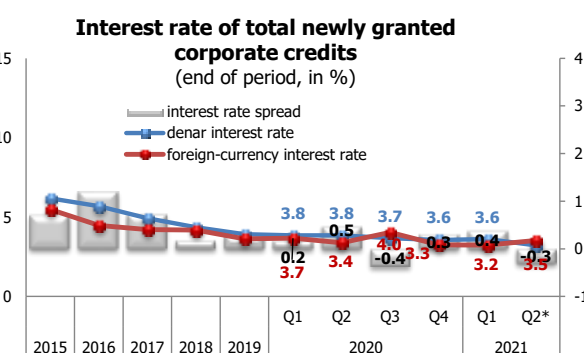
	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
quarterly change, in %						
Total credits of corporations	-0.2	3.2	-2.9	1.0	0.8	2.3
Contribution in quarterly change of corporation credits (in p.p.)						
Denar credits	0.0	1.8	-2.8	0.5	0.2	2.3
Foreign currency credits	-0.2	1.3	-0.1	0.6	0.6	0.1
Short-term credits	0.1	-0.4	-2.2	0.9	0.9	1.1
Long-term credits	-0.9	3.7	1.9	0.4	-0.1	1.1

Source: NBRNM.

According to the data on interest rates⁶⁷ on new loans⁶⁸ in May, the interest rates on denar and foreign currency loans to households did not change compared to the previous quarter and amounted to 5.3% and 3.6%, respectively. In such conditions, the interest rate spread between the new denar and foreign currency lending to households remained stable at 1.7 percentage points. Interest rates on newly approved denar and foreign currency corporate loans in May amounted to 3.2% and 3.5%, respectively (3.6% and 3.2%, respectively in the previous quarter). Regarding total loans granted to the private sector, at the end of May, the interest rates on household and corporate loans did not change compared to the previous quarter, and equaled 5.4% and 3.7%, respectively.



*End of May.
Source: NBRNM.



*End of May.
Source: NBRNM.

V. Public finance

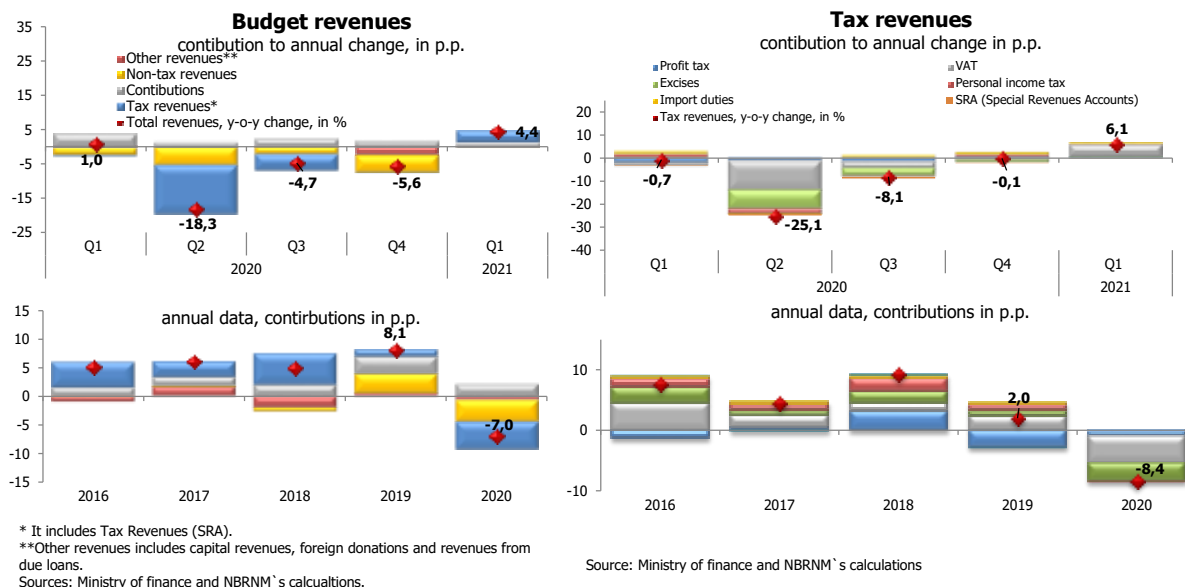
In the first quarter of 2021, budget revenues registered a moderate annual growth, for the first time after the occurrence of the crisis caused by COVID-19, partially as a result of the lower base effect from the same period last year, when already in March the initial negative effects of the pandemic on the inflows in the budget were felt. At the same time, the growth in budget expenditures was

⁶⁷ Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

⁶⁸ One should have in mind that the interest rates on newly approved loans are volatile. Volatility of interest rate on newly approved loans results from the fact that they are driven by the volume of newly approved loans (which can vary from month to month) and their interest rate.

significantly more moderate, due to the lower transfers from the budget in this period. Against such background, there was also a more moderate budget deficit, of about 1% of GDP. In the first five months of 2021, budget deficit amounted to Denar 11,895 million or 1.7% of GDP, making up 34.0% of the deficit forecast for 2021. In this period, the budget deficit was mostly financed through net government borrowing on the foreign market, and less through net borrowing on the domestic market, with part of the funds retained on the deposit account with the National Bank. Thus, total public debt reached 61.9% of GDP at the end of the first quarter of 2021, which is by 1.7 percentage points more compared to the end of 2020.

In the first quarter of 2021, total revenues in the Budget of the Republic of North Macedonia⁶⁹ increased by 4.4%, on an annual basis (-5.6% in the fourth quarter of 2020). The annual growth of budget revenues was partly due to the low base effect reflecting the adverse shock to the domestic economy from the rapid spread of COVID-19 and the containment measures that caused the total revenues to fall in March 2020. Observed by budget revenue category, annual increase was registered in taxes⁷⁰ and contributions, while non-tax revenues and other revenues⁷¹ registered negative growth. After the negative annual growth rates in the second quarter of 2020, taxes, as the most significant revenue item, registered an annual growth of 6.1% in the first quarter of 2021 (with a positive contribution of 3.4 percentage points to the growth of total revenues). Contributions continued to increase, slower though compared to the previous period, achieving an annual growth of 3.3% (positive contribution of 1.1 percentage points), partly due to the exhaustion of the effect of the increase in mandatory pension and health insurance rates in early 2020⁷², while non-tax revenues and other revenues were lower by 0.8% and 9.8% on an annual basis (with a negative contribution of 0.1 percentage point, respectively).



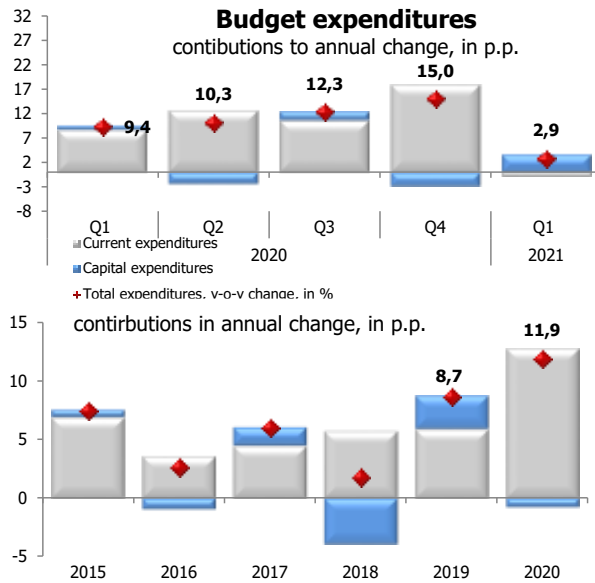
The growth of total tax revenues of 6.1% in the first quarter of 2021 stems primarily from the higher revenues from indirect taxes (positive contribution of 5.4 percentage points), as well as from direct taxes (positive contribution of 0.7 percentage points). Analyzing indirect taxes, growth was registered in VAT revenues (with a positive contribution of 5.1 percentage points), with slight decrease in excises revenues (negative contribution of 0.3 percentage points).

⁶⁹Central budget and budgets of funds.

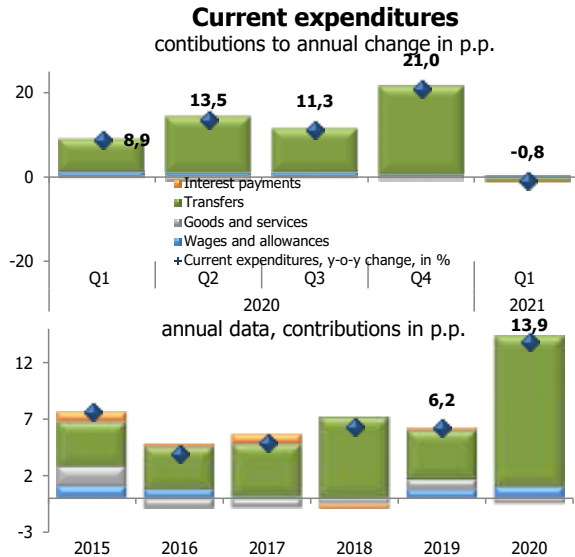
⁷⁰ It also includes own revenue accounts.

⁷¹ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

⁷² The mandatory pension and health insurance rates in early 2020 were raised to 18.8% and 7.5%, respectively, compared to 2019 when they were 18.4% and 7.4%, respectively.

