

National Bank of the Republic of North Macedonia



Quarterly Report February 2024



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Introduction

In the last quarter of 2023, the National Bank did not make additional changes in the monetary policy setup, in accordance with the economic conditions. Thus, the interest rate on CB bills remained at the level of 6.30%, amid simultaneous retention of the interest rates on overnight and 7-day deposit facilities at the levels of 4.20% and 4.25%, respectively. In circumstances when there are still risks from the environment and uncertainty about their materialization, in this period, the National Bank adopted a macro-prudential measure to further increase the countercyclical capital buffer rate for the exposures of domestic banks in the country, to the level of 1.5%, for the purpose of further strengthening of the banks' capital position. The current level of the policy rate, together with the changes in the reserve requirement, as well as with the undertaken macro-prudential measures, enable slowdown in inflation, in line with the expectations and maintenance of the exchange rate stability. Given the monetary strategy of a stable exchange rate of the denar against the euro, the changes to the domestic monetary policy also reflect the monetary policy setup of the European Central Bank, which in the last quarter of the year retained the policy rates unchanged.

The global economy continues to face the challenges of inflation and the low growth prospects. The global economic activity is forecasted to slow down in 2024, which is third consecutive year, while for 2025 the growth is expected to accelerate insignificantly, a perception similar to the October one. Risks remain predominantly downward and are primarily related to the tighter financial conditions, the weak global trade and the lower business and consumer confidence. Short-term risks are still associated with the increased geopolitical tensions, as well as with the current, but also with the expected future effects of the previous tightening of the monetary policy.

The latest indicators of the domestic economy suggest macroeconomic landscape that mainly corresponds to the October assessments. Namely, the real GDP in the third quarter registered an annual growth of 1.2%, and this performance is in line with the October forecasting round (growth of 1.1%). Analyzing by components, the growth results from net exports, coupled with the further solid growth of private consumption. **Available high-frequency data on economic activity show early signs of accelerating annual growth in the last quarter of the year,** with more favorable shifts in both the manufacturing and the services segment. Namely, for the last quarter, so far there are signs for transition from the negative to the positive zone in the annual rates of industrial production, but also in completed construction works and total trade, in real indicators, while the real turnover in catering registered an acceleration in the annual growth. For the time being, such achievements are in line with the October estimates for strengthened annual GDP growth in the last quarter of the year. In addition, the reduction of inflation, the increase in wages, as well as the new package of anti-crisis measures would also support the purchasing power of households in the last quarter of the year. For the entire 2023, the baseline scenario from October assumes a slowdown in the economic growth, i.e. an increase of 1.9%, after which it is expected to accelerate and rise to 3% in 2024 and 4% in 2025 - 2026. **The risks for the short-term economic prospects remain downward.** Increased geopolitical tensions due to the war in Ukraine and the Israel-Gaza conflict and their possible expansion are key risks in the short term, which could cause considerable disturbances in energy markets and global trade flows, and thus upward price movements, as well as a further increase in risk premiums in financial markets.

In the last quarter of 2023, the annual inflation rate further slowed down, reducing to 3.4%. The slowdown in inflation in our country, which was stronger compared to the slowdown in the euro area, significantly reduced the inflation differential. The slowdown in domestic inflation is due to the downward movements in all three main categories, but mostly in food, taking into account the high base effect, and domestic short-term measures were also implemented to reduce and freeze the prices of some food products in retail trade. For the entire 2023, the average annual inflation rate was in line with the expectations and equaled 9.4% (9.5% in line with the October forecasts). According to the October assessments, for 2024 the average inflation is expected to reduce to the level of 3.5% to 4% and then to stabilize at around 2% in the medium run. Risks around inflation are still present and are mainly associated

with the prices of primary products in world markets, due to the geopolitical tensions and climate changes, as well as with the changes in the regulated prices and the policies of demand (disposable income).

The latest available data on the balance of payments indicate performances in the current and financial account which are mainly in line with the expectations according to the October forecast. In the third quarter, current transactions recorded a surplus of 1.8% of GDP, which is an improvement on an annual basis, which is entirely due to the narrowing of the foreign trade deficit. The lower trade deficit results from the reduced negative gap, primarily in the energy balance, but also from the reduction of the non-energy deficit. In terms of the other current account components, lower surplus was registered in secondary income and foreign trade of services, while primary income registered increased net outflows, on an annual basis. The financial account in the balance of payments recorded net outflows of 4.2% of GDP, which are mainly due to the net outflows in portfolio investments (repayment of liabilities based on previously issued debt securities on international markets by the government) and the net outflows in the category currency and deposits. The data on gross foreign reserves for the fourth quarter are better than expected according to the October forecasts, so that for the entire 2023 they registered higher growth than expected. Thus, at the end of 2023, the level of foreign reserves reached Euro 4,538.4 million, which enabled maintenance of the foreign reserves indicators in the safe zone.

In the fourth quarter of 2023, the credit activity of the banking sector moderately intensified compared to the previous quarter. This movement is characteristic of the credit market at the end of the year, amid growth of loans in both sectors, supported by the EIB credit line. On an annual basis, the growth rate of total loans continues to slow down, amid tighter monetary conditions, so that in the last quarter of 2023 it reduced to 5.1%, which is slightly below the expectations according to the October forecast (5.7%). In terms of the sources of financing, a more pronounced quarterly growth also in the deposit base was registered in the last quarter, which conditioned a further acceleration in the annual deposit growth, which reached 9.1%, thus exceeding the expectations for the end of the year according to the October forecasts (8.4%). Favorable movements continue in terms of maturity and currency structure of savings (growth in long-term and denar deposits), reflecting the effects of the measures taken by the National Bank and stabilized expectations of economic agents.

Overall, the latest macroeconomic indicators show that the performance in key segments of the economy is mainly in line with the expectations. Domestic inflation slowed down, due to the significantly reduced pressures from the food and energy component, amid downward movements of the prices in world markets, but also due to the monetary policy measures that affect the demand. Domestic economic activity is currently moving in line with the October assessments for slower GDP growth in 2023, amid weaker foreign demand. Banks continue to provide credit support to the domestic economy, but at a more moderate pace and slightly below the expectations. The external position of the economy is favorable and allows increase in the foreign reserves, which remain in the safe zone. **However, the environment for conducting monetary policy remains vague, and risks to the world and domestic economy in the short and medium run are still present. Hence, there is a need for further precaution, especially in the conduct of macroeconomic policies that affect the demand in the economy.** *The National Bank remains prepared to use all the necessary instruments and to take adequate measures that will contribute to maintenance of the stability of the exchange rate, stabilization of inflation expectations and to medium-term price stability.*

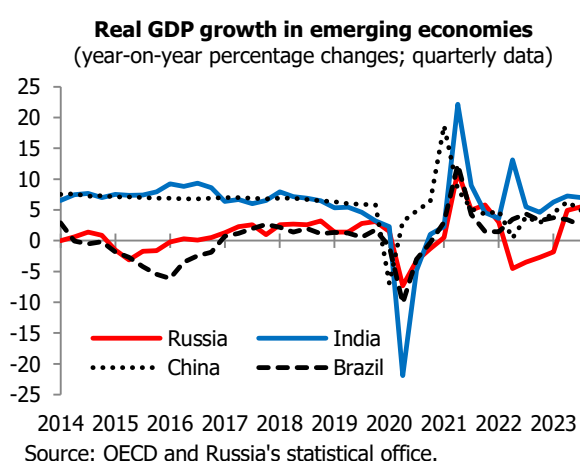
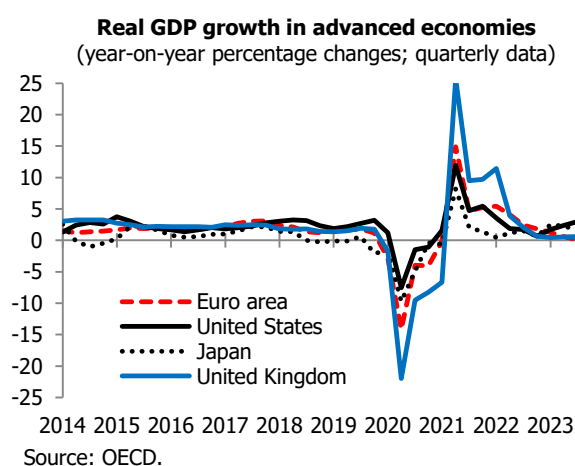
I. Macroeconomic developments

1.1. International economic surrounding

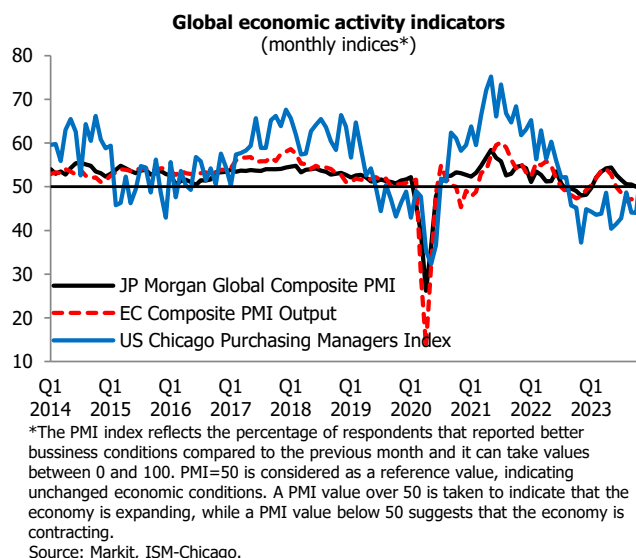
Global economic activity is resilient for now, but the effects of the tighter global financial conditions, the weak global trade growth, and the deteriorated confidence of

business entities and households on the growth are increasingly felt. In the euro area, which is our major trading partner, the economic activity stagnated in the third quarter of 2023 on an annual basis, following the growth of 0.6% in the previous quarter, which results from the fall in gross investments and household consumption. Global inflation slowed down in the fourth quarter of 2023, amid more moderate pressures from core inflation. Price pressures caused by domestic factors, mainly by the wage and profit growth, exist in most advanced economies and because of them inflation can be kept above the central banks' target level for a longer period. Amid such assessments, the monetary policy in the developed countries remained unchanged in the fourth quarter, by keeping the policy rates at the same high level. In the fourth quarter, the prices of primary products in world markets registered divergent movements, i.e. the price of oil registered a decline, while the prices of non-energy products increased. In the World Bank forecasts dated January 2024, the global economic growth is expected to slow down in 2024, after which it is expected to moderately accelerate. The risks relative to the forecasted global growth are mainly downward. The conflict in the Middle East increased the geopolitical risks and the uncertainty regarding the prices of primary products on the international market, with potential negative impacts on the global economic growth and inflation.

Global economic activity is resilient for now, but the effects of the tighter global financial conditions, the weak global trade growth, and the deteriorated confidence of business entities and households on the growth are increasingly felt. Within **developed countries**, the annual economic growth in the USA continues to accelerate, rising to 3.0% (2.4% in the previous quarter), mainly due to the growth of gross investments. On the other hand, the economic growth in the United Kingdom registered certain stabilization (0.6%), while in Japan and the euro area the growth slowed down and reduced to 1.6% and 0%, respectively (2.3% and 0.6%, respectively in the second quarter), mainly influenced by the unfavorable movements in gross investments. Analyzing the **emerging economies**, the economic growth in the third quarter slowed down the most in China, reducing to 4.9% (6.3% in the previous quarter), amid deepening of the crisis in the real estate sector and consequently fall in private investments. The economic growth in India remains at a high level of 7.0% (7.3% in the second quarter), affected by the investments in fixed assets.



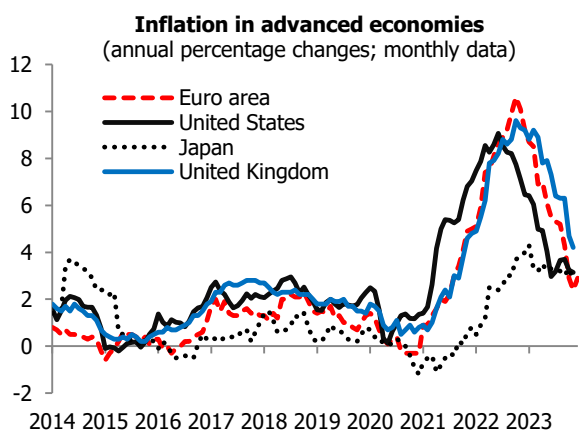
As for the estimates for the global growth in the fourth quarter of 2023, the average value of the global PMI equaled 50.5 (50.9 in the third quarter), indicating slightly less favorable movements in the global economic activity in the following period. Annually, the global PMI index increased by 4.3%.



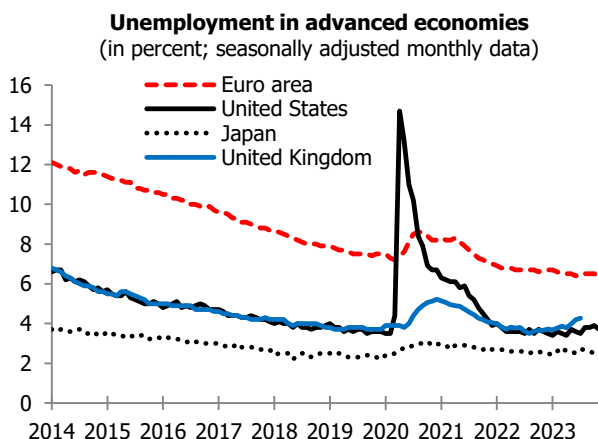
In the January World Bank forecasts, the growth of the global economy for 2023 is estimated at 2.6%, while for 2024 growth of 2.4% is forecasted, which represents a growth acceleration for the third consecutive year and is a reflection of the effects of the current tightening of the monetary policy at global level to cope with inflationary pressures, tighter credit conditions and anemic global trade and investments. In 2025, a moderate strengthening of the global economic growth is expected, forecasted at 2.7%, amid an expected further slowdown in inflation, a decrease in interest rates, and intensification of the growth of global trade. Compared to the expectations in the previous report from June 2023, the global growth for 2023 has been revised upwards by 0.5 percentage points, the forecast for 2024 remained unchanged, while for 2025 it has been revised downwards by 0.3 percentage points. Amid expectations for weak growth of global demand and some reduction of the prices of primary products in world markets, it is expected that inflation will further slow down in 2024 and 2025 and will come closer to the target levels of central banks. The risks relative to the forecasted global growth are mainly downward. The conflict in the Middle East increased the geopolitical risks and the uncertainty regarding the prices of primary products on the international market, with potential negative impacts on the global economic growth and inflation. Additional risks to the global growth also stem from the possible undermining of financial stability related to the increased real interest rates, the greater inertia of inflation, the slower growth of the economic activity in China than expected, the further fragmentation of global trade, as well as from climate changes.¹

Global inflation slowed down in the fourth quarter of 2023, amid lower price pressures from core inflation. However, it is still at a relatively high level. In addition, price pressures caused by domestic factors are present in most advanced economies and are mainly related to the wage and profit growth, due to which inflation can be kept above the central banks' target level for a longer period. Observing the developed countries, the inflation rate slowed down the most in the euro area, whereby the average annual inflation reduced to 2.7%. The average inflation in the period October - November in the United States and Japan reduced to almost 3.0%, and in the United Kingdom to 4.5%.

¹ The analysis in this section is based on the World Bank report "Global Economic Prospects" published in January 2024.



Source: Eurostat and national statistical offices.



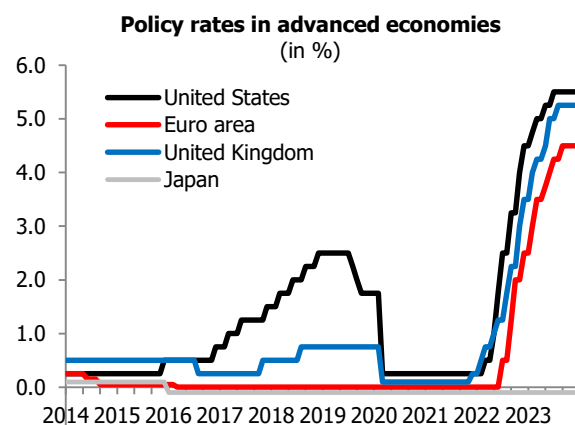
Source: Eurostat and UK's statistical office.

In the euro area, which is our major trading partner, the economic activity stagnated in the third quarter of 2023 on an annual basis (growth of 0.6% in the previous quarter), which is a downward path of the economic growth in the past year and a half. The fall in gross investments, primarily inventories, is the main driver of the slowdown in the economic growth in the third quarter. On the other hand, amid a sharper decline in the imports than the export activity, the contribution of net exports on growth is positive. In accordance with the December ECB forecasts, in the next medium-term period the economic growth is expected to recover and stabilize at the levels registered before the pandemic, supported by the increase in the real household income and the strengthening of foreign demand. In 2023, the economic activity is expected to increase by 0.6%, after which it is forecasted to slightly accelerate, i.e. to increase by 0.8% in 2024, which is a downward revision compared to the September forecasts. In 2025 and 2026, the growth would rise to 1.5%². The labor market developments in the euro area are still favorable, taking into account that the unemployment rate in October remains at the historically lowest level of 6.4%. The inflation in the Euro area further slowed down in the fourth quarter, thus reducing to an average of 2.7% for this period (4.9% in the third quarter of 2023), amid strong decline in energy prices and slowdown in the growth of food prices and core inflation, as a reflection of the effects of the tightening of the monetary policy and the reduction of the pressures related to the bottlenecks in the supply. According to the December ECB forecasts, the inflation rate in 2023 would amount to 5.4%, after which its slowdown follows, whereby it would reduce to 2.7% in 2024, 2.1% in 2025 and 1.9% in 2026, which is a downward revision for 2023 and 2024, and an unchanged forecast for 2025 compared to September³.

