

National Bank of the Republic of North Macedonia



Quarterly Report February 2023



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Introduction

During the last quarter of 2022, in conditions of more pronounced price pressures, the adjustment of the monetary policy, which started at the end of the last year, continued. **Thus the policy rate of the National Bank was additionally elevated in three occasions, increasing by totally 1.75 pp, thus reaching 4.75% at the end of 2022.** In accordance with the increase in the policy rate, the interest rates on the marginal lending facility also increased. Moreover, the interest rates on the deposit facilities and the seven-day deposits equaled 2.65% and 2.70%, respectively. The tightening of the monetary policy aims to stabilize inflation expectations and reduce price pressures caused by external shocks, which have been present for a longer period. During this period, additional measures were undertaken, aimed at enhancing the monetary signals and which are directed towards further support of the denarization process in the economy. **Thus, in December 2022, the reserve requirement instrument was changed once again by increasing the banks' reserve requirement rate for liabilities in foreign currency from 18% to 19%.** These changes are aimed to stimulate saving in domestic currency and support the already favorable shifts in the savings' currency structure evident in the last months of 2022. Given the monetary strategy of a stable denar exchange rate against the euro, the changes in the domestic monetary policy also reflect the changes in the monetary policy of the European Central Bank. During this period, additional systemic measures were adopted, with the aim of further strengthening the resilience of the banking system.

In terms of the global economic environment, concerns and uncertainty stirred by the Russian invasion of Ukraine coupled with rising inflation, especially in the area of food and energy prices, have worsened the prospects for the global growth. Faced with historic challenges, the global economic activity is showing signs of deceleration, amid growing negative economic spillovers. It is evident that the war, the energy crisis, inflation, trade tensions, as well as the pandemic will be actual issues in 2023, which will significantly affect the global economy. At the same time, faced with global inflation reaching multi-decade maximum, the central banks around the world started to raise the interest rates, thus tightening the financial conditions and raising the borrowing costs.

The comparison of the latest macroeconomic indicators of the domestic economy with their dynamics estimated within the April forecasting round indicates certain deviations in some economic segments. According to the estimated data, the real GDP growth in the third quarter decelerated to 2% on annual basis (4% in the previous quarter), as a result of the unfavorable effects of the war in Ukraine on both prices and supply, as well as amid pronounced volatility and vagueness of the external economic and financial conditions. In the first three quarters of 2022, the economy registered a real growth that averaged 2.7%, which is close to the expectations of the October forecast. By components, the growth is driven by the domestic demand, given negative contribution of the net exports. **The available high frequency data on the economic activity so far indicate growth deceleration also in the last quarter of the year,** given unfavorable movements in both production and services segment, primarily construction and retail trade. During the entire year, the baseline scenario from October suggests decelerated economic growth of 2.3% in 2022 annually, which is expected to accelerate to 2.6% and 3.6% in 2023 and 2024, respectively. The Russian invasion of Ukraine, which led to energy and consumer price crisis, remains the biggest risk to economic activity, and if the expected effects of domestic factors fail to materialize, the growth prospects for 2022 and 2023 according to alternative estimates may be less favorable and equal 2% and 1.8%, respectively.



In the fourth quarter of 2022, the annual inflation rate further accelerated and reached 19.3%, on average. However, the inflation in this period is slightly below the expected for the quarter within the October forecast, and the divergence is connected with lower materialization of the core inflation and energy component, with an upward deviation in the food component. **For the entire 2022, the annual inflation rate was in line with the estimations and equaled 14.2%.** In general, during this period, more significant contribution to growth is made by the domestic price categories related to the price movements of primary commodities on the world stock exchanges, the increase in regulatory prices, as well as from the post-pandemic consumption compensation, especially in some of the services. Hence, the price pressures are still estimated to be mainly driven by factors on the supply side, without major demand pressures. The uncertainty arising from the movements of world prices of primary commodities and their impact on domestic prices continues to be highlighted, and is associated with the war in Ukraine and its economic consequences. According to the October estimates, inflation of 8-9% is expected for 2023 and its stabilization to the level of 2.4% in 2024 and 2% in the medium term.

The latest available data on the balance of payments indicate better realization in the current account, given simultaneous lower inflows in the financial account, compared to the expectations according to the October forecasts. In the third quarter, the surplus in current transactions equals 0.6% of GDP and is lower on an annual basis, which is entirely due to the higher deficit in the trade in goods with foreign countries. The negative trade balance is mainly related to net energy imports, partly reflecting increased import prices under the influence of high energy stock exchange prices as a result of the protracted military situation in Ukraine. The increased negative balance in the trade of non-energy product categories acted with a similar intensity and in the same direction. The changes in the other current account components recorded positive changes on an annual basis and acted towards improving the current account balance. Thus, the contribution of the increased surplus in the trade in services with improved export achievements in most service categories, as well as the increased net inflows from private transfers, with an unchanged primary income deficit is also significant. At the same time, within the financial account, low net inflows of 3.8% of GDP were registered, which mostly arise from the net inflows based on portfolio investments, direct investments, loans, and to a lesser extent, to net inflows based on trade credits. The data on gross foreign reserves for the fourth quarter are better than expected according to the October forecasts, so that for the entire 2022 they registered growth, against the expected decrease. According to October forecast for the period 2023 – 2024, the foreign reserves will increase and the adequacy indicators will hover in a safe zone.

In the last quarter of 2022, the bank lending activity accelerated, a movement that is characteristic for the credit market at the end of the year. Analyzed by sector, the quarterly credit growth mostly results from the increased credit support to the corporate sector, with a more moderate growth of household loans. On an annual basis, the credit growth at the end of the fourth quarter equaled 9.4%, which is generally in line with the forecasted annual growth according to the October forecast (9.2%). Regarding the sources of financing, in the fourth quarter, the total deposits registered an intensified growth. The growth of the deposit base in this period is common and in one part arises from the seasonal factors, with the payments from the state for dealing with the energy crisis and supporting farmers with subsidies having additional contribution in this quarter. Observed by sector, the quarterly deposit growth is largely a result of the increase in corporate deposits, amid solid contribution also of the increase in the household deposits. The annual growth of total deposits at the end of December reached 4.9%, which is exceed the forecasted growth in October by 3.9%). In



the following period, it is expected that the banks' deposit base will keep increasing, thus providing stable sources for financing credit growth.

Generally, since the beginning of the year the domestic economic activity has been developing as forecasted, and the current prospects are in line with the expectations for further growth deceleration as a result of the energy crisis, the hindered supply and the consumer price crisis which tightened the financial conditions worldwide. The domestic price growth in the last quarter of the year is slightly below the forecasts, still driven by factors on the supply side. The credit support of the domestic economy by banks continues, but more moderately and in line with expectations. The external position of the economy allows foreign reserves to be hover in the safe zone. However, the uncertainty **and the risks to the world and the domestic economy in the short and in the medium run remain pronounced, and the war in Ukraine is still the main source of risk, especially on the energy and food product markets.** *The National Bank continues to carefully monitor the key economic parameters and the potential risks from the domestic and external environment, for the purpose of appropriate adjustment of monetary policy and maintenance of medium-term price stability.*

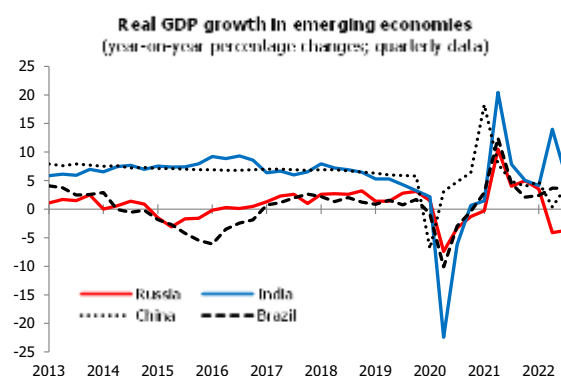
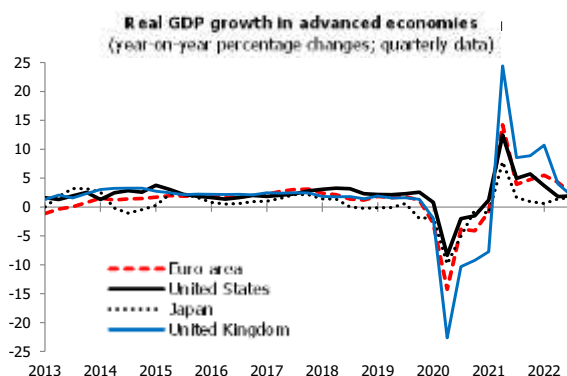


I. Macroeconomic developments

1.1. International economic surrounding

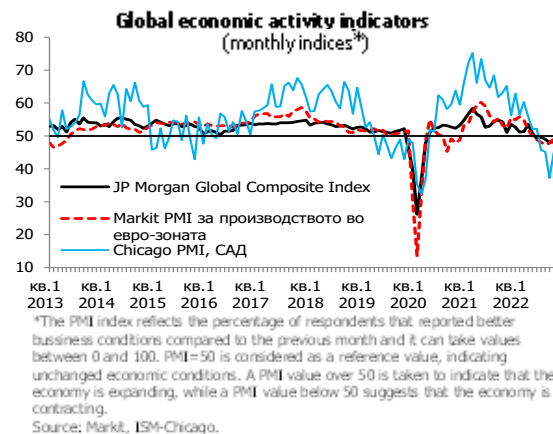
In the third quarter of 2022, the growth of the global economic activity kept decreasing which was mainly due to the effects of the global energy crisis and the duration of the war in Ukraine. The euro area, as our most important trade partner, in the third quarter recorded slow annual economic growth of 2.3% (4.2% in the second quarter), in conditions of lower contribution of household consumption to growth and worsened net export demand. In the fourth quarter of 2022, the growth dynamics in consumer prices at the global level was more moderate. The tightening of monetary policy in developed countries continued in the last quarter as well, given the high and long-term inflation and the forecasts that it will remain above the target level for a certain period. In the world stock markets, the downward movements of the primary commodities prices generally continued. According to World Bank forecasts dated January 2023, the slowdown in the global economic growth is predicted to pursue in 2023, followed by certain acceleration. The prospects for global growth has worsened relative to previous expectations, due to the coordinated monetary policy tightening worldwide, in order to ease the inflationary pressures, deteriorating financial conditions and the protracted war in Ukraine.

Slower growth dynamics of the global economy continued in the third quarter of 2022, which generally reflects the consequences of the global energy crisis and the protracted war in Ukraine, followed by high inflation and restrictive monetary policy, increased uncertainty and reduced confidence with the clients and the legal entities. Within **developed countries**, such dynamics was typical for the United Kingdom and the euro area, where the annual rate of economic growth in the third quarter was halved compared to the previous quarter, i.e. it equaled 1.9% and 2.3%, respectively (4, 0% and 4.2%, respectively, in the second quarter). This dynamics is due to the significantly lower growth of private consumption in both economies, in conditions of accelerated growth of consumer prices and reduced purchasing power of households, supplemented by worsened net export demand in the euro area. On the other hand, economic growth in the USA has stabilized and is 1.9%, while Japan witnessed a slight growth acceleration (from 1.4% in the second quarter to 1.7%). **The group of emerging economies** also registered divergent movements in the third quarter. Thus, China registered an accelerated economic growth (3.9%), after a weak performance in the previous quarter (growth of 0.4%), against a significant slowdown in activity in India after double-digit growth in the second quarter (from 14% to 5.7%), mainly due to the weaker household consumption.





As for the estimates for the global growth in the fourth quarter of 2022, the average value of the global PMI in the fourth quarter equaled 48.4 (49.9 in the third quarter), signaling a decrease in the global activity in the following period. Annually, the fall of the global PMI index was equaled 11.2%



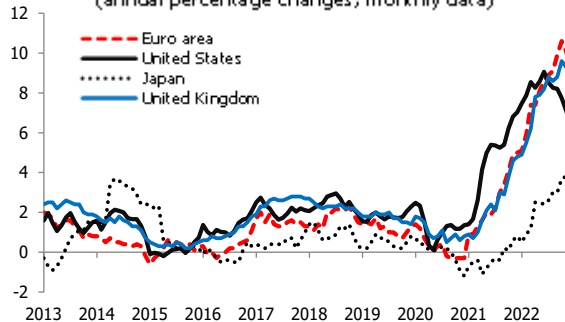
According to the latest World Bank forecasts, the global economic growth for 2023 is projected at 1.7%, which means a further slowdown in growth and the third weakest performance in the past, approximately, three decades. In 2024, acceleration in the global economic growth, forecasted to 2.7%, is envisaged. These forecasts have been revised downwards compared to the expectations in the previous June 2022 report, by 1.3 pp and 0.3 pp for 2023 and 2024, respectively. This revision is a reflection of the concerted tightening of monetary policy at the global level, with the aim of calming inflationary pressures, deteriorating financial conditions and duration of the war in Ukraine. Inflationary pressures are expected to gradually ease during 2023, but core inflation will stay at a relatively high level for a longer period. The risks relative to the forecasted global growth are downward. With high inflation and subsequent negative shocks on the supply side, there is considerable vagueness related to the monetary policy impact on the economic activity in terms of volume and duration. In conditions of weak global economic growth, the combination of larger monetary policy tightening and global financial problems may result in a global recession in 2023. Additional risks to global growth stem from possible reduced activity in China, arising from the disruptions caused by the pandemic and the crisis in the real estate sector, from heated geopolitical tensions and the fragmentation of global trade, as well as from climate change.¹

Inflationary pressures at the global level intensified with somewhat more moderate dynamics in the fourth quarter of 2022. Although global inflation remains high, it appears to have reached the maximum given the downward trajectory in the final months of the year. From the group of developed countries, in the fourth quarter in the euro area and the United Kingdom, inflation reached an average of 10.0% and 9.4%, respectively. However, on a month-by-month basis, after peaking in October, inflation has been decelerating in these economies. In the USA, price growth continued at a slower pace (7.1%) in the fourth quarter. This different path mainly results from the inflation composition considering that the energy and food components make up two-thirds of the headline inflation in the euro area, and in the US about one-third.

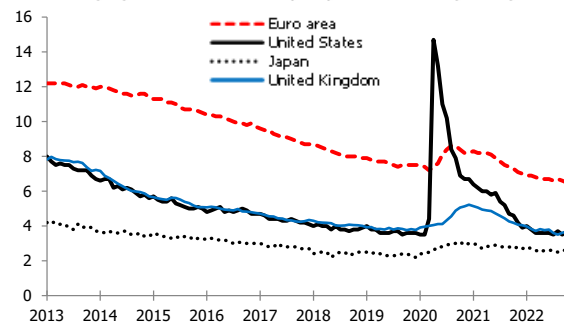
¹ The analysis in this section is based on World Bank report "Global Economic Outlook", published in January 2023.



Inflation in advanced economies
(annual percentage changes; monthly data)



Unemployment in advanced economies
(in percent; seasonally adjusted monthly data)

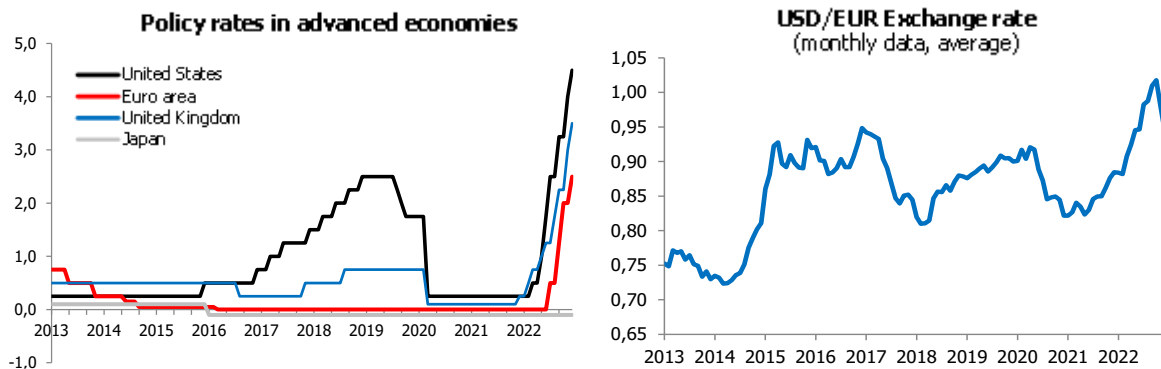


The euro area, as our most important trade partner, recorded increased economic activity by 2.3% in the third quarter, after the growth of 4.2% in the second quarter. The slowdown in economic growth stems from the reduced contribution of household consumption to growth and the deterioration of net export demand, in conditions of accelerated import growth driven by more dynamic investment growth. According to the ECB's December forecasts, economic growth of 3.4% is expected for 2022, which represents an upward revision compared to the September forecasts, while a downward correction has been made for growth in 2023, expected to amount to 0.5%. In the medium term, recovery is expected, at forecasted rates of 1.9% and 1.8% in 2024 and 2025, respectively.² Regarding the labor market, the unemployment rate in the euro area continued to fall and in the October-November period it was at the lowest historical level of 6.5%. The inflation rate in the fourth quarter of 2022 accelerated to 10.0% (9.3% in the previous quarter), as a result of stronger price growth in the food component and core inflation, partially offset by the slowing but still high growth of energy prices. According to the ECB's December forecasts, after strong price growth in the euro area in 2022, inflation is forecast to gradually slow to 6.3% and 3.4% in 2023 and 2024, respectively, which will then decrease to 2, 3% in 2025, one year later relative to September forecasts, with an upward revision for 2023-2024³.

In the fourth quarter of 2022, developed countries kept up with gradual tightening of the monetary policy, in conditions of still strong price pressures. Thus, FED increased the policy rate twice, by 0.75 pp in November and by 0.5 pp in December, and accordingly it ranges from 4.25% to 4.5%. Additionally, the FED decided to continue reducing the treasury and mortgage-backed securities. The Bank of England also raised its reference interest rate twice and to the same extent as the FED in November and December, bringing it to 3.5%. In addition, during the fourth quarter, the asset sale program was implemented by reducing the portfolio of securities in the central bank's balance sheet. The ECB, after the initial increase in interest rates in the third quarter, continued the process of monetary policy normalization during the fourth quarter. Thus, in October the ECB increased the three policy rates by 0.75 pp, and in December by an additional 0.5 pp, thus the interest rate on the main refinancing operations, on marginal lending facilities and deposit facilities were positioned at 2.5%, 2.75% and 2.0%, respectively. At the same time, the ECB will continue with the reinvestment of the matured securities within the framework of the Asset Purchase Program until the end of February 2023, after which the reduction of the portfolio is envisaged in accordance with the projected dynamics.

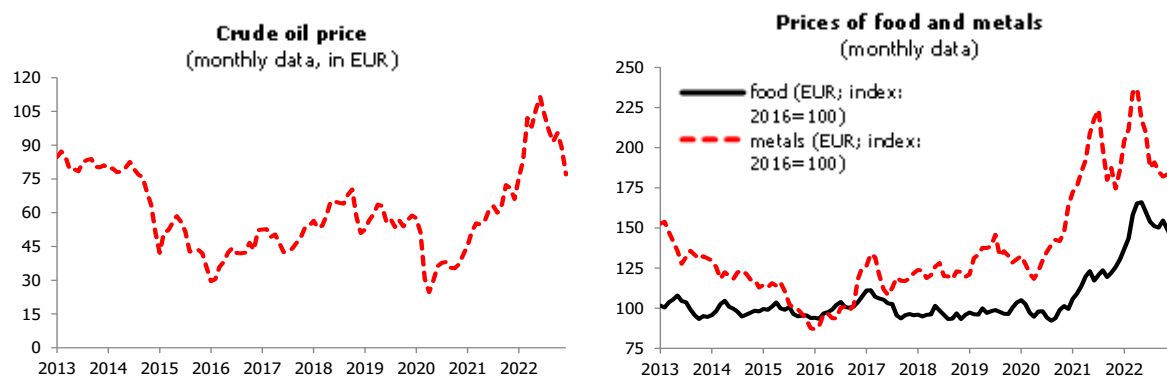
² In September 2022, the real GDP growth in the euro area was forecasted at 3.1% in 2022, 0.9% in 2023 and 1.9% in 2024.

³ In September 2022, the inflation in the euro area was forecasted at 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024.



In the fourth quarter of 2022, the value of the US dollar against the euro depreciated by 1.2% compared to the previous quarter, after continuous appreciation for more than a year. The depreciation of the US dollar reflects the investors' expectations that the intensity of the increase in the reference interest rate in the US could slow down, and the monetary policy could change its direction earlier than expected. On an annual basis, the value of the US dollar against the euro rose by 12.2%, averaging Euro 0.98 in the fourth quarter.

In the fourth quarter of 2022, the prices of primary commodities in the world stock markets generally continued registering a downward movements. Namely, the oil price registered a decrease of 10.2% compared to the previous quarter whereby the average price equaled Euro 87.2 per barrel. The decrease in oil prices is a reflection of reduced demand for oil, amid growth slowdown in global economic activity and restrictions in China related to COVID-19. Analyzed on an annual basis, the oil price in this period recorded a growth of 25.0%, which is partly due to the low comparison base. As for the non-energy primary products⁴ (in euros), the decrease in the fourth quarter equaled 1.7% compared to the previous quarter. Analyzed by groups of products, the metal⁵ and food⁶ price indices decreased by 1.0% and 1.6%, respectively.



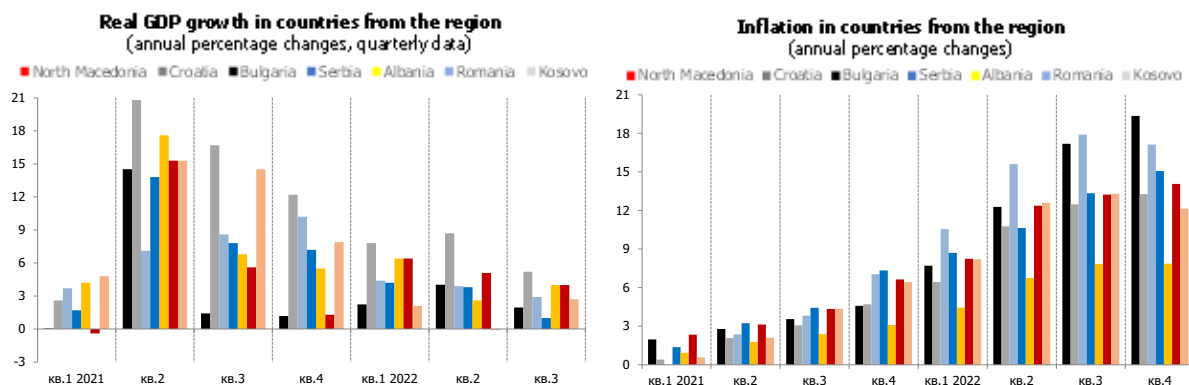
Relative to the countries in the region, the increase in the economic activities continued in the third quarter of 2022, with growth intensification being registered only in Albania, while Kosovo registered an increase after the slight decline in the preceding quarter, which is a result mainly of the improved performance with investments. **Regarding the inflation, in the fourth quarter of 2022 the countries in the region witnessed divergent movements regarding its dynamics**, i.e. intensified growth was registered in

⁴ This aggregate index includes the precious metals index, the food and beverages index, the agricultural raw materials index and the index of basic metals.

⁵ This index includes the following metals: Aluminum, cobalt, copper, iron, steel, molybdenum, nickel, tin, uranium, and zinc.

⁶ This index includes the following food products: cereals, vegetable oil, meat, sea food, sugar and other food.

Serbia, Croatia and Romania, stabilization and one-digit inflation level was registered in Albania, while Kosovo and Albania registered a downward trend, compared to the previous quarter.



1.2. Domestic supply

In the third quarter of 2022, the activity in the domestic economy registered a real growth of 2% on an annual basis, registering a deceleration compared to the growth of 4% in the previous quarter. During this period, the adverse effects of the energy crisis and the growth of the costs on certain sectors of the economy have come to the fore, which resulted in a slower economic growth. These effects caused a decrease in industrial output, primarily in the most energy-intensive segments (the metal industry and metal ores extraction), and also by deepening the decrease in construction. At the same time, it improved the recovery of the service sector (trade, transport and catering), the performance of which in the same period of 2021 was weaker due to the COVID-19 pandemic, when restrictions and stricter travel conditions were in force. On the other hand, high-frequency data on the supply side available for the period October-November 2022 mainly indicate a further deceleration of the economic activity in the last quarter of the year. The managers' estimations on the business situations in companies for the fourth quarter of 2022, compared to the same period last year, are weaker with all significant economic sectors, except in services sector, where they are more favorable. As for the expectations for the next period, they are slightly more favorable only for the manufacturing industry, while for the rest of the activities the expectations are less favorable.

In the third quarter of 2022, the real growth of the domestic economy equaled 2% on an annual basis, which is a slowdown compared to the growth of 4% in the previous quarter (with a decline on a quarterly basis of 1.7%, seasonally adjusted). Structurally, the growth in the third quarter is mostly due to the positive contribution of the group of activities "trade, transport and catering", which were one of the most affected activities by the COVID-19 crisis. Activities related to real estate, art, agriculture, financial and insurance activities, as well as "professional, scientific and technical activities administrative and auxiliary service activities" have an additional positive contribution. On the other hand, a more pronounced negative contribution is observed from industry and construction under the influence of the unfavorable effects of the energy crisis and increased expenses, with the activity "public administration and defense; education; health and social protection" also having a negative contribution.