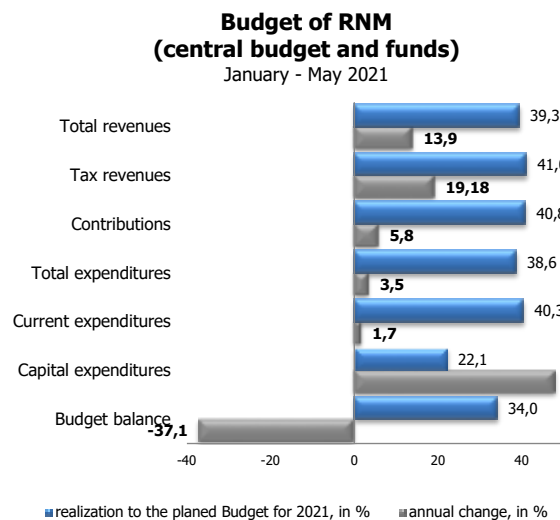


Source: Ministry of finance.

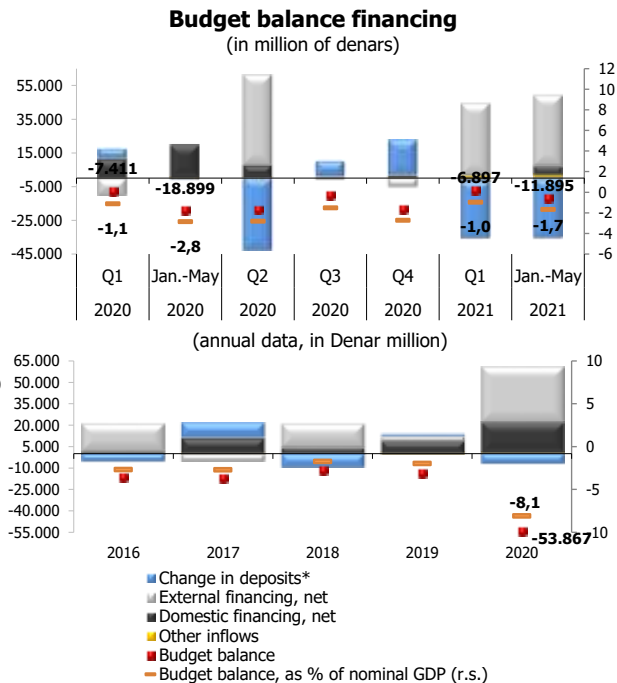


Source: Ministry of finance and NBRNM's calculations.

The growth of total budget expenditures in the first quarter of 2021 was significantly more moderate and amounted to 2.9% on an annual basis (15.0% in the previous quarter), resulting primarily from the lower transfers paid from the budget. The annual growth is mostly a result of higher capital expenditures (contribution of 3.7 percentage points), while current expenditures decreased by 0.8%, as a result of the reduction of the categories of transfers⁷³, interest payments, and goods and services (negative contributions of 0.9 percentage point, 0.2 percentage point and 0.1 percentage point respectively), with a small increase in the category of wages and benefits (positive contribution of 0.4 percentage point).



Source: Ministry of Finance and NBRNM's calculations



* Positive change - deposits withdrawal; negative change - deposits accumulation.
Source: Ministry of finance

⁷³ The category of transfers is associated with pension costs, social security costs, health care costs and other transfers.



In the first quarter of 2021, the budget deficit was Denar 6,897 million or 1.0% of GDP, which is similar compared to the same period last year (deficit of 1.1% of GDP⁷⁴). The deficit was mainly financed by net government borrowing on the international market⁷⁵, and in this period, the government accumulated funds on the deposit account with the National Bank.

BUDGET OF REPUBLIC OF NORTH MACEDONIA (Central budget and budgets of funds)

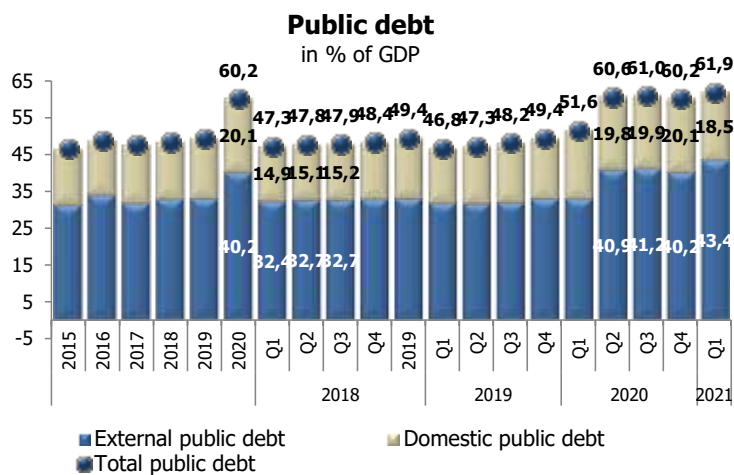
	2020						2021			2020				2021			
	Budget for 2020	Reallocation 2020	Revised Budget for 2020 (I)	Revised Budget for 2020 (II)	Q4	Total	Budget for 2021	Q1	Jan.-May 2021	Q4		Total budget for 2020		Q1		Jan.-May	
										Annual changes, period in Q4 2020, in %	Contributions in annual changes, period in Q4 2020, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, period in Q1 2021, in %	Contributions in annual changes, period in Q1 2021, in p.p.	Annual changes, period in Jan.-May 2021, in %	Contributions in annual changes, period in Jan.-May 2021, in p.p.
TOTAL REVENUES	222.308	222.308	196.768	196.343	53.562	189.554	212.630	48.545	83.574	-5,6	-5,6	-7,0	-7,0	4,4	4,4	13,9	13,9
Tax revenues and contributions	197.162	197.162	172.407	174.271	49.498	173.464	186.282	44.304	75.820	2,0	1,7	-3,0	-2,7	5,0	4,6	13,7	12,5
Taxes*	130.129	130.129	109.010	109.218	31.359	106.900	117.982	28.003	47.965	-0,1	-0,1	-8,4	-4,8	6,1	3,4	18,9	10,4
Contributions	67.033	67.033	63.397	65.053	18.139	66.564	68.300	16.301	27.855	5,8	1,8	7,1	2,2	3,3	1,1	5,8	2,1
Non-tax revenues	17.322	17.322	17.063	15.123	3.019	11.173	16.954	3.298	5.279	-48,0	-4,9	-40,2	-3,7	-0,9	-0,1	10,0	0,7
Capital revenues	2.183	2.183	2.139	2.139	321	1.846	3.187	194	387	-69,3	-1,3	-22,1	-0,3	-48,7	-0,4	-16,8	-0,1
Foreign donations	5.541	5.541	5.159	4.810	724	3.071	6.207	749	2.088	-44,9	-1,0	-20,7	-0,4	24,0	0,3	47,2	0,9
TOTAL EXPENDITURES	239.693	239.693	242.948	252.838	71.557	243.421	247.568	55.442	95.469	15,0	15,0	11,9	11,9	2,9	2,9	3,5	3,5
Current expenditures	215.922	219.382	223.402	233.187	64.055	227.306	223.513	51.461	90.159	21,0	17,9	13,9	12,7	-0,8	-0,8	1,7	1,6
Capital expenditures	23.771	20.311	19.546	19.650	7.502	16.115	24.055	3.981	5.310	-19,0	-2,8	-9,5	-0,8	98,0	3,7	48,0	1,9
BUDGET DEFICIT / SURPLUS	-17.385	-17.385	-46.180	-56.495	-17.995	-53.867	-34.938	-6.897	-11.895								
Financing	17.385	17.385	46.180	56.495	17.995	53.867	34.938	6.897	11.895								
Inflow	60.598	60.598	88.287	98.602	44.826	95.695	78.291	12.012	19.239								
Other inflows	300	300	490	490	261	960	800	2.003	2.176								
Foreign loans	34.334	34.334	76.872	64.562	8.362	65.247	53.042	43.062	43.675								
Deposits	-1.108	-1.108	-19.222	-2.737	21.036	-6.859	1.312	-33.900	-35.200								
Treasury bills	27.062	27.062	30.137	36.287	15.167	36.347	23.129	834	8.575								
Sale of shares	10	10	0	0	0	0	8	13	13								
Outflow	43.213	43.213	42.107	42.107	26.831	41.828	43.353	5.115	7.344								
Repayment of principal	43.213	43.213	42.107	42.107	26.831	41.828	43.353	3.266	5.495								
External debt	26.923	26.923	26.855	26.855	13.162	26.567	37.234	917	2.107								
Domestic debt	16.290	16.290	15.252	15.252	13.669	15.261	6.119	2.349	3.388								
Other outflows							1.849	1.849									

* Includes Special Revenues Accounts (SRA)
Source: Ministry of Finance and NBRNM calculations.

In the period January-May 2021, total budget revenues increased by 13.9% on an annual basis. The considerable increase in budget revenues was partly due to the low base effect, reflecting the deteriorating economy due to the health crisis caused by COVID-19 and the significantly reduced budget inflows, which was most pronounced in the period April-May. The increase was largely due to higher performance in taxes, contributions and non-tax revenues (positive contribution of 10.4 percentage points, 2.1 percentage points and 0.7 percentage points, respectively), while capital revenues registered a slight decrease (negative contribution of 0.1 percentage points). Also, budget expenditures were higher by 3.5% on an annual basis, given the growth in both capital and current expenditures (positive contributions of 1.9 percentage points and 1.6 percentage points, respectively). Budget deficit amounted to Denar 11,895 million or 1.7% of GDP in the first five months of 2021, constituting 34.0% of the budget deficit forecast for 2021. In this period, the budget deficit was mostly financed through net government borrowing on the foreign market, and less through net borrowing on the domestic market, with part of the funds retained on the deposit account with the National Bank.

⁷⁴ The analysis of nominal GDP for 2021 uses the National Bank April forecasts.

⁷⁵ In early March 2021, the government issued the eighth Eurobond in the amount of Euro 700 million, with maturity of seven years and interest rate of 1.625%.