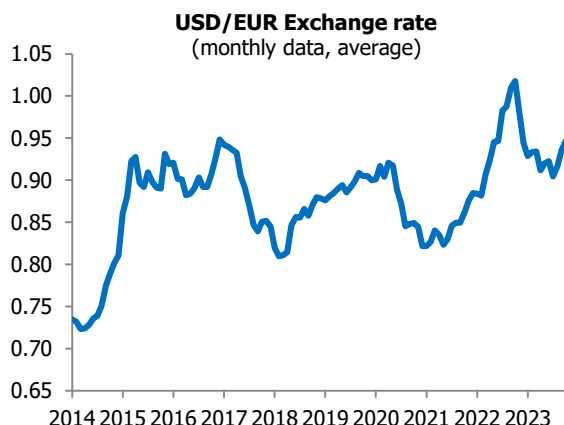
In the fourth quarter of 2023, central banks in developed countries kept the same policy rates, amid a slowdown in inflation and estimates that this monetary setup will contribute to reducing inflation to the target level. Thus, during the fourth quarter the Fed kept its policy rate in the range from 5.25% to 5.5% and further reduced the portfolio of government and mortgage-backed securities. The policy rate of the Bank of England was 5.25%, while the asset purchase programme by reducing the portfolio of securities in the central bank balance sheet continues to be implemented. During this period, the ECB kept the three policy rates at the same level, after their increase by 0.5 percentage points during the third quarter, so that the interest rate on deposit facilities, main refinancing operations and overnight loan facilities remained at the levels of 4.0%, 4.5% and 4.75%, respectively. Moreover, the portfolio within the Asset Purchase Programme (APP) has been decreasing gradually and at a predictable pace, given that the ECB ceased reinvesting the due securities in July, while at the meeting in December it decided to gradually decrease the portfolio within the Pandemic Emergency Purchase Programme (PEPP) in the second half of 2024 and ceased reinvesting due securities within this programme at the end of the year.

² In September 2023 forecasts, the economic growth was projected at 0.7% in 2023 and 1.0% in 2024 and 1.5% in 2025.

³ In September 2023, the inflation in the euro area was forecasted at 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025.

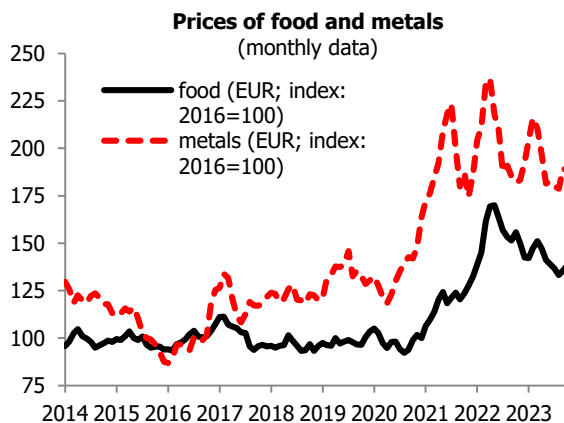
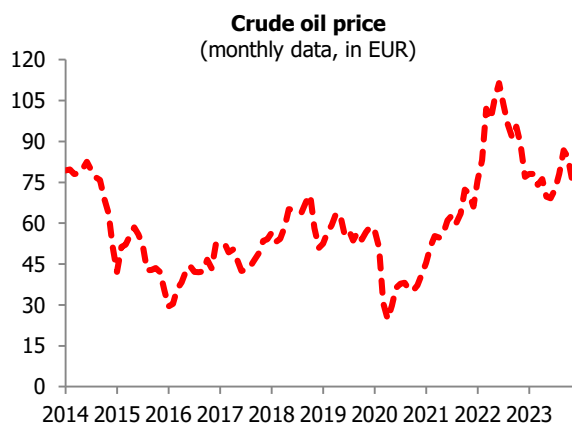


Source: Central banks.



In the fourth quarter of 2023, the value of the US dollar against the euro increased by 1.2% compared to the third quarter, mainly reflecting the more favorable trends of the US economy, as well as the higher interest rates in the USA. Analyzed on annual basis, the US dollar depreciated by 5.2%, and equaled Euro 0.93, on average, in this period.

In the fourth quarter of 2023, the prices of primary products in world markets registered divergent movements. Thus, the average oil price in this period reduced to Euro 77.1 per barrel, and is lower by 2.5% compared to the third quarter, i.e. by 11.5% annually. The downward trajectory of oil price is driven by the reduced demand in advanced economies, despite the decision to extend the period of reduced supply of OPEC+ until the end of the year and the supply-related risks due to the conflict in the Middle East. On the other hand, the prices of non-energy primary products⁴ (denominated in euros), increased by 3.0% compared to the third quarter. Analyzed by groups of products, the indices of the prices of base metals⁵ and food⁶ increased by 5.0% and 1.7%, respectively.



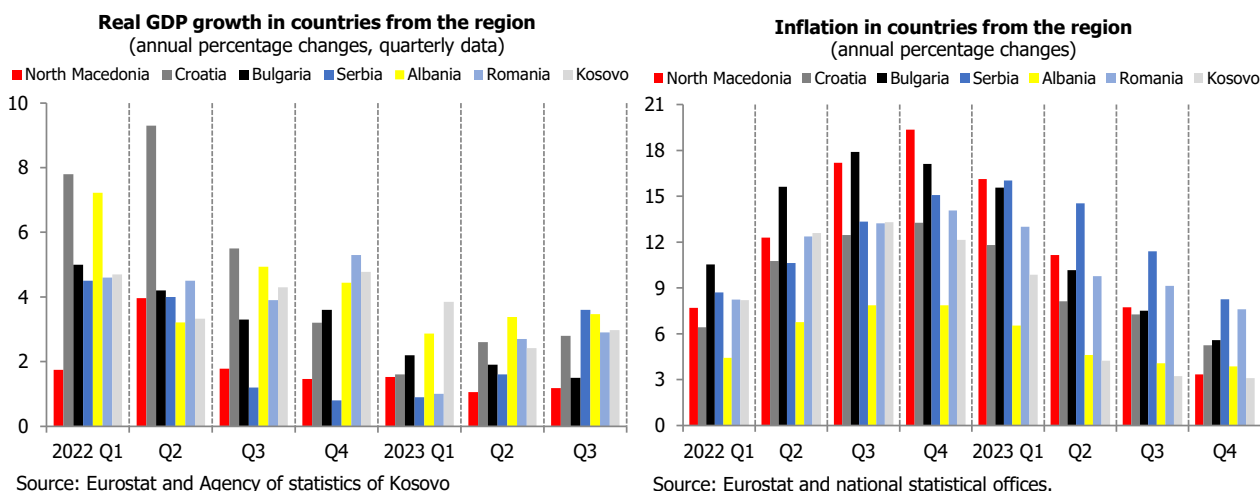
Regarding the countries of the region, the economic activity in the third quarter of 2023 grew at stronger pace, with the exception of Bulgaria. Serbia reported a more significant acceleration in the economic growth, mainly due to the growth of gross investments. **Inflation slowed down also in the period October - November 2023 in all analyzed countries of the region**, mainly influenced by the

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 primary food products: Cereals, vegetable oil, meat, seafood, sugar and other food.

slower growth of food prices and core inflation, while in certain countries such movement is also due to the energy component.



1.2. Domestic supply

The third quarter of 2023 registered similar growth of the domestic economic activity. The real growth rate of 1.2% on an annual basis still largely stems from the positive contribution of the group of activities "trade, transport and catering" and "real estate services". On the other hand, a more pronounced negative contribution was made by construction, amid a decline in both building construction and civil engineering, with fall being also registered in industry in accordance with the unfavorable movements in domestic and foreign demand. The GDP slightly increased by 0.2% on a quarterly basis. High-frequency data on the supply side available for October - November 2023 period currently indicate a further growth of the economic activity. The managers' estimations on the business situation in the corporate sector for the fourth quarter of 2023 are more favorable in all major economic sectors, with the exception of the services sector where they are slightly less favorable, compared to the same period last year. The expectations are mainly more favorable also for the coming period, with the exception of the managers of companies from industry whose expectations are slightly less favorable.

In the third quarter of 2023, the real growth of the domestic economy amounted to 1.2% on an annual basis (growth of 1.1% in the previous quarter), with minimal quarterly growth of 0.2% (seasonally and calendar adjusted). Structurally observed, the annual growth in the third quarter is largely due to the positive contribution of the group of activities "trade, transport and catering", and "real estate services". An additional more pronounced positive contribution to the GDP growth in this quarter was also made by agriculture and the activity "information and communications". On the other hand, also this quarter construction made a negative contribution, coupled with the fall in industry.

GDP and components - annual growth rates (in %)

	annual growth rates, in %												
	2018	2019	2020	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	
Agriculture	8.3	0.1	2.5	-8.7	-5.0	-6.7	-3.1	-3.2	-6.9	-0.2	0.1	2.0	
Industry	5.3	1.4	-6.7	2.2	-1.2	-3.4	1.4	-2.7	-0.2	0.2	1.1	-0.8	
Manufacturing	6.2	2.6	-4.8	6.1	-2.7	-4.4	0.9	-3.2	-3.6	-3.2	-1.8	-1.2	
Construction	-11.0	5.5	-4.0	-6.0	8.1	-7.9	16.2	9.7	10.2	18.9	-14.8	-13.0	
Trade and transport	5.0	6.7	-10.6	7.6	0.0	2.4	-1.9	-0.1	-0.1	3.4	4.4	1.9	
Information and communication	-4.1	6.8	4.5	12.2	15.1	14.4	21.0	14.0	11.8	7.0	3.3	5.4	
Financial and insurance activities	2.6	0.4	-0.1	-0.1	-1.4	2.8	-3.6	0.2	-4.8	3.7	3.9	6.6	
Real estate activities	0.1	0.2	1.1	7.0	19.0	14.6	25.0	20.9	16.1	3.6	4.1	5.6	
Professional, scientific and technical activities	7.9	8.0	-8.7	14.5	9.2	15.9	11.8	6.8	2.5	1.5	3.6	5.5	
Public administration	2.0	5.2	3.2	4.0	-7.2	-4.8	-7.3	-8.8	-8.0	-4.5	-0.9	-0.2	
Art, entertainment and recreation; Other service activities	6.6	9.6	-22.6	17.2	8.4	14.7	10.1	9.0	0.6	-0.4	1.9	2.7	
Gross Domestic Product	2.9	3.9	-4.7	4.5	2.2	1.7	4.0	1.8	1.5	1.5	1.1	1.2	

*From the release for GDP of 07.12.2023

Source: State Statistical Office and NBRNM calculations.

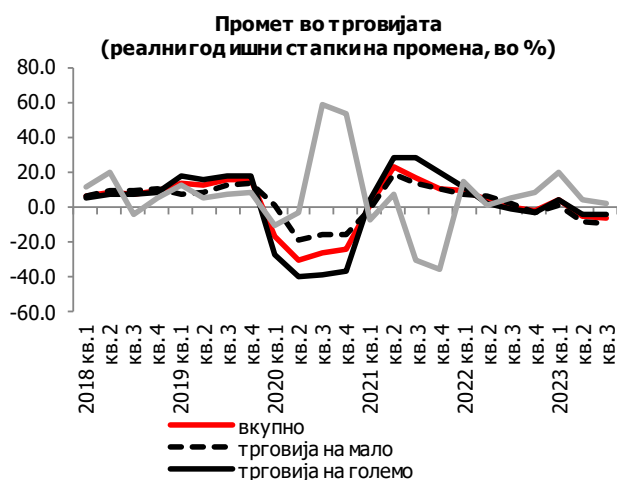
GDP and components - contributions to the GDP growth (in percentage points)

	contribution in GDP growth, in p.p.												
	2018	2019	2020	2021	2022	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	
Agriculture	0.7	0.0	0.2	-0.7	-0.4	-0.4	-0.2	-0.3	-0.6	-0.1	0.0	0.3	
Industry	0.9	0.3	-1.2	0.4	-0.2	-0.6	0.2	-0.5	0.0	0.0	0.2	-0.1	
Manufacturing	0.8	0.3	-0.6	0.8	-0.4	-0.6	0.1	-0.4	-0.5	-0.4	-0.2	-0.2	
Construction	-0.7	0.3	-0.2	-0.3	0.5	-0.5	0.6	0.7	0.9	0.7	-0.7	-0.9	
Trade and transport	1.0	1.3	-2.1	1.5	0.0	0.5	-0.4	0.0	0.0	0.6	0.8	0.4	
Information and communication	-0.1	0.2	0.2	0.5	0.6	0.6	0.9	0.6	0.5	0.3	0.2	0.3	
Financial and insurance activities	0.1	0.0	0.0	0.0	0.0	0.1	-0.1	0.0	-0.1	0.1	0.1	0.2	
Real estate activities	0.0	0.0	0.1	0.7	2.0	1.6	2.5	2.1	1.6	0.4	0.5	0.6	
Professional, scientific and technical activities	0.3	0.3	-0.3	0.5	0.4	0.6	0.5	0.3	0.1	0.1	0.2	0.2	
Public administration	0.2	0.6	0.4	0.5	-0.9	-0.7	-1.0	-1.1	-0.9	-0.6	-0.1	0.0	
Art, entertainment and recreation; Other service activities	0.2	0.3	-0.7	0.5	0.2	0.4	0.3	0.3	0.0	0.0	0.1	0.1	
Gross Domestic Product	2.9	3.9	-4.7	4.5	2.2	1.7	4.0	1.8	1.5	1.5	1.1	1.2	

*From the release for GDP of 07.12.2023

Source: State Statistical Office and NBRNM calculations.

Analyzing the high-frequency data, **in the third quarter of the year, total trade turnover recorded a real annual decline**, amid a decline in retail and wholesale trade, while trade in motor vehicles recorded growth. On the other hand, in the period October - November 2023, total trade registered a small increase, entirely as a result of the growth in wholesale trade, while retail trade and trade in motor vehicles registered a decline. The estimations of the managers of companies in the retail trade sector on the business situation during the fourth quarter of 2023 are more favorable compared to the same quarter last year, and the expectations for the next period are also more favorable.

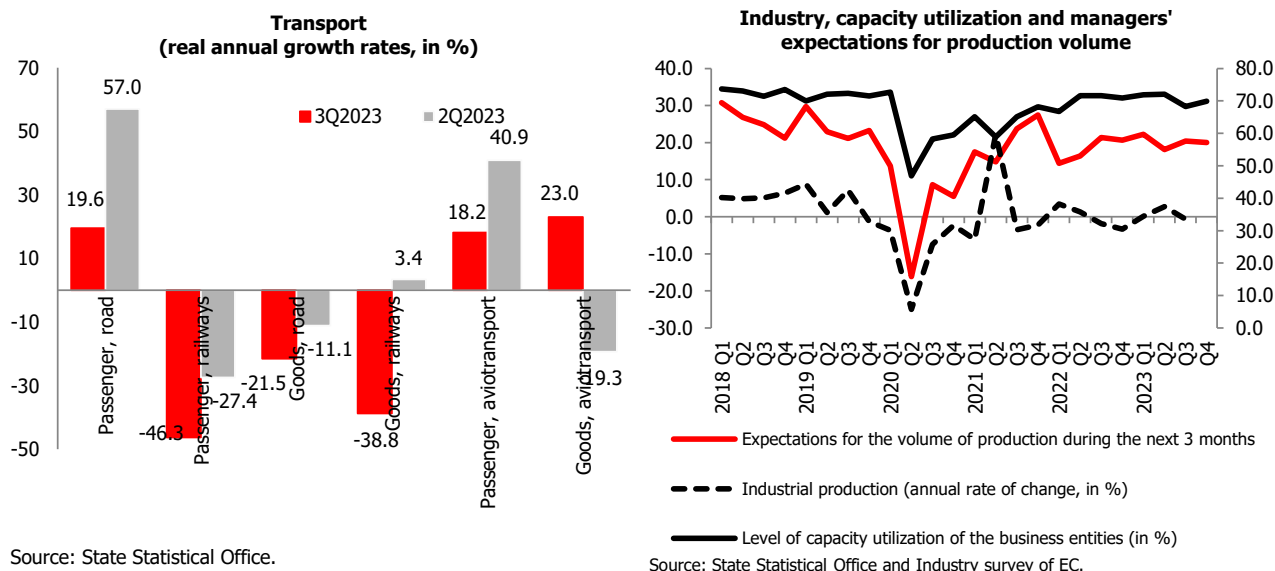


Извор: Државен завод за статистика.