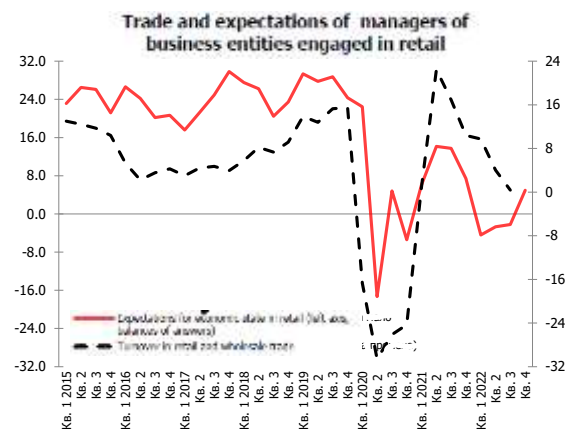
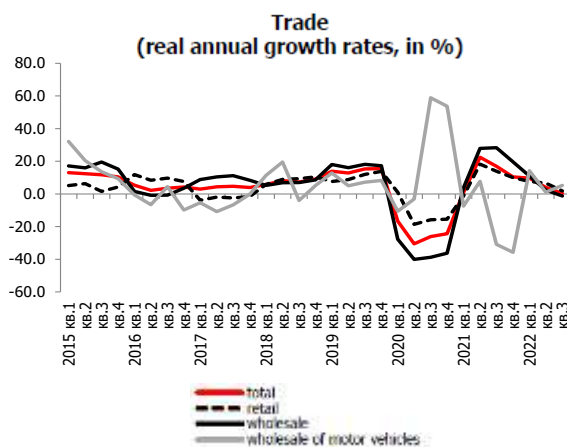
**GDP and components – Annual growth rates (in %)**

	annual growth rates, in %															
	2016	2017	2018	2019	2020	2021	Ka.1 2020	Ka.2 2020	Ka.3 2020	Ka.4 2020	Ka.1 2021	Ka.2 2021	Ka.3 2021	Ka.4 2021	Ka.1 2022	Ka.2 2022
Agriculture	-0.4	-12.5	8.3	0.1	2.5	-5.2	4.0	5.4	6.1	-3.4	-1.7	-5.7	-3.6	-8.5	1.6	4.3
Industry	-3.0	1.4	5.3	1.4	-6.7	0.9	-4.7	-23.9	-5.1	7.0	-6.5	10.9	-0.7	1.3	-4.1	0.7
Manufacturing	-1.5	1.6	6.2	2.6	-4.8	7.9	-1.4	-26.9	-1.9	11.2	0.3	23.6	5.7	5.5	-2.5	1.9
Construction	-2.8	1.6	-11.0	5.5	-4.0	-5.5	1.6	-14.5	1.6	-3.8	0.8	-3.6	-3.7	-11.0	-16.7	-1.0
Trade and transport	8.7	7.1	5.0	6.7	-10.6	4.3	-1.0	-30.2	-6.2	-4.8	-11.2	31.5	2.7	1.1	7.4	6.4
Information and communication	7.2	7.6	-4.1	6.8	4.5	15.9	11.9	-3.7	5.0	5.2	10.7	21.4	13.6	18.0	6.6	7.3
Financial and insurance activities	1.5	1.9	2.6	0.4	-0.1	-0.9	2.1	-4.6	0.5	1.7	-1.5	2.5	-4.2	-0.1	1.0	-0.7
Real estate activities	-3.2	-1.6	0.1	0.2	1.1	8.3	3.5	-2.7	-1.0	4.6	6.1	9.5	7.8	9.9	4.7	7.2
Professional, scientific and technical activities	11.5	8.8	7.9	8.0	-8.7	15.4	-8.1	-11.3	-11.1	-4.2	7.6	17.6	19.8	17.2	17.1	12.1
Public administration	3.5	-2.2	2.0	5.2	3.2	5.6	2.3	3.2	2.7	4.4	2.5	6.4	6.9	6.4	2.1	0.9
Art, entertainment and recreation; Other service activities	7.2	3.1	6.6	9.6	-22.6	23.5	-14.0	-23.2	-32.9	-20.0	3.1	22.8	39.9	32.2	17.7	14.2
Gross Domestic Product	2.8	1.1	2.9	3.9	-4.7	3.9	-0.3	-15.4	-4.3	1.3	0.1	14.5	1.4	1.2	2.2	4.0

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

	contribution in GDP growth, in p.p.															
	2016	2017	2018	2019	2020	2021	Ka.1 2020	Ka.2 2020	Ka.3 2020	Ka.4 2020	Ka.1 2021	Ka.2 2021	Ka.3 2021	Ka.4 2021	Ka.1 2022	Ka.2 2022
Agriculture	0.0	-1.1	0.7	0.0	0.2	-0.4	0.3	0.4	0.5	-0.3	-0.1	-0.5	-0.4	-0.8	0.2	0.3
Industry	-0.5	0.2	0.9	0.3	-1.2	0.2	-0.9	-4.4	-0.9	1.2	-1.1	1.8	-0.1	0.2	-0.7	0.1
Manufacturing	-0.2	0.2	0.8	0.3	-0.6	1.1	-0.2	-3.7	-0.3	1.5	0.0	2.8	0.8	0.8	-0.3	0.3
Construction	-0.2	0.1	-0.7	0.3	-0.2	-0.3	0.0	-0.8	0.1	-0.2	0.1	-0.1	-0.3	-0.8	-0.8	-0.1
Trade and transport	1.6	1.3	1.0	1.3	-2.1	0.8	-0.2	-6.1	-1.2	-1.0	-2.3	5.3	0.6	0.2	1.4	1.2
Information and communication	0.2	0.2	-0.1	0.2	0.2	0.6	0.4	-0.1	0.2	0.2	0.4	0.9	0.5	0.7	0.3	0.3
Financial and insurance activities	0.0	0.1	0.1	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.2
Real estate activities	-0.4	-0.2	0.0	0.0	0.1	0.9	0.4	-0.3	-0.1	0.4	0.7	1.1	0.8	0.9	0.5	0.8
Professional, scientific and technical activities	0.4	0.3	0.3	0.3	-0.3	0.6	-0.3	-0.4	-0.4	-0.1	0.3	0.7	0.7	0.6	0.7	0.5
Public administration	0.4	-0.3	0.2	0.6	0.4	0.7	0.3	0.4	0.3	0.5	0.4	1.0	0.9	0.7	0.3	0.1
Art, entertainment and recreation; Other service activities	0.2	0.1	0.2	0.3	-0.7	0.6	-0.4	-0.7	-1.0	-0.5	0.1	0.7	0.9	0.7	0.5	0.4
Gross Domestic Product	2.8	1.1	2.9	3.9	-4.7	3.9	-0.3	-15.4	-4.3	1.3	0.1	14.5	1.4	1.2	2.2	4.0

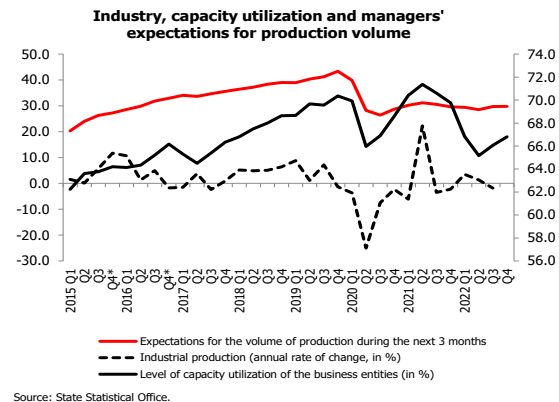
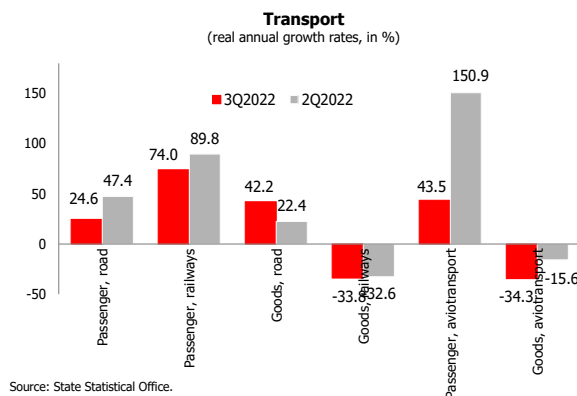
Analyzed through high-frequency data, in the third quarter of the year trade turnover recorded a small real growth on an annual basis, in conditions of growth in retail trade and trade in motor vehicles, while wholesale trade recorded a decline. On the other hand, in the period October - November 2022, the total trade turnover registered a real decrease as a result of the decrease in retail trade and wholesale trade, while trade in motor vehicles recorded high growth. The perceptions of the corporate managers in the sector "retail trade" on the business situations during the fourth quarter of 2022 are less favorable compared to the same quarter in the previous year, with the expectations in terms of the business activity in the forthcoming period are less favorable, as well.



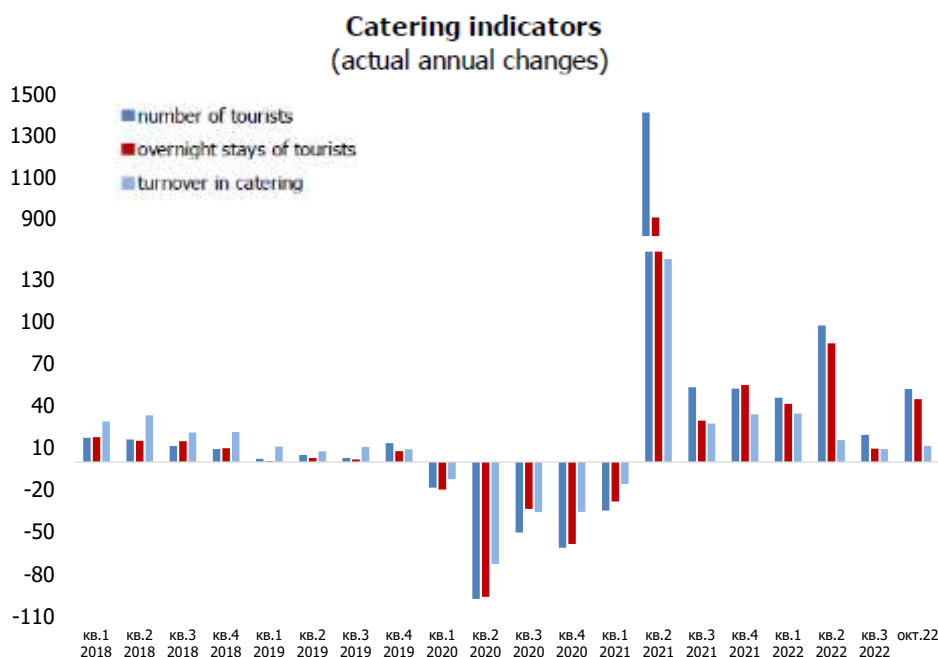
In the third quarter of 2022 the **transport** generally registered favorable performance, in conditions of high increase in all types of road traffic, as well as in the freight road traffic. The improved performance in road traffic reflect the greater mobility of the population, unlike



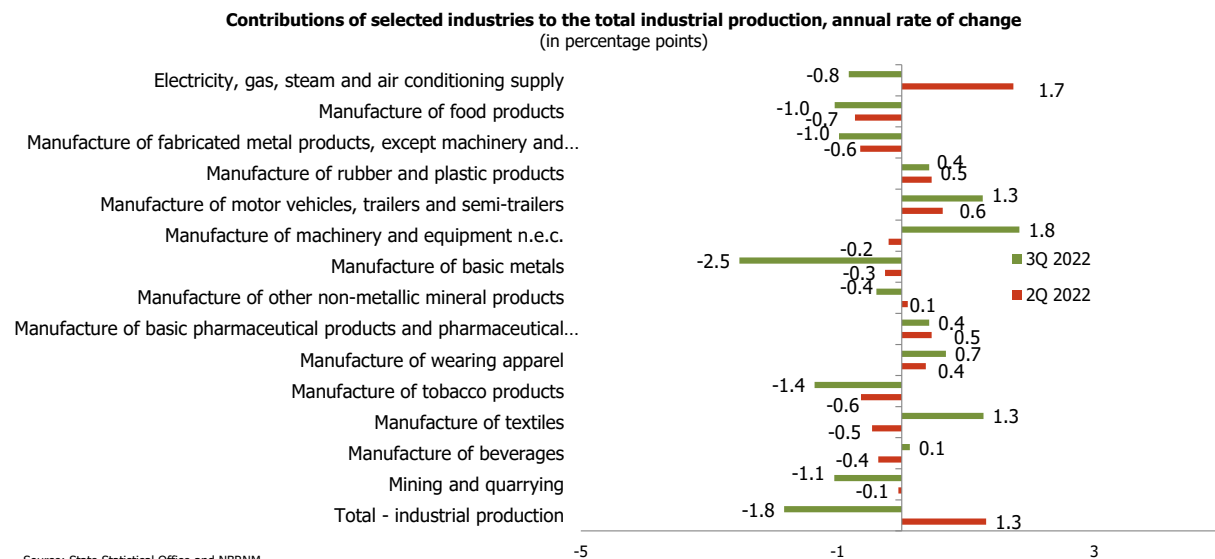
last year, as a result of the less restrictive measures to prevent the spread of COVID-19. On the other hand, there was a decline in freight air and freight rail traffic.



Within the **catering sector**, in the third quarter of 2022 the high real growth on annual basis continued, although more moderately, particularly in the number of tourists, overnight stays, as well as total turnover, amid still relatively low comparison base. Moreover, the growth in the number of tourists and overnight stays is fully a result of the high increase in the number of overnight stays of foreign tourists, in conditions of increase in travelings amid less restrictive pandemic related measures domestic, while the number of overnight stays of domestic tourists registers slight decline. In October, high annual growth rates in total number of tourists, overnight stays, as well as total turnover is registered, at even more intensified dynamics compared to the growth in the previous quarter. The perceptions of the corporate managers in the services sector on their business condition during the fourth quarter of 2022 are more favorable compared to the same quarter in the previous year, while the expectations for the upcoming period in terms of demand are less favorable.

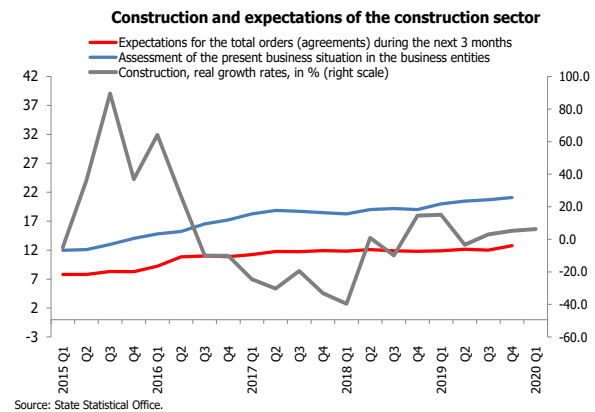
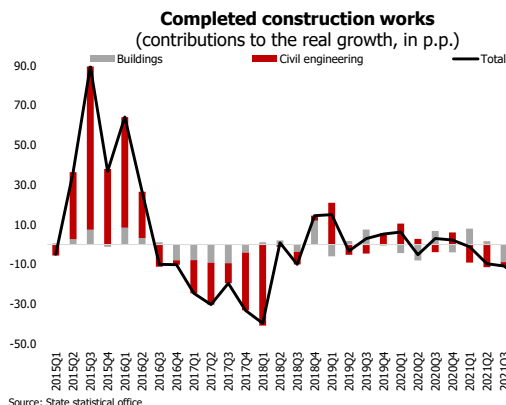


In the third quarter of the year the industrial output⁷ registered a real decrease in activity of 1.8% annually (growth of 1.3% in the previous quarter), as a result of the negative contribution of mining and energy sector, as opposed to the manufacturing industry, which was positive. By activity, the largest negative contribution was registered in part of the traditional activities, mainly with the energy most intensive ones, such as the production of metals and manufactured metal products, as well as production of tobacco and food products. On the other hand, the largest positive contribution was registered in part of the activities which include larger foreign export capacities, such as production of machines and devices, production of motor vehicles and production of electrical equipment, while significant positive contribution in traditional activities was made by production of textile. In the period October - November 2022, industrial output recorded a decrease of 4.4%, deeper than in the previous quarter, as a result of the negative contributions of the manufacturing industry and mining, while the energy sector has a small positive contribution. The industrial sector managers have slightly less favorable perceptions of the business situations in the fourth quarter of 2022, compared to the same quarter last year, with less favorable expectations in terms of the movement of manufacturing in the upcoming period.



According to the available high frequency data, **in the third quarter of the year the real annual decrease in the activities in the construction sector deepened significantly.** The value reduction of the totally completed construction works was due to the significant drop in both civil engineering and building construction. The decrease in construction can be related to the slower implementation of the initiated public infrastructure projects and the unfavorable impact of the war in Ukraine, which caused further high growth in the already high prices of construction materials and other inputs. In October, the construction industry recorded a further real decline on an annual basis, in conditions of a high fall in both civil engineering and building construction. Perceptions of the corporate managers in the construction sector for the movement of their activity in the fourth quarter of 2022 were less favorable compared to the same quarter last year, with slightly less favorable expectations for the following period.

⁷ The analysis of trends in industry uses data on the SSO's monthly data for the industrial output indices.

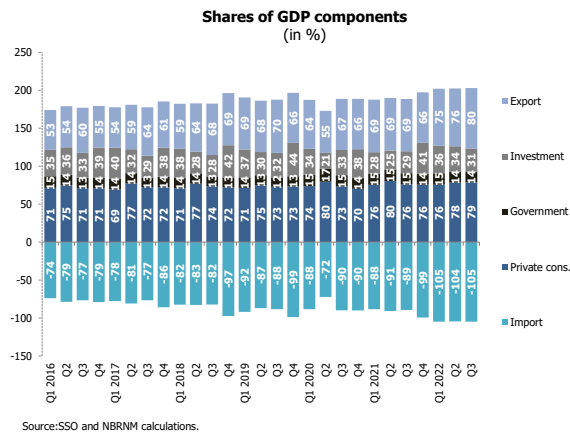
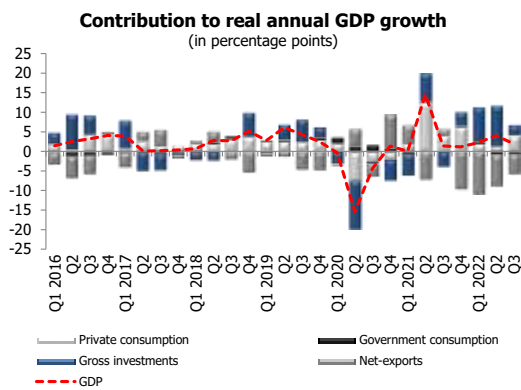


1.3. Aggregate demand

Observed by the aspect of the demand, the real annual GDP growth of 2/0% in the third quarter of 2022 is still entirely due to the positive contribution of the domestic demand. Despite the decrease in some of the components of real disposable income (real wages, real pensions), private consumption in the third quarter recorded growth, partly supported by the continuous growth of the private transfers. Gross investments also had a positive contribution, which continued to grow, but at a more moderate pace. The high frequency data show that most of the investments are still a reflection of the high growth of imports for inventories, with pronounced variability and uncertainty of the external economic and financial conditions. The export component makes the largest single positive contribution to GDP in the third quarter of 2022, which continued to grow at a double-digit rate. In these conditions, but also with further growth of inventories, imports continued to grow slightly more than exports, so that the net export component had a negative contribution to GDP this quarter, as well.

Structural analysis of the GDP components⁸ in terms of demand shows that also in the third quarter of 2022 the growth entirely results from domestic demand, while net exports again made a negative contribution. The increase in the third quarter is slower than the increase in the preceding quarter. This performance is expected and under the influence of the adverse effects of the Ukraine war on the prices and the supply, as well as by the pronounced volatility and uncertainty of the external economic and financial conditions. From the aspect of individual components, the main growth generator of the domestic demand this quarter was the private consumption, the gross investments also registered a growth, while the public consumption recorded a decline this quarter, as well. However, the exports was the component having the highest single positive contribution to GDP growth, which kept elevating this quarter at a double-digit annual rate. Further growth, similar to the previous quarter, was registered in imports, which was somewhat higher than the growth of exports, so that, as in the previous three quarters, the net exports had a negative contribution to GDP during this quarter, as well.

⁸ The quarterly changes of the GDP and its components are calculated using seasonally adjusted data.



	Real annual growth rates (%)										Contributions to real annual growth (in p.p.)**									
	2019	2020	2021	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3	2019	2020	2021	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3
Private consumption	3.5	-3.6	8.1	2.6	15.7	5.4	8.8	2.5	1.5	5.4	2.3	-2.3	5.3	1.7	11.1	3.5	5.5	1.7	1.0	3.6
Government consumption	2.5	9.8	-0.4	-4.5	0.6	0.3	1.8	2.7	-5.2	-4.7	0.4	1.4	-0.1	-0.8	0.2	0.0	0.2	0.4	-0.9	-0.7
Exports of goods and services	8.9	-11.0	11.7	7.3	44.7	3.6	1.3	11.3	14.2	17.8	5.4	-6.8	6.8	4.3	22.4	2.2	0.7	7.6	9.6	11.9
Imports of goods and services	10.1	-10.9	11.9	0.0	43.8	0.9	11.6	21.2	19.8	19.4	-7.3	8.3	-8.4	0.0	-26.2	-0.6	-8.5	-16.5	-15.9	-15.3
Gross capital formation	8.7	-15.0	0.9	-16.3	34.3	-11.9	9.4	31.8	41.6	9.0	2.8	-5.2	0.3	-5.2	7.0	-3.7	3.2	9.0	10.1	2.5
Domestic demand	4.9	-5.5	5.1	-3.5	16.8	0.1	8.2	9.5	9.0	5.0	5.5	-6.1	5.5	-4.2	18.3	-0.1	9.0	11.1	10.3	5.3
Net exports*	13.7	-10.6	12.4	-19.5	41.0	-7.2	40.6	56.8	37.8	24.8	-2.0	1.4	-1.6	4.2	-3.8	1.5	-7.8	-8.8	-6.3	-3.4
Statistical discrepancy											0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP	3.9	-4.7	3.9	0.1	14.5	1.4	1.2	2.2	4.0	2.0	3.5	-4.7	3.9	0.1	14.5	1.4	1.2	2.2	4.0	2.0

*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.

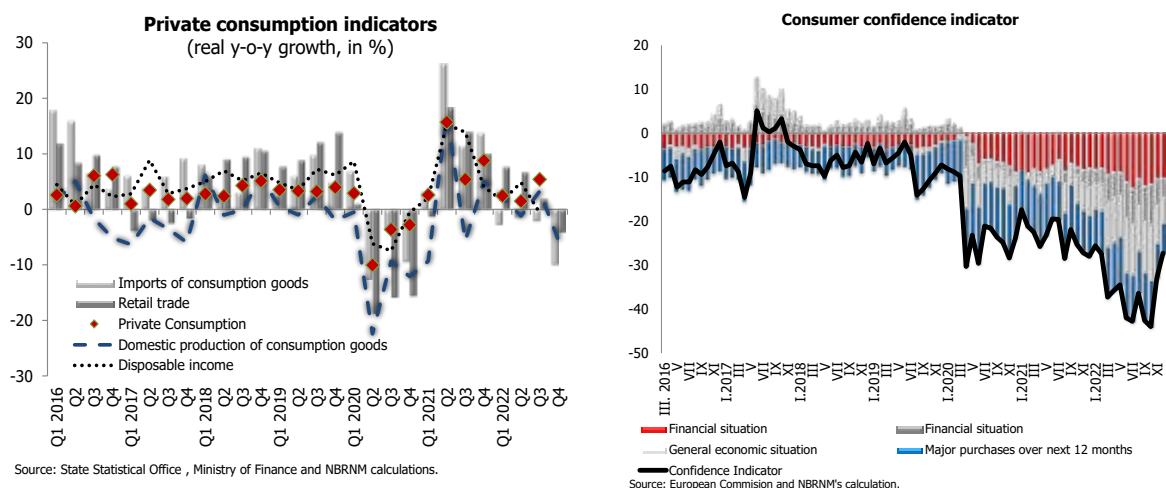
1.3.1. Private consumption

After the stagnation in the last two quarters, in the third quarter, the private consumption increased by 3.1% and 5.4% on quarterly and annual basis, respectively. In conditions of increased uncertainty arising from the military conflict in Ukraine and increased price pressures, adoption of additional economic measures to protect living standards continued during this period, as well,⁹ which probably contributed to certain extent

⁹ After the adopted package of 26 measures aimed at protecting both the standard of living and the liquidity of companies at the beginning of March, as well as the Decision on special conditions for trade of individual goods, adopted on 14 June 2022, which determined the highest trade margin of basic food products in wholesale and retail trade, and during the third quarter, additional measures were further adopted. Thus on 20 July 2022, two decisions were adopted, to ban the export of firewood, pellet and wheat and flour and tax repeal on imports of edible oil until the end of the year. Moreover, on 11 August 2022 two decisions were adopted as follows: A Decision on limiting the exports of certain goods, including sunflower seed, crashed or grated valid until 31 December 2022 and a Decision on special trading conditions for certain goods, which determines the highest trade margin, of up to 10% as a special condition in the trade of the following goods: Oak and beech firewood and pellet valid until 31 December 2022. On 30 August 2022, the RNM Government adopted a Decision on temporary repealing (as of 31.12.2022) the custom rate of 20% for milk and sour cream, non-concentrated, with no sugar or other sweeteners added, with fat that exceeds 21% by mass but does not exceed 45% and custom rate of 15% and non-concentrated with no sugar added and fat that exceeds 10% by mass but does not exceed 45% in package, whose net weight does not exceed 2.5kg. The import of these tariff codes from CEFTA countries is tax free, while for the EU member states the custom rate amounts to 5%. A Decision on determining a margin of up to 10% for trade on the electricity market was adopted on 9 September 2022 and is valid until 15 April 2023. On 20 September, it was decided to extend the measure for determining the highest trade margin of basic food products in wholesale and retail trade, adopted on 14 June 2022, that is, to be effective until the end of the year. Moreover, on 28 September 2022, the Economic and Energy Council adopted decisions on providing thermal and electricity energy. In term of electricity, the following has been decided: The government will subsidize 80% of the electricity bill for 650 thousand households, while small consumers (companies and other legal entities with an annual turnover of up to Euro 2 million, or about 70 thousand entities) will use a subsidized electricity at a price three times lower than the stock market prices; elementary and high schools in the country will be provided from the regulated electricity market; all public and health institutions will be provided with electricity through ESM sales, at a more favorable prices than the stock market prices.

towards maintenance of the household consumption. From the aspect of consumption financing, private transfers pursued recording double-digit growth, although lower compared to the previous quarter. On the other hand, the pension bill¹⁰ and the wage bill¹¹ registered higher real decrease, with higher real annual fall also being recorded in bank lending to households.

The available private consumption data¹² for the fourth quarter of 2022 show further real annual decline in some disposable income components, i.e. in salaries and pensions¹³, as well as in the household loans. The results of the Bank Lending Survey from December show a net tightening of the overall credit conditions and net reduction of the demand for total household loans. Furthermore, the real retail trade base and the import of consumer goods continued declining in this period, given the fall in the domestic production of consumer goods and gross VAT revenues. The consumer confidence indicator¹⁴ points to more favorable perceptions for the fourth quarter of 2022 relative to the previous quarter, and less favorable compared to the same period in 2021. The protracted adverse effects of the war in Ukraine on prices and supply and the pronounced volatility and uncertainty of external economic and financial conditions called for additional economic measures to protect the standard of living and liquidity of companies¹⁵.



¹⁰With the September pension, pensions were adjusted according to the new methodology, which provides for the adjustment of pensions according to a combined model of a 50% increase in the average wage of all employees in the state and a 50% increase in the consumer prices, according to the official data of the State Statistical Office. For more information see the following [link](#).

¹¹ For more details, see section 1.3. Employment and wages.

¹² Data on wages are as of October 2022, while data on household loans, pensions, retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT refer to the period October– November 2022.

¹³ In accordance with the latest set of target measures to help the most vulnerable groups of citizens adopted in October, in the next 4 months (November and December 2022 and January and February 2023), Denar 1,500 will be paid to pensioners that receive pension of up to Denar 11,525 and Denar 750 to pensioners whose pensions range from Denar 11,525 to Denar 14,000.

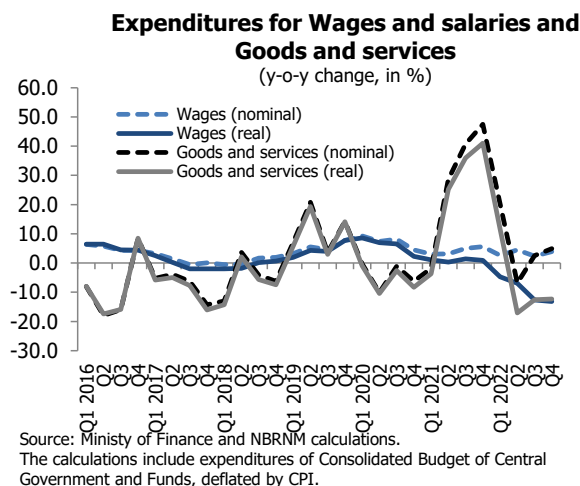
¹⁴ European Commission's Consumer Survey as of December 2022. The chart shows consumer confidence index as a net percentage of responses. This index is an integral component of the total index of economic confidence.

¹⁵ Economic measures to protect the standard of living and liquidity of companies continued to be implemented in the fourth quarter of 2022. Thus, on 9 October 2022, the government adopted a new set of measures to financially support the most vulnerable categories of citizens, pensioner and companies which include measures targeted to the most vulnerable categories of citizens; targeted support for public and health institutions; support for liquidity of companies; investments in energy efficiency and renewable energy sources. On 30 October 2022 the government decided to provide more favorable electricity prices for companies in the food industry of Euro 80 per MWh (these include producers of edible oil, bread and bakery, flour, milk and dairy products, meat and poultry industry), thus reducing the prices of their products by at least 10%. The government also decided to allow primary and secondary public schools, as well as public enterprises dealing with water supply and water waste removal that operate with pump and purification stations to conclude an electricity supply agreement with the ESM Sales, at Euro 95 per MWh, under the conditions of declared electricity crisis. On 2 November 2022 the government made a Decision on determining a price cap on retail trade of oak and beech firewood and pellet. Moreover, the Government adopted a Decision repealing the Decision on special terms in retail trade that froze the margin of oak and beech firewood and pellets for all trader up to 10%. On 4 November 2022, the government decided to extend the measure that protects households from higher thermal energy prices. On 26 December 2022, in accordance with the 2023 Budget of the Ministry of Economy, funds were provided for addressing energy crisis and support households and companies, extending the measure of freezing margins on food commodities until April 2023.

1.3.2. Public consumption

In the third quarter of 2022, public consumption registered a real annual decrease of 4.7%, which was slightly lower compared to the previous quarter (of 5.2%), thus recording a small quarterly growth of 0.8%. According to the budget data, this period witnessed a decline in all major categories of public consumption particularly in wages and health fund expenditure.

According to the fiscal data for the period October – November 2022, the budget executions suggest a lower real annual decline in public consumption in the fourth quarter of the year amid decline in all its major categories (except in transfers to the Employment Agency of the RNM).