At the end of the first quarter of 2021, total public debt⁷⁶ equaled 61.9% of GDP, which is an increase of 1.7 percentage points of GDP compared to the end of 2020. This growth mainly results from the external public debt (the issued Eurobond), which increased by 3.2 percentage points of GDP to 43.4% of GDP at the end of the quarter, amid decrease in internal public debt of 1.5 percentage points (to 18.5% of GDP). Observing the debt structure, total government debt⁷⁷ equaled 53.5% of GDP, which is higher by 2.3 percentage points, compared to the end of 2020, while the debt of public enterprises (guaranteed and non-guaranteed)⁷⁸ was 8.3% of GDP, or by 0.7 percentage points lower. At the end of the first quarter of 2021 compared to the same period of 2020, the total public debt increased by 10.2 percentage points of GDP.

⁷⁶ The public debt is defined under the Law on Public Debt (Official Gazette of the RM No. 62/05, 88/08, 35/11, 139/14 and 98/19) as the sum of government debt and debt of public enterprises established by the state or municipalities, municipalities within the City of Skopje and the City of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the City of Skopje and the City of Skopje.

⁷⁷ Government debt is defined as a sum of debts of the central government, the public funds and the municipalities.

⁷⁸ According to the amendments to the Law on Public Debt from May 2019, the non-guaranteed debt of public companies and joint stock companies established by the government or municipalities, municipalities within the City of Skopje and the City of Skopje is included in public debt (Official Gazette of the RM No. 62/05, 88/08, 35/11, 139/14 and 98/19).

VI. Analytical appendices

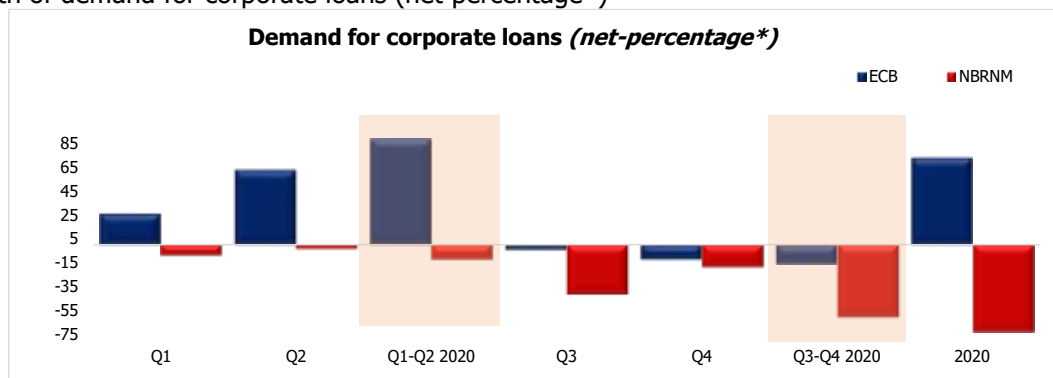
Box 1. Comparison of credit supply and demand movements in North Macedonia and the euro area - results from the Lending Surveys in 2020

This article analyzes the trends of credit supply and demand in North Macedonia and the euro area in 2020, a period when the global and domestic economies faced an uneconomic shock caused by the rapid spread of COVID-19. The health crisis has led to worsening economic trends, increasing uncertainty and greater private sector restraint. This brief analysis uses data from the quarterly bank lending surveys⁷⁹ conducted by the European Central Bank and the National Bank of the Republic of North Macedonia. We use banks' estimates for the changes in credit standards as indicators for changes in credit supply, and the respective answers for the credit demand. The analysis covers all surveys conducted in 2020, encompassing the period of the onset of the health crisis and its escalation. In addition, we specifically analyze the changes in credit supply and demand among households and enterprises.

Supply and demand for corporate loans

The analysis of lending surveys data shows that the **credit demand** trends in the euro area differ from those in our country in the first half of 2020, mainly reflecting the different ways of adjustment of economic businesses to uncertainty and the consequences of the health crisis. Amid increased uncertainty and unstable economic trends, our country registered a slight net decrease in credit demand, while European countries registered a net increase in demand, particularly pronounced in the second quarter. According to the ECB⁸⁰, the growth of credit demand was due to the expectations for lower incomes in this period and the need to mitigate the economic downturn, for the purposes of faster recovery. The second half of 2020 witnessed similar movements, i.e. net decrease in credit demand in our country and in the euro area, amid deepening of the health crisis. According to the ECB⁸¹, the decline in demand in the second half of the year was a significant reflection of corrections in investment plans and corporate restructuring.

Chart 1
Growth of demand for corporate loans (net percentage*)



*Net percentage is the difference between the sum of percentages of "significantly increased" and "partially increased" and the sum of the percentages of "partly decreased" and "significantly decreased". A positive net percentage indicates an increase in credit demand, while a negative net percentage indicates a decrease in credit demand. The semi-annual growth represents the cumulative sum of the two quarters.

The net decrease in credit demand in our country was more pronounced in the second half of 2020, which is mainly due to the greater restraint from investing in fixed assets, as well as in stocks and working capital. In the euro area, the decline in investments in fixed assets throughout the year as

⁷⁹ The results of the Survey are presented in net percentages, which is the difference between optimistic and pessimistic estimates of the banks. For more detailed information on the surveys visit:

https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/index.en.html

https://www.nbrm.mk/ankieta_za_kreditna_aktivnost.nsp

⁸⁰ <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210225~7e2955b6e5.en.html>

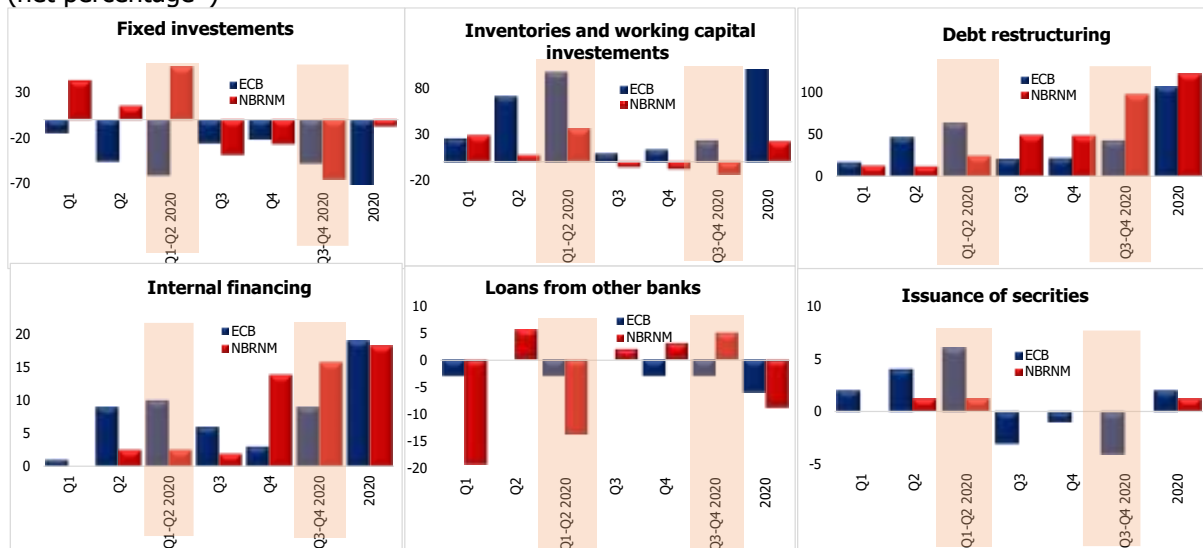
⁸¹ <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210225~7e2955b6e5.en.html>



well as loans from other banks in the second half of the year were the main reasons for the net decline in corporate loan demand.

Chart 2

Factors that cause change in the demand for corporate loans
(net percentage*)

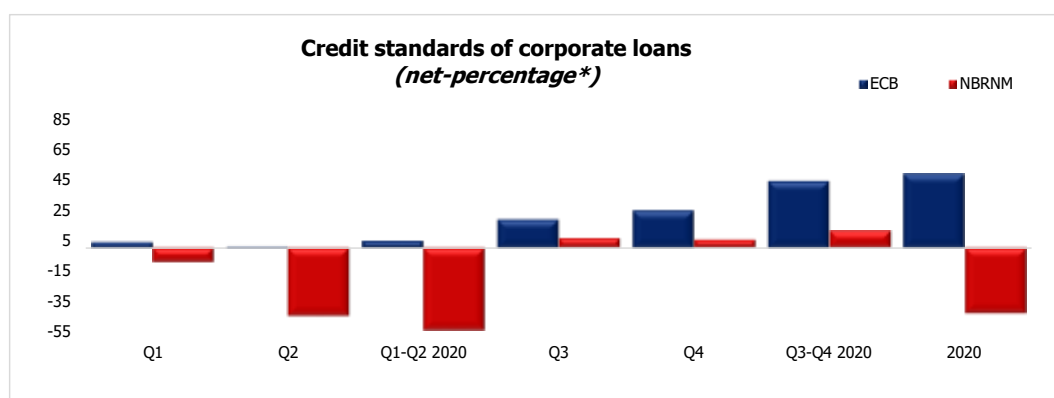


* Net percentage is the difference between the sum of "++" (significantly contributes to higher demand) and "+" (partly contributes to higher demand) and the sum of "--" (partly contributes to lower demand) and "-" (significantly contributes to lower demand). The positive net percentage indicates the impact of the factor on increasing the demand for corporate loans, while the negative net percentage indicates the impact of the factor on reducing the demand for corporate loans.