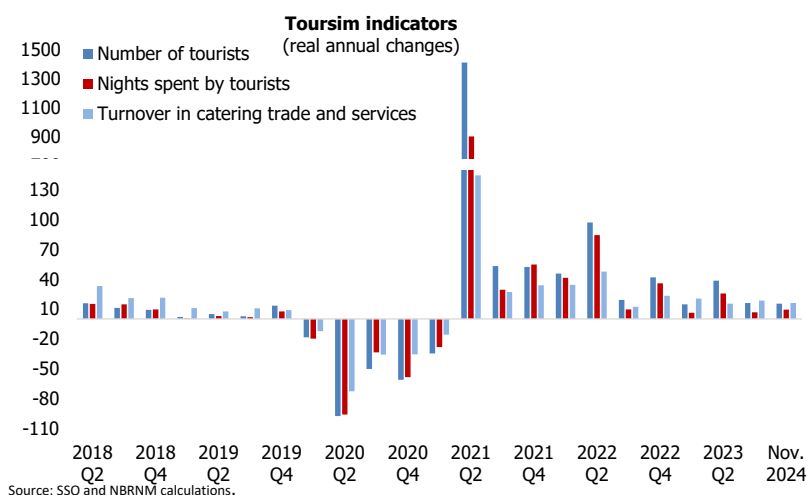


Извор: Анкета на ЕК за трговија на мало, Државен завод за статистика и пресметки на НБРСМ.

In terms of **transport**, in the third quarter of 2023, real growth was registered in freight air, passenger road and passenger air traffic. However, passenger rail, freight rail and freight road transport registered a decline.



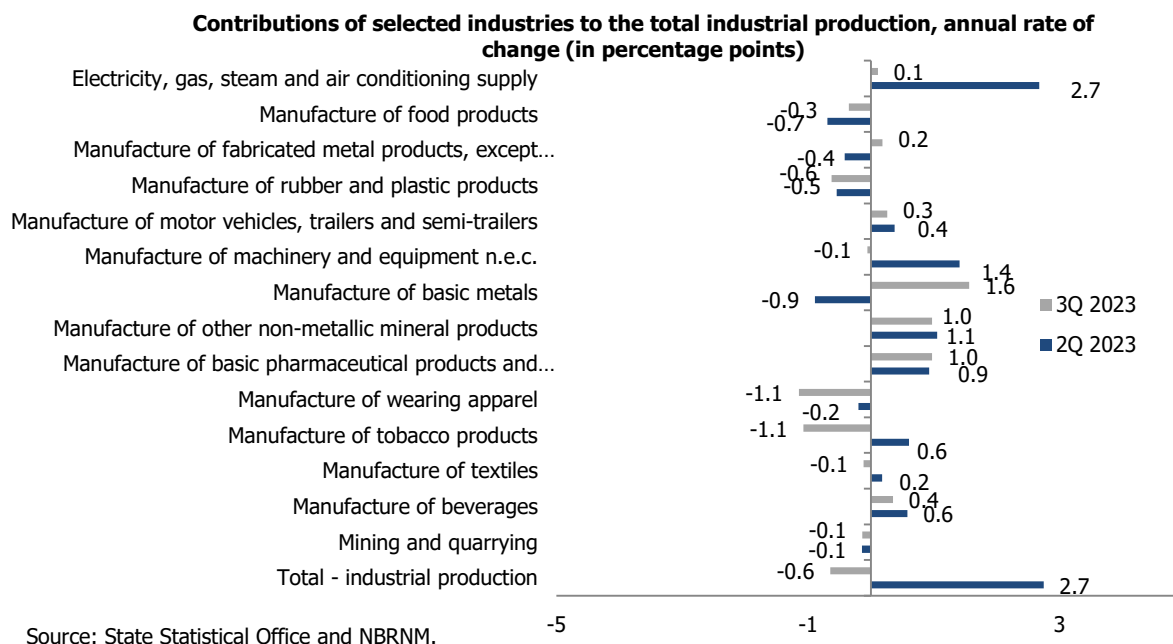
Within the **catering sector**, in the third quarter of 2023, the real annual growth in the number of tourists and overnight stays continued, still mainly due to the growth in foreign tourists. This quarter also saw growth in the total turnover in catering, unlike the fall in the previous quarter. Data for October - November 2023 show further growth in the number and overnight stays of tourists, and in October there was a faster growth of the total turnover in catering. The estimations of the managers of companies in the services sector on their business situation in the fourth quarter of 2023 are slightly less favorable compared to the same quarter last year, while the expectations for the next period in terms of demand are more favorable.



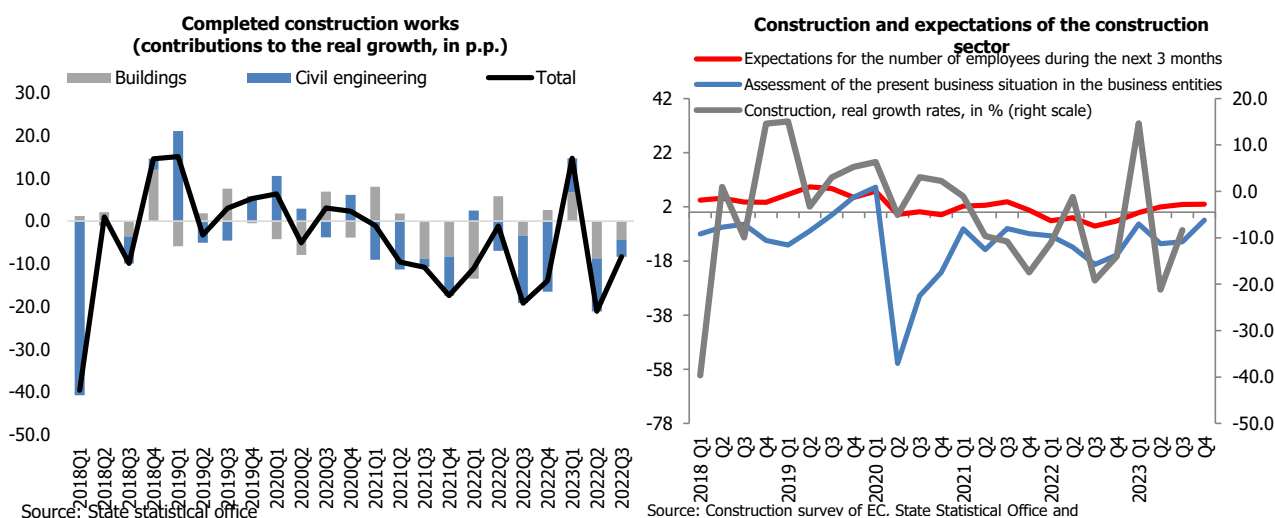
In the third quarter of the year, the industrial output⁷ registered a slight decline of 0.6% on an annual basis, compared with the growth of 2.7% in the previous quarter, as a result of the negative contributions from the manufacturing industry and mining sector, while the energy sector registered a small positive contribution. Observed by activity, the most significant negative contribution was registered in the

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

activities "production of clothing" and "production of electrical equipment", with additional negative contribution also being made by the activity "production of tobacco products". On the other hand, the most significant positive contribution was registered in the activity "production of metals" (reflecting a lower base effect due to the energy crisis), and a significant positive contribution was also made by the activity "production of basic pharmaceutical products and pharmaceutical preparations". In the period October - November 2023, total industrial output registered positive developments, amid growth in manufacturing industry, energy and mining sectors. The industrial sector managers have more favorable perceptions of the business situation in the fourth quarter of 2023, compared to the same quarter last year, with slightly less favorable expectations in terms of the movement of manufacturing in the period ahead.



According to the available high-frequency data, **in the third quarter of 2023, the activity in the construction sector again recorded a high real decline on an annual basis, but more moderate compared to the decline in the last quarter.** The decline in total completed construction works is due to the decline in both building construction and civil engineering. On the other hand, domestic production of construction materials recorded a further solid growth, but there is a high growth of the exports of these products and a decline in their imports. In October, the value of completed construction works increased as a result of the performances in civil engineering, while building construction continued to decline. The perceptions of the corporate managers in the construction sector for the movement of their activity in the fourth quarter of 2023 are more favorable compared to the same quarter last year, with more favorable expectations for the coming period.

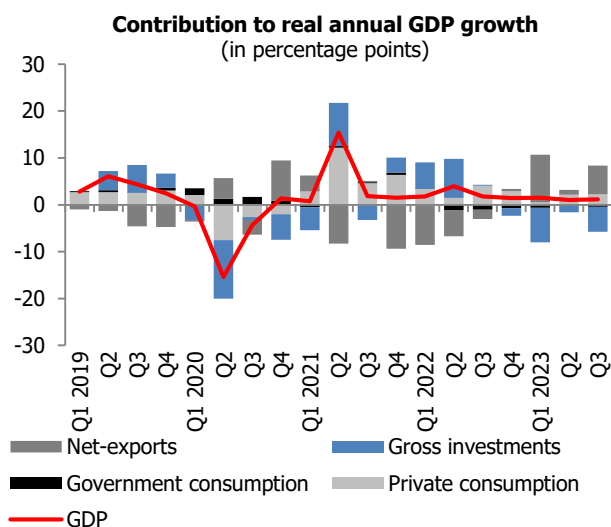


1.3. Aggregate demand

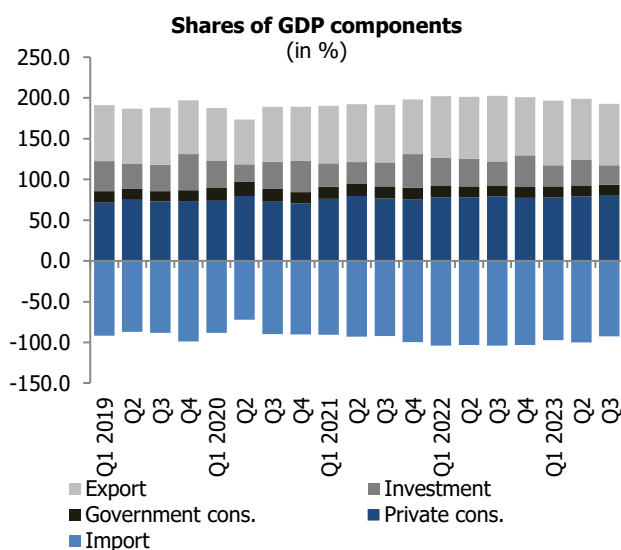
In terms of demand, the real annual GDP growth of 1.2% in the third quarter of 2023 results from net exports, amid further and stronger downward adjustment of the import of goods and services, whose positive effect still prevails. A decrease was also registered in exports, taking into account the stabilization and capacity utilization after the high growth in the past two years, amid slower growth of foreign demand. On the other hand, domestic demand registered a decline, influenced by the substantial real fall in gross investments and the reduction of public consumption, while private consumption recorded a further solid growth. The fall in gross investments deepened, amid high base effect from the last year when inventories significantly increased due to the increased global risks, but also amid lower investments in fixed assets, as seen through the unfavorable trends in construction. The growth of private consumption continues to be supported by the real growth of the average wage paid and the pension bill.

The structural analysis of the GDP⁸ in terms of demand, shows that in the third quarter of 2023 the growth results from the net exports, amid smaller decline in exports than the decline in imports. An additional contribution is made by private consumption, which continues to grow, with the same dynamics compared to the previous quarter. However, the further and strong decline in gross investments, mainly reflecting the high base effect caused by inventories, as well as the decline in public consumption, resulted in a negative contribution from domestic demand in the third quarter.

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



Source: State Statistical Office and NBRM calculations.



Source:SSO and NBRM calculations.

Real annual growth rates (%)												Contributions to real annual growth (in p.p.)**											
	2019	2020	2021	2022	2022-Q1	2022-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2	2023-Q3	2019	2020	2021	2022	2022-Q1	2022-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2	2023-Q3	
Private consumption	3.7	-3.6	8.6	3.8	4.4	1.9	5.3	3.8	0.7	2.8	2.8	2.5	-2.3	5.3	2.1	3.0	1.3	3.6	2.5	0.5	1.9	2.0	
Government consumption	2.5	9.8	0.9	-5.0	0.1	-7.6	-7.0	-5.2	-4.3	-1.1	-3.0	0.4	1.4	-0.1	-0.4	0.0	-1.3	-1.1	-0.8	-0.7	-0.2	-0.5	
Exports of goods and services	8.9	-10.9	14.3	11.4	9.1	12.2	16.3	8.0	6.6	-1.4	-5.0	5.4	-6.8	6.8	8.9	6.1	8.3	11.0	5.0	4.9	-1.0	-3.8	
Imports of goods and services	10.1	-10.9	14.8	12.4	16.5	15.3	14.6	4.9	-5.0	-2.0	-9.8	-7.3	8.3	-8.4	-13.2	-12.9	-12.3	-11.7	-4.6	4.8	1.9	9.4	
Gross capital formation	9.5	-15.1	2.9	9.4	19.8	31.3	0.7	-3.9	-21.8	-4.4	-18.2	3.1	-5.2	0.3	4.9	5.5	8.0	0.0	-0.8	-7.6	-1.5	-5.6	
Domestic demand	5.2	-5.5	6.1	4.2	7.6	7.1	2.7	0.4	-5.9	0.4	-2.9	5.9	-6.1	5.5	6.5	8.5	8.0	2.5	1.0	-7.8	0.2	-4.0	
Net exports*	13.7	-10.7	16.3	15.2	42.2	25.0	9.2	-1.5	-35.8	-3.8	-26.3	-2.0	1.5	-1.6	-4.4	-6.8	-4.1	-0.7	0.4	9.7	0.9	5.6	
Statistical discrepancy												0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.3	-0.1	-0.4	
GDP	3.9	-4.7	4.5	2.2	1.7	4.0	1.8	1.5	1.5	1.1	1.2	3.9	-4.7	3.9	2.1	1.7	4.0	1.8	1.5	1.5	1.1	1.2	

*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 NBRM calculations.

1.3.1. Private consumption

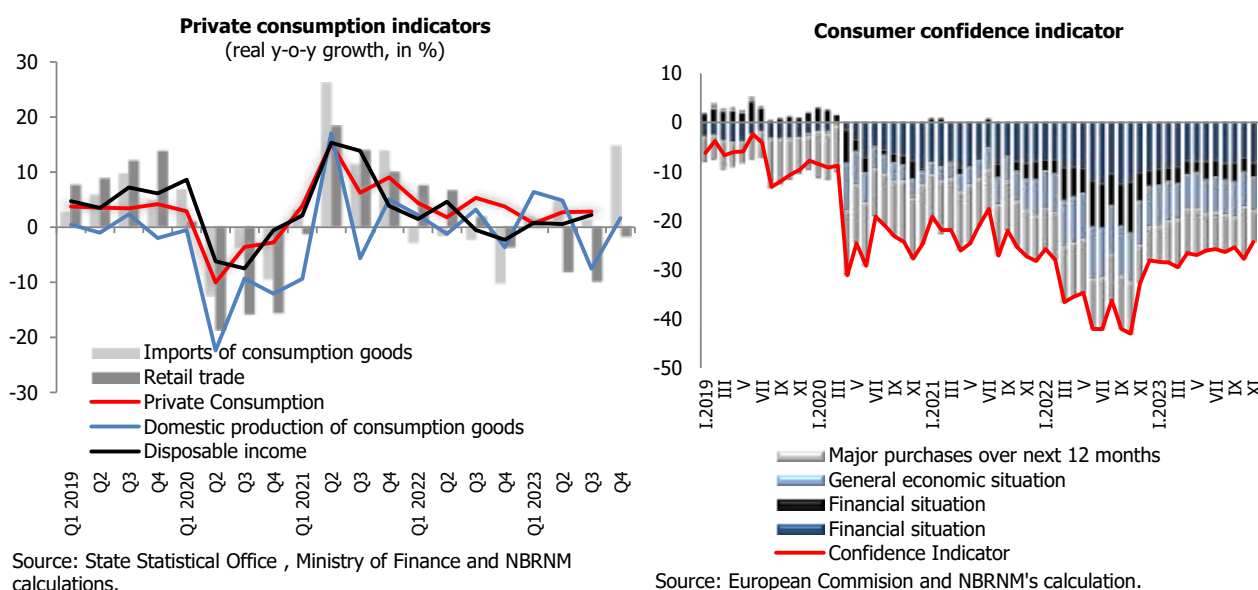
In the third quarter of 2023, private consumption continues to grow at the same pace as in the previous quarter, at a rate of 2.8% (quarterly growth of 1%). The growth of consumption is supported by the real growth of the average wage paid⁹ and the pension bill¹⁰, for the second consecutive quarter. On the other hand, bank lending to households in this quarter stagnated in real indicators, while private transfers recorded a deepening of the real fall that started in the previous quarter. Amid uncertainty arising from the war in Ukraine and the new conflict in the Middle East, as well as maintenance of consumer prices at a high level, at the end of the quarter further economic measures were adopted to protect the standard of living¹¹ and maintain household consumption also in the following period.

⁹ For more details, see section 1.3. Employment and wages.

¹⁰ In September 2023, pensions increased by 5.3% nominally according to the regular adjustment with the new methodology which follows two indicators, i.e. 50% of the increase in the average wage and 50% of the increase in the consumer prices, according to the official data of the State Statistical Office. This harmonization happens twice a year, in March and September (for more information see the following [link](#)).