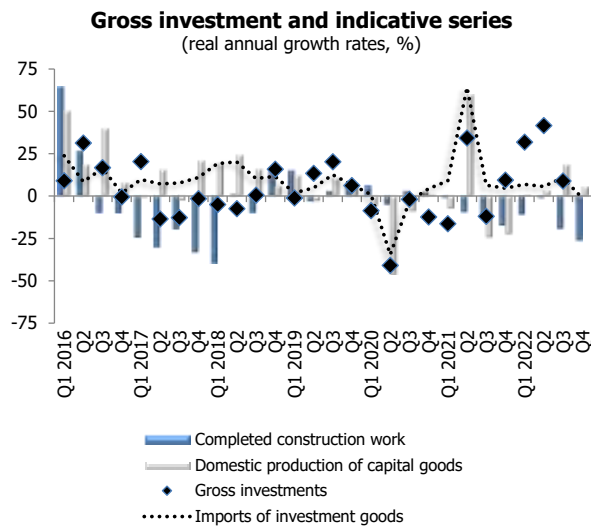


1.3.3. Investment consumption

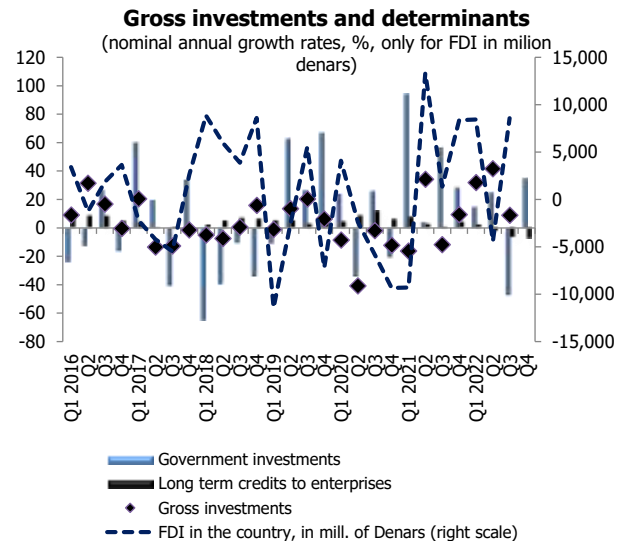
After the strong double-digit growth in gross investment in the previous two quarters, it continued to grow in the third quarter of 2022, but at a slower pace, recording a real annual growth of 9.0% and a quarterly decline of 13.9%. Similar to the previous quarters, the growth of this category is still attributable to the increase in inventories, given the adverse effects of the war in Ukraine on supply and prices. Analyzing the indicative investment categories, this quarter also saw a growth in income from profit tax, import of machinery and equipment, and a higher growth was recorded in the domestic production of capital goods. After the decline in the previous quarter, foreign direct investment increased in the third quarter of 2022. On the other hand, government capital investment registered a high two-digit fall. Moreover, a greater decline was registered in the completed construction works, as well as in the long-term corporate loans.

High-frequency data on gross capital formation¹⁶ show a continuous decline in total industrial output, long-term corporate loans, and a minor fall in import of working capital in the period October-November 2022. Moreover, a faster decline was also recorded in the completed construction works. On the other hand, an increase was registered in domestic production of capital products, with an increase in corporate tax. After the fall in the third quarter, in the period October - November 2022, government capital investments also increased. Moreover, the annual growth of inventories of finished products continued in October 2022. The results of the Bank Lending Survey for the fourth quarter point to net tightening of the overall credit conditions and net increase in the demand for corporate loans.

¹⁶ Data on completed construction works and inventories of finished products are as October 2022, while data on long-term corporate loans, government capital investments, industrial production, imports of investment products, and domestic production of capital goods refer to the period October – November 2022.



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

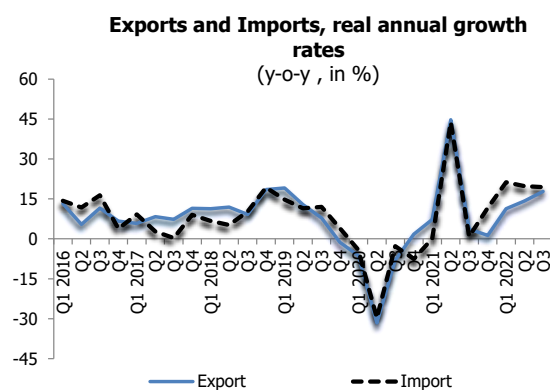


Source: State Statistical Office, Ministry of Finance and NBRM calculations.

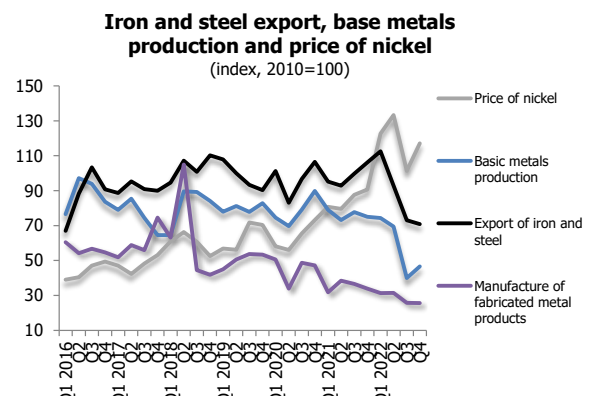
1.3.4. Net external demand

In the third quarter of 2023, net exports continued to make negative contribution to GDP amid slightly faster growth of imports relative to exports. The export continued to grow and reached a double-digit annual growth rate of 17.8%, without any quarterly changes (annual and quarterly growth of 14.2% and 4.0%, respectively, in the previous quarter). Thus, it was the component with the highest individual positive contribution to GDP growth. Analyzing the nominal values of the foreign trade statistics, the largest contribution to such performances was made by the export-oriented automotive companies in foreign ownership. The export of energy and food also made a positive contribution. Such exports growth, primarily the higher investment demand related to the creation of inventories in conditions of general uncertainty and price growth, led to a further growth of imports which in the third quarter of 2022 reached 19.4% (amid minor quarterly fall of 0.1%).

Foreign trade data in the October - November 2022 indicate potential deficit expansion in the fourth quarter of the year compared to the same period last year, amid higher growth of import than export of goods in absolute amounts.



Извор: Државен завод за статистика.

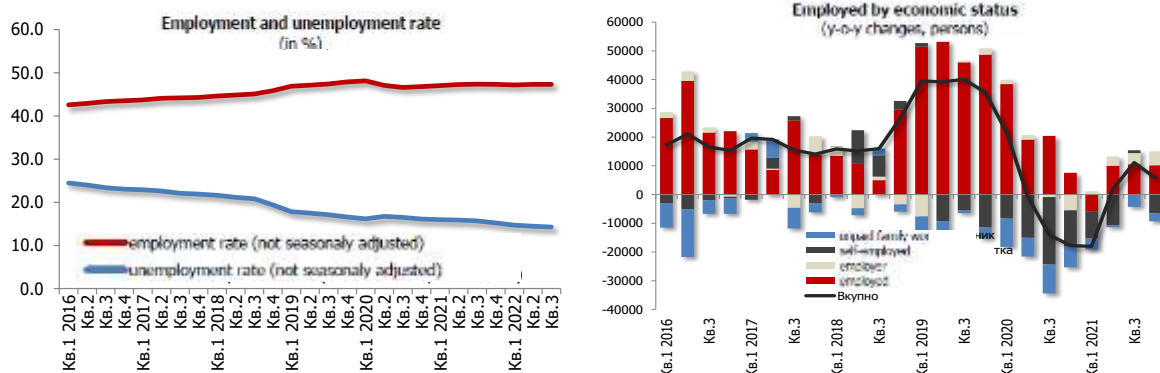


Source: State Statistical Office, IMF monthly database and NBRM calculations.

1.4. Employment and wages

The labor market movements in the third quarter of 2022 partly reflect the conditions in the economy. Amid slower economic activity, with high uncertainty posed by the war in Ukraine and the turbulent energy market movements, the employee number stagnated, i.e. remained unchanged compared to the previous quarter. At the same time, the number of unemployed persons decreased by 1.7%. Consequently, the employment rate remained at 47.3%, with further decrease in the unemployment rate, which reduced to 14.3%. Analyzing the labor supply, the third quarter registered a minor reduction of active population, at the expense of the minor increase of inactive population. Business tendency surveys suggest a slightly more optimistic expectations of corporate managers in terms of new employments in the fourth quarter of 2022, compared to the expectations for the previous quarter.

Labor market movements¹⁷ indicate a gradual stabilization of this market segment amid weaker economic activity and high uncertainty posed by the war in Ukraine and turbulent movements in the energy market. Thus, in the third quarter of 2022, the number of employed persons stagnated on a quarterly basis. However, analyzing by activity, certain shifts are observed, with the greatest positive contribution of the processing industry, transport and storage, wholesale and retail trade, professional, scientific and technical activities, other services and financial and insurance activities. On the other hand, education, public administration and defense, construction, information and communications, and health and social welfare have a pronounced negative contribution. Analyzing the economic status¹⁸, a quarterly growth was registered in the category of own account workers, and negative movements in the categories of employer, and unpaid family workers.



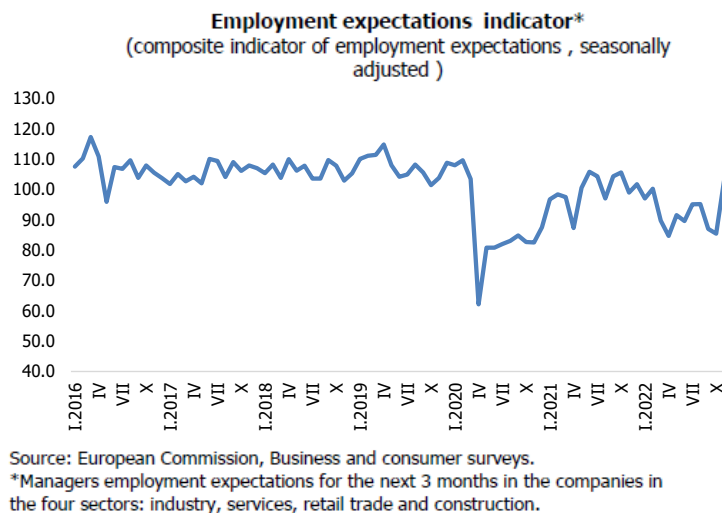
Given the unchanged number of employees, the employment rate equaled 47.3%, same as in the previous quarter. The signals from business tendency surveys¹⁹, on average, mainly suggest optimism among managers of business entities regarding the employment expectations in the fourth quarter of 2022. Thus, on average, the surveys conducted in the fourth quarter

¹⁷ Processing data for the first three quarters of 2022 uses the regional demographic distributions by gender and by five-year age groups for calibration of population in accordance with the data from the Population, Households and Apartments Census 2021. Therefore, this report is also in a modified and shortened version, until obtaining processed and harmonized data for the past years for this segment according to the last census. Therefore, most of the data analysis refers to the changes on a quarterly basis with seasonally unadjusted data.

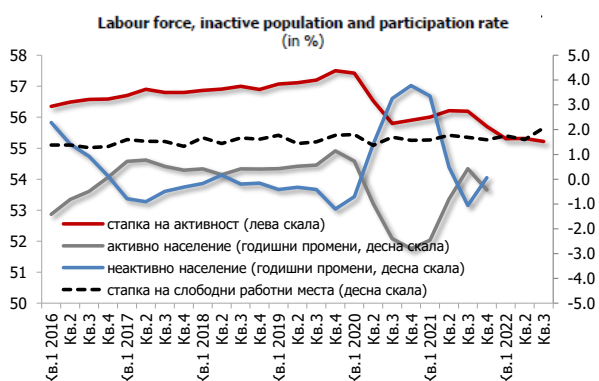
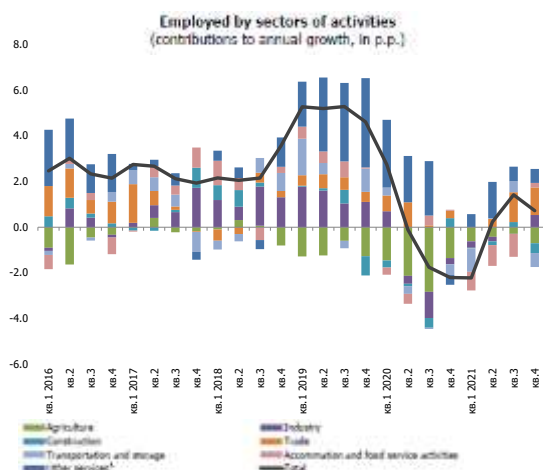
¹⁸ The classification by economic status applies to the following groups: **employers** - persons who operate their own business entity or engages independently in their own shop, or farm owners who hire other employees; **employees** - persons who work in government institutions, business entities in 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).

¹⁹ Source: European Commission, business tendency surveys, employment expectations in the next 3 months in industry, services, retail trade and construction (surveys conducted in October, November and December 2022).

indicate moderate optimism regarding the expectations for an increase in the number of employees compared to the previous quarter in retail trade and services, while in construction and industry the expectations are less favorable, but the rate of managers who expect an increase in the number of employees is positive. However, amid further disruptions on energy markets and unfavorable effects of the war in Ukraine, surveys conducted in December are slightly less favorable in terms of the expectations for increased number of employees in the following period, compared to the November surveys.



In the third quarter of 2022, **the job vacancy rate²⁰ equals 2.1%** (1.7% in the respective quarter of 2021). The job vacancy rate has been relatively stable for a long time, which indicates a possible improvement of the process of connection of the supply of with the demand for skills in the labor market. Observed by activity, the highest rates of vacancies are registered in the most affected activities by the pandemic, activities related to ICT skills, as well as in the activities that register continuous growth. Thus, the highest rates of vacancies are registered in transport (3.8%), information and communications (3.5%), accommodation facilities and catering services (3.5%), administrative and auxiliary services (3.4%), construction (2.6%), manufacturing industry (2.5%) as well as in arts, entertainment and recreation (2.3%).

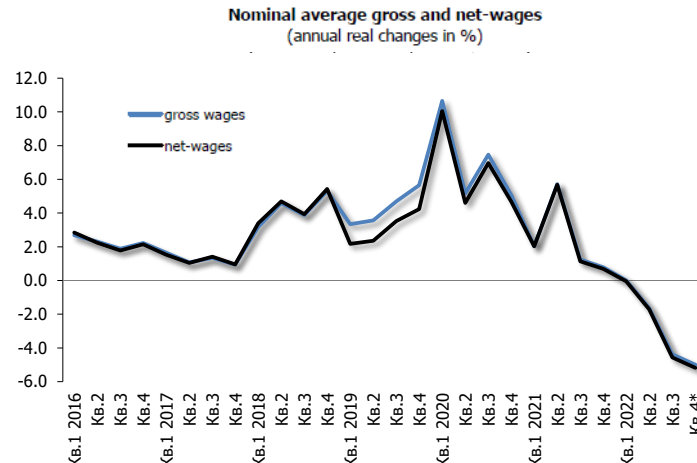


²⁰ The job vacancy rate is defined as the ratio between the number of job vacancies and the total number of jobs. Usually, the job vacancy rate is considered along with the unemployment rate (a relationship known as the Beveridge Curve). The value of these two indicators provides labor market information about any skill mismatch. More precisely, if both indicators are moving simultaneously, the fluctuations are temporary, cyclical, and when the unemployment rate is decreasing, amid stable vacancy rate, these are structural changes, i.e. improved labor market efficiency.

In the third quarter of 2022, labor supply registered a minor fall. In the third quarter, total active population registered a minor quarterly decrease of 0.3% which also slightly decreased the activity rate to 55.2% (55.3% in the previous quarter). Accordingly, this quarter witnessed a minor increase in inactive population (of 0.1%).

The unchanged demand growth relative to the minor decrease in supply of labor force in the third quarter of 2022 resulted in further fall in unemployment. Thus, the number of unemployed in the second quarter decreased by 1.7% quarterly, while the unemployment rate reduced to 14.3% (quarterly fall of 0.2 percentage points, respectively). Such movement of the unemployment rate is a result of the further decrease in the number of unemployed, amid unchanged movements in the number of employees and minor increase in inactive population.

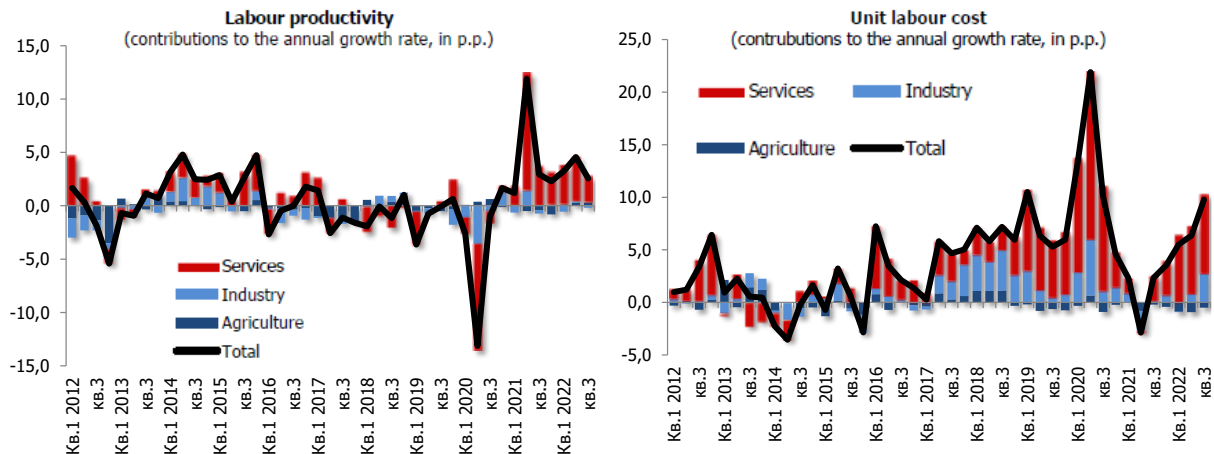
The average net and gross wages paid in the third quarter registered a further annual growth. Thus, net and gross wages in the third quarter registered an annual growth of 11.8% and 12%, respectively, (growth of 10.4% each). The annual wage growth is partly a result of the increase in the minimum wage of 18.5% in March 2022, in accordance with the latest legislative changes²¹, besides the increase in part of the public sector wages²² from September 2022 last year, as well as of certain structural factors, such as lack of labor force in some labor market segments. Analyzing by activity, an annual wage growth was recorded in all economic activities, primarily in activities hit by the pandemic, mainly service activities, such as: accommodation facilities and catering services, arts, entertainment and recreation, manufacturing industry, construction, trade, and professional, scientific and technical activities. Considerable wage growth was registered in administrative and auxiliary activities, other service activities and transport and storage. In conditions of rapid growth in consumer prices of 17.2%, **real net and gross wages in the third quarter reduced by 4.6% and 4.4%, respectively on an annual basis.** In October 2022, the nominal average net wage increased by 13.6%, while the real net wage decreased by 5.2%.



²¹ Pursuant to the latest amendments to the growth of the minimum wage (Official Gazette of the Republic of North Macedonia No. 41/22) from March 2022, the minimum net wage was extraordinarily increased by Denar 2,806, in accordance with the three-party agreement reached between the Government, the unions and the employers, where the government undertakes to subsidize employee contributions (from March 2022 to December 2022 in the amount of Denar 1,197 for each month). The minimum gross wage, from March 2022 to February 2023, is Denar 26,422 (previously Denar 22,146), i.e. the minimum net wage is Denar 18,000 (previously Denar 15,194). Moreover, the latest amendments provide a new methodology which will adjust the minimum wage in the next period, i.e. from March 2023, i.e. with the increase of the average wage paid in the RNM for the previous year and the consumer price index - 50% of the increase of each indicator, respectively. Also, it is also defined that the minimum wage cannot be lower than 57% of the average net wage paid in the RNM for the previous year.

²² In accordance with the Budget revision, the September wage rose by 15% for the judiciary employees, secondary and primary education and child care, 7% for the employees in higher education, and 5% growth of wages of the MOI and health employees.

Labor productivity²³ also went up in the third quarter of 2022, slowly though, with an annual growth rate of 2.6%²⁴ (4.6% in the previous quarter). The growth of productivity in the third quarter is the result of the growth of economic activity amid annual employment stagnation. The sector-by-sector analysis shows productivity growth mainly from the service sector and less from agriculture, amid a decline in industry. **In the third quarter of 2022, nominal unit labor costs grew annually by 9.8%** (6.4% in the previous quarter). The growth of labor costs is due to the further moderate growth of nominal gross wages, amid slower productivity growth. Most of the increase in unit labor costs accounts for higher costs in service sector and industry.



1.5. Inflation

In the fourth quarter of 2022, the annual inflation equaled 19.3%. Inflation is still mostly determined by external factors, that is, by the increase in food and energy import prices. These changes are caused by disruptions in the global commodity markets given the protracted war in Ukraine and the sanctions and trade restrictions against Russia. Food prices on the domestic market continued to rise, partly under the influence of the knock-on effects of the increase in energy price. This effect can be partially mitigated through the measures related to electricity supply to domestic food producers, starting from the last month of the year. Given that food and energy are input components in other products and services, the last quarter registered an increase in core inflation as well. For the entire 2022, the average annual inflation rate was in line with the expectations and equaled 14.2%. Analyzing factors that are likely to affect future short-term pace of consumer prices, there was deceleration in the growth rate of domestic producer prices as well as stabilization of the foreign imported inflation, with certain acceleration of the annual growth of nominal unit labor costs in the third quarter. Regarding the inflation expectations in the coming period, according to the National Bank Survey, economic analysts expect an inflation of 7.8% in 2023 and 4.3% in 2024, which is

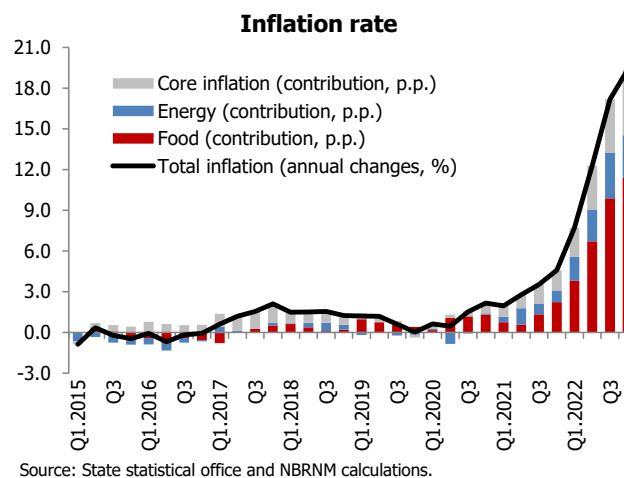
²³ Total labor productivity is a weighted sum of productivity of each sector. Sector productivity is the ratio of the sector's value added to the number of employees.

²⁴ Data on total productivity and nominal unit labor cost are internal calculations of the National Bank and therefore should be interpreted with caution. According to the 2021 Census of Population, Households and Dwellings, there was a structural break in the series for the number of employees in Q1 2022. To continue conducting consistent analysis of labor productivity and unit cost, the official data on the number of employees have been adjusted.

similar to the expectations of the previous survey and in line with the inflation forecast of the National Bank and the international institutions.

1.5.1. Current inflation

In the fourth quarter of 2022, the annual inflation rate reached 19.3% (17.2% in the previous quarter)²⁵. The increased contribution of food prices to inflation, complemented by the upward trend of core inflation, still has the largest effect on this dynamic. Energy component prices, despite the slow growth caused by the decelerating growth of domestic prices of oil derivatives, remain in the double-digit growth zone. Such movements in domestic prices still mainly result from the supply-side factors and the growth of import prices, reflecting the disruptions in global commodity markets caused by the protracted war in Ukraine and the sanctions and trade restrictions against Russia.



Core inflation in the fourth quarter of 2022 equaled 9.8% on an annual basis (7.9% in the previous quarter), which is mostly due to higher prices of services in restaurants and hotels, attributable to the increased food and energy prices. Greater contribution was also made by prices of personal hygiene products and routine household maintenance, non-alcoholic beverages, tobacco²⁶ and road traffic. The other inflation sub-indices, which exclude the most volatile prices, also registered a rapid growth in the fourth quarter, compared to the previous quarter. Thus, the total index, excluding energy²⁷, liquid fuels and lubricant oils (for transport) and unprocessed food registered an annual growth of 17.6% (15.1% in the previous quarter), while the total index, excluding energy, liquid fuels and lubricant oils (for transport), unprocessed food, tobacco and alcoholic beverages, registered an annual growth of 18.2% (15.7% in the previous quarter).

²⁵ On a quarterly basis, domestic consumer prices increased by 3.1%, and by 3.9% seasonally adjusted.

²⁶ The prices of most cigarette brands and types increased by Denar 10 in February 2022 as a result of the increase in prices of raw materials and energy, primarily gas and electricity, which have a significant share in production, as well as due to the regular annual increase in excise duty (from 2013 until 1 July 2023, the excise duty on cigarettes increases annually by Denar 0.2 per piece).

²⁷ The energy category includes electricity, gas, liquid and solid fuels for heating and central heating.



	(annual changes, in %)										(contributions to annual changes, in p.p.)									
	2021				2021	2022				2022	2021				2021	2022				2022
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
Consumer price index - all items	2.0	2.8	3.5	4.6	3.2	7.7	12.3	17.2	19.3	14.2	2.0	2.8	3.5	4.6	3.2	7.7	12.3	17.2	19.3	14.2
Food	2.1	1.5	3.6	6.1	3.3	10.4	18.0	26.7	30.3	21.5	0.8	0.6	1.3	2.2	1.2	3.8	6.7	9.9	11.4	8.0
Energy	3.2	9.9	6.0	6.6	6.4	13.4	17.8	25.5	23.6	20.2	0.4	1.2	0.8	0.9	0.8	1.8	2.3	3.4	3.1	2.7
Electricity	7.4	7.4	2.4	0.0	4.3	9.4	9.4	20.2	20.2	14.8	0.5	0.5	0.2	0.0	0.3	0.7	0.7	1.5	1.5	1.1
Heat energy	0.0	0.0	-2.7	-4.0	-1.7	9.4	9.4	23.0	30.1	17.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Fuels and lubricants	-3.5	25.3	20.0	27.7	17.4	29.1	42.0	37.7	21.2	32.3	-0.1	0.7	0.6	0.8	0.5	0.9	1.4	1.3	0.8	1.1
Food and energy (volatile prices)	2.3	3.6	4.2	6.2	4.1	11.2	18.0	26.4	28.6	21.2	1.2	1.8	2.1	3.1	2.0	5.6	9.1	13.2	14.5	10.7
Core inflation calculated by the NBRNM (total index - food and energy (categories 01.1, 04.5, 07.2.2))	1.6	2.0	2.9	3.0	2.4	4.2	6.5	7.9	9.8	7.1	0.8	1.0	1.5	1.5	1.2	2.1	3.2	3.9	4.8	3.5
Overall index excluding energy, liquid fuels and lubricants and unprocessed food (SSO)	1.9	2.2	2.9	3.9	2.7	6.0	10.4	15.1	17.6	12.3										
Overall index excluding energy, liquid fuels and lubricants, unprocessed food, tobacco and alcoholic beverages (SSO)	1.5	2.1	2.8	4.2	2.6	6.1	10.5	15.7	18.2	12.7										

Source: State Statistical Office and NBRNM calculations.

In the fourth quarter of 2022, food prices registered an annual growth of 30.3% (26.7% in the previous quarter). Analyzing the structure, the growth of food prices mainly results from the higher prices of bread and cereals, milk, cheese and eggs, and meat, which account for slightly more than 3/4 of growth of food component prices. In order to mitigate food price pressures, a set of measures were taken to limit trade margins of most of these products²⁸, to abolish customs duty on import of sunflower oil and import of milk and sour cream²⁹, as well as measures related to electricity in order to reduce and stabilize domestic food prices³⁰. The high and long-term growth of food prices is determined mainly by external factors, such as growth of prices of food commodities on the international market, the second-round effect of the higher electricity and oil derivatives prices on operating costs, increased prices of artificial fertilizers, animal feed and other primary production inputs, as well as the appreciation of the US dollar. In the fourth quarter, foreign effective food prices in euro recorded a faster annual growth, while the growth of domestic food producer prices stabilized³¹.