Analyzing **credit standards**, in our country there was a net easing of credit standards in the first half of 2020, especially in the second quarter, which in part reflects the monetary easing and changes in prudential regulations. On the other hand, in the European countries there was a slight net tightening of credit standards in the same period. In the second half of 2020, amid increased uncertainty and deteriorating economic outlook, there was a slight net tightening of credit standards in our country, amid stronger tightening of credit standards in the euro area.

Chart 3

Credit standards for corporate loans or credit lines
(net percentage*)

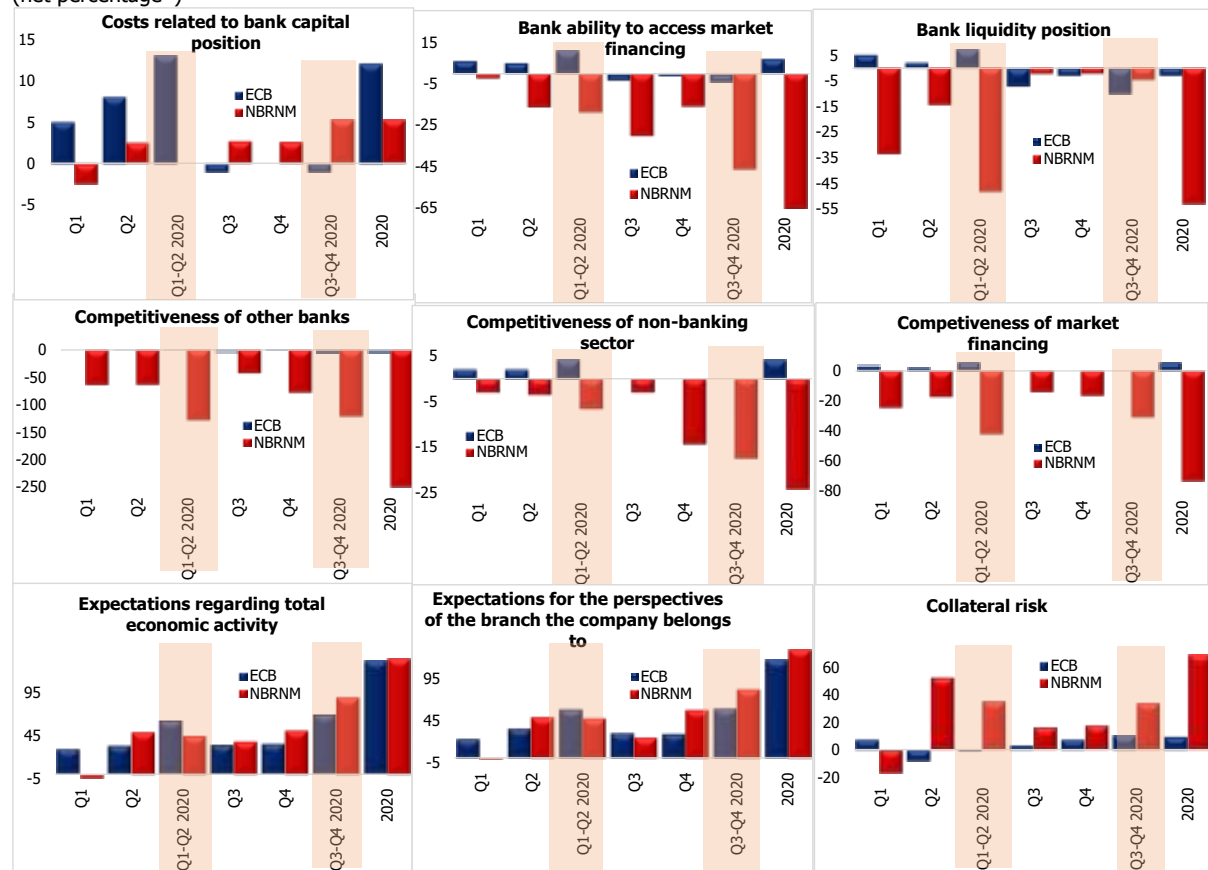


The net percentage is the difference between the sum of the percentages of "significantly tighter" and "partially tighter" and the sum of the percentages of "partly relaxed" and "significantly relaxed". Positive net percentage indicates tightening of the corporate credit standards, while negative net percentage indicates easing of the corporate credit standards. The semi-annual growth represents the cumulative sum of the two quarters.

According to surveys, the tightening of credit standards throughout the year partly reflects the increased risk perception analyzed on the basis of risk factors such as expectations for overall economic

activity, expectations for the perspective of the branch of the company, as and the risk of default collateral.

Chart 4
Factors that cause change in corporate credit standards
(net percentage*)



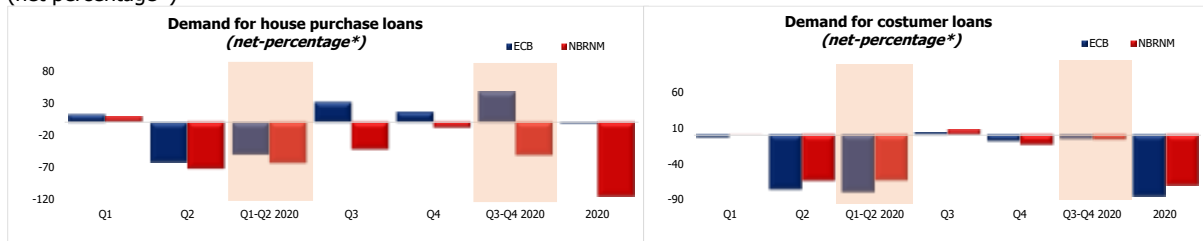
* Net percentage is the difference between the sum of "--" (significantly contribute to stricter credit standards) and "-" (partly contribute to stricter credit standards) and the sum of "+" (partly contribute to relaxed credit standards) and "++" (significantly contribute to relaxed credit standards). The positive net percentage indicates the impact of the factor on tightening the corporate credit standards, while the negative net percentage indicates the impact of the factor on relaxing the corporate credit standards.

Supply and demand for household loans

According to the banks, in the first half of 2020, there was a net decrease in the **credit demand** for housing and consumer loans in our country and in the European countries, particularly pronounced in the second quarter. The trend of net decrease in the demand for household loans continues in our country in the second half of the year, at a more moderate pace though, while the euro area witnessed certain stabilization, especially in the demand for housing loans.



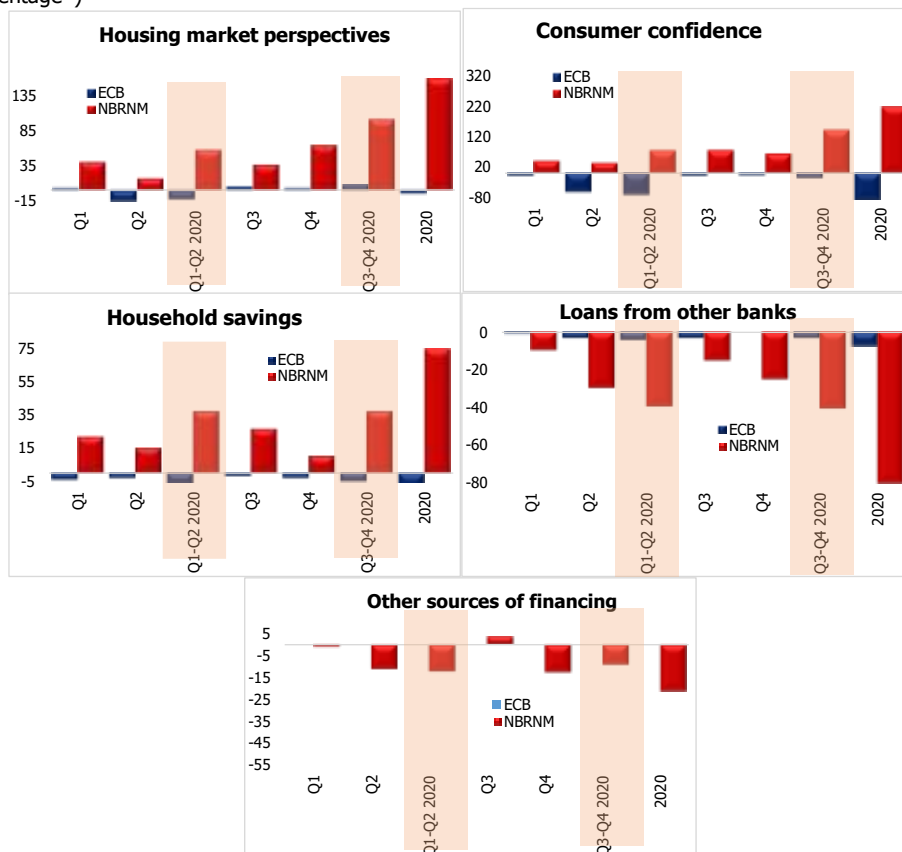
Chart 5
Growth of demand for housing loans
(net percentage*)



*Net percentage is the difference between the sum of percentages of "significantly increased" and "partially increased" and the sum of the percentages of "partly decreased" and "significantly decreased". A positive net percentage indicates an increase in credit demand, while a negative net percentage indicates a decrease in credit demand. The semi-annual growth represents the cumulative sum of the two quarters.

Banks in our country assess the decrease in households demand for housing loans throughout the year mainly as a result of non-housing costs, loans from other banks and other sources of financing. According to the ECB survey, almost all factors had a moderate effect on reducing the demand for housing loans, and most of all the reduced consumer confidence.