¹¹ On 19 September 2023, the Government adopted a decision on reducing the prices of some food products by at least 10% and freezing the reduced prices. The Decision is valid from 20 September to 31 December 2023 and the highest prices of some of the food products are determined at the level of prices (excluding the promotional pricing) applied as of 1 August 2023 in retail trade, i.e. the prices of these products are reduced by at least 10%. For more details, please visit the following link: <https://vlada.mk/node/34532>.

The available private consumption data¹² for the fourth quarter of 2023 show different signals, which generally indicate its further increase. Namely, this period registered an annual growth in domestic production of consumer goods, and import of consumer goods grew rapidly. Also, in part of the disposable income components, i.e. in wages and pensions, the growth registered in the previous quarter accelerated, with real growth in household loans. On the other hand, retail trade and gross revenues from VAT continued to register a real fall, but the fall has significantly slowed down. The results of the Bank Lending Survey from December show a net tightening of the overall credit conditions, more pronounced compared to the previous survey and net reduction of the demand for total household loans. The consumer confidence indicator¹³ points to more favorable perceptions for the fourth quarter of 2023 both compared to the previous quarter and compared to the same period in 2022. During the fourth quarter, amid protracted uncertainty, additional economic measures were adopted to protect the living standard¹⁴.



1.3.2. Public consumption

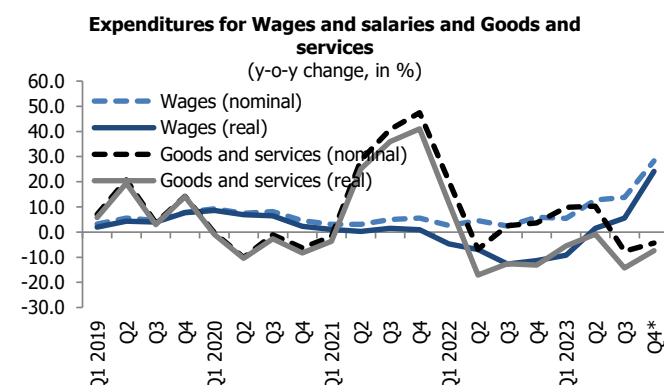
The real annual decline in public consumption continued in the third quarter of 2023 and amounted to 3% (growth of 1.1% on a quarterly basis). According to the budget data, the decline in this period is due to the shifts in the main categories of public consumption, primarily in the expenditures on goods and services.

In accordance with the fiscal data for the period October - November 2023, the budget performances point to real annual growth of **public consumption** in the fourth quarter of the year, amid growth in almost all main categories (except for the expenditures on goods and services and the transfers for the Employment Service Agency).

¹² Data on wages are as of October 2023, 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 2023.

¹³ European Commission's Consumer Survey as of November 2023. 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.

¹⁴ On 9 December 2023, the Government adopted another set of anti crisis measures, divided in four categories: 1) Measures to support citizens and households (support for pupils and students from low-income families, support for vulnerable categories of citizens, pensioners and households with lower incomes, support for farmers); 2) Measures to support the economy (more favorable loans for liquidity and investments, subsidizing contributions for higher wages); 3) Measures to support the public sector (municipalities and public enterprises); and 4) Systemic measures that contribute to mitigate the effects of the price and energy crisis. (<https://finance.gov.mk>)



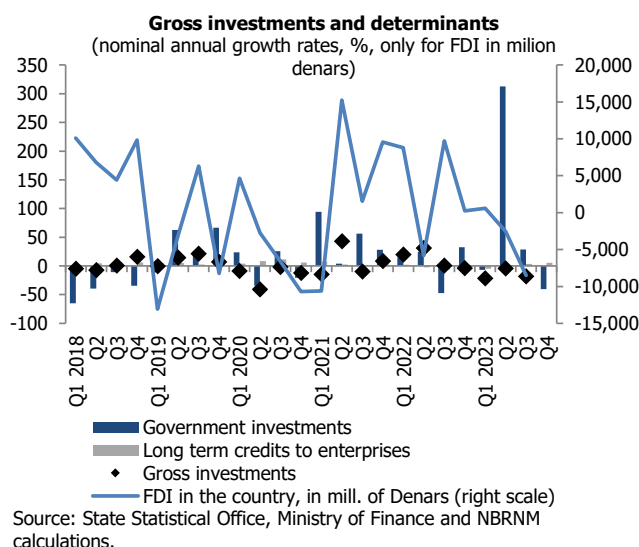
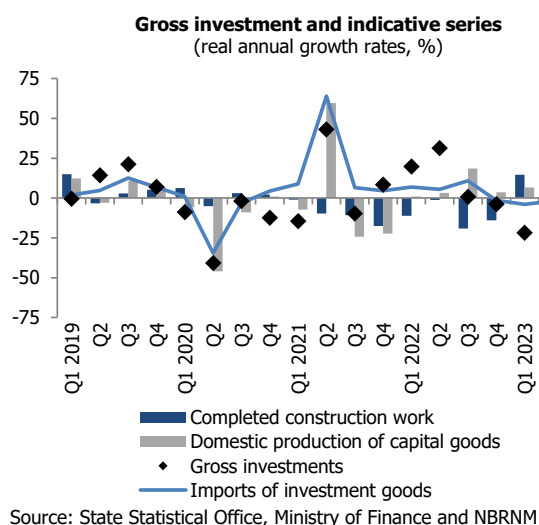
Source: Ministry of Finance and NBRNM calculations.
The calculations include expenditures of Consolidated Budget of Central Government and Funds, deflated by CPI.

1.3.3. Investment consumption

The decline in gross investments deepened in the third quarter of 2023. Moreover, the investments registered a real annual decline of 18.2% and a quarterly decline of 14.8%. Such movements on an annual basis indicate that there is still an adverse effect from the high base effect caused by inventories, which increased last year in response to the adverse effects of the war in Ukraine and uncertainty in energy and raw materials markets. Also, as seen through the indicative categories for fixed assets investment, this period registered negative real changes in completed construction works, imports of means of operation, revenues from income tax and in foreign direct investments. On the other hand, the other indicative categories recorded a high real growth in government capital investments (related to advance payments), with growth in domestic production of capital goods and long-term corporate loans.

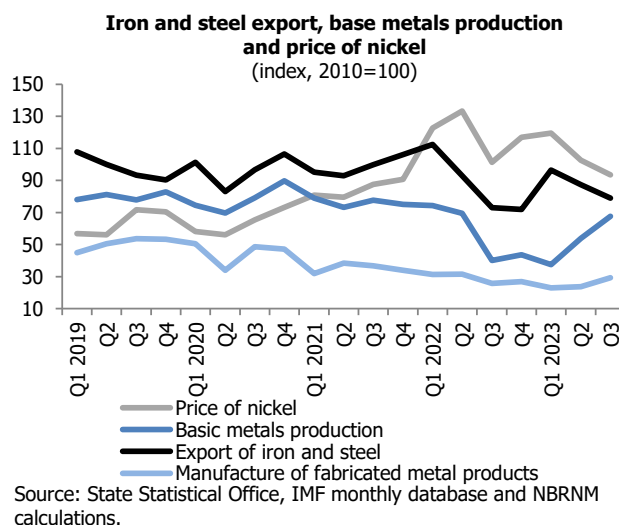
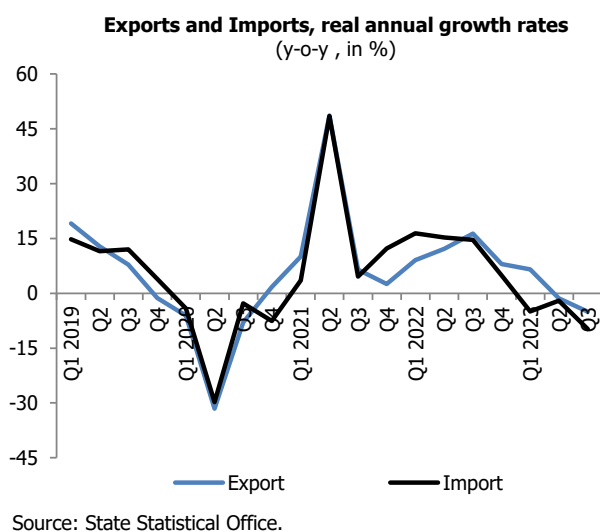
Regarding the high frequency data on gross investments¹⁵ for the period October - November 2023, real annual fall was registered in government capital investments, while the other categories registered solid growth (in revenues from income tax, imports of means of operation, long-term corporate loans, construction, as well as in domestic production of capital goods). On the other hand, the results of the Bank Lending Survey for the fourth quarter point to net tightening of the overall credit conditions and net reduction in the demand for corporate loans.

¹⁵ Data on completed construction works and inventories of finished products are as of October 2023, 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 2023.



1.3.4. Net external demand

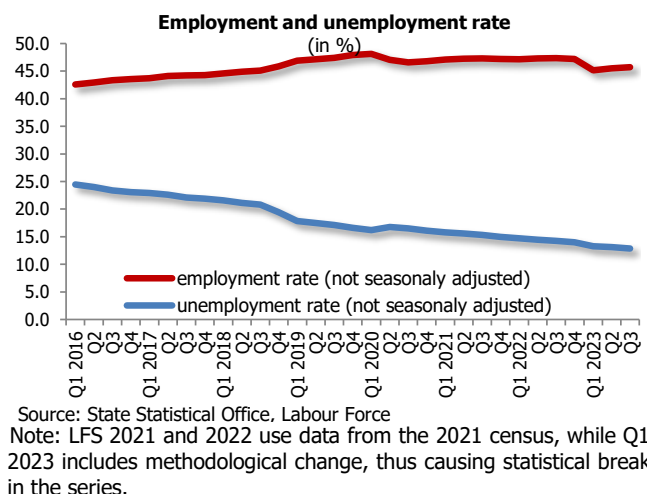
In the third quarter of 2023, the net exports made a positive contribution to the GDP growth, amid sharper decline in imports relative to the decline in exports. Namely, this quarter registered an annual decline in exports, by 5%, amid a quarterly decline of 1.5% (annual decline of 1.4% and quarterly decline of 4.1%, respectively, in the previous quarter), following the previously registered high growth in the past two years, and also due to the slower growth of foreign demand. Analyzed by nominal values of foreign trade statistics, the largest positive contribution was made by the export of machinery and transport equipment and miscellaneous manufactured articles, with negative contribution of the export of chemical products and energy. The absence of need for import of inventories, as well as the decline in gross investments and exports, decreased the total imports in the third quarter, by 9.8% on an annual basis (amid a quarterly decline of 5.3%). **Foreign trade data in October - November 2023** indicate potential further deficit narrowing compared to the same period last year, amid a sharper nominal decline in the import than the export of goods.



1.4. Employment and wages

In the third quarter of 2023, the labor market continued to register positive developments on a quarterly basis. Thus, the number of employed persons increased by 0.4%, while the number of unemployed decreased by 1.7%. Such movements contributed to a slight increase in the employment rate, which reached 45.7%, amid further decrease in the unemployment rate, which reduced to 12.8%. At the same time, the third quarter registered an increase in the active population, amid unchanged inactive population, which indicates favorable developments in labor supply. In accordance with the surveys, the optimism of corporate managers in terms of the new employments in the fourth quarter of 2023 increased compared to the perceptions in the previous quarter. Regarding the labor cost, in the third quarter of 2023 the wages continued to grow at a similar pace.

In the third quarter of 2023, the labor market¹⁶ registered positive developments on a quarterly basis. Thus, the third quarter of 2023 registered an increase in the number of employees by 0.4% compared to the previous quarter. Observed by activity, the largest contribution to the quarterly growth of employment was made by the activities related to "education", "health and social work", "other services", "transport and storage", as well as "manufacturing industry". On the other hand, a more pronounced negative contribution was made by the activities related to "agriculture", "public administration and defense; compulsory social security", "construction", as well as the activities related to "hotels and restaurants". Analyzing the economic status¹⁷, the growth of the number of employees is mainly explained by the growth in the categories of employees and own-account workers, with negative movements in the categories of employer and unpaid family workers.

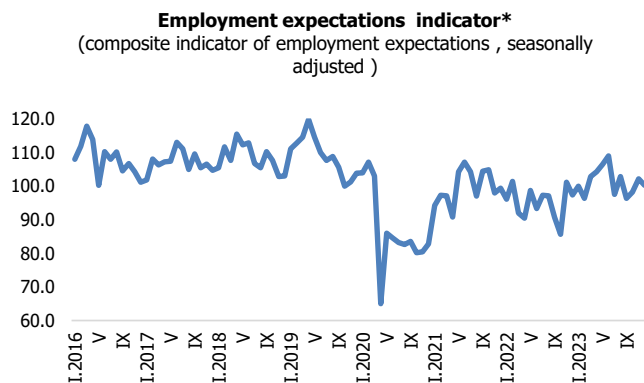


¹⁶ The results of the Labor Force Survey (LFS) for the first three quarters of 2023 are not comparable with the data from the previous quarters of other years, because in 2023 the new Regulation (EU) no. 2019/1700 of the European Parliament and the Council for Social Statistics and the corresponding executive regulation of the Commission (EU) no. 2019/2240 for the area of the workforce was implemented, while the previous Regulation (EC) no. 577/98 has been repealed. The implementation of the new regulation caused changes in the research, starting from the changes in questionnaire, changes in the order of the questions, modifying and removing current and adding new questions, changes in the scope and definition of employment and unemployment. Therefore, in this quarterly information, we do analysis based on comparable data from 2023, that is, analysis of quarterly changes.

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

In conditions of a quarterly growth in the number of employees, the employment rate reached 45.7%, which is an increase of 0.2 percentage points compared to the previous quarter.

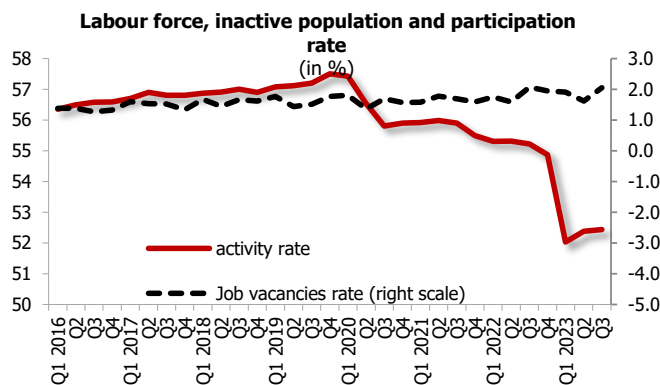
The business tendency surveys¹⁸, on average, mainly suggest increased optimism among managers of business entities regarding the expectations for increasing the number of employees in the fourth quarter of 2023 compared to the previous quarter, influenced by the optimistic expectations of the managers in construction, trade and in the services sector.



Source: European Commission, Business and consumer surveys.

*Managers employment expectations for the next 3 months in the companies in the four sectors: industry, services, retail trade and construction.

The vacancy rate¹⁹ remained relatively stable, so that in the third quarter of 2023 it equals **2%** (similar to the respective quarter of 2022, when it was 2.1%). Observed by activity, the highest vacancy rates were registered in the activities "manufacturing industry" (3.1%), "construction" (2.9%), "administrative and auxiliary services" (2.7%), "transport and storage" (2.6%), "arts, entertainment and recreation" (2.5%), "hotels and restaurants" (2.3%), "trade" (2.1%) and "information and communication" (2.1%).



Source: State Statistical Office.

Note: LFS 2021 and 2022 use data from the 2021 census, while Q1 2023 includes methodological change, thus causing statistical break in the series.

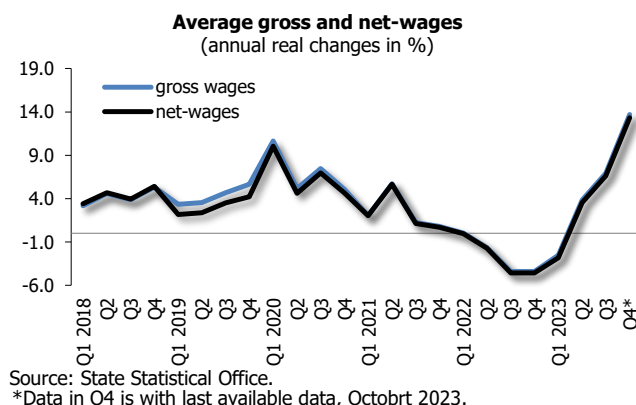
¹⁸ Source: European Commission, business tendency surveys, employment expectations in the next 3 months in industry, services, retail trade and construction (surveys conducted in October, November and December 2023).

¹⁹ The job vacancy rate is defined as the ratio between the number of job vacancies and the total number of jobs. Usually, the job vacancy rate is considered along with the unemployment rate (a relationship known as the Beveridge Curve). The 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.

Similar to demand, the third quarter of 2023 also saw growth in labor supply. Namely, in the third quarter, the total labor force increased by 0.2% on a quarterly basis, while the activity rate remained at 52.4%.