Energy prices in the fourth quarter are higher by 23.6% annually, which is certain deceleration of the growth (25.5% in the previous quarter). This dynamic results from the slower growth of domestic oil derivative prices, in conditions of a downward trend in the price of crude oil on the world stock markets, amid certain appreciation of the US dollar. The growth of domestic price of household electricity remained at the level of the previous quarter, after the regulatory increase in July and the

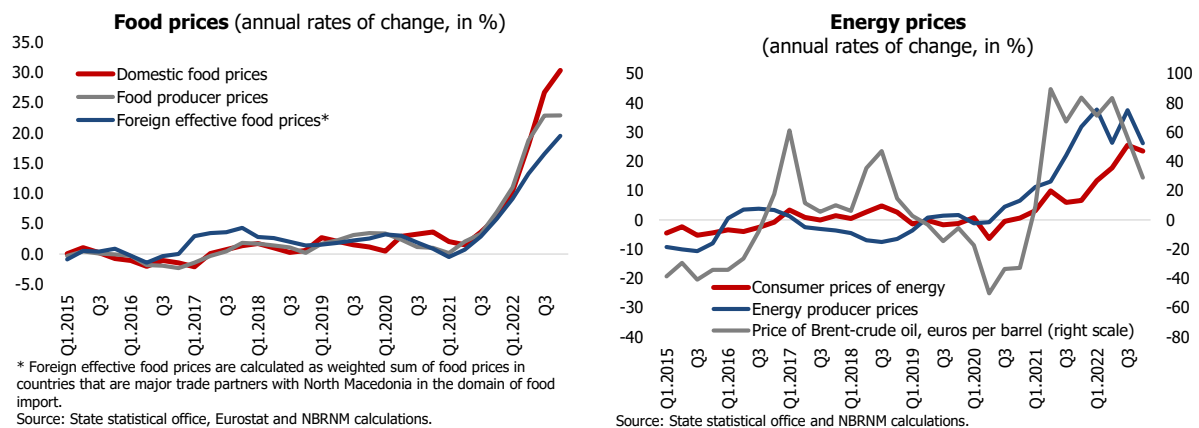
²⁸ With the Decision on special trade conditions for certain goods, adopted on 14 June 2022, the RNM Government specified the highest trade margin of food commodities in the wholesale and retail trade, which was primarily valid until 30 September 2022 and later prolonged until the end of the year. According to the decision, the trade margin cap for white bread (sliced or a loaf), white sugar and sunflower oil, excluding cold pressed oil, is 5% in the wholesale trade and 5% in the retail trade, while for wheat flour (type 400 and 500), for macaroni and spaghetti of hard wheat, Macedonian white rise, pasteurized cow milk with 2.8%, 3.2% and 3.5% fat and hen eggs, the margins are up to 10% for both wholesale and retail trade. Moreover, on 6 October, it was decided to cap trade margin to 10% for dairy products: cottage cheese, cow and mixed white cheese, cheese, sour milk, sour cream and yogurt, valid until the end of the year.

²⁹ On 20 July 2022, the Government decided to extend the implementation of the measure for duty-free imports of edible sunflower oil by the end of the year, which was previously valid until 31 May, and on 30 August 2022, it was decided to repeal customs rates of 20% and 15% on milk and sour cream (non-concentrated, with no sugar or other sweeteners added, with fat that exceeds 21% per mass but does not exceed 45% and non-concentrated with no sugar added, with fat that exceeds 10% per mass but does not exceed 45% in package, whose net weight does not exceed 2.5 kg, respectively), valid until the end of 2022. Furthermore, on 6 October 2022, the government decided to repeal the decision on limiting export of wheat and mix of rye and wheat, flour of wheat and mix of rye and wheat and sunflower seed, in order to fulfill obligations arising from the Agreement on food security mechanisms in the Western Balkans, i.e. to repeal any trade restrictions on the main agricultural and food products.

³⁰ On 9 September 2022, the Government of the RNM decided to cap at 10% electricity trading margin for all trade companies and sole proprietors that trade in the wholesale and retail electricity market, which is a measure that is scheduled to last during the heating period, i.e. until 15 April 2023, and on 30 October 2022, a decision was made to allow companies that produce food commodities, such as edible oil, bread and bakery products, flour, milk and dairy products and meat to get electricity at a subsidized price of Euro 80 per megawatt/hour, over the period of crisis in the supply of electricity, starting from December 2022.

³¹ Data on sales prices of domestic food producers and foreign effective food prices refer to the first two months of fourth quarter of 2022.

knock-on effect of the increased prices at the beginning of the year³². Within the energy component, prices of solid fuels rapidly increased in the fourth quarter, despite the adopted measures to cap exports and trade margin of firewood and pellets³³; the prices of central heating are also higher, after the regulatory increases in January and August³⁴.



After slightly more than two years, the fourth quarter of 2022 registered a slowdown in the growth of **producer prices of industrial goods**, which remains high at 21.9% on an annual basis³⁵ (25.1% in the previous quarter). Such dynamic is mainly due to the slower growth of producer prices of energy and other intermediate goods. Structurally observed, higher producer prices of electricity and food generate the growth of producer prices of industrial goods. **Producer prices of energy and consumer goods**, as an aggregate category and factor that influence the dynamics of consumer prices, also registered a slower annual growth of 20.9% (23.4% in the previous quarter). Moreover, the direct impact of producer prices of energy on inflation was limited, taking into account the moderate regulatory increase in the price of household electricity in January and July 2022. The growth of **foreign effective inflation**³⁶, as an indicative indicator of imported inflation stabilized at 9.2%. **Nominal unit labor costs** in the third quarter recorded an annual growth of 9.8%, which is a certain acceleration compared to the annual growth of the last quarter (6.4%)³⁷.

³² Pursuant to decisions of the Energy Regulatory Commission, the electricity price for the universal supplier EVN HOME DOO Skopje was increased by 9.48% in January and on average by 9.9% in July 2022 (low tariff by 8.8% and the high tariff on average by 10.4%). Thus, as of 1 July, for the first time, the ERC introduced a gradual tariffing for the high tariff, i.e. a model with 4 block tariffs. Compared to the then single high tariff, the electricity price for block 1, 2, 3 and 4 is higher by 5.5%, 10.3%, 18.3% and 138.7%, respectively (<https://www.erc.org.mk/>). The transmission effect of the higher prices in January 2022 is due to offset effect of the reduction of VAT from 18% to 5% on the regular increase of electricity price for households in July 2021, i.e. base effect.

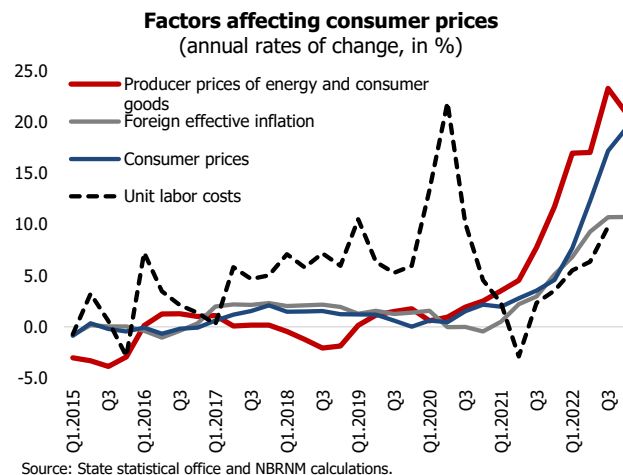
³³ On 20 July 2022, the RNM Government adopted a decision to limit exports of firewood and pellet until the end of the year, in order to prevent and avoid any consequences arising from the increased demand for firewood by the households, due to the global energy crisis. Additionally, on 11 August 2022, the Government adopted a decision on determining the highest trade margin in retail trade of firewood and pellet, in the amount of up to 10%, in order to protect the consumers from uncontrolled price increase of the heating products, valid until the end of the year.

³⁴ As for the central heating, the final price of delivered thermal energy was increased on average by 14.05% in January with the three companies in the City of Skopje, while in August by 14.18% for the consumers supplied by BEG (<https://www.erc.org.mk/>).

³⁵ The analysis of producer prices of industrial products uses data for the first two months of the fourth quarter of 2022.

³⁶ 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 2016-2018. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia, Serbia, Poland and Spain. The data refers to the first two months of the fourth quarter of 2022.

³⁷ The data are internal calculations of the National Bank and should be interpreted with caution. According to the 2021 Census of Population, Households and Dwellings, there was a structural break in the series for the number of employees in Q1 2022. To continue conducting consistent analysis, the official data on the number of employees have been adjusted.



In the fourth quarter of 2022, there was a **certain stabilization of the growth of housing prices** measured using the Hedonic index³⁸, which are higher by 20.6% on an annual basis (21.2% in the previous quarter). Analyzing supply, the favorable trends continued in the third quarter relative to the value of constructed residential buildings, with an annual growth of 15.1%, while the available data on the value of the issued construction licenses for residential buildings in the fourth quarter³⁹ so far point to accelerated annual decline, at a high base effect. Analyzing housing demand, it is still supported by bank lending, with double-digit annual growth of housing loans⁴⁰.

1.5.2. Inflation expectations

Regarding the inflation rate trend in the coming period, both domestic and international institutions expect gradual stabilization and downward trend of consumer prices in the next two years. Compared to previous forecasts, they are higher, primarily due to supply-side factors and high price level of commodities, amid expectations for more moderate growth of economic activity, both globally and in the domestic economy. The expectations of the surveyed economic analysts presented in the **Survey on Inflation Expectations and Expectations for the Movement of Real GDP** ⁴¹ conducted in December are in the same direction, according to which inflation rate of 7.8% in 2023 and 4.3% in 2024 is expected (in September an inflation rate of 7.1% was expected in 2023 and 4.4% in 2024).

Forecasts and expectations for the inflation rate

	2022	2023	2024
Economic analysts	14.8	7.8	4.3
IMF	12.9	7.1	2.5
Consensus Forecast	14.0	9.4	/
Ministry of Finance	12.9	7.1	2.5
NBRNM	14.3	8,0-9,0	2.4

Source: Inflation and real GDP growth expectations survey, December 2022; IMF Staff Report, Request for an Arrangement under the Precautionary and Liquidity Line, November 2022; Consensus Forecast, December 2022; Ministry of Finance, Revised Fiscal Strategy 2023-2025 (with outlook to 2027), December 2022; and NBRNM, October 2022.

The short-term expectations of consumers and corporate executives show the same tendency for the price movements expressed in surveys in the fourth quarter of 2022. Thus, according to **the**

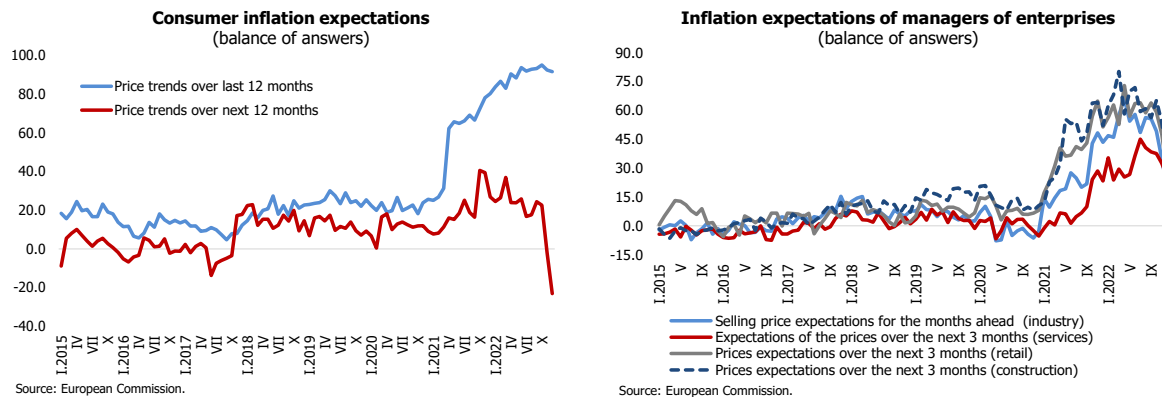
³⁸ Hedonic index of housing prices, prepared by the National Bank on the basis of notices of sale in the capital city, and published by real estate agencies. The apartment price is a function of the apartment size, location, floor, use of central heating and construction date.

³⁹ The analysis refers to the first month of the fourth quarter of 2022.

⁴⁰ Available data for the first two months of the fourth quarter of 2022.

⁴¹ In October 2017, the National Bank modified its 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).

consumer expectations for price changes in the next 12 months⁴², the anticipated downward price trajectory reflects larger number of persons that expect a decline or unchanged prices, against the number of persons that expect higher prices. Observing the **corporate sector**⁴³ expectations, in the fourth quarter, the ratio of corporate managers that expect price growth of their products in the coming three months in all activities was reduced, with somewhat unfavorable expectations in construction compared to those in retail trade, manufacturing industry and service sector.



1.6. Balance of payments

In the third quarter of 2022, the current account recorded a surplus of 0.6% of GDP, which is lower by 0.4 pp of GDP compared to the same period last year. The reduced surplus is due to the higher trade deficit, which is mainly a result of the higher deficit in the energy balance. The increased import of equipment and machinery acts in the same direction, causing increased negative balance in non-energy component. The changes in the other current account components recorded positive changes on an annual basis and acted towards improving the current account balance. Thus, the contribution of the increased surplus in the trade in services with improved export achievements in most service categories, as well as the increased net inflows from private transfers, with an unchanged primary income deficit, is also significant. The financial account in the third quarter registered net inflows, due to the net inflows in portfolio investments, direct investments, loans and to a lesser extent in trade credits. Foreign reserves in this period remain within the safe zone.

⁴² European Commission's Consumer Survey as of December 2022.

⁴³ European Commission's business tendency surveys in industry, retail trade, construction and services sector as of December 2022.

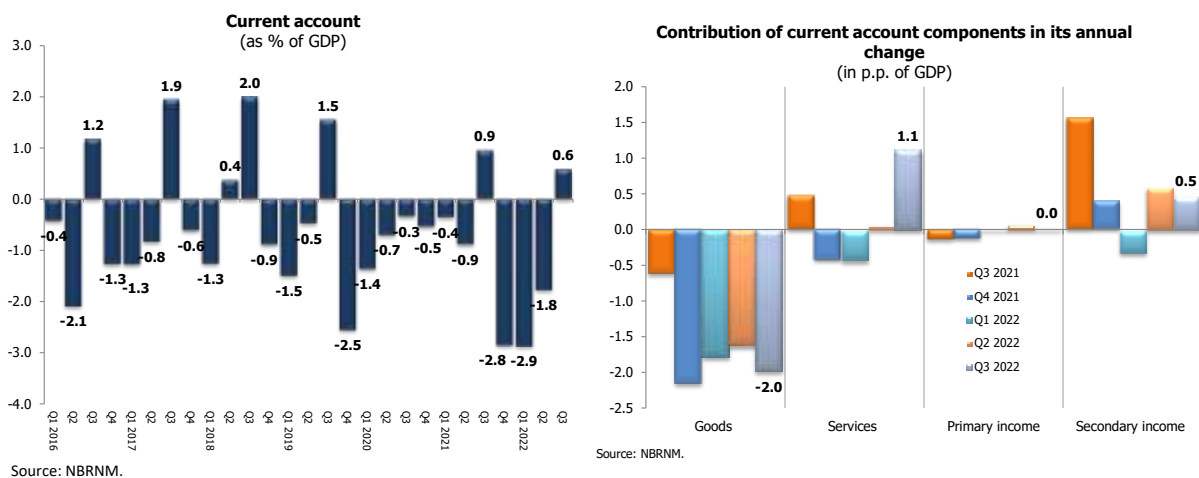


	2021						2022				2021						2022			
	q1	q2	q3	q4	I-IX	I-XII	q1	q2	q3	I-IX	q1	q2	q3	q4	I-IX	I-XII	q1	q2	q3	I-IX
	In millions of euro										% of GDP									
I. Current account	-41.5	-102.9	110.6	-332.6	-33.8	-366.4	-399.8	-247.1	80.5	-566.4	-0.4	-0.9	0.9	-2.8	-0.3	-3.1	-2.9	-1.8	0.6	-4.1
Goods and services	-311.9	-435.5	-362.7	-764.5	-1110.0	-1874.5	-680.7	-737.8	-554.4	-1972.9	-2.7	-3.7	-3.1	-6.5	-9.5	-16.0	-4.9	-5.3	-4.0	-14.1
Credit	1799.8	1905.2	2002.3	2036.6	5707.3	7743.9	2139.8	2418.6	2546.6	7105.0	15.4	16.3	17.1	17.4	48.8	66.2	15.3	17.3	18.3	51.0
Debit	2111.6	2340.6	2365.0	2801.1	6817.3	9618.4	2820.5	3156.4	3101.0	9077.9	18.1	20.0	20.2	24.0	58.3	82.3	20.2	22.6	22.2	65.1
Goods	-504.3	-564.1	-504.6	-797.3	-1573.0	-2370.3	-850.3	-899.4	-879.0	-2628.6	-4.3	-4.8	-4.3	-6.8	-13.5	-20.3	-6.1	-6.4	-6.3	-18.9
Services	192.5	128.6	141.9	32.9	463.0	495.9	169.6	161.6	324.6	655.7	1.6	1.1	1.2	0.3	4.0	4.2	1.2	1.2	2.3	4.7
Primary income	-128.8	-133.6	-128.7	-130.2	-391.1	-521.3	-149.6	-147.7	-149.3	-446.6	-1.1	-1.1	-1.1	-1.1	-3.3	-4.5	-1.1	-1.1	-1.1	-3.2
Secondary income	399.2	466.2	602.0	562.0	1467.4	2029.4	430.5	638.4	784.2	1853.1	3.4	4.0	5.1	4.8	12.6	17.4	3.1	4.6	5.6	13.3
II. Capital account	0.2	2.5	0.0	4.4	2.7	7.1	0.2	-0.6	-1.1	-1.5	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	-41.3	-100.4	110.6	-328.1	-31.1	-359.2	-399.6	-247.7	79.4	-567.9	-0.4	-0.9	0.9	-2.8	-0.3	-3.1	-2.9	-1.8	0.6	-4.1
III. Financial account	-643.9	-177.3	633.8	-251.2	-187.4	-438.6	-22.7	-82.2	-523.5	-628.4	-5.5	-1.5	5.4	-2.1	-1.6	-3.8	-0.2	-0.6	-3.8	-4.5
Direct investment	21.8	-206.4	-13.8	-189.1	-198.4	-387.5	-120.8	-150.1	-179.6	-450.4	0.2	-1.8	-0.1	-1.6	-1.7	-3.3	-0.9	-1.1	-1.3	-3.2
Portfolio investment	-636.9	8.6	477.4	34.9	-150.9	-115.9	26.4	69.1	-221.7	-126.2	-5.4	0.1	4.1	0.3	-1.3	-1.0	0.2	0.5	-1.6	-0.9
Currency and deposits	27.6	119.7	146.7	139.1	293.9	433.1	24.3	119.0	135.0	278.3	0.2	1.0	1.3	1.2	2.5	3.7	0.2	0.9	1.0	2.0
Loans	-19.1	-147.2	17.9	-100.5	-148.5	-248.9	53.6	-34.8	-175.0	-156.2	-0.2	-1.3	0.2	-0.9	-1.3	-2.1	0.4	-0.2	-1.3	-1.1
Trade credit and advances	-38.3	48.0	5.2	-135.7	14.9	-120.8	-5.4	-81.8	-82.2	-169.4	-0.3	0.4	0.0	-1.2	0.1	-1.0	0.0	-0.6	-0.6	-1.2
Other accounts receivable/payable	1.1	0.0	0.4	0.3	1.6	1.9	-0.3	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV. Special drawing rights (Net incurrence of liabilities)	0.0	0.0	163.4	0.0	163.4	163.4	0.0	0.2	0.4	0.6	0.0	0.0	1.4	0.0	1.4	1.4	0.0	0.0	0.0	0.0
V. Net errors and omissions	8.9	17.6	26.3	9.1	52.8	61.9	3.4	32.8	51.1	87.3	0.1	0.2	0.2	0.1	0.5	0.5	0.0	0.2	0.4	0.6
VI. Reserve assets	611.5	94.5	-333.5	-67.9	372.6	304.7	-373.5	-132.7	654.0	147.8	5.2	0.8	-2.9	-0.6	3.2	2.6	-2.7	-1.0	4.7	1.1

Source: NBRNM.

2.6.1. Current account

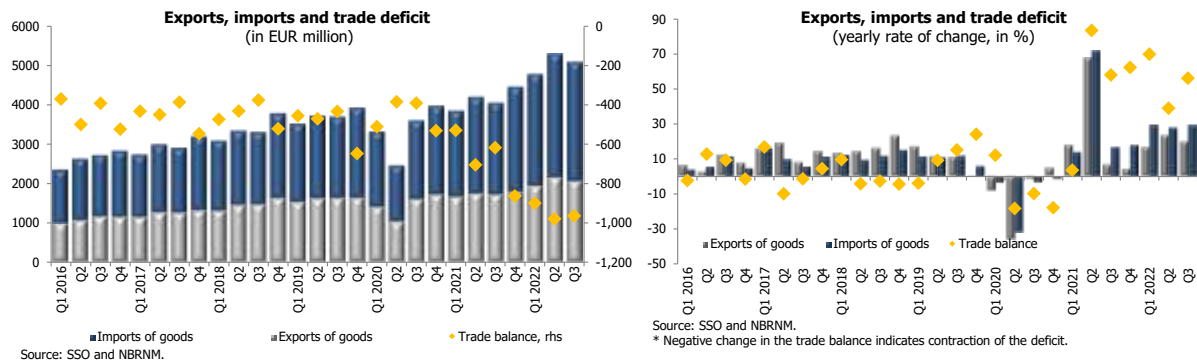
In the third quarter of 2022, the balance of payments current account registered a surplus in the amount of euro 80.5 million, or 0.6% of GDP⁴⁴. The increased trade deficit reduced the current account surplus on an annual basis (by 0.4 pp of GDP), as opposed to the favorable movements in other components that improved the current account balance through partial neutralization of the higher trade deficit. The negative trade balance is mainly related to net energy imports, partly reflecting increased import prices under the influence of high energy stock exchange prices as a result of the protracted military situation in Ukraine. The increased negative balance in the trade of non-energy product categories acted with a similar intensity and in the same direction. Performances in the other current account components were more favorable annually. Moreover, the increased trade surplus in services recorded a significant positive contribution driven by the improved export performance in business services, computer services, manufacturing services, as well as in travel. The increased net inflows in the secondary income acted in the same direction, yet with a smaller contribution, in conditions of increased private transfers. The balance of primary income remains almost unchanged on an annual basis.



⁴⁴ The calculations use the nominal GDP forecast (from October 2022).

Annex 1: Foreign trade in goods and movement of the Nominal and the Real Effective Exchange Rate (NEER and REER)⁴⁵

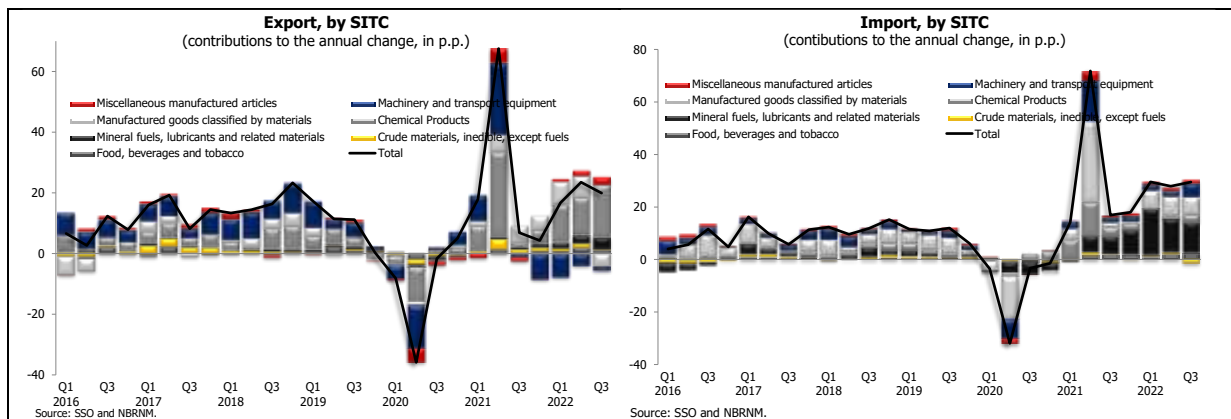
Foreign trade amounted to Euro 5,083.9 million in the third quarter of 2022, or 36.5% of GDP, which compared to the same quarter of the previous year is an increase of Euro 1,030.9 million, or 1.8 pp of GDP. The high annual growth of foreign trade of the domestic economy of 25.4% is due to the growth of both export and import component, amid further upward movements of the primary commodities market prices, primarily energy and food prices in this period.



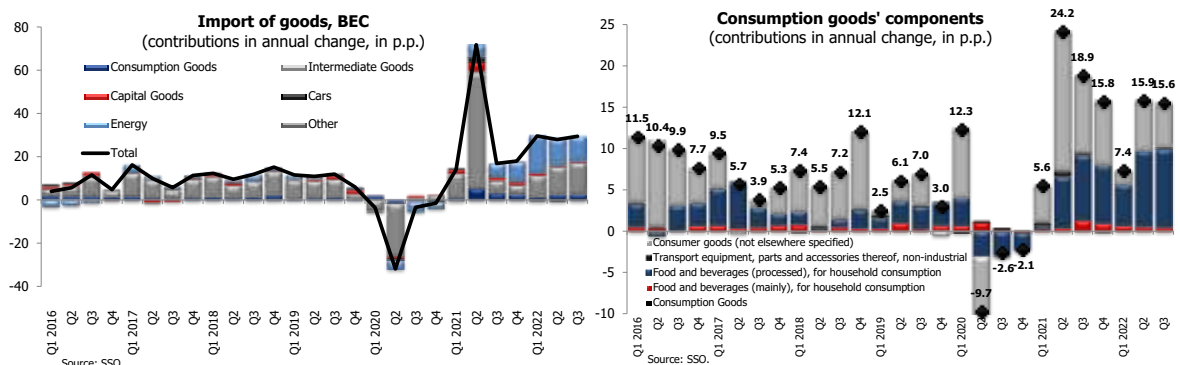
In the third quarter of 2022, the export of goods grew by 19.9% on an annual basis. The export of chemical products, as a significant export category of some production facilities from the automotive industry, made the main positive contribution to export performances in this period. The growth in energy prices continued at a significantly faster pace in the third quarter of 2022, with a great impact on the higher export of energy, as well as oil derivatives. Furthermore, the export of road vehicles, electrical machines and equipment and the export of furniture also affected the growth of exports, as export categories of foreign automotive companies. On the other hand, the reduced export of iron and steel, as well as of industrial equipment and machinery made a negative contribution to the growth of exports in the third quarter of 2022. **Imports of goods in the third quarter of 2022 increased by 29.5% on an annual basis.** The product analysis shows that the export of energy made the largest contribution and explains around 40% of the growth of import component. The higher import of energy, especially electricity and oil derivatives, was mainly due to high import prices in line with the movements on the world markets, amid low imported quantities in electricity and minor quantitative growth in derivatives. The growth of import of non-ferrous metals, higher import of equipment and machinery, as well as the import of chemical products had a positive contribution to the import growth in the third quarter. On the other hand, the lower import of metal processing industry contributed to the reduced import of iron, steel and ore. **Both foreign trade components in the third quarter of 2022 resulted in trade deficit widening by 56.1% on an annual basis,** amid widening of the deficit in both the energy and the non-energy balance.

The latest available data for the period October-November 2022 indicate a further growth of both the export and the import component of foreign trade compared to the same period last year. The annual growth of exports amounts to 24%, which mainly results from the growth of export of chemical products, and less from the export of electricity in this period. On the other hand, exports of equipment and machinery, as well as exports of iron and steel made a negative contribution. Import registered an annual growth of 22.9%, driven primarily by the higher import of energy, namely oil derivatives and natural gas, as well as the import of non-ferrous metals and equipment and machinery.