Chart 6
Factors that change the demand for housing loans
(net percentage*)

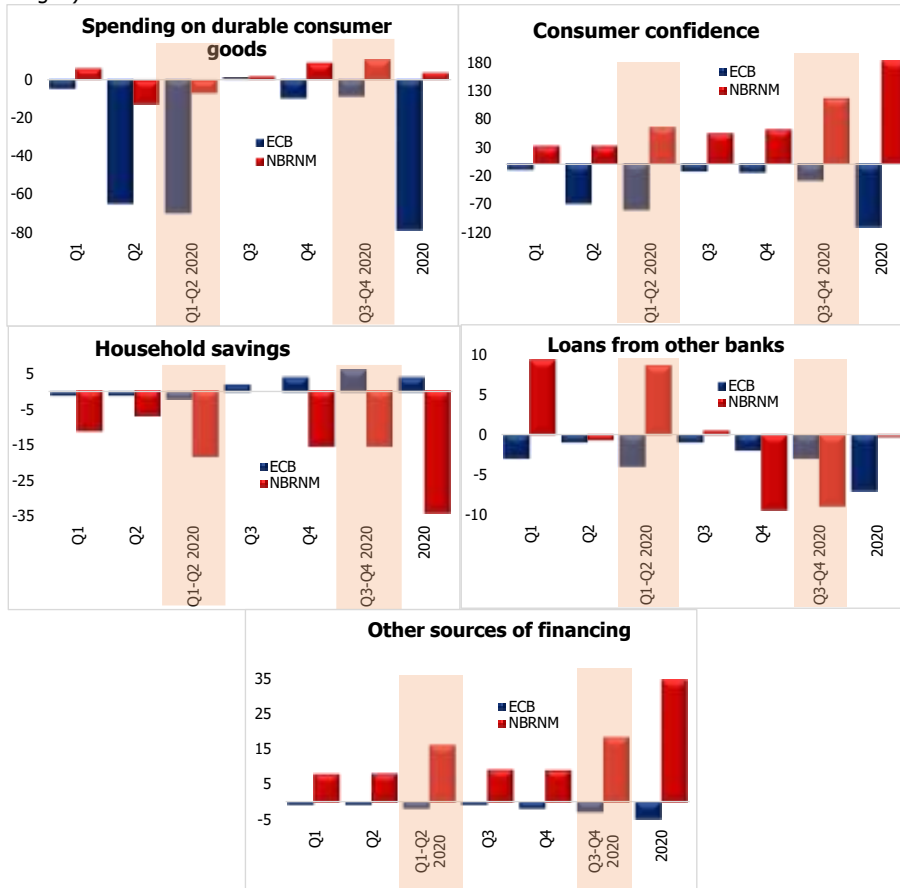


* Net percentage is the difference between the sum of "++" (significantly contributes to higher demand) and "+" (partly contributes to higher demand) and the sum of "--" (partly contributes to lower demand) and "---" (significantly contributes to lower demand). The positive net percentage indicates the impact of the factor on increasing the demand for housing loans, while the negative net percentage indicates the impact of the factor on reducing the demand for housing loans.

The decrease in household demand for consumer loans in our country was partly a result of household savings throughout the year, reduced costs for durable goods especially in the second quarter of the year and the reduced loans from other banks at the end of the year. According to the

ECB survey, except for household savings, all other factors acted towards reducing the demand for consumer loans.

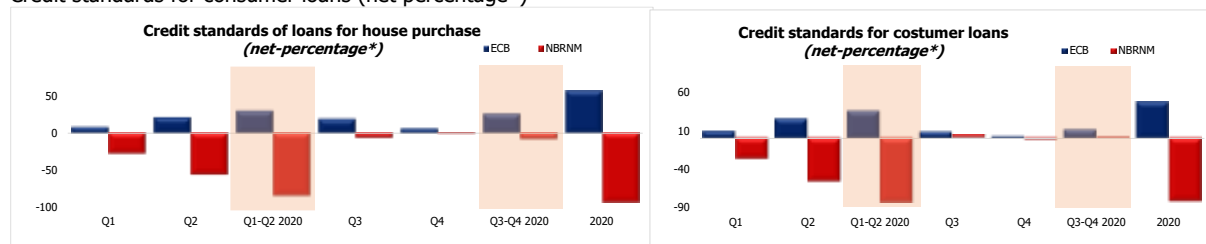
Chart 7
Factors that change the demand for consumer and other loans
(net percentage*)



* Net percentage is the difference between the sum of "++" (significantly contributes to higher demand) and "+" (partly contributes to higher demand) and the sum of "--" (partly contributes to lower demand) and "-" (significantly contributes to lower demand). The positive net percentage indicates the impact of the factor on increasing the demand for consumer and other loans, while the negative net percentage indicates the impact of the factor on reducing the demand for consumer and other loans.

From the aspect of household **credit standards**, the results of the surveys show different trends in the euro area and in our country during 2020. Namely, in the first half of the year, in our country there was a net easing of credit standards for housing and consumer loans, while in the euro area there was slight net tightening of credit standards throughout the year, partly as a result of increased risk perception. In the second half of the year, the net easing of credit standards in our country continued, but more moderately compared to the previous period.

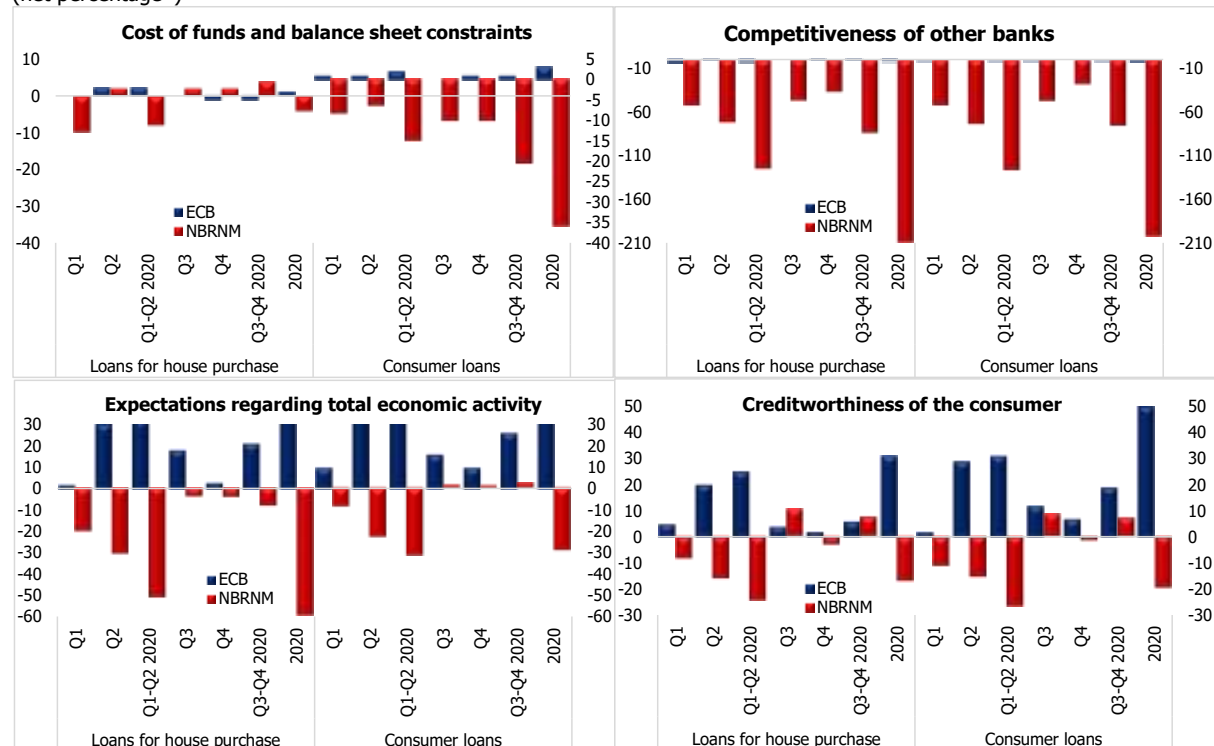
Chart 8
Credit standards for consumer loans (net percentage*)



The net percentage is the difference between the sum of the percentages of "significantly tighter" and "partially tighter" and the sum of the percentages of "partly relaxed" and "significantly relaxed". The positive net percentage indicates tightening of the corporate credit standards, while the negative net percentage indicates easing of the corporate credit standards. The semi-annual growth represents the cumulative sum of the two quarters.

According to the NB survey, in our country most of the factors acted towards net easing of the credit standards for housing and consumer loans, except for the expectations for the total economic activity and the creditworthiness of consumers, which in the second half of the year acted towards slight net tightening of credit standards for these loans. According to the ECB survey, almost all factors contributed to net tightening of housing and consumer credit standards throughout the year.

Chart 10
Factors that cause change in housing and consumer credit standards
(net percentage*)



* Net percentage is the difference between the sum of "--" (significantly contribute to tighter credit standards) and "-" (partly contribute to tighter credit standards) and the sum of "+" (partly contribute to relaxed credit standards) and "++" (significantly contribute to relaxed credit standards). The positive net percentage indicates tightening of the household credit standards, while the negative net percentage indicates easing of the household credit standards.