The moderately improved movements in the demand for relative to the supply of labor in the third quarter of 2023 led to a further decline in unemployment. Thus, the number of unemployed in the third quarter decreased by 1.7% on a quarterly basis, while the unemployment rate further decreased and reduced to 12.8% (13.1% in the previous quarter). Such movement of the unemployment rate is a result of the further decrease in the number of unemployed, amid simultaneously positive movements in the number of employees and stable inactive population.

The average net and gross wages paid in the third quarter registered an annual growth of 14.9% and 15.2%, respectively (growth of 15.1% and 15.4%, respectively in the previous quarter). The annual wage growth reflects the increase in the wages for the public sector employees²⁰ in September 2023 in accordance with the new Labor Agreement, and additionally the previous growth of the minimum wage (of 12.6% in March 2023) and consequently the linear growth of Denar 2,175 of the wages in the government administration due to the adjustment of the wages with the minimum wage, in accordance with the legal regulations²¹. Also, the increase partly results from the increased wages of officials from April 2023 by 78% and the increased wages of health workers²² from May 2023. The wage growth was driven by the existence 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, especially in: "public administration and defense", "administrative and auxiliary services", "education", "construction", "electricity, gas, steam and air-conditioning", as well as the activities related to the "manufacturing industry". In conditions of a significant slowdown in the growth of consumer prices, from 11.2% to 7.7%, the **real net and gross wages in the third quarter grew by 6.6% and 6.9%, respectively, on an annual basis, which represents an acceleration compared to the growth in the previous quarter.** In October 2023, the annual growth in the nominal average net wage equaled 17.3%, while the real net wage increased by 13.3%.



²⁰ In July 2023, the Government signed a new Labor Agreement for the public sector, which includes increase in the wages by 10% from September 2023, an additional increase in September 2024 if the annual inflation rate in the first six months of 2024 exceeds 3% (the gross wage increases in the amount of up to 3%) and a review of the wage determining methodology from March 2025 which links the basic gross wage to the average gross wage in the country by increasing the complexity ratio by at least 5%. Also, the complexity ratio at the workplace will be harmonized with the nominal growth of GDP, if it is lower than the increase in the average gross wage.

²¹ In accordance with the latest amendments to the growth of the minimum wage (Official Gazette of the Republic of North Macedonia No. 58/23) from March 2023, the minimum net wage increased by Denar 2,175. The minimum gross wage, from March 2023 to February 2024, is Denar 29,739 (previously Denar 26,422), i.e. the minimum net wage is Denar 20,175 (previously Denar 18,000). This increase is calculated in accordance with last year's methodology, which will adjust the minimum wage, and is calculated in accordance 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. Moreover, it is defined that the minimum wage cannot be lower than 57% of the average net wage paid in the RNM for the previous year.

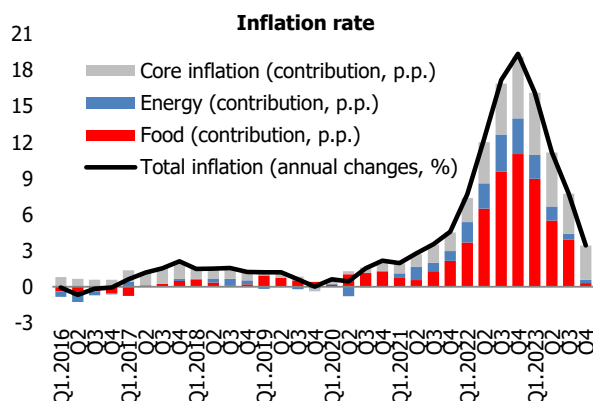
²² <https://vlada.mk/node/33235>

1.5. Inflation

In the fourth quarter of 2023, the annual inflation rate further slowed down and reduced to 3.4%. These shifts in domestic prices are a result of the movement in all three main categories, but to the greatest extent in food, taking into account the high base effect. During this quarter, the prices of primary food products, as well as the prices of energy on the international market mainly moved in a downward direction, and domestic short-term measures were also implemented to reduce and freeze the prices of part of the food products in retail trade. For the entire 2023, the average annual inflation rate was in line with the expectations and equaled 9.4%. Regarding the factors that would affect the future short-term dynamics of consumer prices, the fourth quarter registered further decline in the prices of domestic producers of industrial products and further deceleration in foreign imported inflation. Regarding the expectations for the inflation rate in the next period, according to the National Bank Survey, economic analysts expect its further slowdown, similar to the forecasted inflation dynamics of the National Bank and international institutions.

1.5.1. Current inflation

In the fourth quarter of 2023, the inflation rate continued to slow down and reduced to 3.4% on an annual basis (7.7% in the previous quarter)²³. The largest contribution to such dynamics was made by the slower growth of food prices, as well as by the slower growth of energy prices and core inflation.



Source: State statistical office and NBRNM calculations.

The annual growth of food prices recorded a stronger slowdown in the fourth quarter, reducing to a one-digit level and averaging 0.8% (10.2% in the previous quarter). Amid high base effect and domestic short-term measures to reduce and freeze the prices of part of the food products in retail trade, such dynamics mainly reflects the fall in the prices in the category of "milk, cheese and eggs" and the prices of bread and cereals, as well as the slowdown in the growth of the prices of meat and vegetables.²⁴

²³ On a quarterly basis, domestic consumer prices decreased by 1.0%, and by 0.4% seasonally adjusted.

²⁴ On 19 September, the Government of the RNM adopted a decision to reduce the prices of products within 24 categories of the bakery, milk, meat industry and agriculture of at least 10% in relation to the price they had on 1 August 2023 and to freeze them at that level, while retail traders were required to label these products with "guaranteed price" ([link](#)). Also, on 26 September, the Government prescribed, by a special decision, the highest trade (profit) margin in the trade in fresh fruits and vegetables in a total amount of up to 10% in wholesale trade and of up to 15% in retail trade ([link](#)). These decisions were initially in effect until November 2023, then their application was extended until the end of 2023 ([link](#)), and additionally, as of January 2024 ([link](#)). On 28 September, the Government adopted a decision to raise the import duties on the imports of citrus fruits, which was in effect as of 31 December 2023, as well as a decision to reduce the import duties (trade margins and duties) on the imports of fresh vegetables, with validity until February 2024

Structurally observed, the prices of meat and vegetables, together with the higher prices of fruit contribute the most to the annual growth of the prices in the food component in this quarter. During the fourth quarter, the prices of primary food products on the international market moved mainly in a downward direction. Also, in the fourth quarter, the selling prices of domestic food producers registered an annual decline, while the foreign effective food prices denominated in euros registered a further slowdown in the annual growth rate²⁵.

	annual changes, in %										contributions to annual changes, in p.p.									
	2022					2023					2022					2023				
	Q1	Q2	Q3	Q4	2022	Q1	Q2	Q3	Q4	2023	Q1	Q2	Q3	Q4	2022	Q1	Q2	Q3	Q4	2023
Consumer price index - all items	7.7	12.3	17.2	19.3	14.2	16.1	11.2	7.7	3.4	9.4	7.7	12.3	17.2	19.3	14.2	16.1	11.2	7.7	3.4	9.4
Food	10.4	18.0	26.7	30.3	21.5	24.6	14.5	10.2	0.8	11.8	3.8	6.7	9.9	11.4	8.0	9.0	5.5	3.9	0.3	4.5
Energy	13.4	17.8	25.5	23.6	20.2	15.3	9.2	3.6	2.3	7.3	1.8	2.3	3.4	3.1	2.7	2.0	1.2	0.5	0.3	0.9
Electricity	9.4	9.4	20.2	20.2	14.8	14.0	14.0	8.1	8.1	10.9	0.7	0.7	1.5	1.5	1.1	1.0	1.0	0.6	0.6	0.8
Heat energy	9.4	9.4	23.0	30.1	17.8	14.2	14.2	4.3	2.3	8.4	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Fuels and lubricants	29.1	42.0	37.7	21.2	32.3	4.2	-14.3	-13.3	-8.6	-8.5	0.9	1.4	1.3	0.8	1.1	0.1	-0.4	-0.4	-0.2	-0.2
Food and energy (volatile prices)	11.2	18.0	26.4	28.6	21.2	22.2	13.2	8.5	1.1	10.7	5.6	9.1	13.2	14.5	10.7	11.0	6.7	4.4	0.6	5.5
Core inflation calculated by the NBRNM (total index - food and energy (categories 01.1, 04.5, 07.2.2))	4.2	6.5	7.9	9.8	7.1	10.2	9.1	6.9	6.0	8.0	2.1	3.2	3.9	4.8	3.5	5.2	4.5	3.3	2.8	3.9
Overall index excluding energy, liquid fuels and lubricants and unprocessed food (SSO)	6.0	10.4	15.1	17.6	12.3	15.8	11.2	7.2	3.7	9.3										
Overall index excluding energy, liquid fuels and lubricants, unprocessed food, tobacco and alcoholic beverages (SSO)	6.1	10.5	15.7	18.2	12.7	16.6	11.4	7.2	3.4	9.4										

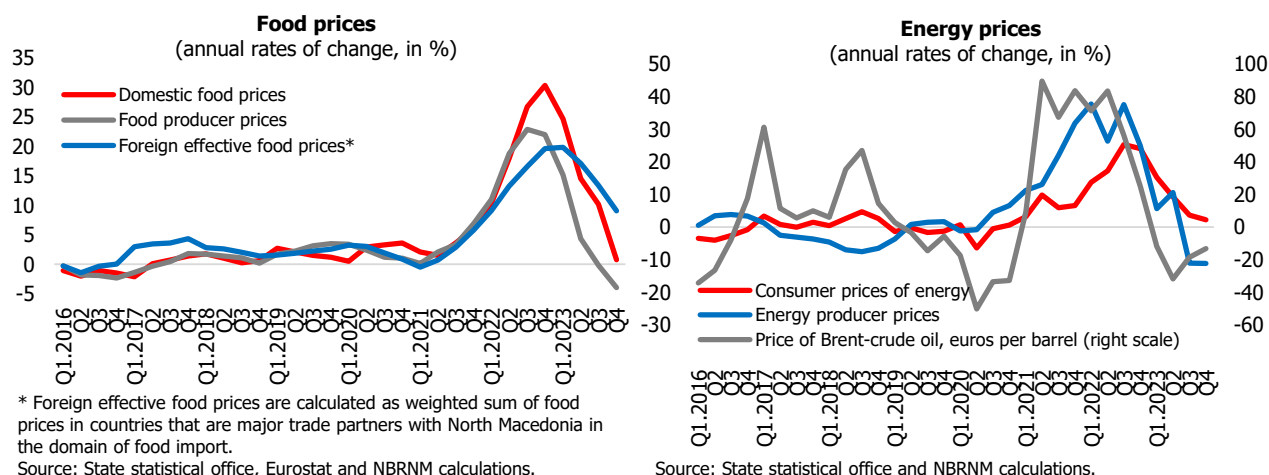
Source: State Statistical Office and NBRNM calculations.

The slowdown in the growth of energy prices continued in the fourth quarter of 2023, whereby the annual price growth reduced to 2.3% (3.6% in the previous quarter). Such dynamics is primarily the result of the decline in firewood prices due to the high base effect, which is associated with the faster price growth in the second half of 2022. Electricity prices for households remain the main driver of the price growth in the energy component in this quarter, which in turn results from the transmission effect of the price increase in January and July 2023²⁶. The further decline in the prices of oil derivatives acted in the opposite direction, amid a downward movement in the price of crude oil on world markets and depreciation of the dollar on an annual basis.

(link). The government decision to increase the preferential VAT rate from 5% to 10% of some of the food products acted in the opposite direction, adopted on 28 September initially (link), with amendments to the decision of 10 October (link).

²⁵ Data on sales prices of domestic food producers and foreign effective food prices refer to the first two months of fourth quarter of 2023.

²⁶ In accordance with the decision of the Energy Regulatory Commission (ERC), in January 2023 the following changes have been made to the price of electricity for the universal supplier, as follows: the price in the first and second block went down by 4.11% and 2.95% respectively, while the price in the third and fourth block increased by 0.85% and 7.65% respectively (press release), and the price of the low tariff increased to Denar 1.3183/kWh from Denar 0.6193/kWh earlier. Also, in January 2023 the tax rate for the turnover of electricity to households increased from 5% to 10%. In July 2023 the following changes have been made to the price of electricity for the universal supplier, as follows: the price in the first and second block went down by 7.04% and 4.09% respectively, while the price in the third and fourth block increased by 2.54% and 2.42% respectively (press release), and the price of the low tariff increased to Denar 1.4013/kWh. Moreover, as of July 2023 the tax rate for the turnover of electricity to households is 18%.



The core inflation in the fourth quarter of 2023 reduced to 6.0% annually (6.9% in the previous quarter). The slowdown in core inflation is mainly a reflection of the lower growth of the prices of the products for household maintenance, the prices of catering services and the prices of non-alcoholic beverages, influenced by the measure for guaranteed prices²⁷. However, in addition to tobacco products, whose prices this quarter increased as a result of the higher excises²⁸, the prices of catering services and the products for household maintenance remain the main drivers of core inflation, which together with the growth of the prices of tobacco make up slightly more than one third of core inflation in this quarter. Also, the other inflation sub-indices, which exclude the most volatile prices, registered a decelerated growth in this quarter, compared to the previous quarter. Thus, in the total index, excluding energy²⁹, liquid fuels and lubricant oils (for transport) and unprocessed food, the annual growth reduced to 3.7%, while in the total index, excluding energy, liquid fuels and lubricant oils (for transport), unprocessed food, tobacco and alcoholic beverages, to 3.4% (after 7.2% in the previous quarter).

In the fourth quarter of 2023, **producer prices** continued to register downward movements and on an annual basis they were lower by 3.2%³⁰ (fall of 1.6% in the third quarter). The decline in producer prices in this period, same as in the previous quarter, is a result of the reduced prices of intermediate products, including energy and capital goods. Observed by activity, in addition to the lower prices in the energy activity³¹, a significant contribution to the decline in producer prices was also made by the lower prices in mining sector, metal processing and food industry. **Producer prices of energy and consumer goods**, as an aggregate category and one of the factors that affect the dynamics of consumer prices, registered a decline of 0.8% in this period, following the slowdown in growth in the past four quarters. **Foreign effective inflation**³², as an indicative indicator of imported inflation, registered slower growth and amounted to 4.8% (7.0% in the previous quarter).

²⁷ On 26 September 2023, the Government of the Republic of North Macedonia made a decision to reduce and freeze the prices of non-alcoholic beverages, water and beer ([link](#)). This decision was initially in effect until November 2023, then its application was extended until the end of 2023 and with a revised list of products ([link](#)), and then as of January 2024 ([link](#)).

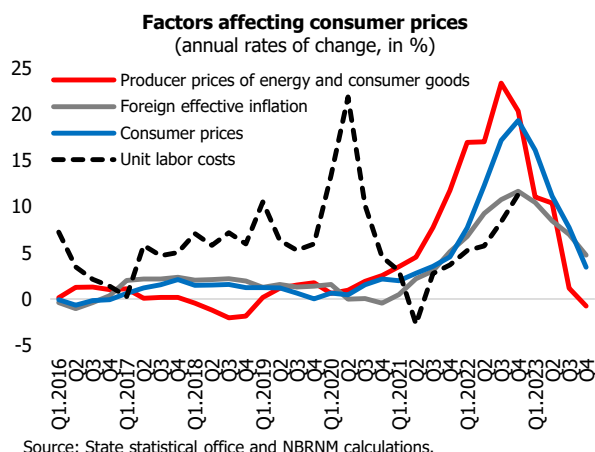
²⁸ In accordance with the amendments to the Law on Excise, the cigarette excise duty will increase by 0.23 denars per piece each year until 2030. As for the other tobacco products, see the amendments on the following [link](#).

²⁹ The energy category includes electricity, gas, liquid and solid fuels for heating and central heating.

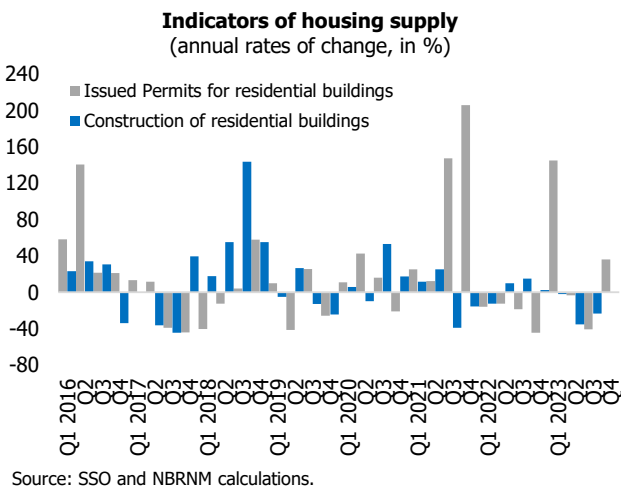
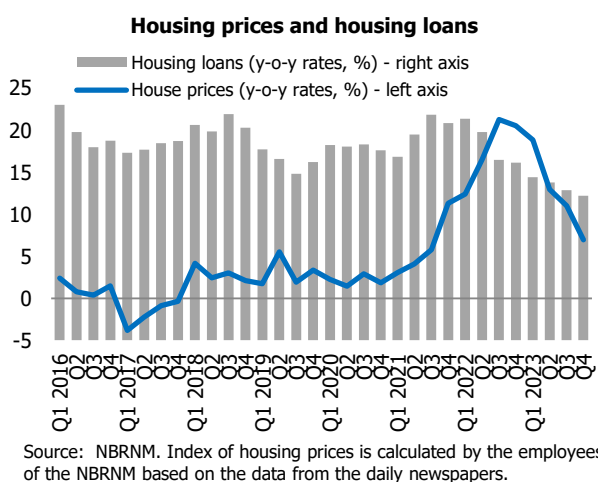
³⁰ The analysis of producer prices of industrial products uses data for the first two months of the fourth quarter of 2023.