⁴⁵ 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

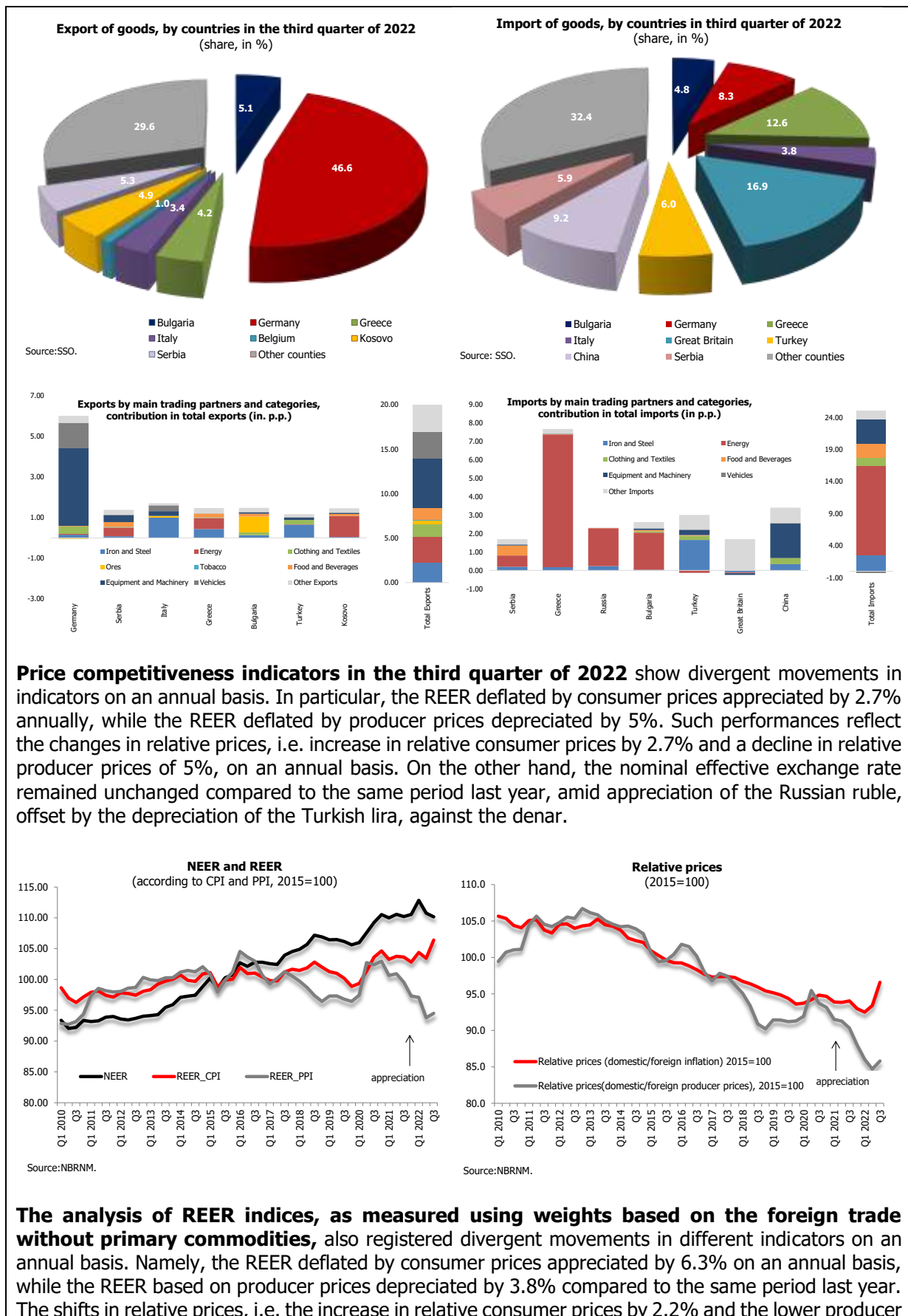


Analyzing imports of goods in the System of National Accounts (SNA), in the third quarter of 2022, the imports grew due to the imports of intermediate products and due to the energy imports. In terms of imports intended for private consumption⁴⁶, the highest contribution to the growth of this category was made by the import of food and beverages (processed) mainly for utilization in households, in conditions of a significant contribution of the import of consumer goods not mentioned elsewhere. Analyzing dynamics, the import of private consumption registered a moderate annual slowdown in the third quarter and still indicates significant pressures on total imports.



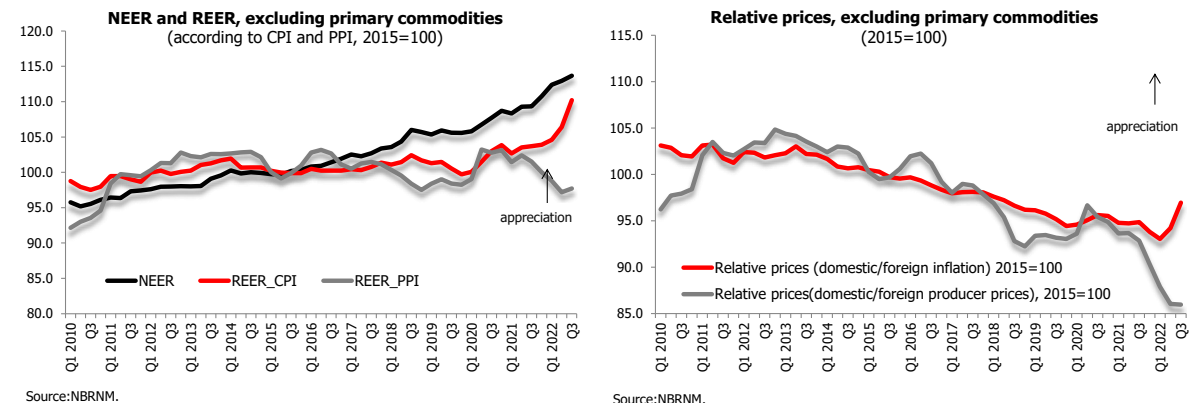
The foreign trade analysis, by trading partner, shows that in the third quarter of 2022, the European Union was the major trading partner of the domestic economy, making up 59.9% of total foreign trade. The analysis shows that the annual growth in the third quarter was dispersed among several countries. On the **export** side, largest contribution was made by the exports to Germany, which is mostly due to the export of various products from chemical industry. The higher energy export to Greece and Serbia, the export of iron and steel to Greece and Italy, the higher export of various products from chemical industry to Serbia, as well as the higher export of vehicles to Italy made an additional positive impact. According to the data on trading partners on the **import** side, the import from Greece had a positive contribution, mainly due to higher energy import from this country. The increased import of non-ferrous metals is the main reason for higher import from Great Britain, amid higher energy import from Bulgaria, as well as the higher import of equipment and machinery from China. Regarding the foreign trade **balances** by partner, the higher annual trade deficit was mostly due to the higher negative trade balance with China, Greece and Great Britain, and less to the deteriorated balance in the trade with Bulgaria, Turkey and Russia. Additionally, there was a small deficit in the trade with Finland, as opposed to the surplus in the same quarter in the previous year. On the other hand, higher surplus was registered in the trade with Germany, and Kosovo, as well as a lower deficit with Ukraine, Romania and Serbia, compared to the same period last year.

⁴⁶ The import of private consumption goods is analyzed as import intended for private consumption, approximated through the import of consumer goods and the estimated import of passenger vehicles for personal use.



prices by 7.4% on an annual basis, acted in the same direction. The nominal effective exchange rate appreciated by 4%, due to the depreciation of the Turkish lira relative to the denar.

Regarding the price competitiveness for the period October-November 2022, the REER deflated by consumer prices appreciated annually by 4.7%, while the index based on producer prices decreased by 1.9% compared to the same period last year. The movements in the index calculated by weights based on the foreign trade without primary commodities acted in the same direction, namely, consumer price index registered an appreciation of 6.9% on an annual basis and producer price index registered a depreciation of 2%.

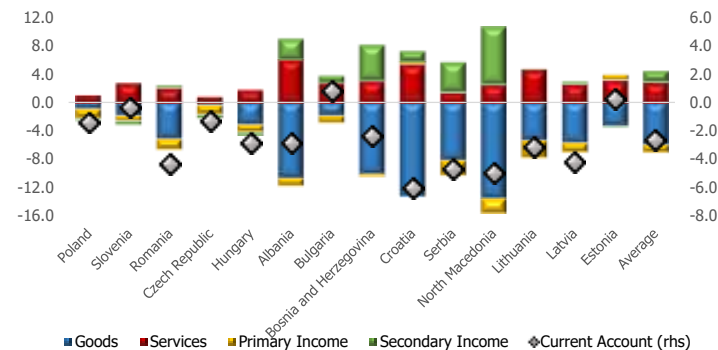


Annex 2: The effect of the disruptions on energy market on the current account of the Central, Eastern and Southeast Europe countries and Baltic countries in the first half of 2022.

The article aims to briefly assess the effects of the deteriorated conditions on global markets, primarily the energy market on the external position of the CESEE countries⁴⁷. The assessment is made through an overview of the changes in the current account and trade balance, as a component which is mostly exposed to changes in terms of trade. The war in Ukraine and the sanctions against Russia have created new, and deteriorated the existing imbalances in the global economy. The military developments have deteriorated the primary commodities markets, which in conditions of hindered and slower supply chains and increased post-pandemic global demand, caused price growth in primary products, especially pronounced in energy. The high and prolonged growth in energy prices, especially the natural gas and electricity, caused an energy crisis with an intensity that has not been seen in the past 40 years.

⁴⁷ The CESEE countries, the subgroup of CEE countries including Poland, Slovenia, Romania, Czech Republic and Hungary. The SEE countries include Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Serbia and North Macedonia. The group of Baltic countries includes Lithuania, Latvia and Estonia.

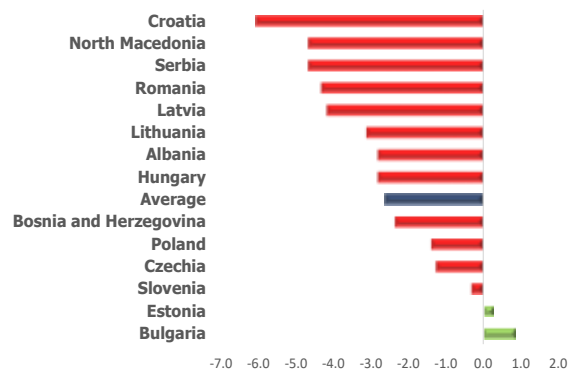
Current account and its components, first half of 2022, in % of GDP (CEE, SEE and Baltic countries)



Source: IMF and own calculations

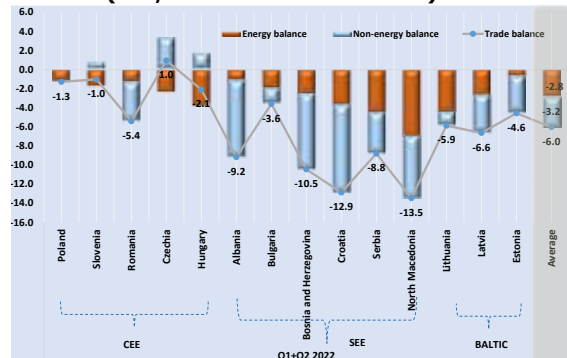
In the first half of 2022, the analyzed countries registered an average current account deficit of 2.6% of GDP, mainly due to the trade deficit in goods. However, several countries seem to indicate **higher negative balance than the regional average**. This refers to **several countries in Southeast Europe- Croatia, North Macedonia and Serbia**, with a deficit of 6.1%, 4.7% and 4.7% of GDP, respectively, as well as **Romania and Latvia**, whose current account deficits amount to 4.3% and 4.2%, respectively. Such movements in the current account balance are generally driven by the trade deficit in goods, which in these countries exceeds the regional average.

Current account(in % of GDP)



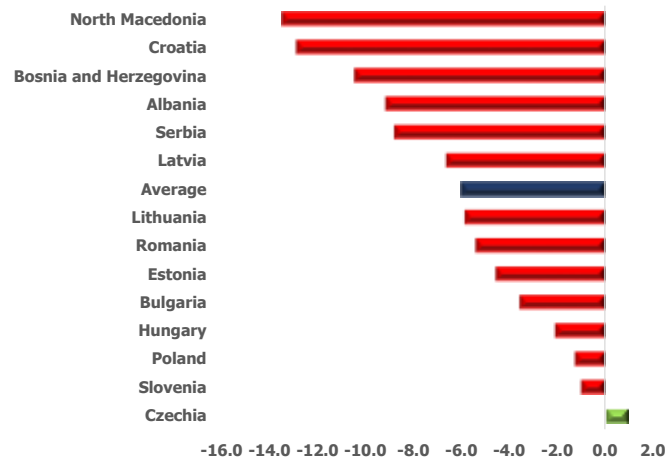
Source: IMF and own calculations

Trade balance, energy and non-energy balance, in % of GDP (CEE, SEE and Baltic countries)



Source: Eurostat and own calculations

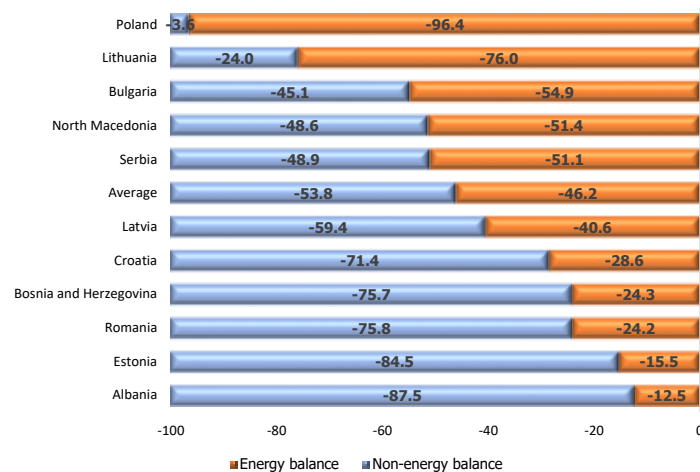
Taking into account the global energy price shock in 2022, the analysis aims to perceive its effect on the trade balance positions. In the first half of 2022, the analyzed countries registered an average trade deficit of 6% of GDP. Its decomposition shows that, structurally, the non-energy deficit is higher than the energy balance on average, 3.2% and 2.8% of GDP, respectively. The Czech Republic is an exception, with a trade surplus in goods of 1% of GDP, due to the positive balance of the non-energy component of 3.3% of GDP, amid deficit in the energy balance of 2.3% of GDP.

Trade balance in % of GDP (CEE, SEE and Baltic countries)


Q1+Q2 2022

Source: Eurostat and own calculations

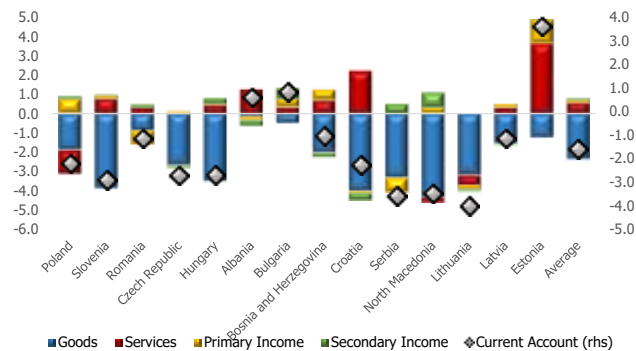
Data on the first half of the year show evident differences in terms of the energy and non-energy balance to total trade balance ratio. This partly reflects the different economic structures and thus the exposure to such shocks. In this period, the average share of the energy deficit to total deficit in the region amounted to 46%, but it exceeds half of the total balance in part of the countries, showing greater vulnerability and exposure to energy shocks. This includes **Slovenia, Czech Republic, and Hungary, where the deficit is solely a reflection of the energy balance, while the non-energy balance registers a surplus.** More than half of the trade deficit is explained by the energy balance in Lithuania, Bulgaria, Serbia and North Macedonia.

Structure of trade balance, share of energy and non-energy balance, in % of GDP (CEE, SEE and Baltic countries)


Source: Eurostat and own calculations

However, we can get a clearer view of the energy shock implications through dynamic analysis. In the first half of 2022, deterioration of the current account deficit on an annual basis is evident in almost all countries (except Estonia, Albania and Bulgaria).

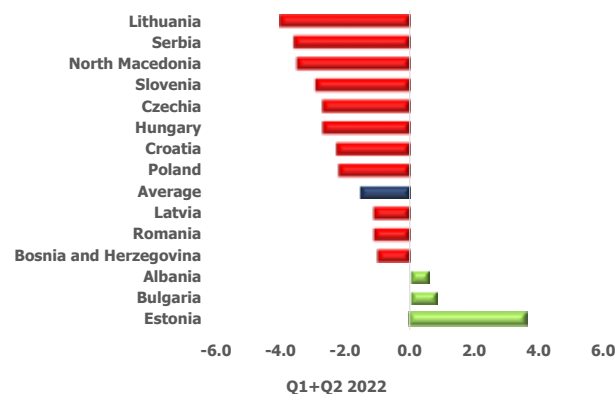
Contribution of individual current account components to the annual change, first half of 2022 (CEE, SEE and Baltic countries)



Source: IMF and own calculations

The analysis of the current account components shows that the increase of the current account deficit (by 1.6 pp of GDP), in all countries on average, was due to the trade deficit expansion (by 2.4 pp of GDP), while other components narrowed the current account deficit in the first half of 2022.

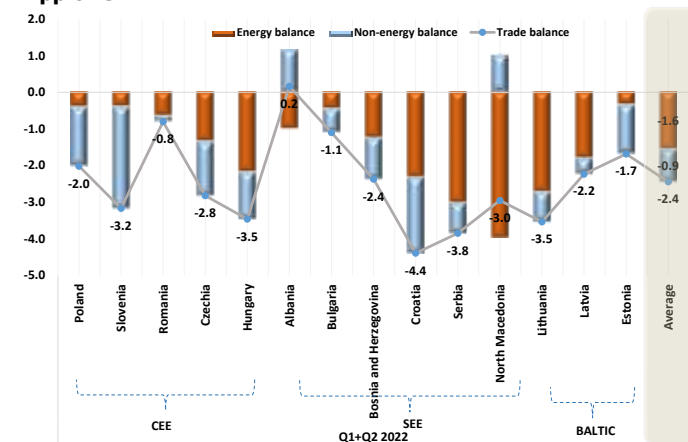
Current account, annual changes in pp of GDP



Source: IMF and own calculations

Lithuania, Serbia and North Macedonia are countries where the increase in the current account deficit mostly deviates from the analyzed countries' average, whereby the deficit in Lithuania expanded by 4 pp, while in Serbia and North Macedonia by 3.6 and 3.5 pp of GDP, respectively. **These countries are placed among countries with the greatest deviation in terms of the growth in the average trade deficit for all countries, due to the deepening of the energy deficit.** In the first half of 2022, deterioration of the trade balance in goods is evident in almost all countries annually.

Trade balance, energy and non-energy balance, annual changes in pp of GDP

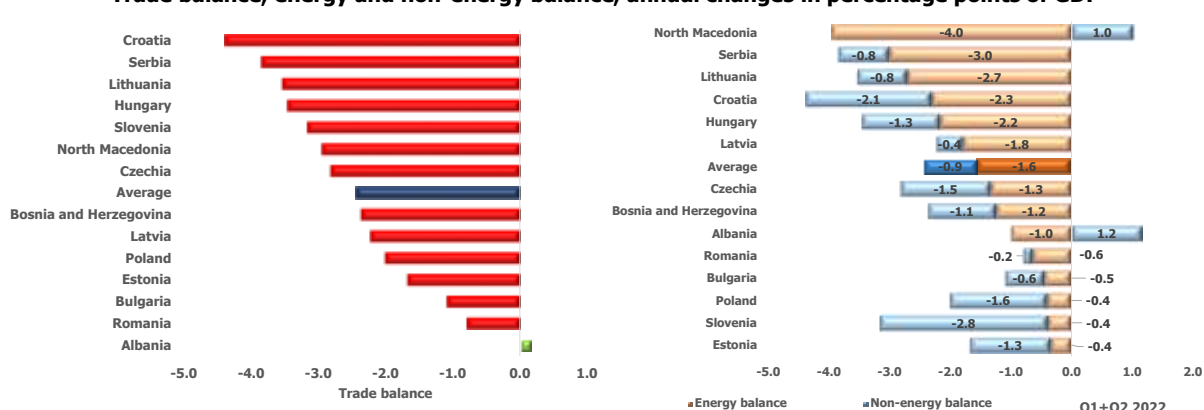


Source: Eurostat and own calculations

The Analysis shows that, on average, the increase in the annual trade deficit in the countries from the region (2.4 pp of GDP), was mostly driven by the increased deficit in the energy balance (1.6 pp of GDP), while the deterioration of the non-energy balance was more moderate and equaled 0.9 pp of GDP. Hence, an average of about 64% of the increased regional trade deficit in the first half of 2022 was due to the increased energy balance.

Compared between individual countries, several economies recorded less favorable deviations i.e. significantly higher contribution of the energy balance than the average. They also include the domestic economy with an increased trade deficit, which almost entirely reflects the changes in the energy balance, amid increased net import of energy, on an annual basis. Highly pronounced contribution of the energy deficit to the total trade balance was registered by some of the countries such as Romania, Latvia, as well as Serbia and Lithuania, with a deviation between 13 and 17 pp above the average for all analyzed countries (64%).

Trade balance, energy and non-energy balance, annual changes in percentage points of GDP

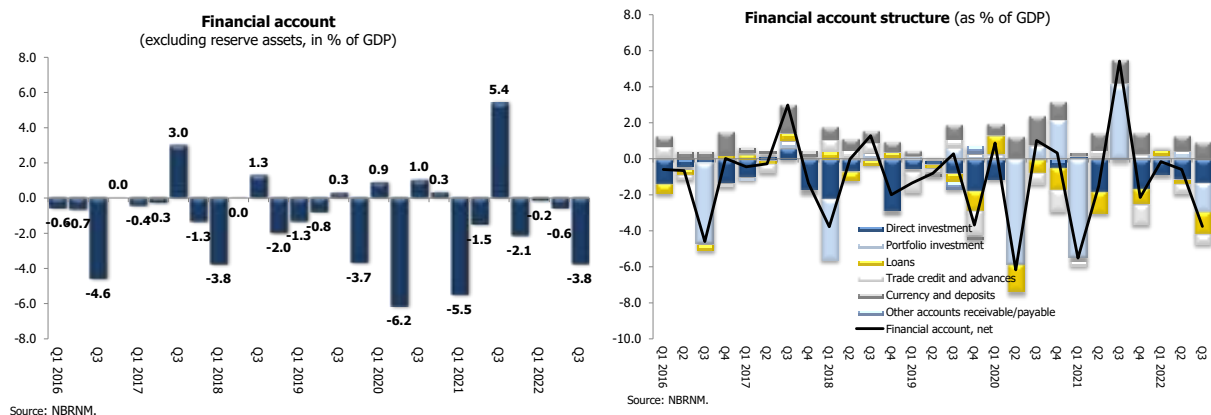


Source: Eurostat and own calculations

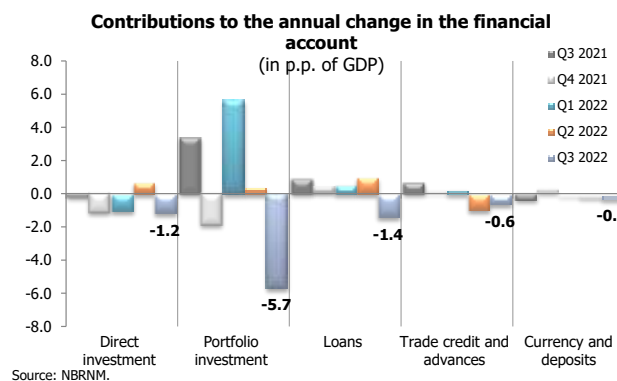
Overall, in the first half of 2022 the current account of most of the countries in the region registered a deterioration, mainly due to unfavorable changes in the trade deficit. The effect of the energy crisis is evident in most of the countries, given that the deterioration of the trade balance is mostly due to the expansion of the energy trade balance. In the first half of 2022, the energy deficit for the region, on average, constituted 64% of the trade deficit expansion on an annual basis. However, given the different structure of economies and various degree of energy dependence, this effect is more pronounced in certain countries, including our economy, explaining the need for structural measures that will reduce the vulnerability of the economic external positions to such shocks.

2.6.2. Financial account

In the third quarter of 2022, the financial account in the balance of payments registered net inflows of Euro 523.5 million, or 3.8% of GDP. Such performance is the result of net inflows in almost all financial account components, with the exception of currency and deposits, which registered net outflows. More significant net inflows were registered in portfolio investments, due to the government borrowing through the issued Eurobond on the German market⁴⁸. Direct investments also registered net inflows in all components, of which the highest contribution was made by net inflows based on equity investments, which, together with the reinvested earnings as non-debt components, dominate the direct investments in this quarter. The category loans also registered net inflows, due to the central bank activities for foreign reserves management, as well as the category trade credits and advances.

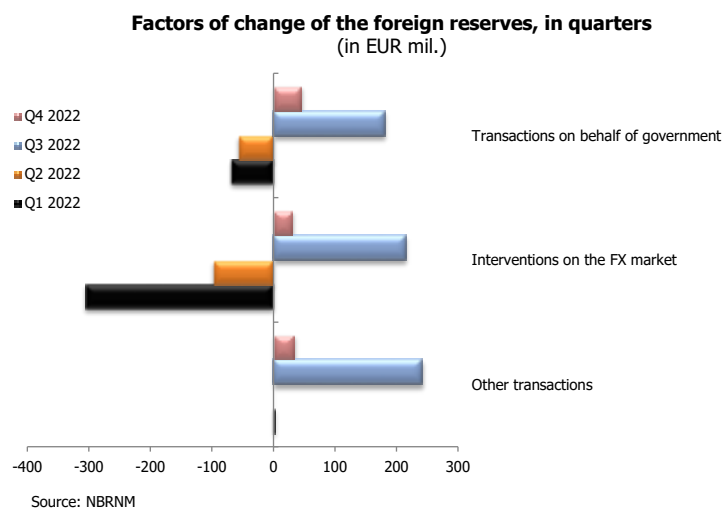


In the third quarter of 2022, the financial account recorded improved performances annually, amid net inflows, against the net outflows in the same period last year, due to improved performances in all individual categories. Moreover, largest contribution was made by the changes in the portfolio investments, in conditions of net inflows in the third quarter of 2022, against the net outflows last year, due to the payment of liabilities on debt securities previously issued by the government on the international markets. Loans registered net inflows as well, against the net outflows from the last year mainly due to the private sector deleveraging. Direct investments recorded rising net inflows compared to last year, due to improved performances in all components, primarily the debt component which registered net inflows in this quarter, as opposed to the higher accumulation of assets by debt investments in the same period last year, resulting in net outflows in this category. Trade loans also recorded favorable movements in condition of net inflows, against the net outflows from last year, as well as currencies and deposits that recorded lower net outflows compared to the same quarter last year, which is due to more favorable position in depository institutions.



⁴⁸ On 29.9.2022, on the German market, there was an issue of a bond ("Namensschuldverschreibungen" – NSV) in the amount of Euro 250 million with a maturity of 3 years and at an interest rate 6-month Euribor + commission of 3.75%.

At the end of the third quarter of 2022, the gross foreign reserves were valued at Euro 3753.8 million, which is a quarterly increase of Euro 637.6 million. Analyzing growth factors, the sharp increase of foreign reserves mainly stems from the National Bank interventions on the foreign exchange market, registering a significant net purchase during these three months, as well as from foreign reserves management operations and transactions on behalf of the government⁴⁹.



At the end of the fourth quarter of 2022, gross foreign reserves totaled Euro 3,862.9 million. Observed by growth factors, the increase in foreign reserves in this quarter was due to transactions on behalf of the government⁵⁰, as well as to foreign reserves management operations and National Bank interventions on the foreign exchange market.

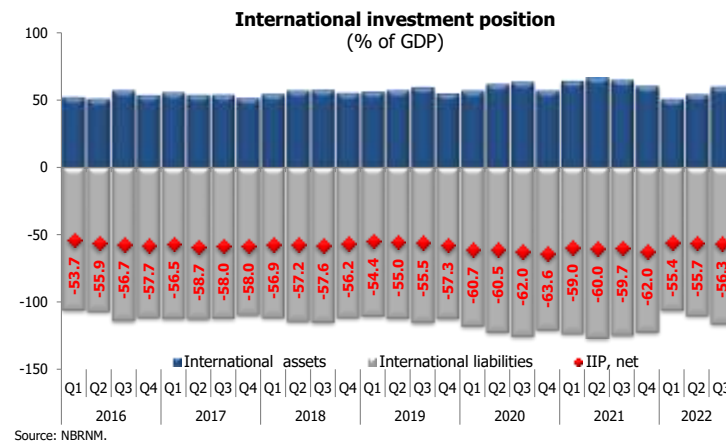
2.6.3. International investment position and gross external debt

At the end of the third quarter of 2022, the net debt position of the Macedonian economy amounted to Euro 7,851.1 million, or 56.3% of GDP⁵¹. Compared to the previous quarter, the net debt position widened by 0.6 pp of GDP, amid higher growth of international liabilities relative to the growth of international assets. Analyzing sectors, the quarterly growth is largely due to growth of net liabilities in other sectors (growth of net liabilities in direct investments), as well as to the growth of net government liabilities, primarily as a result of the increase in net liabilities based on debt securities. On the other hand, the growth of net assets of the central bank, namely the growth of assets by foreign reserves, reduced the net debt position of the Macedonian economy in the third quarter of 2022.