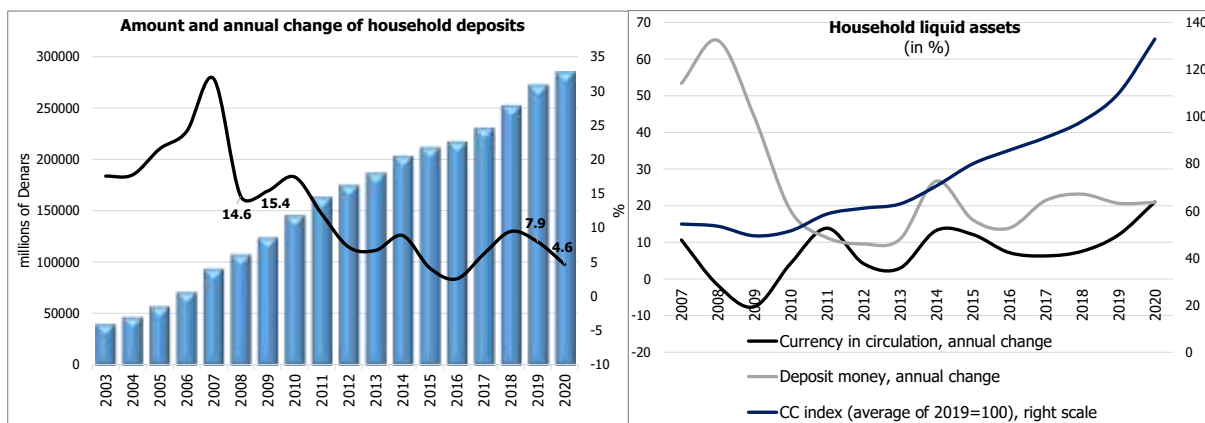
In general, in 2020, global and domestic economies faced the consequences of the health crisis caused by the outbreak of COVID-19, which according to the analyzed results of lending surveys, indicate different movements in credit demand and credit standards in the euro area and in our country, at certain periods of the year and in certain sectors. The trends in the credit standards and demand in our country and the countries in the euro area in 2020 were partly determined by the different way of adjusting of economic agents to the uncertainty and the consequences of the health crisis, as well as the specifics of economies.

Thus, analyzing the corporate sector, in our country there was a slight net decrease in loan demand, present throughout the year, compared to the euro area countries, where initially there was a net increase in loan demand, which decreased afterwards. Analyzing the credit standards, the net tightening of corporate credit standards prevails in the euro area, which intensified throughout the year. In our country, net easing of credit standards was registered, which in the second half of the year shifted towards net tightening. In the household sector, in our country and in the euro area, initially there was a net decrease in the demand for housing loans, which later in the year stabilized in the European countries, while in our country, the downward trend continued. Analyzing the credit standards, divergent movements were observed throughout the year, i.e. net easing in our country and net tightening in the euro area.

Box 2. Effects of COVID-19 pandemic on the household portfolio

COVID-19 pandemic adversely affected the real economy, with implications on the households behavior. In this article, we focus on the assessment of changes in household preferences regarding the structure of their available funds, i.e. Potential restructuring of their portfolio, caused by the pandemic. An additional phenomenon is the comparison between the response to the pandemic crisis and the response to the global crisis of 2008/2009.

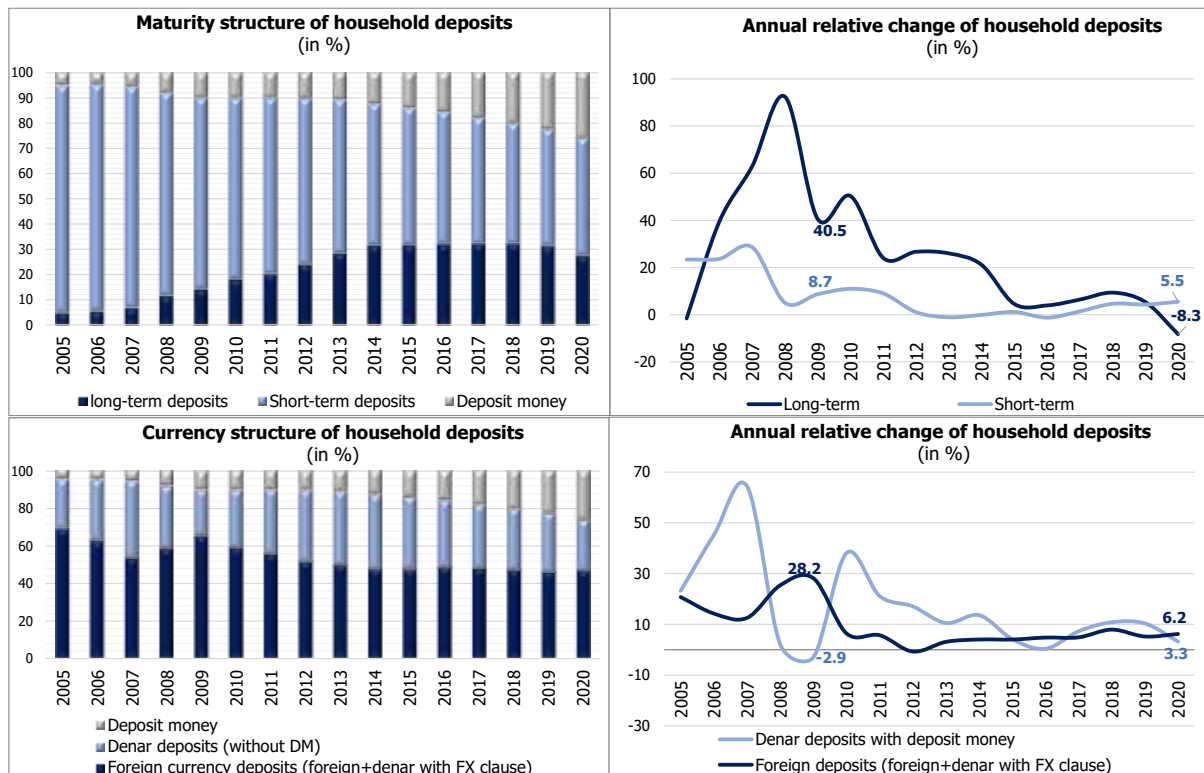
Despite the pandemic, household deposits continued to grow during 2020, albeit at a more moderate pace. Their growth in 2020 slowed to 4.6%, compared to the average growth of about 8% in the previous three years. The period of the global financial crisis was also marked by halving of the deposit growth rate due to the cyclical changes in the economy. However, the fact that household savings are continuously growing even in times of major shocks is a signal of the confidence in the banking sector, which is continuously solvent and liquid. Certainly, the available financial assets during the pandemic were affected by the monetary measures, the direct support through fiscal measures, as well as the restraint of households due to high uncertainty, coupled with the reduced spending opportunities due to containment measures to protect against the virus, as a temporary impact.



Specific about the pandemic crisis is its effect on the structure of the available financial potential of households. Given the nature of the crisis and the high uncertainty, in 2020 there was a pronounced tendency to hold highly liquid assets. This can be primarily seen through two elements. **First**, in 2020 there was a **rapid growth rate of circulation of domestic currency** and an increase in its share in the overall money supply. Thus, cash in circulation registered an annual growth of 21% by the end of 2020, which was not the case with the 2009 GFC, when cash in circulation decreased by about 8% in 2009. Consequently, the share of cash in circulation in the broad money (M4) increased by 1 percentage point in 2020, on an annual basis, despite the decrease of 1.1 percentage points in 2009. **Second**, the **growth trend of the share of transaction deposits in total household deposits**, which has been present amid low interest rates since 2014, further strengthened during the pandemic. The average increase of this share over the last years has been around 2 percentage points, while in 2020, it was more pronounced at around 3.5 percentage points. Such a change in the structure of deposits was also present in the period of uncertainty caused by the global financial crisis.

Obviously, the specifics of the pandemic crisis, i.e. the concern regarding the financial needs for maintaining health, as well as the prudence regarding the financial situation result in a greater preference to hold funds on transaction accounts and in cash.

The preference to hold highly-liquid assets is also seen through the share of short-term deposits in total household deposits. Namely, in conditions of uncertainty and increased risks, household savings are more pronounced in the short term, at the expense of long-term savings. Compared to the last GFC, when in 2009, long-term to total household deposits ratio increased on an annual basis by 2.6 pp at the expense of the reduced share of the short-term deposits of 4.6 pp, during the current crisis, the long-term household deposits decreased their share by 3.9 pp on an annual basis, amid growth of the share of short-term deposits of 0.4 pp.



The specifics of the current crisis are seen through the changes in the currency structure of savings, which, unlike other crisis episodes, are in favor of the domestic currency. Namely, during the global financial crisis, Denar deposits, including demand deposits, reduced their share in total household deposits by 6.5 pp on an annual basis, at the expense of the increased share of foreign currency deposits. On the other hand, no major movements were observed during the health crisis. Namely, in 2020, the share of denar deposits decreased by only 0.7 pp on an annual basis, at the expense of foreign currency savings, which shows the confidence in the domestic currency.

In summary, total household deposits continued to grow during the pandemic, but more moderately. In conditions of pronounced uncertainty, households show a greater propensity to hold highly liquid assets and save in the short term. In terms of currency, unlike other crisis episodes, in 2020 there were no major movements in the currency structure of savings, which indicates further confidence of households in the domestic currency and the domestic financial system.

Box 3. Corporate financing in the COVID-19 crisis - findings based on the results of the EC and ECB Access To Finance Survey

Efficient access to finance is one of the key components for successful and sustainable development of enterprises. The European Commission and the European Central Bank in 2008 launched a Survey on access to finance for enterprises from EU member states, as well as several non-EU countries. The survey is conducted on an annual basis and aims to provide a more detailed picture of the financial condition of enterprises and their access to external financing⁸². As before, the latest survey conducted in 2020 includes EU member states, as well as Albania, Bosnia and Herzegovina, Iceland, Kosovo, Montenegro, North Macedonia, Serbia, Turkey and the United Kingdom.

The enterprises participating in the survey are independent, profit-oriented companies, which make financial decisions on their own. Most of the surveyed enterprises belong to the group of micro

⁸² The surveys cover the following periods: September-October 2015, September-October 2016, September-October 2017, September-October 2018, September-October 2019 and September-October 2020

and small and medium enterprises.⁸³ The surveyed enterprises are grouped in several categories, i.e. as service-oriented enterprises, enterprises in the field of trade, construction and industry.