³¹ In accordance with the ERC announcement ([link](#)), from January 2023, the electricity price decreased by 20.15% for over seventy thousand small companies on the regulated market.

³² The calculation of foreign effective inflation derives from the weighted sum of consumer price indices of the countries that are major partners of the Republic of North Macedonia in the field of import of consumer goods. The weight structure is based on the normalized shares of nominal imports from each country in the total nominal imports in the period 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 2023.



In the fourth quarter of 2023, there was a further **slowdown in growth and in apartment prices**, measured by the Hedonic index³³, whereby the annual growth reduced to a one-digit level of 7.0% (11.0% in the previous quarter). In terms of supply, the value of constructed residential buildings continued to register a substantial annual fall, which amounted to 23.3% in the third quarter, but slower compared to the second quarter (decline of 35.2%). The available data on the value of the issued approvals for construction of residential buildings in the fourth quarter of 2023³⁴ currently indicate an annual growth, after the fall in the previous two quarters. The demand for apartments is also more moderate, as seen through the further slowdown in the annual growth of housing loans³⁵.



1.5.2. Inflation expectations

Regarding the expected path of the inflation rate, domestic and international institutions predict a downward trend of the growth of consumer prices in the coming period. There are similar expectations of the surveyed economic analysts expressed in the **Survey on Inflation Expectations and Expectations**

³³ 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.

³⁴ The analysis refers to the first month of the fourth quarter of 2023.

³⁵ Available data for the first two months of the fourth quarter of 2023.

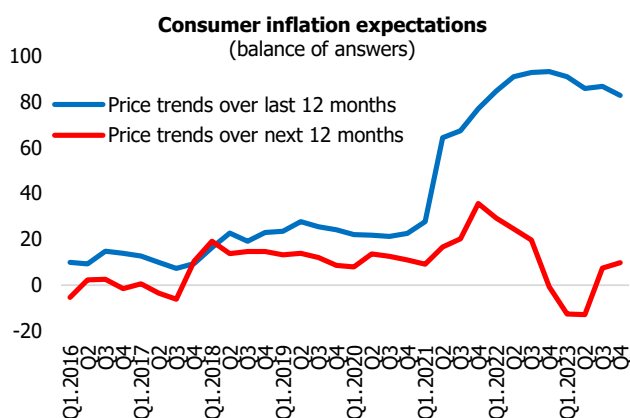
for the Movement of the Real GDP³⁶, conducted in December 2023, according to which they predict that the inflation rate would reduce to the level of 4.7% in 2024 and 3.3% in 2025, in line with the expectations for gradual stabilization of food and energy prices, the measures taken by policy makers and slowdown in foreign inflation.

Forecasts and expectations for the inflation rate

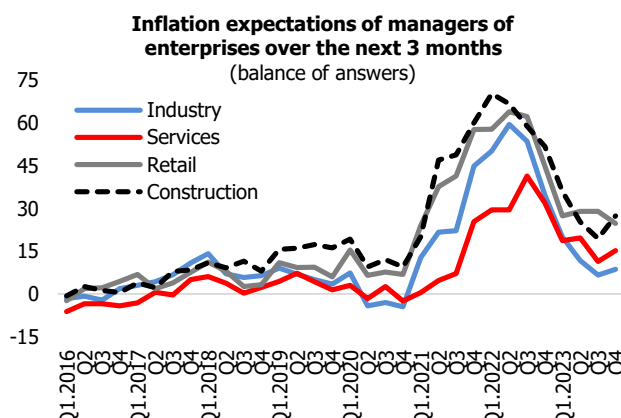
	2023	2024	2025
Economic analysts	9.3	4.7	3.3
IMF	10.0	4.3	2.2
Consensus Forecast	9.4	4.2	/
Ministry of Finance	9.2	3.6	2.0
NBRNM	9.5	3,5-4,0	2.0

Source: Inflation and real GDP growth expectations survey, December 2023; IMF, World Economic Outlook, October 2023; Consensus Forecast, December 2023; Ministry of Finance, Fiscal Strategy of the Republic of North Macedonia 2024-2028, December 2023; and NBRNM, October 2023.

The lower pressures from food and energy prices have a favorable impact on the expectations for the future short-term price movements in the retail trade segment, as expressed in the surveys of corporate managers in the fourth quarter of 2023. Thus, within the **corporate sector**³⁷ there is a decrease in the ratio of the managers of companies in the retail trade who expect an increase in the prices of their products in the following three months, while manufacturing industry, services sector and construction recorded a deterioration of this ratio compared to the previous quarter. Moreover, the expectations for the prices in the manufacturing industry remain the most favorable relative to the other activities. In the fourth quarter, on average, **consumers' expectations for price changes in the next 12 months**³⁸ indicate a slight deterioration, i.e. the number of persons who believe that prices will increase in the next 12 months is increasing, compared to those who expect lower prices.



Source: European Commission.
Data for the corresponding quarter are mean values from monthly data.



Source: European Commission.
Data for the corresponding quarter are mean values from monthly data.

³⁶ 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). The Survey results can be found at the following [link](#).

³⁷ European Commission's business tendency surveys in industry, retail trade, construction and services sector as of December 2023.

³⁸ European Commission's Consumer Survey as of December 2023.

1.6. Balance of payments

In the third quarter of 2023, the current account recorded a surplus of 1.8% of GDP³⁹, which is one of the higher levels usually registered at this time of year. Compared to the same period last year, the current account surplus increased by 1 percentage points of GDP, which entirely results from the lower trade deficit in goods (by 2.3 percentage points of GDP), amid favorable movements in both the energy and the non-energy component. The performances of the other current account components are slightly less favorable compared to the same period last year. In the third quarter, the financial account recorded net outflows, as a result of the net outflows in portfolio investments due to the government deleveraging, as well as in currency and deposits. Foreign reserves in this period remain within the safe zone.

	2022						2023				2022						2023			
	Ka.1	Ka.2	Ka.3	Ka.4	I-IX	I-XII	Ka.1	Ka.2	Ka.3	I-IX	Ka.1	Ka.2	Ka.3	Ka.4	I-IX	I-XII	Ka.1	Ka.2	Ka.3	I-IX
	In millions of euro										% of GDP									
I. Current account	-391.8	-236.9	105.9	-274.6	-522.8	-797.4	99.9	-117.5	258.9	241.3	-3.0	-1.8	0.8	-2.1	-4.0	-6.1	0.7	-0.8	1.8	1.7
Goods and services	-682.6	-734.0	-544.0	-768.5	-1960.6	-2729.1	-347.7	-576.5	-327.4	-1251.6	-5.2	-5.6	-4.2	-5.9	-15.0	-20.9	-2.5	-4.1	-2.3	-8.9
Credit	2138.6	2423.3	2559.2	2518.8	7121.1	9639.9	2432.0	2487.4	2490.1	7409.5	16.4	18.6	19.6	19.3	54.6	74.0	17.2	17.6	17.6	52.4
Debit	2821.2	3157.3	3103.1	3287.3	9081.6	12369.0	2779.6	3063.9	2817.5	8661.0	21.6	24.2	23.8	25.2	69.7	94.9	19.7	21.7	19.9	61.3
Goods	-851.2	-895.4	-872.3	-862.2	-2618.8	-3481.0	-601.0	-592.6	-618.7	-1812.3	-6.5	-6.9	-6.7	-6.6	-20.1	-26.7	-4.3	-4.2	-4.4	-12.8
Services	168.6	161.4	328.3	93.6	658.3	751.9	253.4	16.1	291.3	560.8	1.3	1.2	2.5	0.7	5.1	5.8	1.8	0.1	2.1	4.0
Primary income	-141.2	-139.3	-137.9	-150.0	-418.4	-568.4	-178.0	-178.6	-170.1	-526.6	-1.1	-1.1	-1.1	-1.2	-3.2	-4.4	-1.3	-1.3	-1.2	-3.7
Secondary income	432.0	636.4	787.8	644.0	1856.2	2500.2	625.6	637.5	756.3	2019.5	3.3	4.9	6.0	4.9	14.2	19.2	4.4	4.5	5.4	14.3
II. Capital account	0.2	-0.7	-1.1	1.7	-1.7	0.0	0.3	-0.5	-0.5	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	-391.6	-237.6	104.8	-272.9	-524.5	-797.4	100.3	-118.0	258.3	240.6	-3.0	-1.8	0.8	-2.1	-4.0	-6.1	0.7	-0.8	1.8	1.7
III. Financial account	-16.7	-78.1	-518.5	-414.5	-613.2	-1027.7	-167.0	-160.4	589.4	262.0	-0.1	-0.6	-4.0	-3.2	-4.7	-7.9	-1.2	-1.1	4.2	1.9
Direct investment	-108.0	-138.1	-178.1	-230.0	-424.3	-654.2	-135.8	-109.8	-39.2	-284.8	-0.8	-1.1	-1.4	-1.8	-3.3	-5.0	-1.0	-0.8	-0.3	-2.0
Portfolio investment	26.4	69.1	-221.7	74.1	-126.2	-52.1	-438.5	20.0	414.9	-3.5	0.2	0.5	-1.7	0.6	-1.0	-0.4	-3.1	0.1	2.9	0.0
Currency and deposits	24.3	118.4	133.7	106.6	276.4	383.0	124.0	119.9	268.7	512.6	0.2	0.9	1.0	0.8	2.1	2.9	0.9	0.8	1.9	3.6
Loans	49.0	-35.2	-174.6	-211.9	-160.8	-372.7	163.7	-174.0	-6.6	-17.0	0.4	-0.3	-1.3	-1.6	-1.2	-2.9	1.2	-1.2	0.0	-0.1
Trade credit and advances	-7.5	-83.9	-77.6	-152.7	-169.0	-321.7	115.3	-15.8	-48.5	50.9	-0.1	-0.6	-0.6	-1.2	-1.3	-2.5	0.8	-0.1	-0.3	0.4
Other accounts receivable/payable	-0.3	-5.0	0.0	-0.3	-5.4	-5.7	5.0	0.1	0.1	5.2	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	0.2	0.4	0.4	0.6	1.0	0.2	0.2	0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
V. Net errors and omissions	1.5	26.8	30.8	-17.8	59.1	41.3	-0.5	9.9	25.5	34.8	0.0	0.2	0.2	-0.1	0.5	0.3	0.0	0.1	0.2	0.2
VI. Reserve assets	-373.5	-132.7	654.0	123.8	147.8	271.6	266.7	52.3	-305.6	13.3	-2.9	-1.0	5.0	0.9	1.1	2.1	1.9	0.4	-2.2	0.1

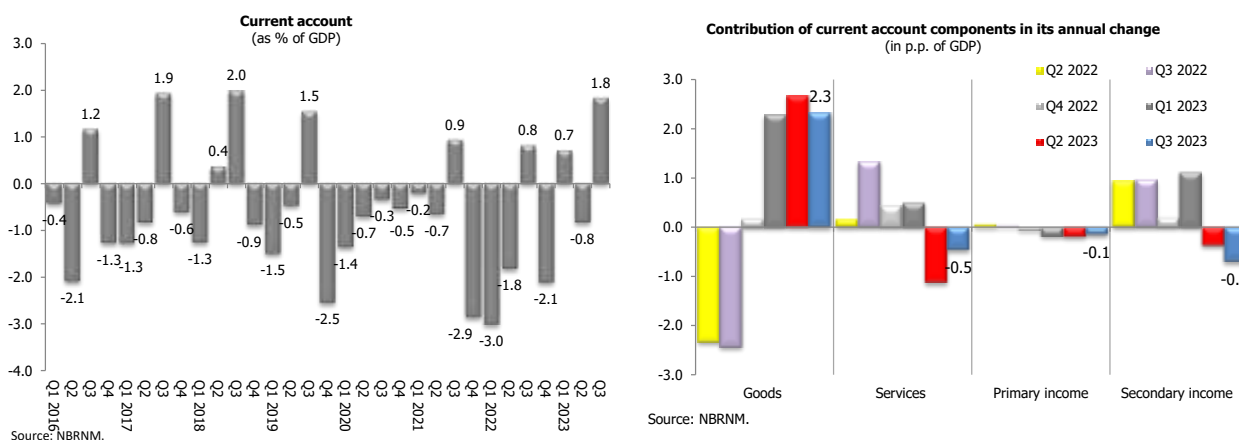
Source: NBRNM.

1.6.1. Current account

In the third quarter of 2023, the current account of the balance of payments recorded a surplus of Euro 258.9 million, or 1.8% of GDP, which is an increase of 1 percentage points of GDP compared to the same period last year. The narrowing of the trade deficit remains the main factor for such shifts in the current account, contrary to the movements in the other components that act in the opposite direction. The lower trade deficit results from the reduced negative gap in both the energy and the non-energy balance, with a higher contribution of the energy balance. Net exports of electricity in this quarter, compared to the net imports of electricity in the same period last year, as well as the reduced net imports of other energy, especially oil derivatives, created conditions for improving the energy balance. The reduced negative balance in the non-energy category of products is a reflection of the lower import of raw materials of part of the production facilities in foreign ownership. In terms of the other current account components, secondary income recorded a lower surplus, mainly due to the lower private transfers, although official transfers were also lower in this quarter. Lower surplus was also registered in the trade of services, amid reduced net inflows on the basis of services on physical inputs owned by others, as well as amid net outflows in construction services, contrary to the net inflows in the same period last year, which is associated with

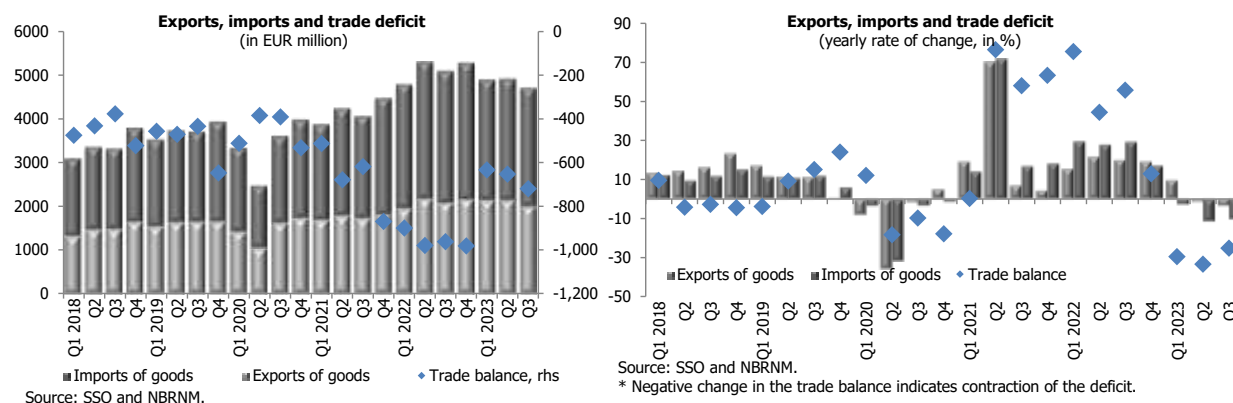
³⁹ The calculations use the nominal GDP forecast (from October 2023).

increased imports of services for construction infrastructure projects. On an annual basis, the increased net outflows in the primary income also had the same influence.



Box 1: Foreign trade in goods and movement of the Nominal and the Real Effective Exchange Rate (NEER and REER)⁴⁰

In the third quarter of 2023, foreign trade amounted to Euro 4,696.7 million, i.e. 33.2% of GDP, which compared to the same quarter of the previous year is a decrease of 7.6% (or 5.8 percentage points of GDP). The annual decline mostly results from the import of goods, which continues to decline rapidly, amid annual fall in the export of goods, but more moderate.