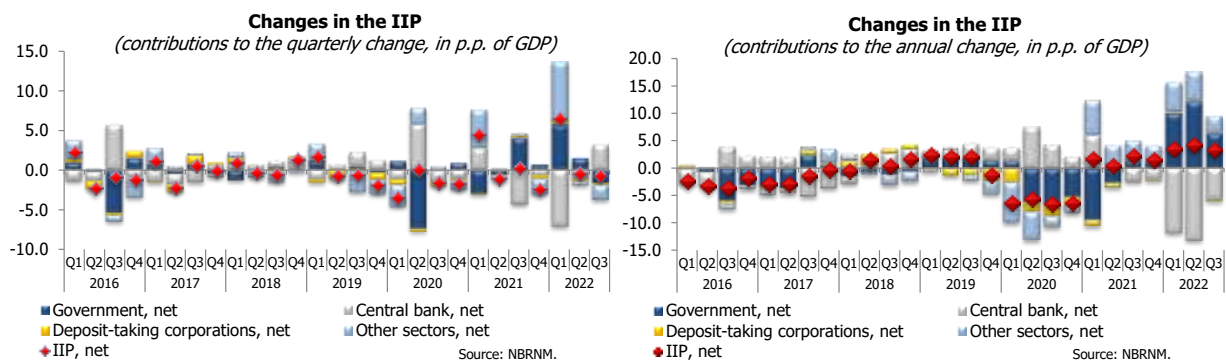
⁴⁹ On 29.9.2022, on the German market, there was an issue of a bond ("Namensschuldverschreibungen" – NSV) in the amount of Euro 250 million with a maturity of 3 years and at an interest rate 6-month Euribor + margin of 3.75%.

⁵⁰ On 23.11.2022 the RN Macedonia received the first tranche of the PLL arrangement with the IMF, in the amount of Euro 110 million.

⁵¹ The analysis uses the National Bank's October forecasts for the nominal GDP for 2022. The greater difference between the realized nominal GDP for 2021 and the forecasted amount of nominal GDP for 2022 is reflected in the relative indicators.



Annually, the negative international investment position narrowed by 3.4 pp of GDP⁵², as a result of the faster decrease in international liabilities relative to the fall in international assets (by 8.3 and 5 pp of GDP, respectively)⁵³. Observed by sector, the annual fall is mainly due to the reduced government net liabilities, amid decline in the net liabilities on issued debt securities and long-term loans, as well as to the reduced net liabilities of other sectors (fall in the net liabilities on direct investments and financial loans). On the other hand, the reduction of the net assets of the central bank, as well as the growth of net liabilities of depository institutions (mainly as a result of the growth of the net liabilities in currency and deposits) widened the net debt position in the third quarter of 2022.

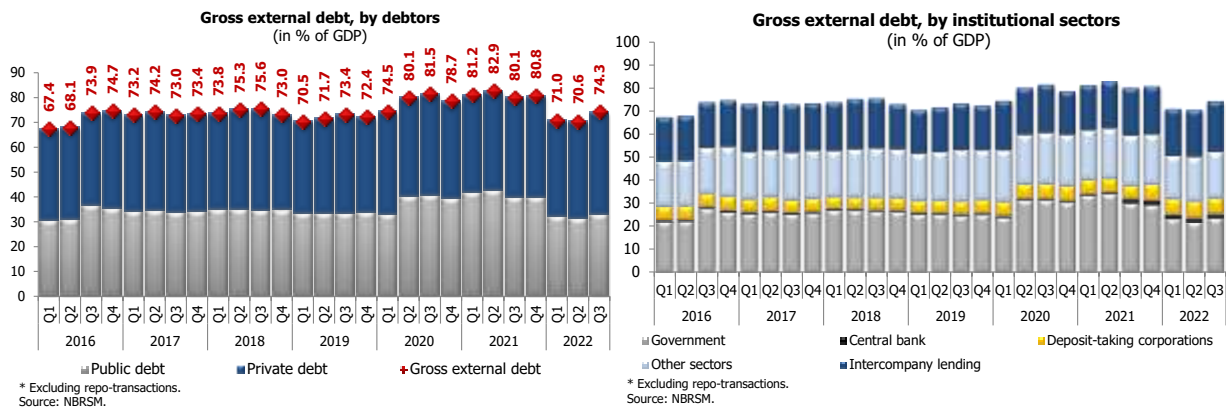


At the end of the third quarter of 2022, the level of the gross external debt was Euro 11,077.3 million, or 79.4% of GDP, which is an increase of 5.2 pp of GDP, compared to the previous quarter. By excluding the effect of the specific foreign reserves management activities of the National Bank⁵⁴, the gross external debt amounts to 74.3% of GDP and registers a quarterly growth of 3.8 pp of GDP, which is due to the growth of both public and private debt, each by 1.9 pp of GDP, respectively. The quarterly growth of public debt is mostly due to the higher external debt of the government, as a result of the increase in long-term liabilities based on issued debt securities. On the other hand, the growth of the private debt is mainly due to the growth of intercompany debt.

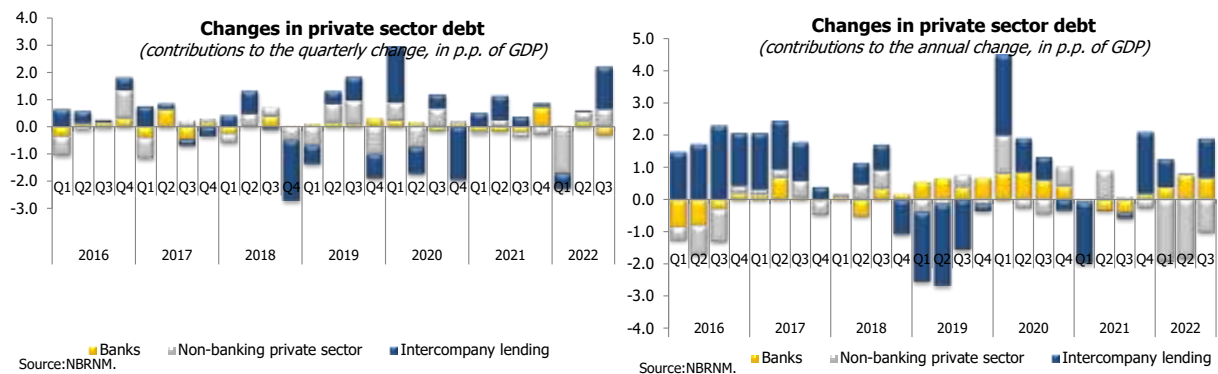
⁵² In absolute amounts, the net debt position of the Macedonian economy in the third quarter of 2022 registered an annual growth of Euro 876.7 million.

⁵³ In absolute amounts, the international assets and liabilities recorded a growth in the third quarter of 2022, by Euro 761.4 and 1,638.1 million, respectively.

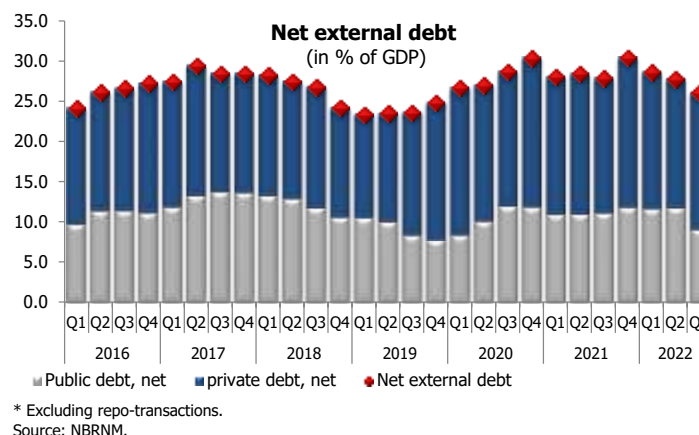
⁵⁴ The specific foreign reserves management activities of the central bank include repo agreements and other foreign reserves management operations.



The annual change in the gross external debt indicates a decrease of 5.8 pp of GDP⁵⁵, amid decline in public debt of 6.6 pp of GDP, growth of private debt of 0.9 pp of GDP. The change in public debt is mostly due to the lower government debt (based on issued debt securities and long-term loans). On the other hand, higher private debt is due to the growth of intercompany debt and debt of private banks (increase in currencies and deposits), amid fall in the debt of non-banking private sector.



As of 30.9.2022, net external debt equaled Euro 3,635.8 million, or 26.1% of GDP, which is a quarterly fall of 1.7 pp of GDP, amid decline in the public net debt by 2.7 pp of GDP and growth of the private net debt by 1 pp of GDP.



External debt ratios 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. However, the structure of the gross external

⁵⁵ In absolute amounts, the gross external debt in the third quarter of 2022 registered an annual growth of Euro 1.001.6 million by excluding the effect of the specific foreign reserves management activities of the National Bank.



debt is dominated by trade credits, as a form of financing of foreign trade. Moreover, the share of intercompany debt is also high, as a form of financing of the operation of the companies with foreign capital. These two components mitigate the risk profile of the debt position of the economy. The level of the gross external debt excluding trade credits and intercompany debt equals 44.6% of GDP⁵⁶, which is an indicator of moderate indebtedness.

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 %
31.12.2018	2.22	131.37	77.42	15.77	1.42	1.04	25.75
31.03.2019	2.05	119.55	74.37	8.89	1.40	0.98	25.81
30.06.2019	2.05	121.51	75.59	8.89	1.37	0.97	26.39
30.09.2019	2.05	124.39	77.38	8.89	1.37	0.97	27.62
31.12.2019	2.05	123.15	76.61	8.89	1.56	1.02	25.52
31.03.2020	2.45	121.76	73.94	16.79	1.39	0.95	26.63
30.06.2020	2.45	121.76	73.94	16.79	1.39	0.95	26.63
30.09.2020	1.91	129.93	80.75	13.61	1.72	0.98	22.93
31.12.2020	1.91	122.30	77.94	13.61	1.93	1.11	20.38
31.03.2021	2.20	127.59	84.26	16.30	1.93	1.18	21.49
30.06.2021	2.20	130.23	86.00	16.30	1.89	1.18	22.03
30.09.2021	2.20	125.86	83.12	16.30	1.77	1.30	22.21
31.12.2021	2.20	126.87	83.78	16.30	1.79	1.29	21.50
31.03.2022	2.05	120.27	81.38	10.45	1.27	0.95	25.98
30.06.2022	2.05	119.60	80.92	10.45	1.21	0.89	26.26
30.09.2022	2.05	125.98	85.24	10.45	1.35	0.90	26.82
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.

*According 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 policy⁵⁷

As of the end of the last year, the National Bank started with the process of gradual normalization of the monetary policy in order to maintain the medium-term price stability. This was done through adequate liquidity management, as well as with a gradual increase of the policy rate which started in April 2022. During the fourth quarter of 2022, the National Bank continued to increase the interest rates, whereby the interest rate on CB bills increased by 1.75 pp to the level of 4.75%. When making the decisions, special attention was paid to the upward movements in inflation, which is still mainly driven by the food and energy components. However, the spillover effects on other prices become more pronounced, with raised inflation expectations as well, which imposes a need for an adequate monetary response.

⁵⁶Refers to debt without repo agreements.

⁵⁷ For more information on the new monetary measures, see the National Bank website: https://www.nbrm.mk/content/MPI%20publikacij/Hronologija_na_promenite_vo_postavenosta_na_monetarnite_instrumenti_na_Narodnata%20banka.pdf

Also, given the monetary strategy of a stable exchange rate of the denar against the euro, the changes in the domestic monetary policy are in line with the changes in the monetary policy of the European Central Bank. Such monetary setup was also supported by additional measures, i.e. by changes in the reserve requirement aimed at reducing euroization, but also encouraging lending to projects for renewable energy sources. These measures also reduce the pressures on the foreign exchange market, which is especially important in conditions of a stable exchange rate regime. During this period, systemic measures were adopted, i.e. a countercyclical capital buffer of 0.5% was introduced for the period August-December 2022 and of 0.75% for the first quarter of 2023 for the exposure of the Republic of North Macedonia, as well as provisions for exposures to other countries. Moreover, macro-prudential instruments were adopted for borrower-based ratios, which further strengthen the protective mechanisms in the banking system⁵⁸.

During the fourth quarter of 2022, the policy rate - the interest rate on the CB bills, was increased in three occasions by totally 1.75 pp, and reached 4.75%. Changes in the monetary policy setup remain a response to inflation and inflation expectations. The changes in the policy rate were also supplemented with the growth of interest rates on overnight and seven-day deposit facilities, by totally 1.75 pp, respectively, to a level of 2.65% and 2.70%, respectively, as of December 2022. **The offered** amount of CB bills remained unchanged at Denar 10,000 million, with the changes in the reserve requirement, which encourage lending to projects related to domestic production of electricity from renewable sources.

During the fourth quarter, the National Bank adopted a decision on changing the reserve requirement rates of the banks, in order to further stimulate savings in domestic currency. The change in this instrument includes an increase in the reserve requirement rate of banks for liabilities in foreign currency from 18% to 19%. The part of the reserve requirement in foreign currency that banks meet in euros has also been increased, from 75% to 77%, which strengthens the effect of the change in this instrument. It is expected that the measure will strengthen the changes in the interest rate policy of the banks and that banks will offer more favorable interest rates on all categories of denar deposits, contributing to stronger growth of savings in domestic currency. At the same time, this change would contribute to optimum liquidity management.

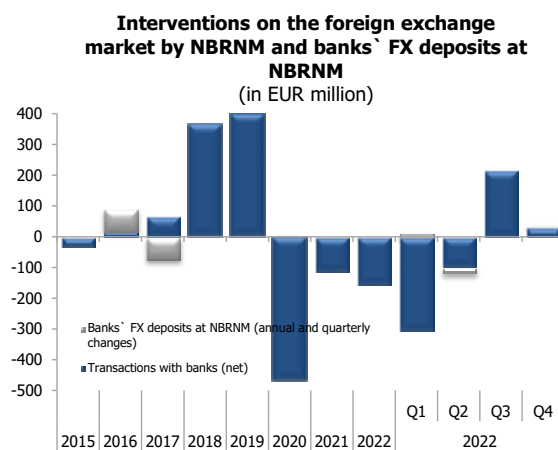
The estimates of the performances in the basic macroeconomic indicators in the domestic economy⁵⁹ showed that they are mostly within the latest October forecast, with small deviations. In the third quarter of the year, the adverse effects of the energy crisis and the growth of the costs on certain sectors of the economy have come to the fore, which resulted in a slower economic growth (2%). Performances in the third quarter of 2022, as well as those for the first three quarters of the year (growth of 2.7%), are slightly better than forecasted. Available high frequency data for the domestic economic activity in the fourth quarter are limited, but in favor of the expectations that the growth will slow down by the end of the year. Thus, October data show a small real annual decline in total trade turnover, despite the small growth in the previous quarter, and further adverse movements in industrial output. The annual inflation rate in November slowed down to 19.5%, whereby the average annual inflation in the period January - November 2022 amounts to 13.8%. About 76% of this growth is still a direct effect of the growth of the prices of food products and energy. However, the risks from stronger transmission

⁵⁸For more detailed information on the new monetary measures i.e. changes in the interest rates on CB bills and interest rates on overnight and seven days deposit facilities, changes in the reserve requirement and the introduction of macro-prudential instruments for borrower-based ratios and rate of the countercyclical capital buffer of the banks for the exposures in the Republic of North Macedonia, and exposures to other countries, visit the web site of the National Bank: <https://www.nbrm.mk/ns-newsarticle-soopstenie-01082022.nspix>; <https://www.nbrm.mk/ns-newsarticle-soopstenie-12102022-1.nspix>; <https://www.nbrm.mk/ns-newsarticle-soopstenie-16112022.nspix>; <https://www.nbrm.mk/ns-newsarticle-odluka-za-makroprudentnite-instrumenti-za-kvalitetot-na-kreditnata-pobaruvalacka-od-fizickite-lica.nspix>; <https://www.nbrm.mk/ns-newsarticle-visina-na-stapkata-na-protivciklicniot-zastiten-sloj-na-kapitalot.nspix>;

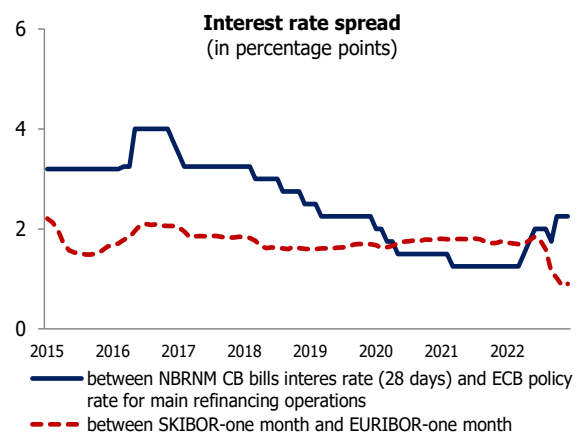
⁵⁹It refers to the available information during the fourth quarter of 2022 that was taken into account when making the decisions on the monetary stance in that period.



effects on core inflation of the energy and food prices, which still exist, as well as the raising of inflation expectations, imposed a need for a further monetary response. Given the connection of our currency to the euro, the decision-making is also influenced by the changes in the monetary policy of the European Central Bank, which is expected to continue to increase interest rates in the period ahead. Uncertainty arising from the future dynamics of the prices of primary products in markets, and especially of energy, is pronounced due to the military developments in Ukraine and the sanctions against Russia, due to which the conduct of prudent domestic policies and the careful management of domestic demand are extremely important. Foreign reserves remain in the safe zone, and their level meets the adequacy requirements according to the international standards. The domestic foreign exchange market is stable, amid further favorable developments on the currency exchange market and the solid foreign exchange position of banks. In October-November, the National Bank hardly intervened on the foreign exchange market, and foreign reserves registered further growth, which exceeded the forecasts for the fourth quarter of the year. In terms of the movements in total deposits and total loans, the data as of November indicate that the lending activity continues to grow, but at a more moderate pace, while the growth in deposits accelerates, relative to the expectations from the October forecast.



Source: NBRNM.

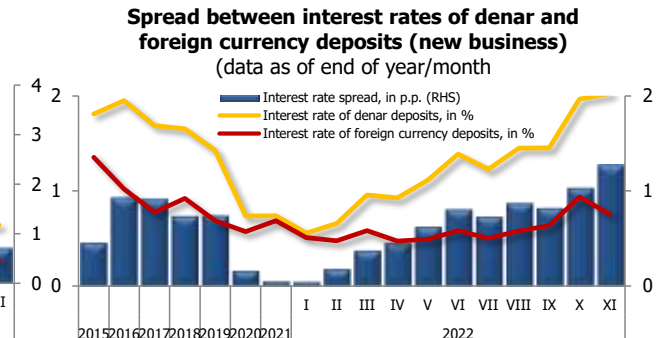
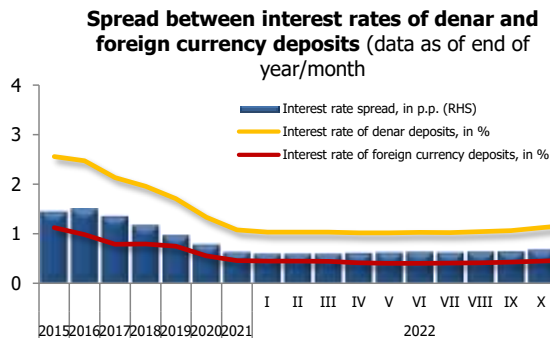


Source: NBRNM and ECB.

In the fourth quarter of 2022, the ECB increased its policy rate by 1.25 percentage points and it reached a level of 2.5%. Thus, the spread between the policy rates of the National Bank and the ECB at the end of December 2022 amounted to 2.25 percentage points and increased by 0.5 percentage points compared to the previous quarter. Regarding the indicative market interest rates on 1m EURIBOR and 1m SKIBOR, the spread between them decreased by 0.2 percentage points at the end of the fourth quarter of 2022, compared to the previous quarter.

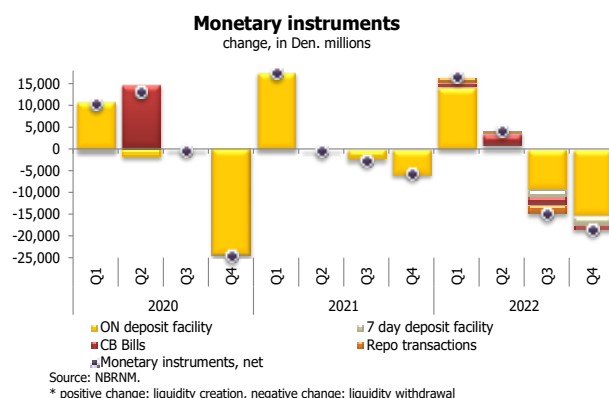
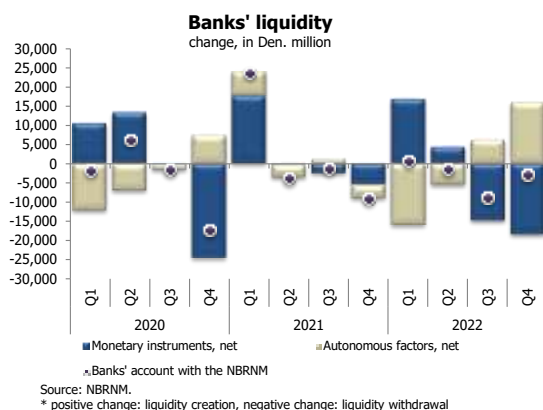
In the domestic economy, the spread of interest rates on total deposits (in denars and in foreign currency) in November slightly increased compared to the previous quarter and amounted to 0.7 percentage points, amid stronger growth of interest rates on denar relative to foreign currency deposits. In total newly accepted⁶⁰ deposits, the interest rate spread in November increased and amounted to 1.3 percentage points, driven by the pronounced growth of denar than the growth of foreign exchange interest rates, compared to the previous quarter.

⁶⁰ 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.



2.1. Banks' liquidity

In the fourth quarter of 2022, the banks' denar liquidity declined, which mostly results from the change in the monetary instruments, while the change in the autonomous factors acted towards creating liquidity.



In terms of the change in the monetary instruments, the banks' deposit facilities with the National Bank in the fourth quarter contributed to withdrawing liquidity (by Denar 17,243 million), amid increased placements in overnight deposit facilities (by Denar 15,106 million) and 7-day deposit facilities (by Denar 2,137 million). At the end of the fourth quarter, the stock of the main instrument - the CB bills of the NBRNM was Denar 9,473 million⁶¹ and registered an increase (of Denar 1,151 million) compared to the end of the previous quarter.

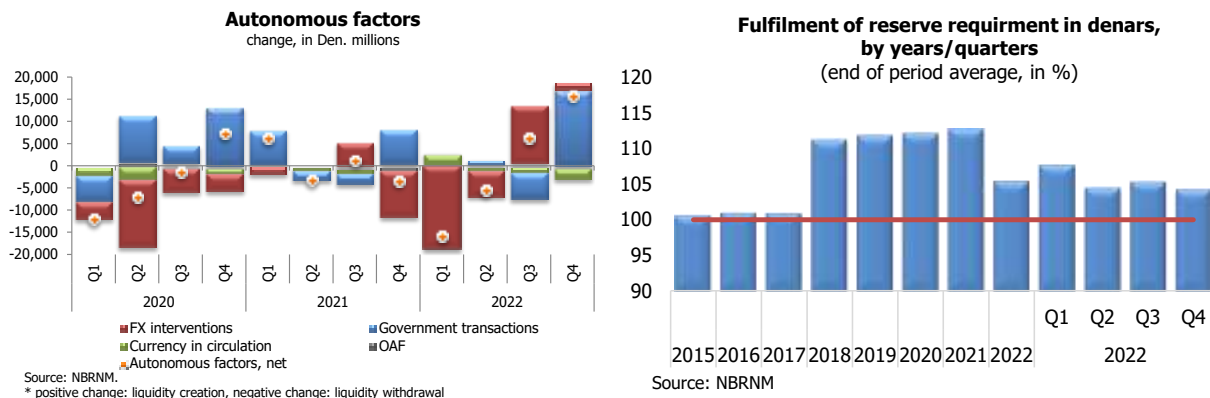
Banks' interest in placing their foreign assets in a foreign currency deposit with the National Bank increased by about Euro 8 million during the fourth quarter of 2022. Namely, this instrument for managing the banks' foreign currency liquidity was reactivated in the second half of 2020, given the increased uncertainty on the international markets, which 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.

The autonomous factors, net, in the fourth quarter of 2022 created liquidity in the banking system of Denar 15,893 million. Such change is mostly a result of government transactions and to a

⁶¹ At the CB bills auction of the National Bank held on 14 December 2022, Denar 10,000 million of CB bills were offered, whereby Denar 9,473 million were sold, at an interest rate of 4.75% and with a maturity of 35 days.



lesser extent of foreign currency interventions of the National Bank, while currency in circulation acted towards reducing liquidity.



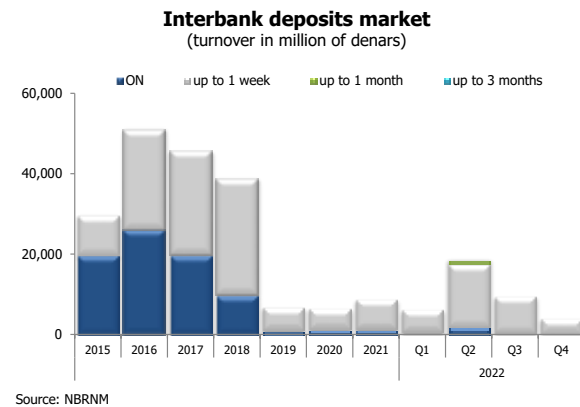
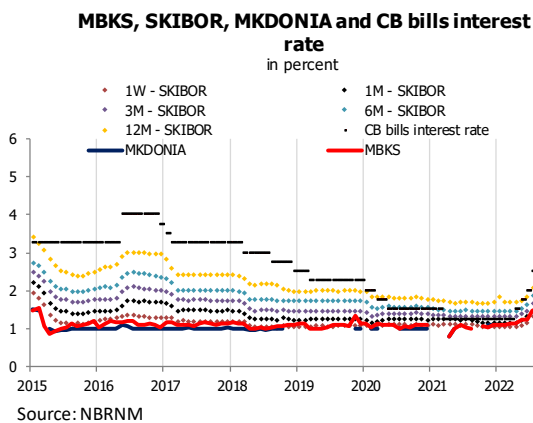
In the fourth quarter of 2022, the banks continued to have more allocated funds on the accounts with the National Bank than the determined amount of the reserve requirement in denars, on average by about 4.3%.

III. Financial market developments

In the fourth quarter of 2022, the interest rate on interbank deposit market registered a quarterly growth of 0.6 percentage points and averaged 2.1%, given the increased policy rate of the National Bank. Additionally, all average SKIBOR quotations went up. In the primary government securities market, the new issues were mainly with longer maturities, while the secondary securities market reported trade only in government securities in a small amount. On the Macedonian stock market, the stock exchange turnover and the value of the MBI-10 registered a quarterly increase of 27.0%, and 1.2%, respectively, similar to the movements on the regional stock markets, where the indices went up rapidly, averaging 9.2% on a quarterly basis. In the international financial markets, volatility indices on the bond and stock markets, i.e. MOVE and VIX indices still indicate uncertainty on the global capital markets. The spreads between the yields of Macedonian and German Eurobonds narrowed compared to the previous quarter, amid a stronger increase in the yields of German government bonds and a more moderate increase in the yields of Macedonian Eurobonds.