The purpose of this article is through the analysis of the results of the conducted surveys, to make a brief overview of the access to finance of enterprises in the period from 2015 to 2020, with a special emphasis on the effects of the spread of COVID-19 on the financing of enterprises in 2020. The main emphasis is on the choice of external sources of funding, their importance, utilization, as well as the purpose of additional funding. For the purposes of the analysis, the enterprises are divided in three groups: EU-28⁸⁴, North Macedonia, and Southeast Europe⁸⁵.

According to the latest survey in 2020, companies point to credit lines or overdrafts as the most important sources of external financing, while bank loans are the second most important source. These sources of funding were also dominant in previous surveys. Dynamically, in the period 2015-2019, the EU companies witnessed a continuous decrease in the importance of bank loans as a source of financing, with a slight increase in 2020, while for the companies from our country and Southeast Europe, the importance of bank loans has been continuously increasing in the analyzed period. About 44% of the companies from the EU and the Southeast Europe point to leasing as an important source of financing in the analyzed period, while Macedonian companies are more restrained about the importance of this source. In 2020, grants and subsidized loans were more significant for the companies of all three groups compared to previous years, which is mainly a result of the policies to support companies in times of COVID-19 pandemic.⁸⁶

Analyzing the **utilization of funding sources, in the last six months**, companies from all three groups have mostly used credit lines or overdrafts as a source of external financing. The utilization of bank loans has been quite stable over the years, with an average of about 18% of companies opting for this type of financing. At the same time, in 2020 there was a moderate increase in the percentage of Macedonian and European companies that used bank loans in the last six months. During the analyzed period, there was a decrease in the use of trade credits and leasing, with the exception of Macedonian companies which in 2020 showed greater interest in leasing as a source of financing. In 2020, there was a significantly increased utilization of grants and subsidized loans by companies, in contrast to the low utilization of this source of funding in the period 2015-2019. Namely, about 24% of the EU companies, 14% of the companies in North Macedonia and 15% of the companies in Southeast Europe in 2020 opted for this type of financing (7% in the EU, 2.5% in the NM and 6% in SEE, on average for 2015-2019).

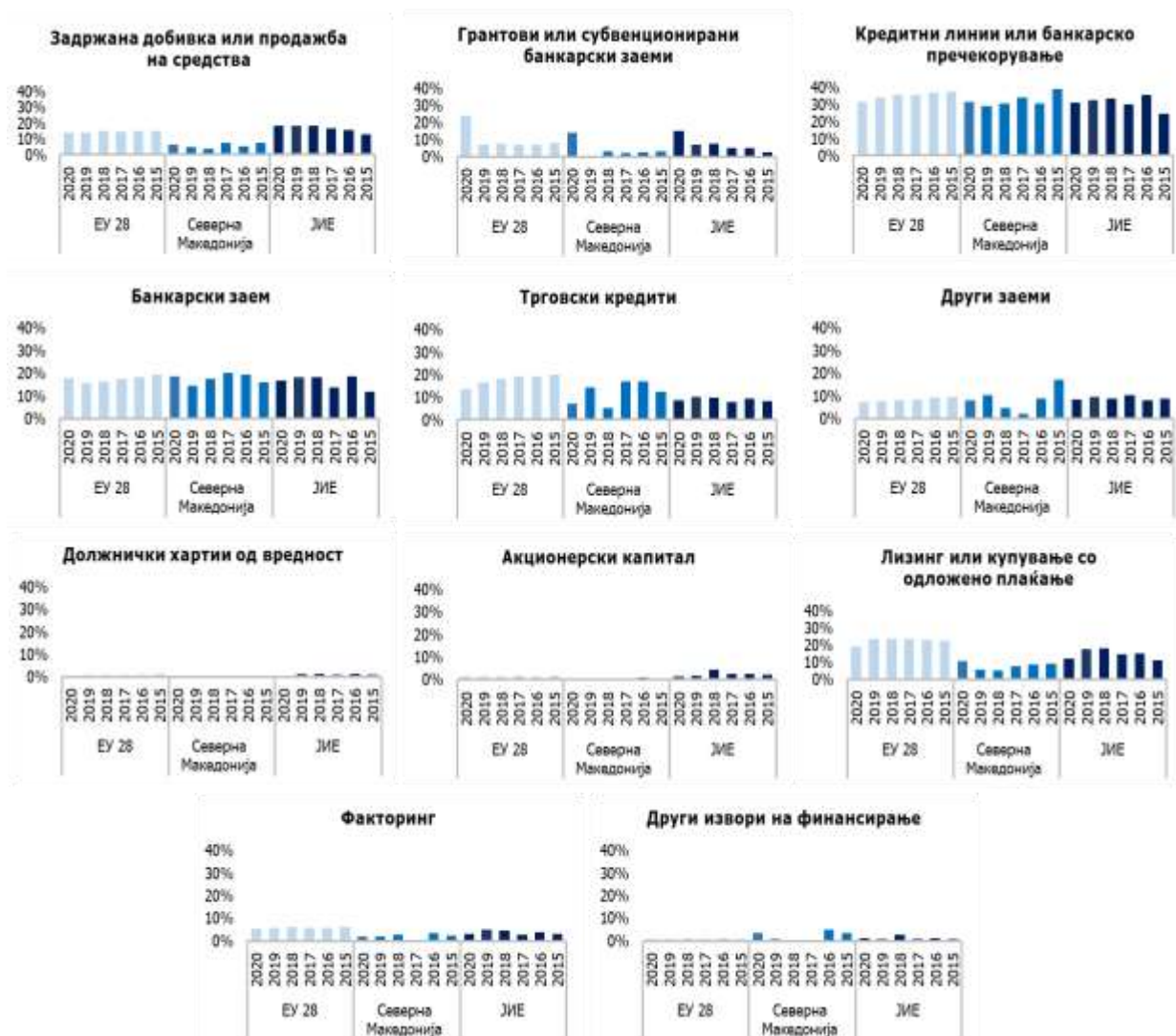
Utilization of certain sources of funding in the last six months
(% of surveyed companies)

⁸³According to the Methodology applied in the implementation of the Access to Finance Survey, micro enterprises have from 1 to 9 employees, small enterprises from 10 to 49 employees, medium enterprises from 50 to 249 employees, while large enterprises over 250 employees.

⁸⁴In the period 2015-2019 it refers to the EU-28 countries, while in 2020 it refers to the EU-27 countries, due to the exclusion of data for Great Britain.

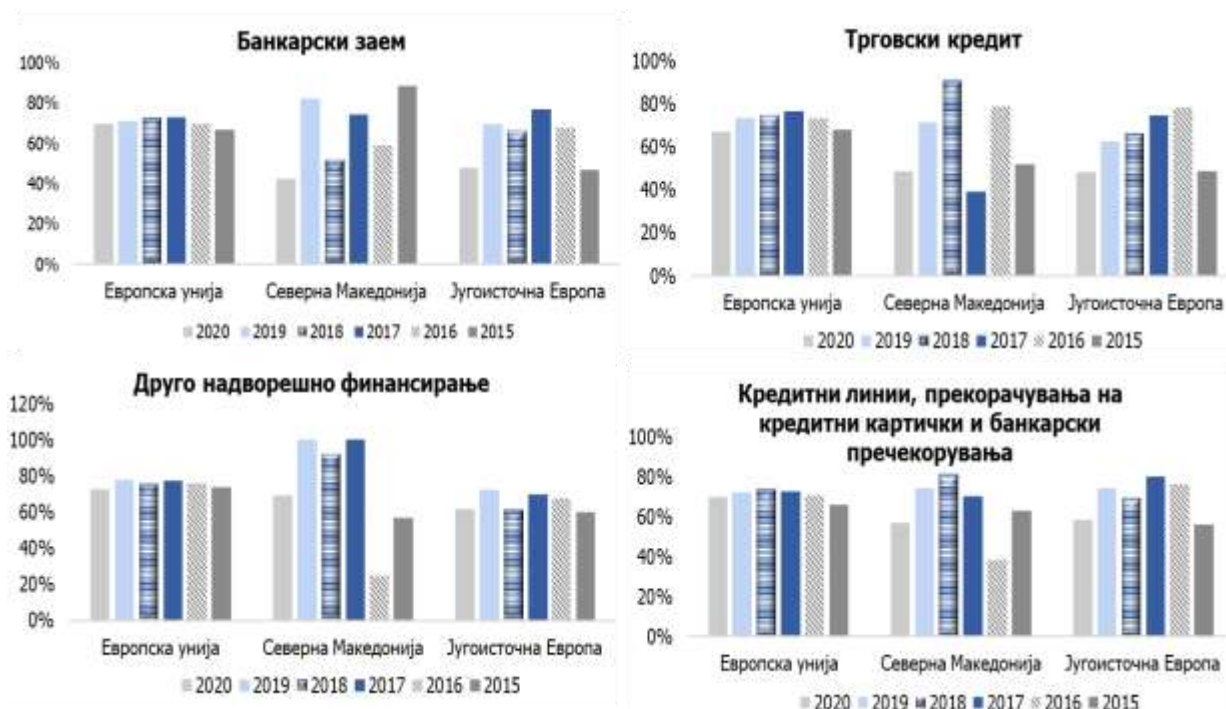
⁸⁵Includes the following countries: Serbia, Albania, Bulgaria, Croatia, and Romania.