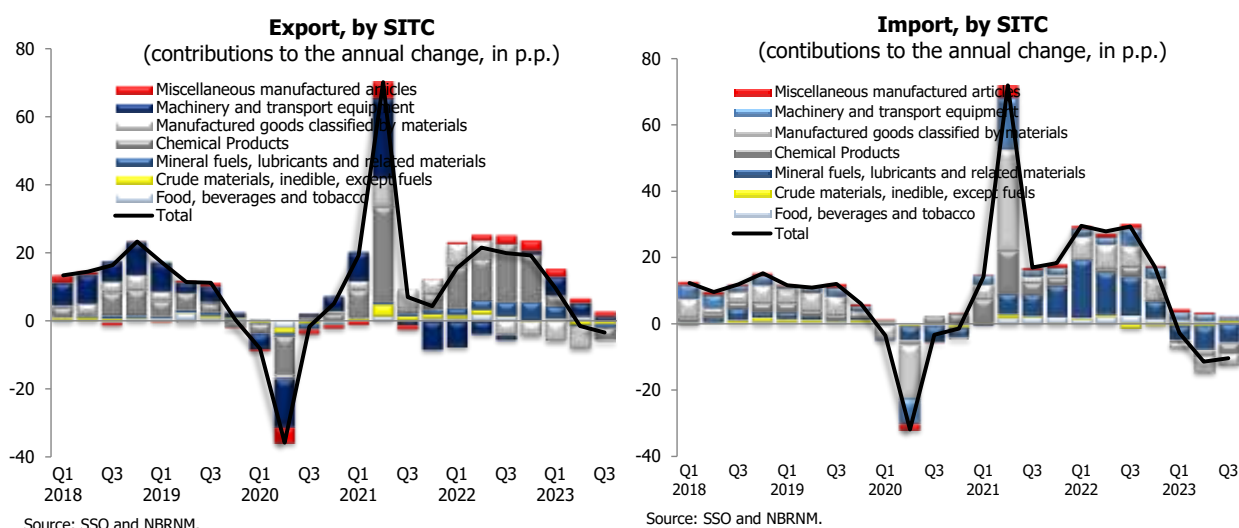


In the third quarter of 2023, the export of goods registered a decrease of 3.5% on an annual basis. Such performance is mainly due to the negative contribution of the export of chemical products, which is a significant export category of part of the foreign-owned production facilities from the automotive industry. Negative contribution was also registered in the energy exports, due to the lower export of oil and oil derivatives, as well as the lower exports of electricity, which is completely a result of the downward changes in energy prices on world markets. The reduced export of ores also had the same influence, which is due to the weaker performances in mining sector for several consecutive quarters. This effect is significantly offset by the higher exports of furniture, as well as by the exports of equipment and machinery and vehicles, due to the improved export performances of part of the foreign companies from the automotive industry. **The import of goods in the third quarter of 2023 declined by 10.3% annually, again largely due to the reduced pressures in energy.** Namely, the reduced import of oil

⁴⁰ 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.

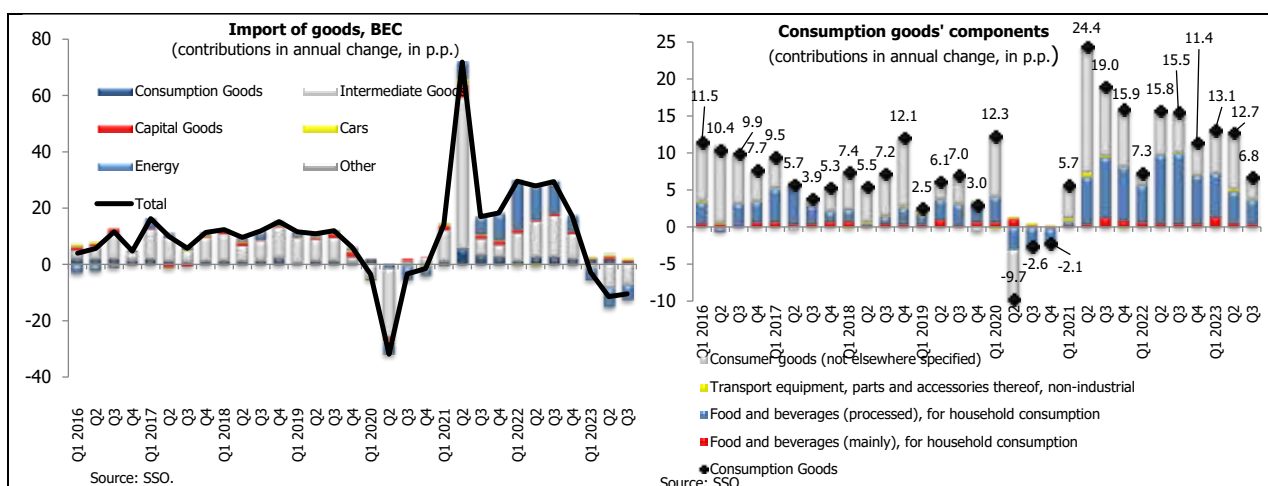
derivatives and electricity and gas contributes to about 55% of the annual growth of the total import component. Lower import prices due to the downward changes in energy prices on world markets, as well as the downward adjustment in imported quantities of oil derivatives, had the greatest impact on the decline in energy imports in this quarter. The remainder of the decline in the import component stems from the lower imports of inorganic chemical products and non-ferrous metals. On the other hand, this quarter registered increased import of vehicles, as well as equipment and machinery, annually. **The performances in both components of foreign trade in the second quarter of 2023 led to a significant narrowing of the trade deficit by 25% on an annual basis**, amid a faster decrease in the deficit in the energy than the decrease in the deficit in the non-energy balance.

The latest available data for the period October - November 2023 indicate a further decline in both the export and the import component of foreign trade compared to the same period last year. The annual decline in exports mainly results from the lower exports of part of the foreign-owned production facilities from the automotive industry, as well as from the lower electricity exports. On the other hand, the annual decline in the export component is mitigated by the growth of the exports of equipment and machinery, as well as the higher exports of vehicles and furniture. The decline on the import side in this period was mostly caused by the lower energy import, as well as the lower import of part of the foreign-owned production facilities from the automotive industry. On the other hand, import growth was registered in other imports, vehicles, as well as imports of equipment and machinery.

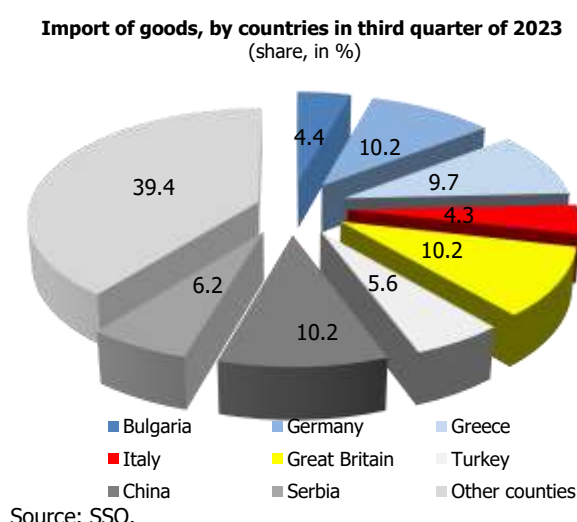
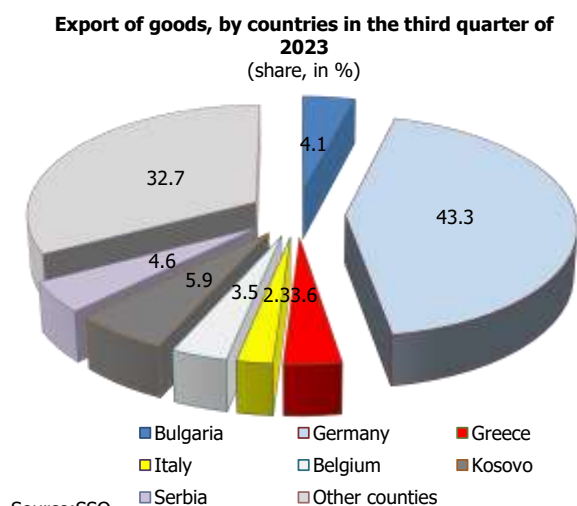


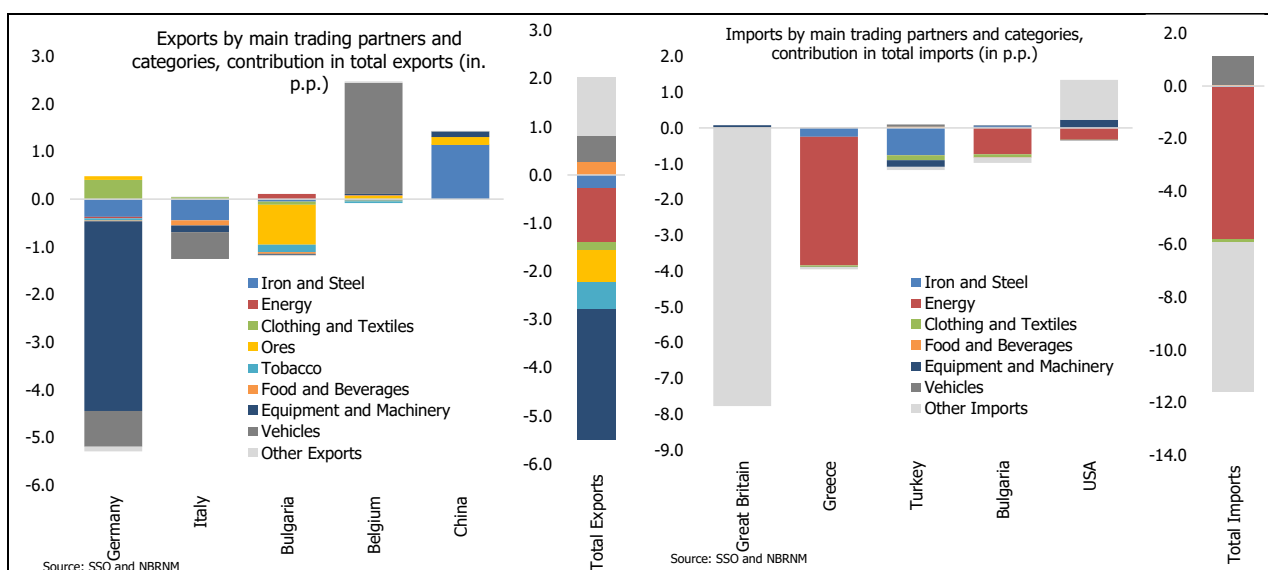
According to the analysis of the import of goods under the System of National Accounts (SNA), the import fall in the third quarter of 2023 results from the imports of intermediate products and from the energy imports. Imports for personal consumption⁴¹ registered a moderate increase, with the highest contribution of the import of food and beverages (processed) mainly for household purposes, as well as the import of consumer goods not mentioned elsewhere. Analyzing the dynamics, the growth of imports for personal consumption decelerated in the third quarter and currently does not indicate significant pressures.

⁴¹ 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.

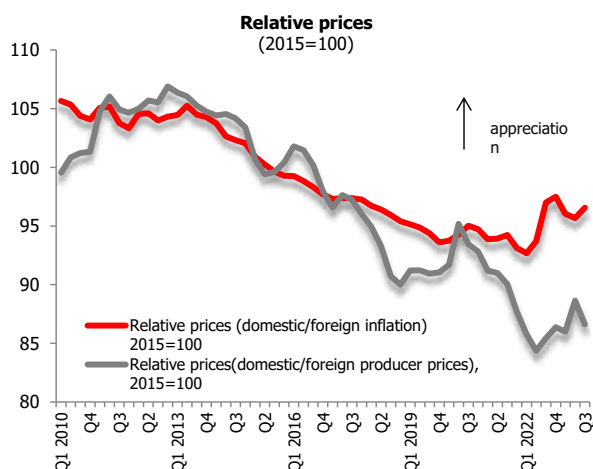
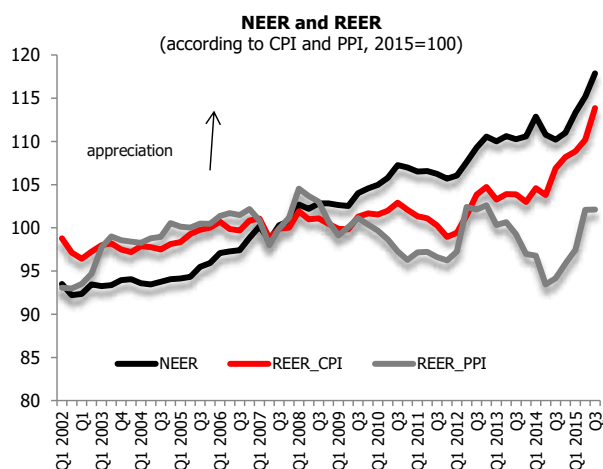


The foreign trade analysis, by trading partner, shows that in the third quarter of 2023, the **European Union was the major trading partner of the domestic economy, making up 61.3% of total foreign trade**. Dynamically speaking, on the **export** side, the annual decrease mainly results from the exports to Germany, given the decline in the exports of various products of the chemical industry and vehicles to this economy, as well as from the reduced exports of vehicles and iron and steel to Italy and the reduced exports of ores to Bulgaria. Such performances were mitigated by the increased exports of vehicles to Belgium, as well as by the growth of the exports of iron and steel to China. On the **import** side, the analysis shows that the largest contribution to the annual fall was made by the lower imports from the UK, as a result of the fall in the imports of precious metals and inorganic chemical products, as well as the lower imports from Greece, as a result of the reduced energy imports, mostly due to the lower imports of electricity. The import of iron and steel from Turkey and the imports of electricity from Bulgaria also decreased. Regarding the foreign trade **balances** by partner, the lower annual trade deficit was mostly due to the lower negative trade balance with Greece and China, as well as to the surplus with Belgium, compared to the deficit registered in the same period last year.





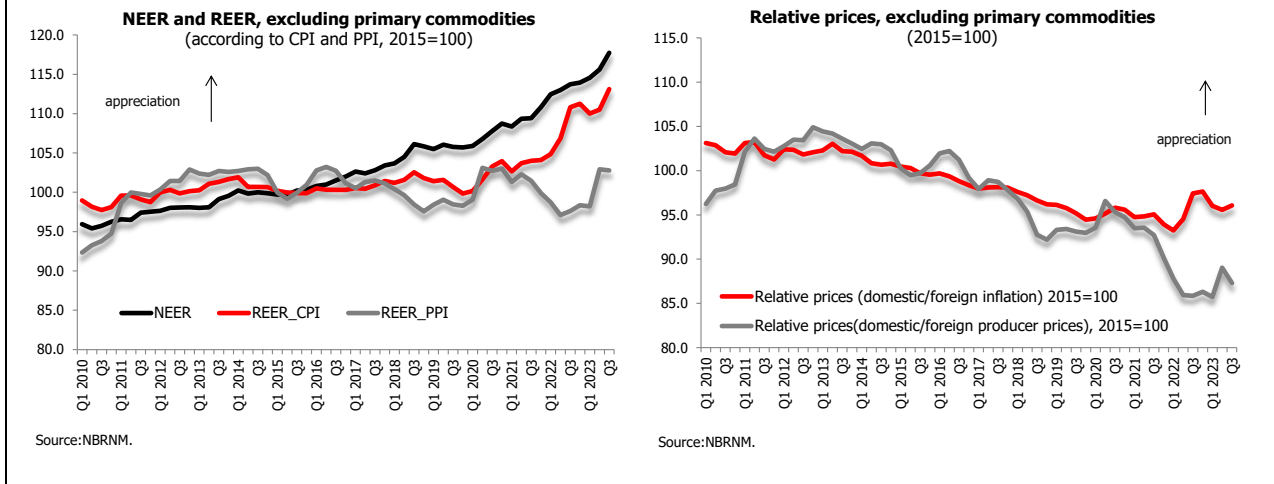
In terms of the price competitiveness indicators, in the third quarter of 2023, the REER deflated by consumer prices appreciated by 6.5% annually, while the index deflated by producer prices appreciated by 8.4%. Such performance reflects the appreciation of the nominal effective exchange rate of the denar, which recorded an annual increase of 7%, primarily due to the depreciation of the Russian ruble and the Turkish lira against the domestic currency. On the other hand, the relative consumer prices decreased by 0.5%, while the relative producer prices registered an annual growth of 1.4%.



The analysis of the REER indices, measured using weights based on the foreign trade without primary products, shows that the REER deflated by consumer prices appreciated by 2.1% annually, while the REER deflated by producers prices appreciated by 5.3%, primarily due to the appreciation of the nominal effective exchange rate, by 3.5%, caused by the depreciation of the Turkish lira against the domestic currency. Moreover, the relative consumer prices registered a decline of 1.4%, while the relative producer prices increased by 1.7% annually.