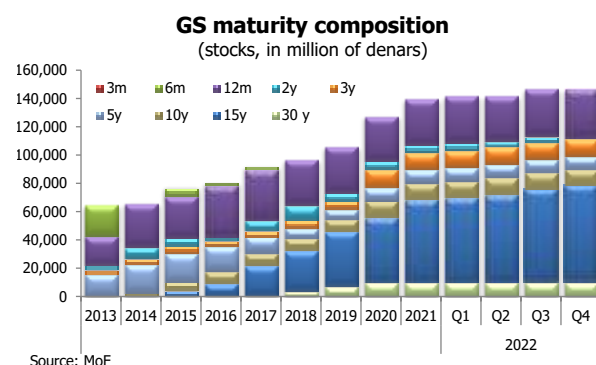
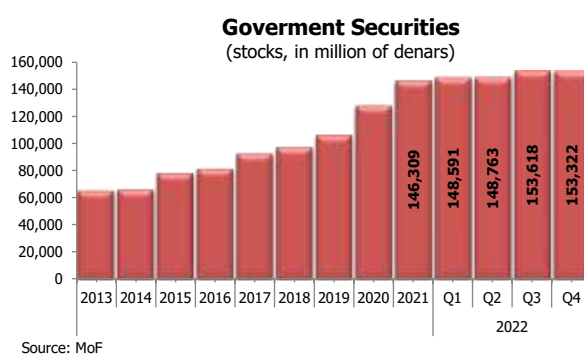
3.1. Unsecured interbank deposit market

In the fourth quarter of 2022, compared to the previous quarter, the average interest rate on the interbank deposit market (MBKS) increased by 0.6 percentage points and equaled 2.1%, given the 1.75 percentage points increase in the National Bank policy rate (to 4.75%). The trading on the interbank deposit market decreased to Denar 4,158 million in the fourth quarter (Denar 9,697 million in the previous quarter), mainly reflecting the reduced transactions with maturity up to seven days and less the decrease in overnight transactions and transactions up to one month. On a quarterly basis, all average SKIBOR quotations increased up to 0.8 percentage points.

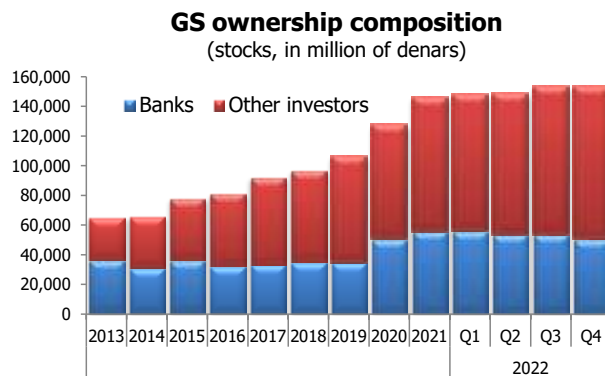


3.2. Government securities market

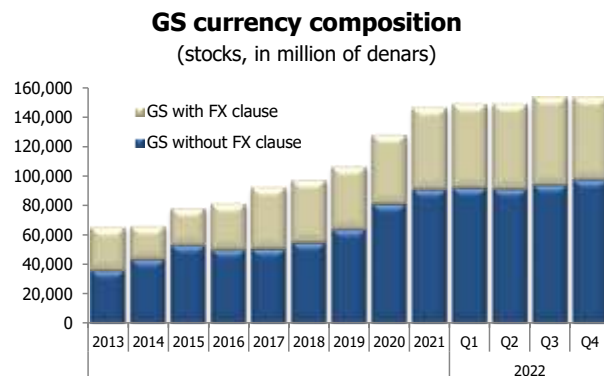
The stock of government securities issued on the primary market in the fourth quarter of 2022 decreased by Denar 296 million or 0.2% on a quarterly basis and amounted to Denar 153,322 million. Analyzing the structure of government securities, government bonds remain dominant category in the stock of total government securities issued on the primary market, with a share of 77.1%. Thus, the fifteen-year government bonds still make up most of the maturity structure of government securities (44.7%), which is in line with the guidelines from the Fiscal Strategy of the Ministry of Finance for issuing government bonds with longer maturities, in order to optimize debt payment and reduce refinancing risk.⁶² The fourth quarter registered a quarterly growth in the share of fifteen-year government bonds and twelve-month treasury bills of 1.6 and 0.8 percentage points respectively. At the same time, the share of two-year government bonds and three-month treasury bills decreased by 2.4 and 0.1 percentage points, respectively. Analyzing the currency structure, denar government securities without currency clause maintained their dominant share, making up 63.4% of total government securities (61.1% in the previous quarter). Observing the ownership structure, banks reduced their share in this quarter from 34.9% to 32.9%, at the expense of the increased share of other investors (67.1%). Within other investors, the pension funds remain dominant (with a share of 47.0%).



⁶² Revised Fiscal Strategy for 2023-2025 (with prospects until 2027), Ministry of Finance, December 2022.

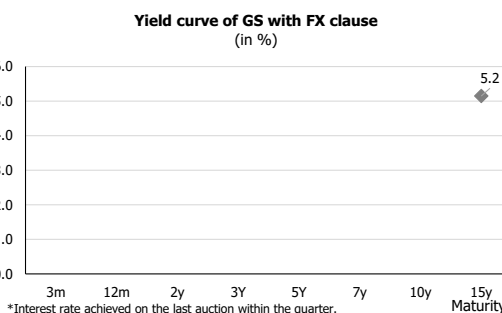
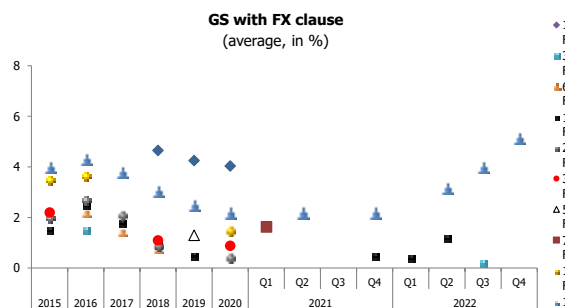
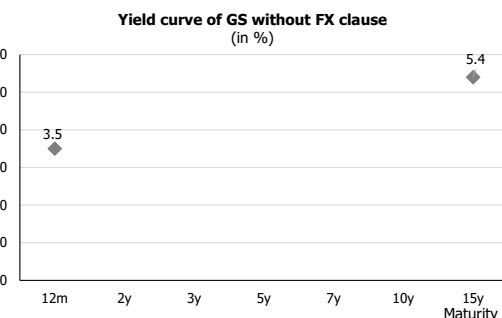
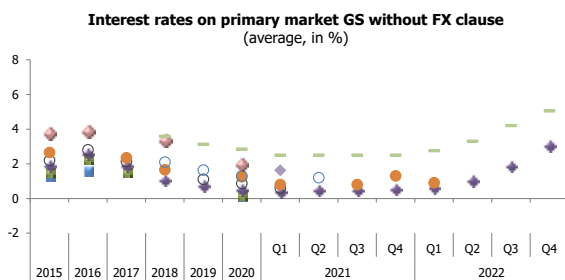


Source: MoF



Source: MoF

In the last quarter of 2022, interest rates on government securities, set by the Ministry of Finance, increased. Thus, twelve-month treasury bills without a currency clause were issued on the primary market at an average weighted interest rate of 3.1% (1.9% in the previous quarter). Moreover, during the quarter, fifteen-year government bonds were issued with and without currency clause with average weighted interest rates of 5.0% and 5.2%, respectively (4.2% and 4.0% in the previous quarter, respectively).

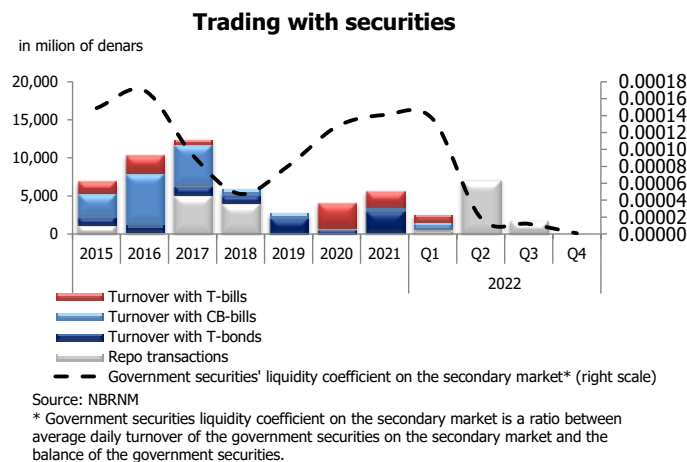


Source: MoF

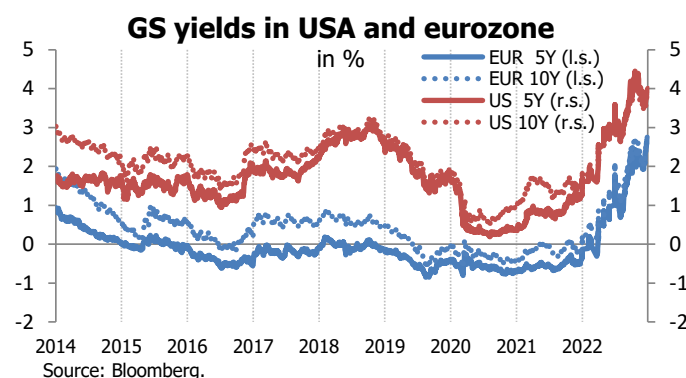
*Interest rate achieved on the last auction within the quarter.

In the fourth quarter of 2022, trading in securities was reduced and amounted to Denar 8 million (Denar 1,936 million in the previous quarter) on the secondary market, whereby only transactions with government bonds were concluded in this market segment. Observing the maturity of transactions with government bonds, the transactions concluded had a residual maturity from 5 to 10 years (with an average yield to maturity of 4.3%). Such changes point to decreased trading on the secondary securities market, also seen through the liquidity ratio⁶³.

⁶³The liquidity ratio on the secondary market is the correlation between the average daily turnover and the stock of government securities.



At the financial markets in the euro area in the fourth quarter of 2022, the yields on 10-year government securities⁶⁴ averaged around 2.4% (1.6% in the previous quarter), while the yields on US 10-year government bonds⁶⁵ equaled 3.8% (3.1% in the previous quarter), amid increased FED and ECB policy rates in response to the exacerbated inflation pressures and pronounced geopolitical risks.

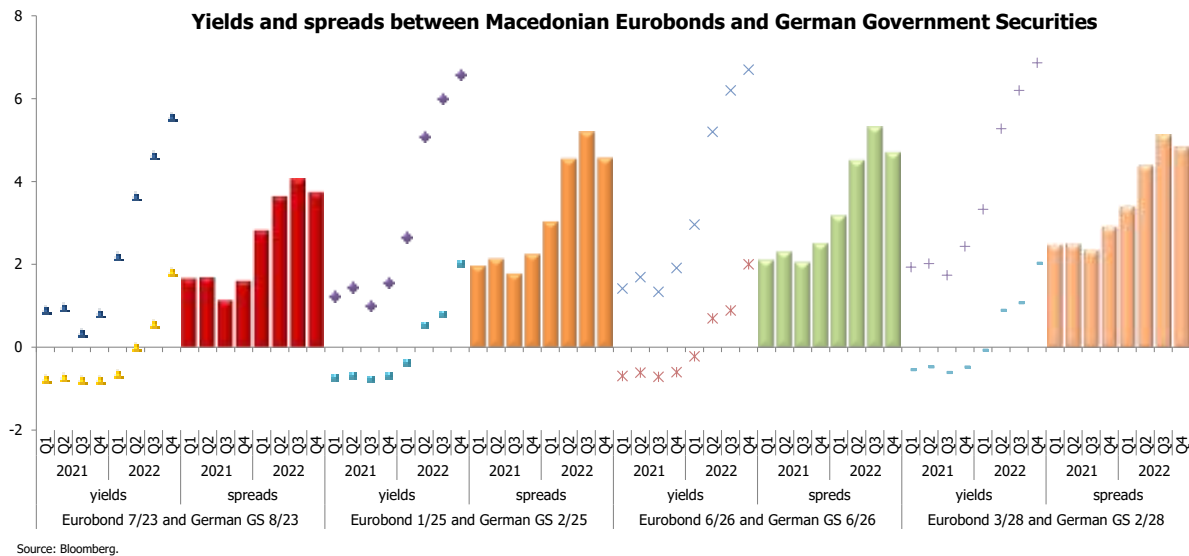


The yields on Macedonian Eurobonds⁶⁶ in the fourth quarter of 2022 registered an average increase, amid a simultaneous fast upward shift of the yields on German government bonds. This narrowed the spreads between these two bonds, which averaged 3.7 percentage points, 4.6 percentage points, 4.7 percentage points and 4.8 percentage points, respectively.

⁶⁴ Those are generic government bonds derived from the yield curves of government bonds of Germany and France.

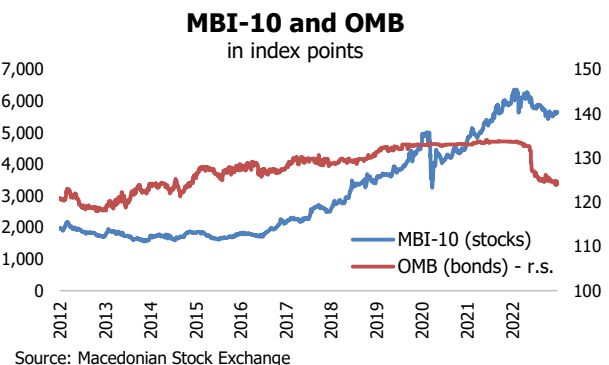
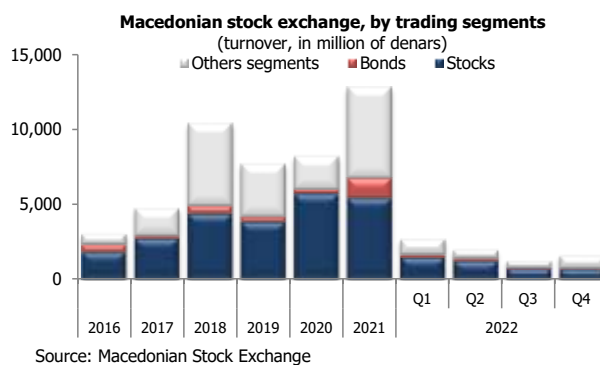
⁶⁵ Those are generic yields derived from the yield curve of government bonds of the United States.

⁶⁶ These include the Macedonian Eurobonds issued in July 2016, in January 2018, in June 2020 and March 2021. Eurobonds are issued in the nominal amount of Euro 450 million, Euro 500 million, Euro 700 million, and Euro 700 million, respectively, with a maturity of 7, 7, 6 and 7 years, respectively, and annual interest rates of 5.625%, 2.75%, 3.675% and 1.625%, respectively.



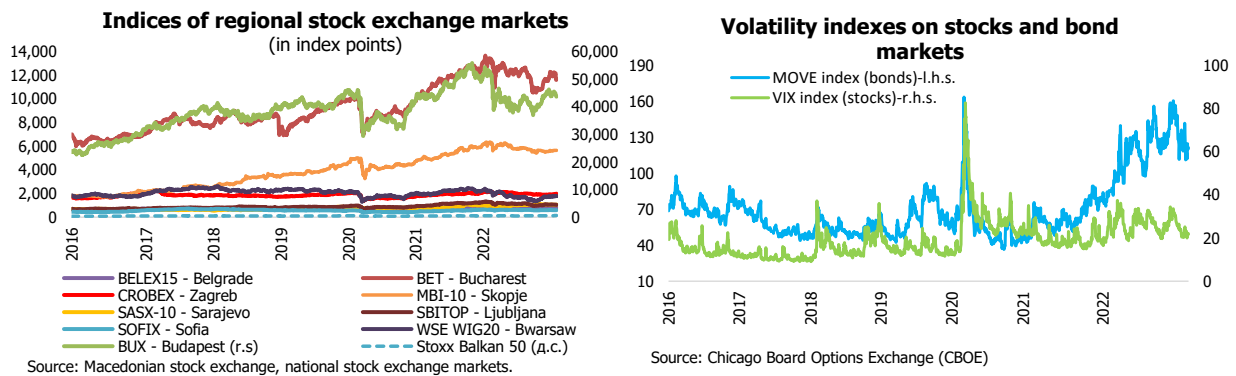
3.3. Stock markets

In the fourth quarter of 2022, the value of Macedonian stock exchange index MBI-10 increased by 1.2% (fall of 3.5% in the previous quarter) and reached 5,652 index points. Moreover, the total stock exchange turnover registered a quarterly growth of 27% (fall of 37.3% in the last quarter), entirely due to the increased turnover in block transactions, amid reduced trade in shares and bonds. The value of the bond index (OMB) during the quarter reduced by 1 index point, to 125 index points.



In the fourth quarter of 2022, stock exchange indices of the region registered an average increase of 9.2% (fall of 5.9% in the previous quarter). The upward shift was recorded in almost all stock exchange indices of the region, except for the Serbian index that slightly moved down. Furthermore, volatility indices of the bond and stock markets, i.e. MOVE and VIX⁶⁷ indices recorded a daily growth, i.e. the MOVE index moderately increased by 2.1% on average (an increase of 10.1% in the previous quarter), while VIX increased by 1.5% on average (down from 9.2% in the previous quarter). The movements of the two indices, observed jointly, indicate the still present uncertainty in the global capital markets.

⁶⁷ The MOVE Index (Merrill Lynch Option Volatility Estimate) shows the implicit 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 indices indicates a decrease in volatility.

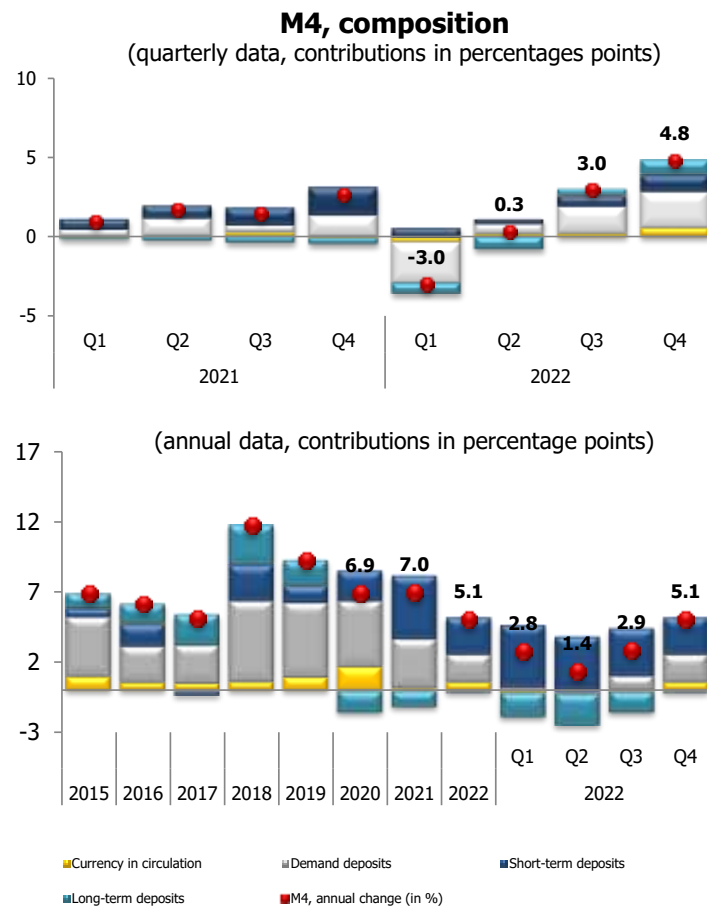


IV. Monetary and credit aggregates

In the fourth quarter of the year, the broad money M4 registered fast quarterly growth. Thus, the money supply level gradually normalized, after the unfavorable movements in the first half of the year due to the energy crisis and the uncertainty with the commencement of the military aggression on Ukraine. Analyzing the structure, the increase results from the growth of all money supply components, demand deposits in particular (more pronounced in the household sector). Observed by currency, growth was recorded also in denar and foreign currency deposits, and the share of foreign currency deposits in M4 at the end of the last quarter of the year registered a slight decline. The higher level of deposits was additionally supported by the enhanced credit support of the banks during this period. Thus, the lending activity in the fourth quarter grew, given the significantly increased lending to the corporate sector, which is common for this time of year. The results of the Bank Lending Survey for the fourth quarter indicate net tightening of credit standards for enterprises and households, amid net increase in credit demand by enterprises and net decrease by households.

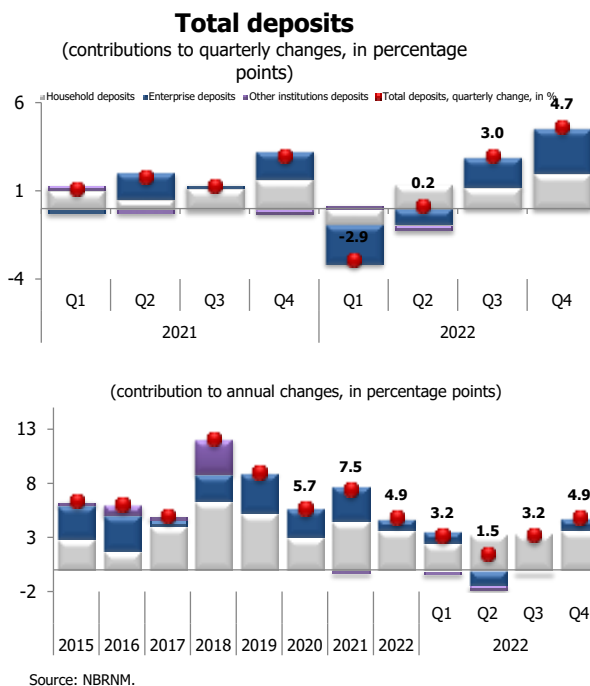
4.1. Monetary aggregates

During the last quarter of 2022, broad money M4 registered a quarterly growth of 4.8%. Thus, the level of this monetary aggregate has gradually normalized, after the fall in the first half of the year, caused by the energy crisis and the high uncertainty at the onset of the war in Ukraine. The accelerated growth of money supply is a usual seasonal movement in the last quarter of the year when salaries, New Year bonuses and pensions are paid to households, partially coupled with the government payments to deal with the energy crisis and support farmers with subsidies. Analyzing the structure, the increase primarily stems from the most liquid component of money supply, i.e. demand deposits (positive contribution of 2.3 percentage points), given the growth in short-term deposits, long-term deposits and cash in circulation (with a positive contribution of 1.1 percentage points, 0.9 percentage points and 0.5 percentage points, respectively). Observing the currency structure, denar deposits (without demand deposits) and foreign currency deposits made a positive contribution of 0.7 percentage points and 1.3 percentage points, respectively, to the quarterly growth of broad money M4. Accordingly, the share of foreign currency deposits in M4 at the end of the fourth quarter dropped to 40.0% (40.6% at the end of the previous quarter). Annually, the growth of M4 also accelerated and equaled 5.1% at the end of the fourth quarter of 2022 (2.9% at the end of the previous quarter).



Total financial system deposits⁶⁸ in the fourth quarter of 2022 increased by 4.7% on a quarterly basis (a quarterly growth of 3.0% in the previous quarter). The sector-by-sector analysis shows that the deposit growth was driven by corporate and household deposits, amid slower growth of other sector deposits. Analyzed by currency, denar deposits (including demand deposits) registered a faster increase, amid smaller positive contribution of foreign currency deposits, as a result of the measures undertaken by the National Bank with respect to the differentiation of the reserve requirement rates. According to the maturity structure, growth was registered in both maturity structures. On an annual basis, the growth of total deposits at the end of the fourth quarter accelerated and reached 4.9% (3.2% at the end of the previous quarter).

⁶⁸ Data refer to non-government deposits in banks and savings houses, funds of other financial institutions on the accounts with the National Bank and funds of local government authorities on the accounts with the National Bank. The data are consistent with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nsp.



Total deposits

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %								
Total deposits	1.1	1.8	1.3	3.0	-2.9	0.2	3.0	4.7
contributions to quarterly growth, p.p.								
Deposit money	0.5	1.2	0.5	1.5	-2.8	0.7	1.9	2.5
Denar deposits	-0.2	-0.7	-0.6	-1.2	-1.0	-0.9	0.3	0.7
FX deposits	0.8	1.3	1.4	2.8	0.9	0.3	0.9	1.5
Short-term deposits	0.7	0.9	1.2	1.9	0.6	0.3	0.7	1.2
Long-term deposits	-0.1	-0.3	-0.4	-0.4	-0.7	-0.9	0.4	1.0
Households	1.1	0.5	1.2	1.7	-0.9	1.4	1.2	2.0
Enterprises	-0.3	1.5	0.2	1.6	-2.2	-0.9	1.7	2.5
Other institutions deposits	0.3	-0.2	-0.1	-0.3	0.2	-0.3	0.1	0.1

Source: NBRNM.

Household deposits continued to grow in the fourth quarter of the year, at a quarterly rate of 3.1% (growth of 1.9% in the previous quarter). Observing by currency, the increase entirely results from the growth of denar deposits (including demand deposits), amid reduction of foreign currency deposits. Analyzing the maturity structure, long-term deposits increased, while short-term deposits decreased. Annually, total household deposits equaled 5.8% at the end of 2022 (5.3% at the end and of the previous quarter).

Corporate deposits registered a fast quarterly growth of 9.3% in the fourth quarter of the year (6.3% in the previous quarter). Analyzing the currency structure, the growth is almost entirely a result of the increase in foreign currency deposits, amid a more moderate increase in denar deposits (including demand deposits). From a maturity perspective, the increase is more pronounced in short-term deposits, compared to the growth of long-term deposits. Annually, at the end of 2022, corporate deposits increased by 3.7% (0.4% at the end of the previous quarter).

Household deposits

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %								
Total household deposits	1.7	0.8	1.8	2.6	-1.4	2.1	1.9	3.1
contribution to quarterly change of total deposits, in p.p.								
Deposit money	0.6	0.5	0.9	0.5	-1.8	1.1	0.7	2.5
Denar deposits	0.1	-0.6	-0.4	-1.3	-1.4	-0.8	0.0	0.7
FX deposits	1.0	0.9	1.3	3.3	1.8	1.8	1.2	-0.1
Short-term deposits	1.1	1.0	1.3	2.3	0.9	1.3	0.7	-0.6
Long-term deposits	-0.1	-0.7	-0.4	-0.2	-0.4	-0.3	0.5	1.2

Source: NBRNM.

Enterprise deposits

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %								
Total enterprise deposits	-0.9	5.6	0.8	5.8	-7.8	-3.2	6.3	9.3
contribution to quarterly change of total deposits, in p.p.								
Deposit money	-0.3	3.1	-0.4	5.1	-6.0	-0.4	4.7	3.2
Denar deposits	-0.3	-0.4	-0.8	-1.4	-0.4	-0.2	1.1	0.5
FX deposits	-0.3	2.9	2.1	2.1	-1.4	-2.6	0.4	5.7
Short-term deposits	-0.7	1.3	1.6	1.7	-0.6	-0.8	0.9	5.4
Long-term deposits	0.1	1.2	-0.4	-0.9	-1.1	-2.0	0.7	0.7

Source: NBRNM.

The analysis of the returns⁶⁹ on new savings shows that in November, interest rates on the newly accepted⁷⁰ denar and foreign currency deposits of households equaled 2.0% and 0.9%, respectively

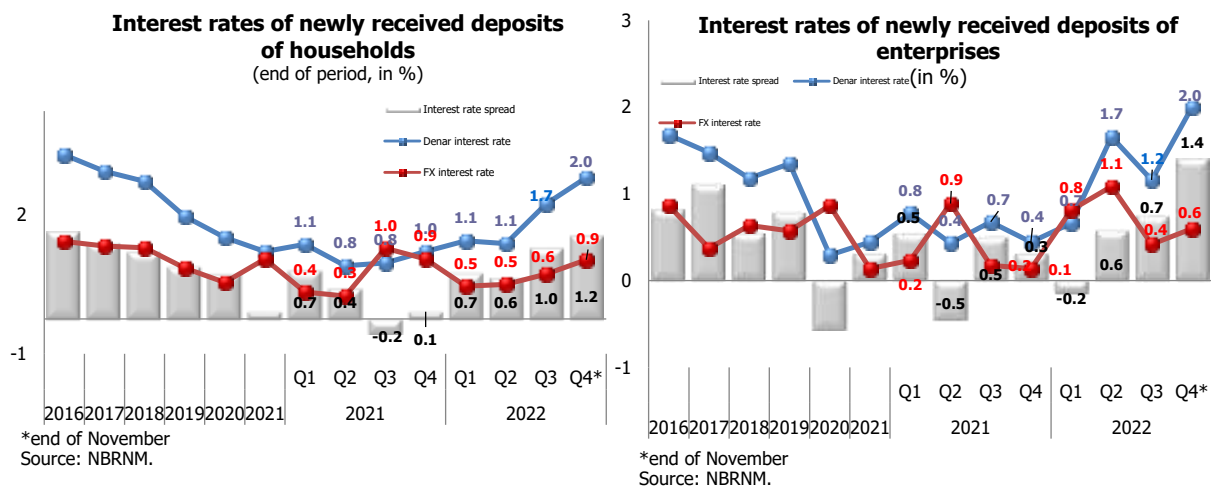
⁶⁹ Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit:

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

⁷⁰ Note that the interest rates on newly accepted deposits typically vary. Volatility of interest rate on newly accepted deposits results from the fact that they result from the volume of newly accepted deposits (which varies from month to month) and their interest rate.