⁸⁶ Survey on the access to finance of enterprises (SAFE), analytical report 2020, European commission, November 2020, <https://ec.europa.eu/docsroom/documents/43872>



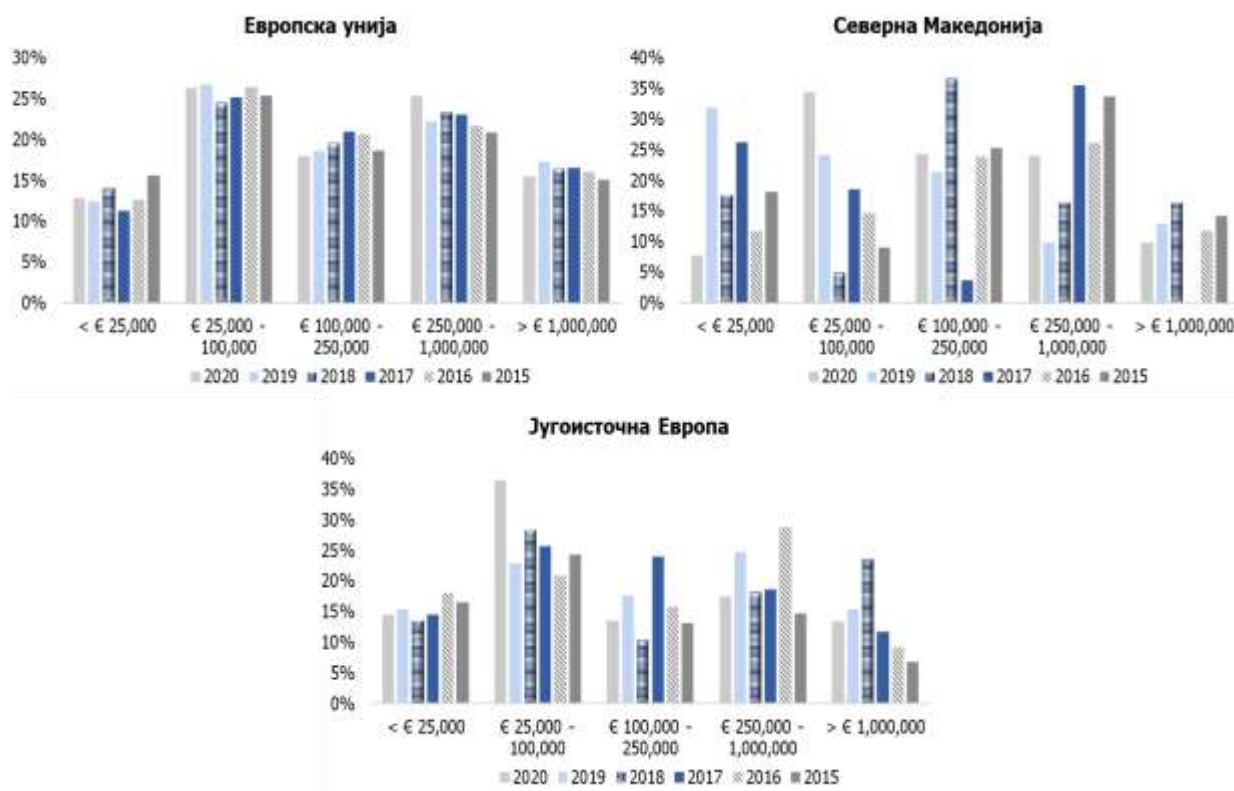
From the aspect of the **realized applications for financing**⁸⁷, during the analyzed period, about 70% on average of the companies received the requested funds. However, in 2020, there was greater restraint by the banks in our country and in Southeast Europe in terms of approving the full applied amount of funds to companies. About 47% of the companies received the entire amount of bank loan and trade credit for which they applied, as opposed to 70-80% in the previous years. In the latest survey, companies point out that in 2020 there was a deterioration of the overall economic landscape and reduction in their financial indicators, which indicates that the adverse effects of the health crisis on economies are one of the reasons why banks shy away from approving required funds. Companies that applied for a specific source of funding and received the full amount (in% of respondents)

⁸⁷ Refers to applications for bank loans, trade credits, credit lines or overdrafts, credit cards, and other external financing.



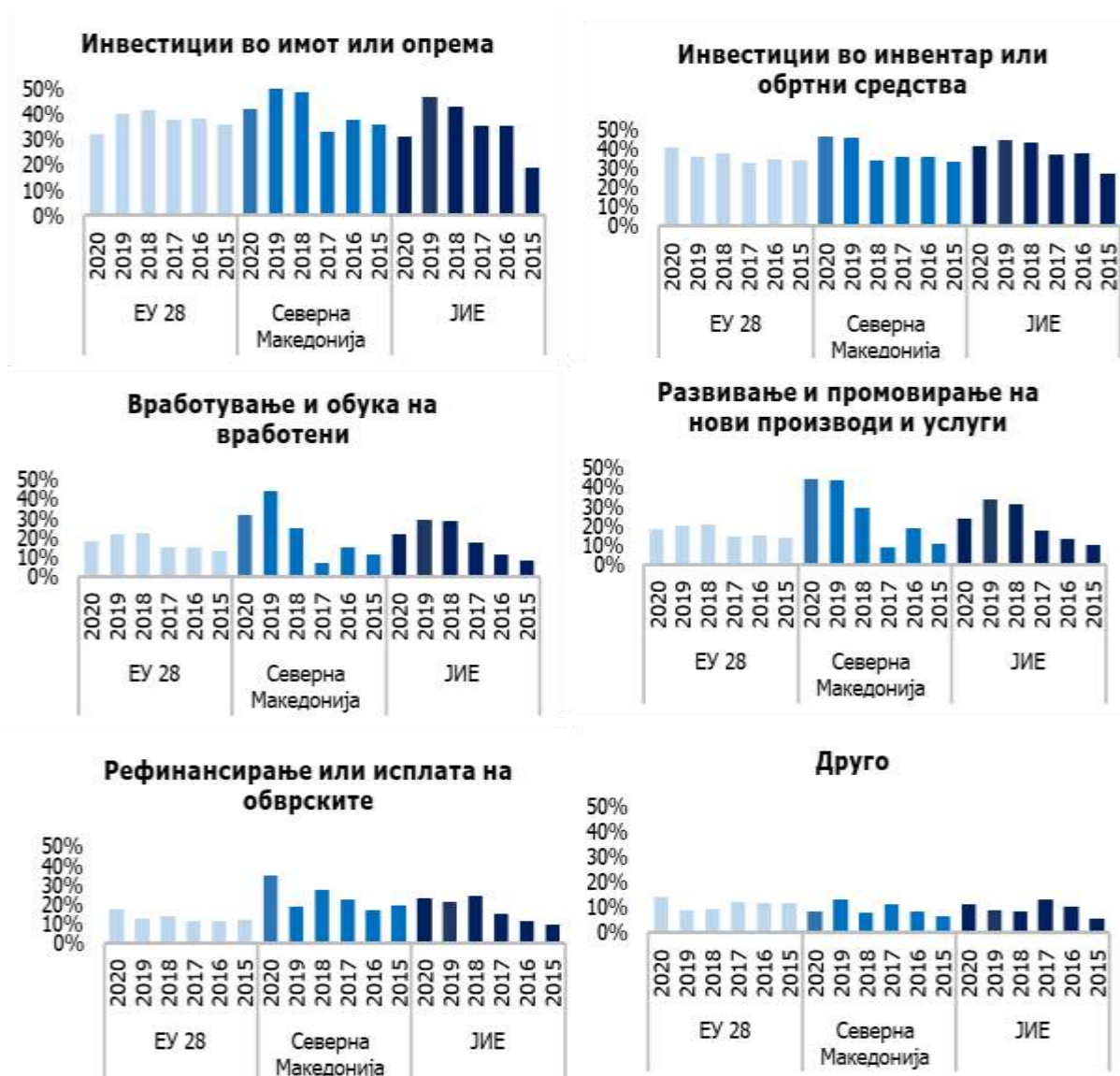
In terms of the **applied amount for a bank loan**, about 39% of EU companies needed funding of up to Euro 100,000, and this percentage of companies has been relatively stable over the years. Also, no significant changes were observed in the larger amounts of bank loans, with about 42% of European companies being interested in loans up to Euro 1,000,000. Macedonian companies were experiencing a continuous increase in financial needs, especially in 2020 where the interest in bank loans increased from Euro 25,000 to Euro 100,000 and from Euro 250,000 to Euro 1,000,000. On the other hand, the interest of Macedonian companies for a smaller loans up to Euro 25,000 decreased, unlike the companies from the Southeast Europe where the interest for this amount of funds was stable. The companies from the Southeast Europe in 2020 shied away from financial sources from Euro 250,000 to Euro 1,000,000, unlike the increased interest in previous years.

Amount of bank loan for which the companies applied, negotiated or received in the last six months (% of the surveyed companies)



Companies generally used the obtained funds for investments in fixed assets as well as working capital. However, in 2020, companies showed less interest in investing in fixed assets, compared to the previous period. The EU companies increased their interest in working capital investments, which was continuously present in the companies in our country and in Southeast Europe. The companies in our country showed a continuous interest in investing in the development and promotion of new services and products, which was especially emphasized in the period 2019-2020. The use of the received funds for refinancing or payment of liabilities was typical for the companies from the region, including the Macedonian companies, where this was especially emphasized during 2020.

The purpose of external financing in the last six months (% of surveyed companies)



In summary, the most important source of financing for companies were credit lines or overdrafts and bank loans. As a result of the economic consequences of the spread of the COVID-19 in 2020, certain changes were observed in the corporate financing. Thus, in the backdrop of active policies to contain any consequence of the health crisis, companies were focused on increasing the use of grants and subsidized loans. There was also an increased use of additional funds to refinance or cover liabilities. **Companies generally used the obtained funds** for investments in fixed assets as well as working capital. Macedonian companies show continuous interest in investing in the development and promotion of new services and products, which has been especially emphasized in the last two years.