(1.7% and 0.6%, respectively in September). In such circumstances, the interest rate spread between the new denar and foreign currency savings of households in November widened to 1.2 percentage points. Interest rates on newly accepted denar and foreign currency corporate deposits in November equaled 2.0% and 0.6%, respectively (1.2% and 0.4%, respectively in September). With such shifts, the interest rate spread between newly accepted denar and foreign currency corporate deposits at the end of November widened to 1.4 percentage points. Widening of spreads between the new denar and foreign currency savings is in line with the National Bank measures within the reserve instrument, which enable banks to offer favorable interest rates on denar deposits to their clients. Analyzing the total accepted deposits (denar and foreign currency), the interest rates on corporate and household deposits in November amounted to 1.3% and 0.7%, respectively.



4.2. Lending activity

In the fourth quarter of the year, the banks' lending activity accelerated and registered a quarterly growth rate of 2.6%, which is a common seasonal occurrence at the end of the year. Analyzing credit standards, the Bank Lending Survey shows net tightening of credit standards for both corporate and household sectors in the fourth quarter. However, most banks still indicate unchanged credit standards for both sectors. At the same time, there was a further increase in credit demand by enterprises, but at a slower pace compared to the previous quarter. However, the Bank Lending Survey shows a more pronounced net decrease in demand by households. For the first quarter of 2023, banks expect further net tightening of credit standards for both sectors, with an expected net increase in the credit demand by the corporate sector and a slight net decrease in the credit demand by households.

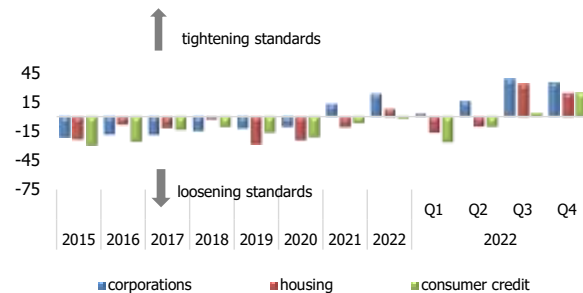


Total credits of private sector

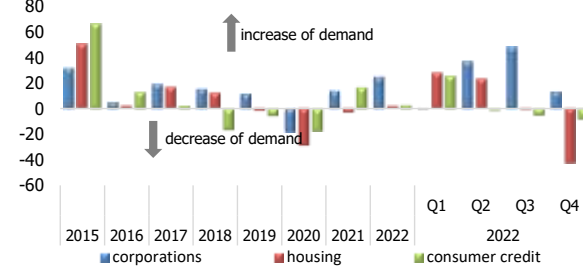
	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %								
Total credits of private sector	1.2	2.6	1.1	3.1	2.6	2.7	1.1	2.6
Contribution in quarterly change of total credits (in p.p.)								
Denar credits	0.7	1.8	0.7	2.4	1.3	1.1	-0.2	1.2
Foreign currency credits	0.5	0.8	0.4	0.7	1.3	1.6	1.4	1.4
Short-term credits	0.5	0.6	-0.4	0.8	1.4	0.5	-0.1	0.5
Long-term credits	0.5	1.9	1.5	2.6	1.3	2.0	1.2	2.5
Households	0.8	1.4	0.9	0.8	0.8	1.3	0.8	0.7
Corporations	0.4	1.1	0.3	2.3	1.8	1.3	0.3	1.9

Source: NBRNM.

credit conditions



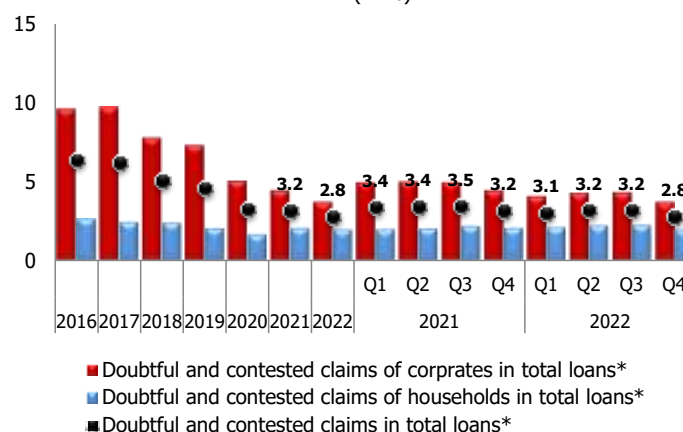
credit demand



Source: Bank lending Survey, NBRNM.

The analysis of sectoral structure of private sector loans points to enterprises as the sector with the largest positive contribution to the quarterly growth, while the household sector has a moderate positive contribution. Analyzing by currency, the growth is generated by the growth of both foreign currency loans⁷¹ and denar loans. Analyzing the maturity structure, the quarterly growth of total loans was mostly due to long-term loans, amid smaller positive contribution of short-term loans. Also, the share of doubtful and contested claims in total loans decreased compared to the end of the third quarter and amounted to 2.8%.

Share of doubtful and contested claims in total loans (in %)



* It refers to the share of the doubtful and contested claims within the each respective sector's total loans
Source: NBRNM.

Annually, total loans at the end of 2022 grew by 9.4% (9.9% at the end of the previous quarter). The annual credit growth is primarily due to the rise of corporate loans, amid positive contribution of household loans. At the end of 2022, loan/deposit ratio decreased to 84.6% (86.3% at the end of the previous quarter).

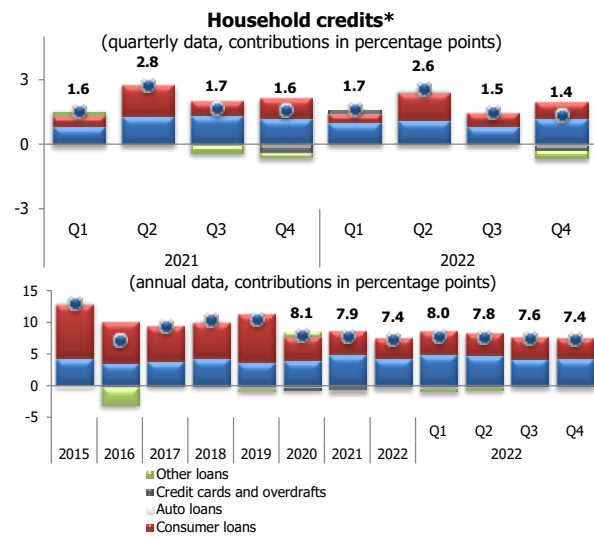
⁷¹ Foreign currency loan data also include denar loans with currency clause.

Household loans continued increasing in the last quarter of 2022, but at a slightly more moderate pace. The quarterly growth of 1.4% (1.5 in the previous quarter) is a sole result of the increase in housing and consumer loans. The results of the Bank Lending Survey for the household sector in the fourth quarter indicate a net decrease in the demand for loans and net tightening of credit standards. Analyzing by currency, the growth almost entirely arises from foreign currency loans, amid a stable level of denar loans. Analyzing the maturity structure, the growth continued to be driven by long-term loans, amid a slight decrease in short-term loans. Annually, at the end of the fourth quarter of 2022, total household loans increased by 7.3% (7.6% in the previous quarter).

Total credits of

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %								
Total credits of households	1.6	2.8	1.7	1.6	1.6	2.6	1.5	1.4
Contribution in quarterly change of household credits (in p.p.)								
Denar credits	1.0	1.3	1.0	0.9	1.0	1.3	0.5	0.1
Foreign currency credits	0.5	1.4	0.6	0.6	0.6	1.3	1.0	1.3
Short-term credits	0.2	0.1	0.0	-0.2	0.2	0.1	0.0	-0.2
Long-term credits	1.1	2.7	1.6	2.0	1.3	2.4	1.5	1.9

Source: NBRNM.



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

The fourth quarter of 2022 registered fast growth of total credits extended to the corporate sector, which equaled 3.9% on a quarterly basis. In the Bank Lending Survey for the fourth quarter, banks indicate a moderate net increase in the corporate loan demand, amid net tightening of credit standards, pointing to investment in inventories and working capital, debt restructuring and to a lesser extent investment in fixed assets as primary factors that increase credit demand. Analyzing the currency, the growth of total corporate loans results from the increase in denar and to a lesser extent from the growth of foreign currency loans (including loans with foreign currency clause). The analysis of maturity structure shows an increase in long-term loans and moderate growth of short-term loans. Annually, the growth of total corporate loans equaled 11.5% at the end of the fourth quarter (12.6% at the end and of the previous quarter).

Total credits of

	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %								
Total credits of corporations	0.8	2.3	0.6	4.9	3.7	2.8	0.7	3.9
Contribution in quarterly change of corporation credits (in p.p.)								
Denar credits	0.2	2.3	0.3	4.1	1.7	0.9	-1.0	2.4
Foreign currency credits	0.6	0.1	0.2	0.8	2.0	1.8	1.8	1.5
Short-term credits	0.9	1.1	-0.7	1.9	2.7	0.9	-0.3	1.3
Long-term credits	-0.1	1.1	1.5	3.3	1.3	1.5	1.0	3.1

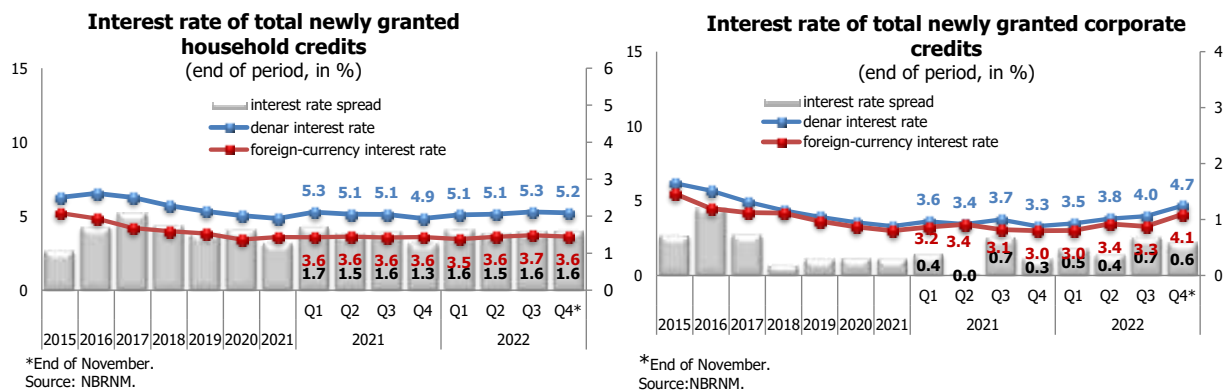
Source: NBRNM.

According to the data on the interest rates⁷² on newly approved loans⁷³ in November, interest rates on denar and foreign currency loans to households equaled 5.2% and 3.6%, respectively (5.3%

⁷² 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.

⁷³Note that the interest rates on newly approved loans are volatile. Volatility of interest rate on newly approved loans depends on the volume of newly approved loans (which can change from month to month) and their interest rate.

and 3.7%, respectively in September). In such conditions, the interest rate spread between the new Denar and foreign exchange lending to households amounted to 1.6 percentage points and registered no changes compared to the previous quarter. Interest rates on newly approved denar and foreign currency corporate loans equaled 4.7% and 4.1%, respectively (4.0% and 3.3%, respectively in September), thus the interest rate spread between the new denar and foreign currency corporate lending slightly narrowed to 0.6 percentage points. Regarding total loans granted to the private sector, at the end of November the interest rates on corporate and household loans amounted to 3.7% and 5.0%, respectively.



V. Public finance

The annual growth of budget revenues continued to slow down in the third quarter and amounted to 10.1%. Income growth is further driven by higher tax revenues. The growth of budget expenditures slightly accelerated to 3.9%, influenced by the higher current expenditures. The budget deficit equaled 0.7% of GDP, which is lower compared to the same quarter last year (1.2% of GDP). In the period January-November 2022, the budget deficit was 2.8% of GDP, which is around 56% of that planned for 2022, mostly financed by net government borrowing on the domestic and foreign market, amid simultaneous accumulation of government deposits in the National Bank. At the end of the third quarter of 2022, the total public debt equaled 54.8% of GDP.

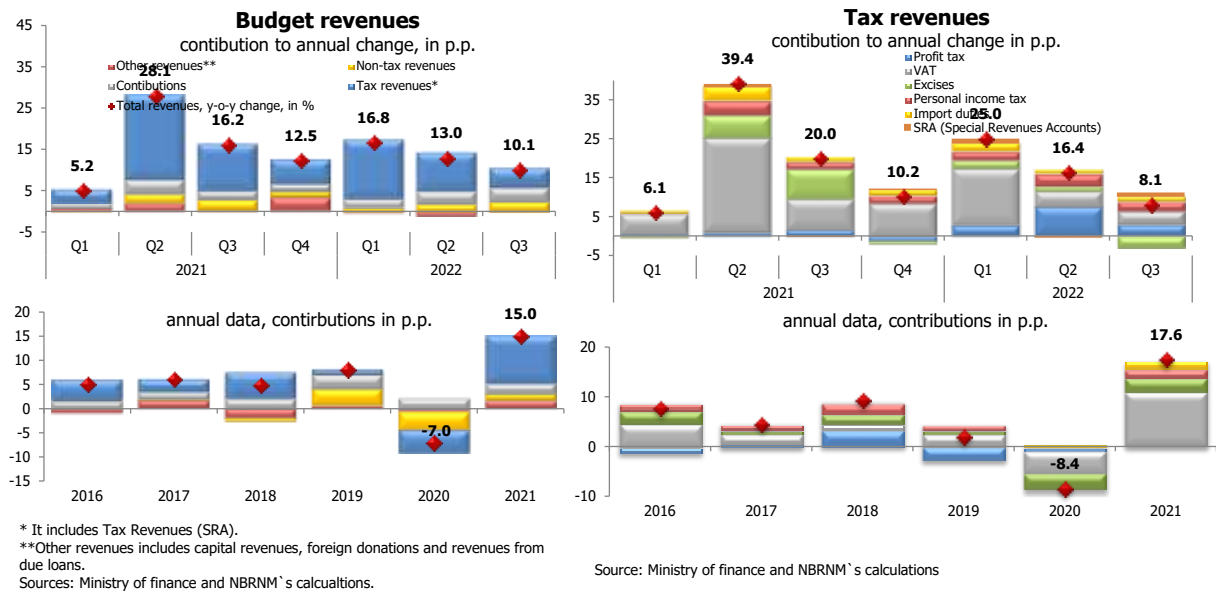
In the third quarter of 2022, total revenues in the Budget of the Republic of North Macedonia⁷⁴ increased by 10.1%, on an annual basis (13.0% in the previous quarter). The annual growth of budget revenues reflects higher inflows in almost all categories of budget revenues, but tax revenues⁷⁵ continue to have the largest contribution. Tax revenues registered an annual growth of 8.1% (with a positive contribution of 4.8 percentage points in the growth of total budget revenues). The contributions⁷⁶ and non-tax revenues continued to increase, compared to the previous period, with an annual growth of 10.8% and 33.9% (with a positive contribution of 3.4 percentage points and 2.2 percentage points to the growth of total revenues), while other revenues⁷⁷ reduced by 7.0% on an annual basis (with a negative contribution of 0.2 percentage points to the growth of total revenues).

⁷⁴Central budget and budgets of funds.

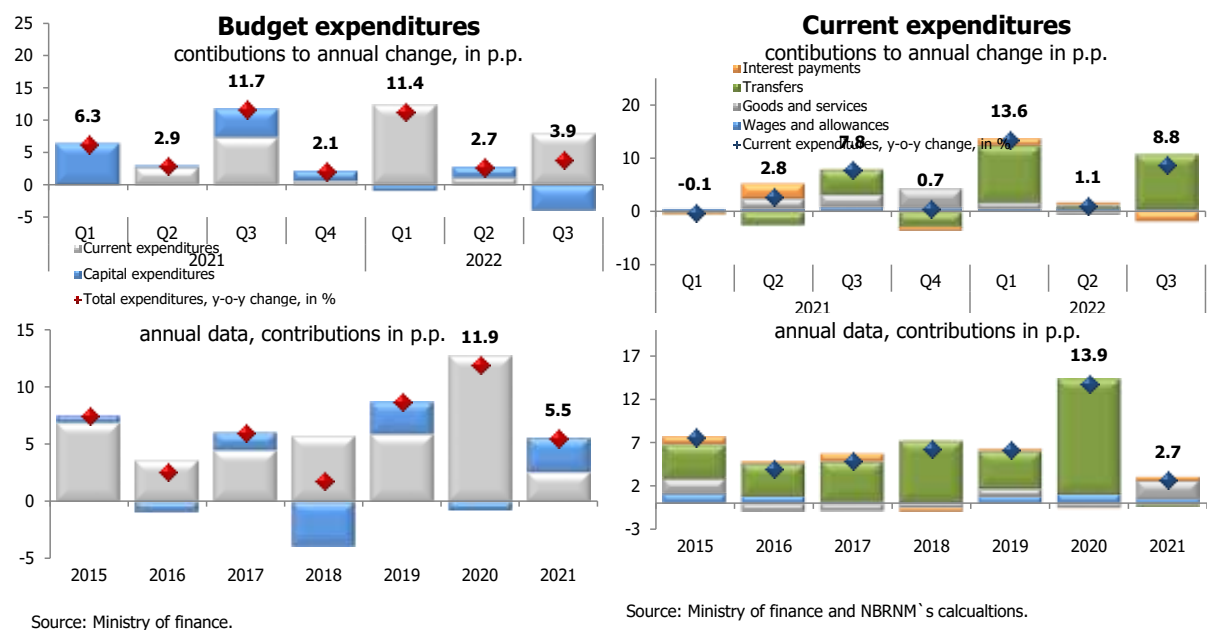
⁷⁵ It also includes own revenue accounts (SSP).

⁷⁶ The increase in contributions is partly related to the increased minimum net wage to Denar 18.000 in March 2022.

⁷⁷ Other revenues include capital revenues, donations from abroad and revenues from recovered loans.



The growth of total tax revenues of 8.1% in the third quarter of 2022 (16.4% in the previous quarter) stems primarily from the higher revenues from direct taxes (positive contribution of 5.3 percentage points), and to a lesser extent from indirect taxes (positive contribution of 1.7 percentage points). Corporate tax registered the highest growth within direct taxes, while in indirect taxes, faster growth was recorded in VAT revenues.

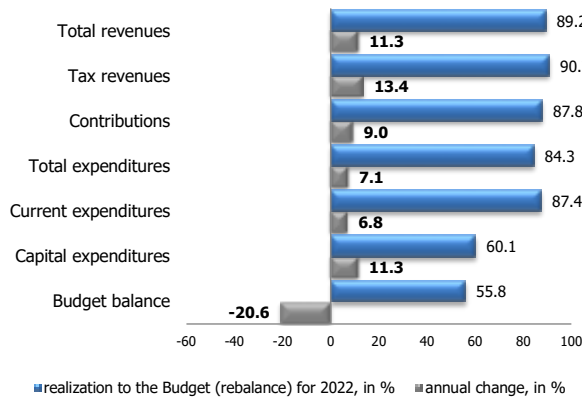


In the third quarter of 2022, the annual growth of total budget expenditures moderately accelerated to 3.9% (2.7% in the previous quarter). Analyzing the structure, the growth is due to the increase in current expenditures which registered an annual growth of 8.8%, amid reduction of capital expenditures by 38.2% on an annual basis. The annual growth of current expenditures is mostly due to the growth of the category transfers⁷⁸ and mainly results from the paid financial support to the energy sector and subsidies to farmers.

⁷⁸ Category of transfers include pension expenses, social security costs, health care costs and other transfers (mainly subsidies).

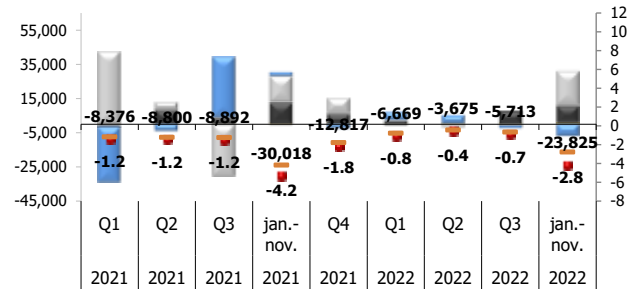


**Budget of RNM
(central budget and funds)**
January - November 2022

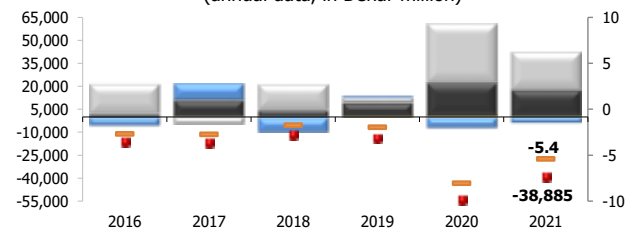


Source: Ministry of Finance and NBRNM's calculations

**Budget balance financing
(in million of denars)**



(annual data, in Denar million)



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

In the third quarter of 2022, the budget deficit was Denar 5,713 million or 0.7% of GDP⁷⁹, which is lower compared to the same period last year (deficit of 1.2% of GDP). The deficit was fully financed through net borrowing in the domestic market, amid accumulation of government deposits in the National Bank and small net deleveraging in the foreign market.

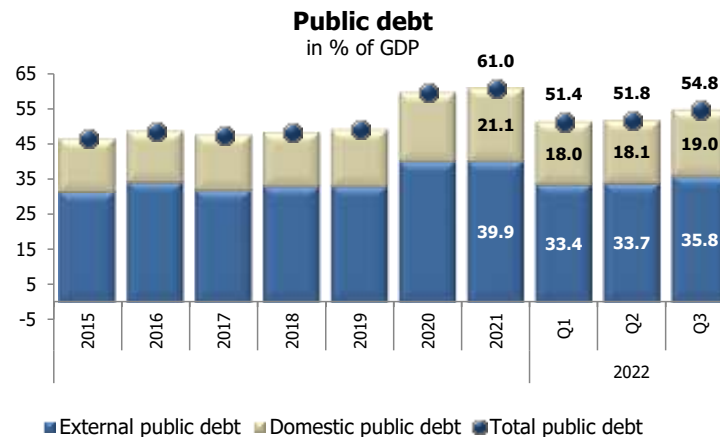
BUDGET OF REPUBLIC OF NORTH MACEDONIA (Central budget and budgets of funds)

	2022								2022							
	Budget for 2022	Revised Budget for 2022	I reallocation	II reallocation	Q1	Q2	Q3	Jan.-Aug. 2022	Q1	Q2	Q3	Jan.-Nov. 2022	Q1	Q2	Q3	Jan.-Nov. 2022
									Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.
TOTAL REVENUES	238,899	245,758	245,758	245,758	57,106	59,208	62,200	219,316	16.8	16.8	13.0	13.0	10.1	10.1	11.3	11.3
Tax revenues and contributions	210,829	221,770	221,770	221,770	52,314	53,787	55,628	198,702	18.1	16.4	13.9	12.5	9.0	8.2	12.1	10.9
Taxes*	136,458	143,173	143,173	143,173	35,013	34,713	36,002	129,712	25.0	14.3	16.4	9.3	8.1	4.8	13.9	8.0
Contributions	74,371	78,597	78,597	78,597	17,301	19,074	19,626	68,990	6.1	2.0	9.5	3.1	10.8	3.4	9.0	2.9
Non-tax revenues	19,171	17,043	17,043	17,043	3,681	4,068	4,894	15,579	12.4	0.8	26.9	1.6	33.9	2.2	26.6	1.7
Capital revenues	3,330	2,180	2,180	2,180	281	507	971	2,214	44.8	0.2	113.9	0.5	-20.9	-0.5	25.1	0.2
Foreign donations	5,570	4,765	4,765	4,765	830	846	707	2,821	-25.8	-0.6	-50.8	-1.7	22.3	0.2	-50.2	-1.4
TOTAL EXPENDITURES	272,428	288,493	288,493	288,493	63,775	62,883	67,913	243,141	11.4	11.4	2.7	2.7	3.9	3.9	7.1	7.1
Current expenditures	234,192	256,384	255,808	255,906	58,858	59,268	63,722	223,563	13.6	12.3	1.1	1.0	8.8	7.9	6.8	6.2
Capital expenditures	38,236	32,109	32,685	32,587	4,917	3,615	4,191	19,578	-9.9	-0.9	40.1	1.7	-38.2	-4.0	11.3	0.9
BUDGET DEFICIT/SURPLUS	-33,529	-42,736	-42,736	-42,736	-6,669	-3,675	-5,713	-23,825								
Financing	33,529	42,736	42,736	42,736	6,669	3,675	5,713	23,825								
Inflow	45,103	54,513	54,513	54,513	7,714	6,853	7,191	31,416								
Other inflows	500	500	500	500	106	312	168	835								
Foreign loans	21,269	65,524	65,524	65,524	844	638	145	24,678								
Deposits	-3,296	-38,141	-38,141	-38,141	4,505	4,859	-1,446	-6,952								
Treasury bills	26,620	26,620	26,620	26,620	2,259	1,044	8,324	12,855								
Sale of shares	10	10	10	10	0	0	0	0								
Outflow	11,574	11,777	11,777	11,777	1,045	3,178	1,478	7,591								
Repayment of principal	11,574	11,777	11,777	11,777	1,045	3,178	1,478	7,591								
External debt	6,045	6,235	6,235	6,235	1,045	1,853	993	4,969								
Domestic debt	5,529	5,542	5,542	5,542	0	1,325	485	2,622								
Other outflows																

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

⁷⁹ The analysis uses the National Bank's October forecasts for the nominal GDP for 2022.

In the period January - November 2022, total budget revenues grew by 11.3% on an annual basis. Most of this growth, or 8.0 percentage points stems from the improved performances of tax revenues, whereas contributions, non-tax revenues and capital revenues made lower positive contribution. Moreover, budget expenditures increased by 7.1% annually, mostly due to higher current expenditures⁸⁰, amid minor increase in capital expenditures. Budget deficit in the period under observation amounted to Denar 23,825 million or 2.8% of GDP, constituting around 56% of the budget deficit forecast for 2022. The deficit in this period was fully financed through net borrowing in the domestic and foreign market, amid accumulation of government deposits in the National Bank.



Source: MoF and NBRNM calculations.

At the end of the third quarter of 2022, total public debt⁸¹ was 54.8% of GDP (51.8% of GDP at the end of the previous quarter), which is a quarterly increase of 3.0 percentage points of GDP. Moreover, external and internal public debt equaled 35.8% and 19.0% of GDP (quarterly increase of 2.0 and 1.0 percentage points of GDP, respectively). Observing the debt structure, the total public debt⁸² and the debt of public enterprises (guaranteed and non-guaranteed)⁸³ equaled 46.6% and 8.2% of GDP. At the end of the third quarter of 2022, compared to the same period of 2021, total public debt decreased by 4.6 percentage points of GDP⁸⁴.

⁸⁰ The growth mostly stems from the sub-item transfers, which is increased due to the higher pension expenses. Pension expenses increased due to their growth of 2.9% in January 2022, based on the adjustment of pensions to the increase in the cost of living. Besides, in the April to June period, aid of 1,000 denars was paid to each pensioner in accordance with the package of economic measures from 9 March 2022. At the same time, during this period, financial support was also paid to the energy sector to deal with the energy crisis.

⁸¹ 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.

⁸² Government debt is defined as a sum of debts of the central government, the public funds and the municipalities.

⁸³ 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).

⁸⁴ The analysis uses the National Bank's October forecasts for the nominal GDP for 2022. The greater difference between the realized nominal GDP for 2021 and the projected amount of the nominal GDP for 2022 also affects the relative indicators of public debt.