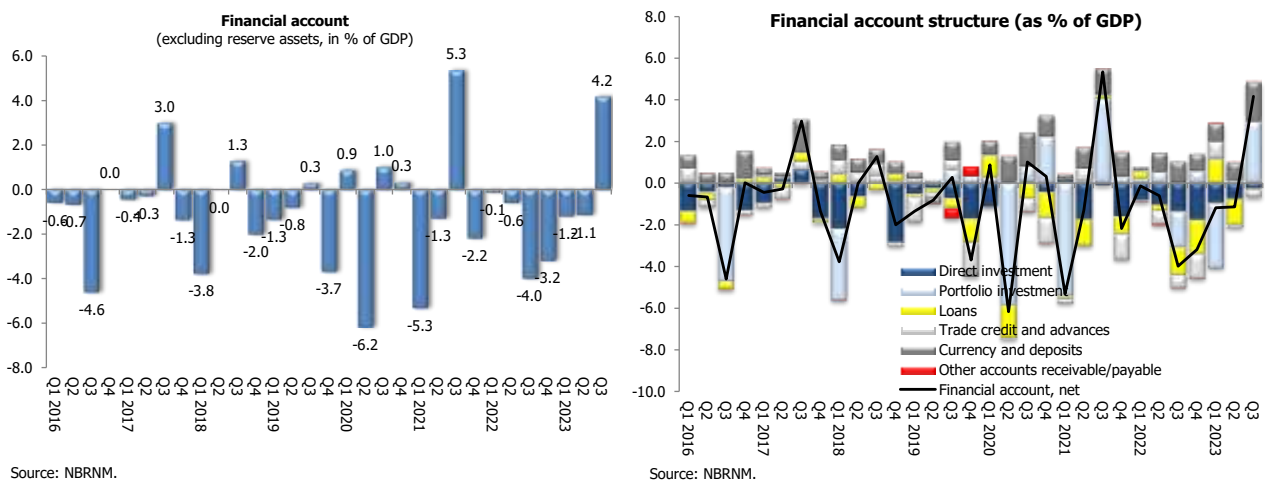
Regarding the price competitiveness indicators for the period October - November 2023, the REER deflated by consumer prices and producers prices appreciated by 3.2% and 5.9%, respectively. At the same time, the NEER appreciated by 6.7%, mostly due to the depreciation of the Russian ruble and the Turkish lira against the denar. On the basis of the calculation by using weights based on the foreign trade without

primary products, the REER index deflated by consumer prices depreciated by 0.3%, while the REER deflated by producer prices appreciated by 4%. Moreover, the NEER appreciated by 3.7%, which is largely due to the depreciation of the Turkish lira against the domestic currency.



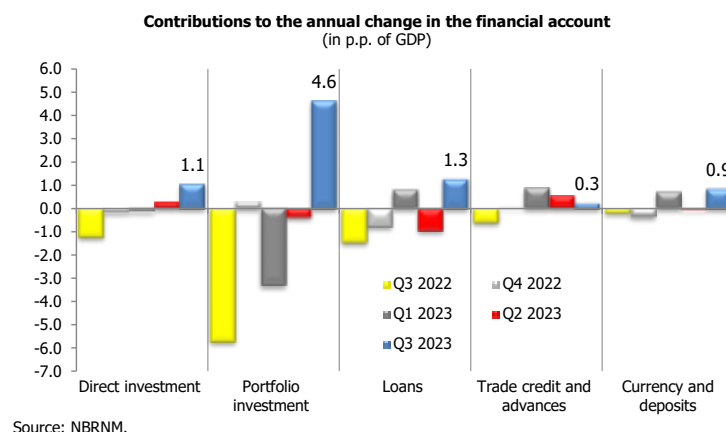
1.6.2. Financial account

In the third quarter of 2023, the financial account in the balance of payments registered net outflows of Euro 589.4 million, or 4.2% of GDP. Such performances largely stem from the repayment of the liabilities on the basis of previously issued debt security in the international markets by the government which caused net outflows in portfolio investments. In addition, this quarter registered net outflows in the category currency and deposits, primarily due to the banking sector, and to a lesser extent due to the other sectors. The other financial account components recorded net inflows. Namely, the increase in the private sector liabilities on the basis of commercial operations led to net inflows in trade credits. Direct investments also recorded net inflows, out of which the highest contribution was made by the net inflows on the basis of investments in equity capital, with a smaller contribution also being made by the net inflows on the basis of reinvested earnings, amid net outflows on the basis of debt instruments. In this quarter, as a result of the central bank activities for foreign reserves management, net inflows were also recorded in the category loans.

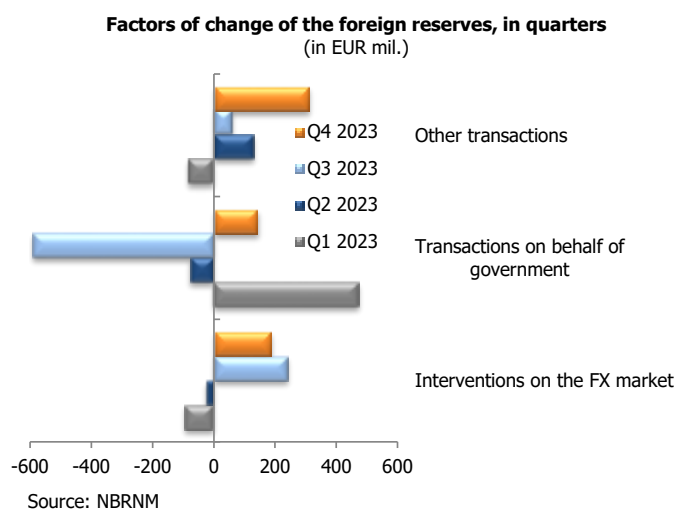


The annual analysis indicates less favorable position compared to the same quarter of last year, when there were net inflows in the financial account. The change mainly reflects the effect of portfolio investments,

taking into account the net inflows registered in the third quarter of 2022, as a result of the government borrowing through the issued bond on the German market, contrary to the deleveraging in this quarter on the basis of a previously issued Eurobond. Similarly, the shifts in all other financial account components also had a more moderate influence, amid lower net inflows compared to the same period last year, with higher net outflows in currency and deposits.



At the end of the third quarter of 2023, the gross foreign reserves stood at Euro 3,901.7 million. Compared to the previous quarter, the foreign reserves were lower by Euro 288 million, which analyzed through the growth factors, entirely results from the transactions on behalf of the government.



At the end of the fourth quarter of 2023, the gross foreign reserves stood at Euro 4,538.4 million, which is an increase of Euro 636.7 million compared to the previous quarter. Analyzing growth factors, all categories contribute to the growth of foreign reserves, but mostly other transactions in the part of the foreign reserves management and National Bank interventions on the foreign exchange market.

1.6.3. International investment position and gross external debt

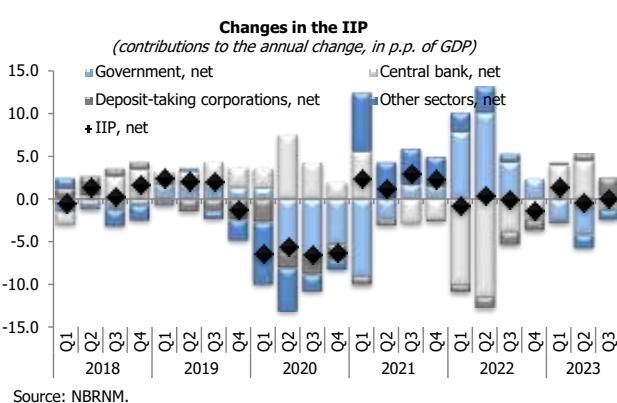
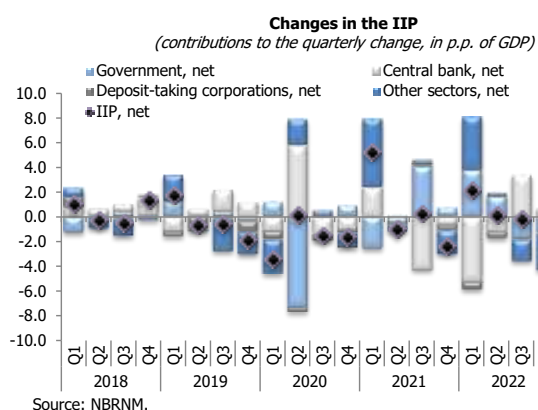
At the end of the third quarter of 2023, the net international investment position of the Macedonian economy was negative and amounted to Euro 8,318.1 million, or 58.8 of GDP⁴².

⁴² The calculations use the nominal GDP forecast (from October 2023).

Compared to the end of the previous quarter, the net debt position narrowed by 0.3 percentage points of GDP, amid larger drop of international liabilities relative to the decline in international assets. Sector-by-sector analysis shows that the narrowing of the net debt position results from the reduced net government liabilities (fall in the net liabilities on the basis of debt securities on the basis of a paid Eurobond⁴³), as well as from the reduction of the net liabilities of depository institutions (mainly on the basis of currency and deposits). On the other hand, there was a decline in the central bank's net assets, as well as an increase in the net liabilities of other sectors (mainly as a result of the higher net liabilities in direct investments).



On an annual basis, the negative international investment position slightly narrowed by 0.1 percentage points of GDP⁴⁴, amid slightly more pronounced reduction of international liabilities compared to the decrease in international assets (by 5.8 and 5.7 percentage points of GDP⁴⁵, respectively). Observed by sector, the narrowing is mostly due to the reduced net liabilities of depository institutions on the basis of currency and deposits (deleveraging of the banks to their parent banks, amid smaller pressures from the energy crisis in this period unlike last year), as well as to the lower net government liabilities. On the other hand, the fall in the central bank's net assets, as well as the growth of the net liabilities of the other sectors (reduced net assets on the basis of trade credits) expanded the net debt position.



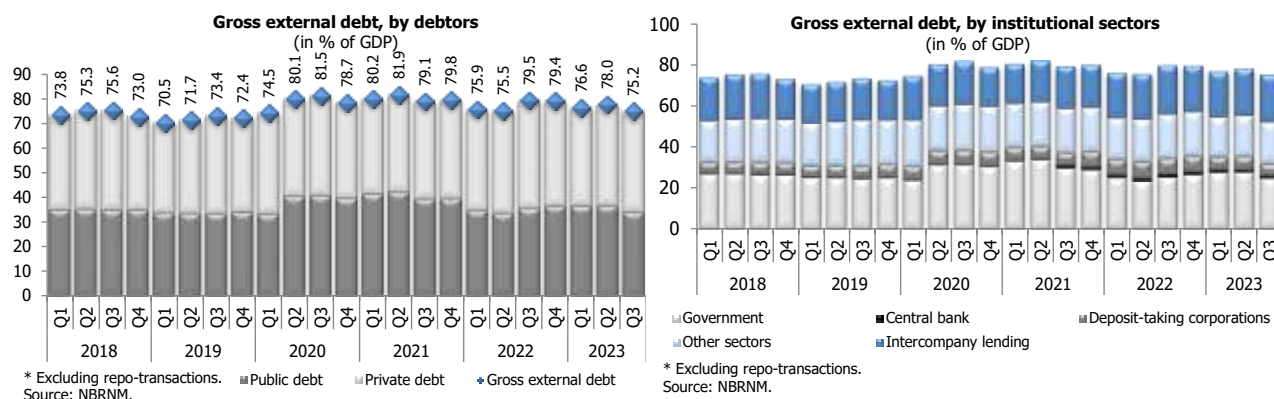
At the end of the third quarter of 2023, the balance of the gross external debt was Euro 11,072.1 million, or 78.3% of GDP, which is a decline of 2.3 percentage points of GDP, compared to the

⁴³ In July 2023, the fifth Eurobond, which was issued in 2016 in a nominal amount of Euro 450 million, with a maturity of 7 years and at an annual interest rate of 5.625%, was repaid.

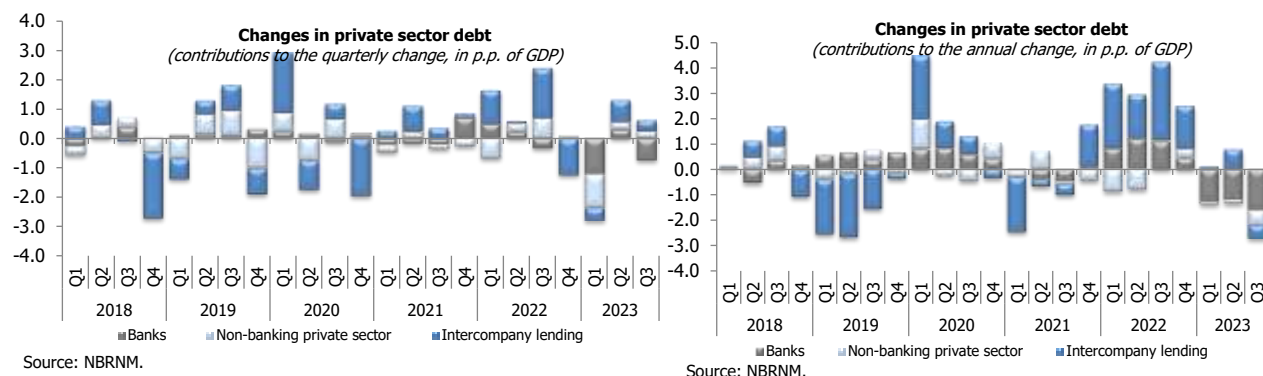
⁴⁴ In absolute amounts, the net debt position of the Macedonian economy in the third quarter of 2023 registered an annual growth of Euro 635.3 million.

⁴⁵ In absolute terms, in the third quarter of 2023, international assets recorded an annual growth of Euro 99.5 million and lower international liabilities by Euro 535.8 million.

previous quarter. *By excluding the effect of the specific foreign reserves management activities of the National Bank⁴⁶, the gross external debt amounts to 75.2% of GDP and registers a quarterly drop of 2.7 percentage points of GDP*, amid a decline in both public and private debt (by 2.6 and 0.1 percentage points of GDP, respectively). The change in the public debt mainly results from the repayment of the external government debt based on debt securities. The relative indicators also suggest a slightly lower private debt in banks, influenced by reduced liabilities based on currency and deposits.



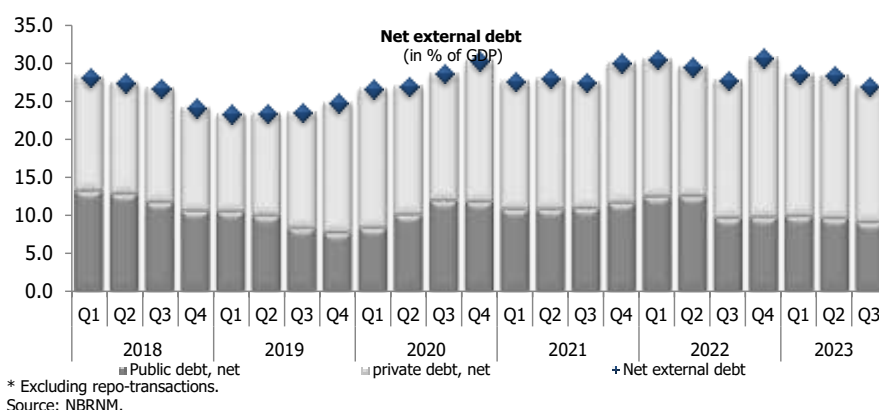
The gross external debt registered an annual fall of 4.3 percentage points of GDP, amid a decline in both private and public debt (by 2.7 and 1.6 percentage points of GDP, respectively)⁴⁷. The fall in the private debt is dispersed among all categories, with the largest contribution of the lower debt of banks, as a result of the reduced debt based on currency and deposits. The lower debt of public enterprises and the government (mainly as a result of the lower long-term loans) contributes to an annual decrease of the public debt in the third quarter of 2023.



As of 30.9.2023, the net external debt equaled Euro 3,820.1 million, or 27% of GDP, which is a quarterly fall of 1.4 percentage points of GDP, caused by the fall in both public and private net debt.

⁴⁶ The specific foreign reserves management activities of the central bank include repo agreements and other foreign reserves management operations.

⁴⁷ In absolute amounts, gross external debt in the third quarter of 2023 registered an annual growth of Euro 267.5 million, amid nominal growth of both public and private debt (by Euro 166.5 million and Euro 101 million, respectively).



External debt indicators of the national economy remain in the safe zone. Except the gross external debt to GDP ratio which remains in the zone of high indebtedness, all other solvency and liquidity ratios point to low indebtedness of the domestic economy. However, the high structural share of liabilities on direct investments in gross external debt, as a form of financing companies with foreign capital, as well as liabilities on trade credits as an instrument for international trade financing, mitigates the risk profile in terms of the debt position of the economy. The level of gross external debt excluding trade credits and intercompany debt is lower and equals 44.5% of GDP⁴⁸, 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 %
31.12.2010	3.22	140.4	59.7	13.9	1.49	0.99	27.9
31.12.2011	3.12	148.4	64.6	16.8	1.78	1.18	25.2
31.12.2012	2.92	142.1	67.6	13.1	1.64	1.03	26.7
31.12.2013	2.51	137.3	67.3	15.8	1.64	1.08	23.3
31.12.2014	3.01	149.1	74.0	17.2	1.82	1.13	22.3
31.12.2015	2.69	143.9	73.2	20.0	1.69	1.13	21.3
31.12.2016	2.37	149.39	79.33	14.89	1.65	1.16	21.93
31.12.2017	2.69	139.17	76.88	12.72	1.32	0.89	23.94
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	2.19	127.34	83.90	16.27	1.93	1.18	21.49
30.06.2021	2.19	129.98	85.63	16.27	1.89	1.18	22.03
30.09.2021	2.19	125.62	82.76	16.27	1.77	1.30	22.21
31.12.2021	2.19	126.62	83.42	16.27	1.79	1.29	21.50
31.03.2022	1.77	118.00	83.09	9.38	1.27	0.95	25.97
30.06.2022	1.77	117.29	82.59	9.38	1.20	0.89	26.32
30.09.2022	1.77	123.63	87.06	9.38	1.35	0.90	26.89
31.12.2022	1.77	123.38	86.88	9.38	1.51	0.97	24.73
31.03.2023	2.67	113.00	83.26	16.04	1.63	1.01	23.61
30.06.2023	2.67	115.02	84.75	16.04	1.59	0.98	23.84
30.09.2023	2.67	111.00	81.79	16.04	1.50	1.02	24.40
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.

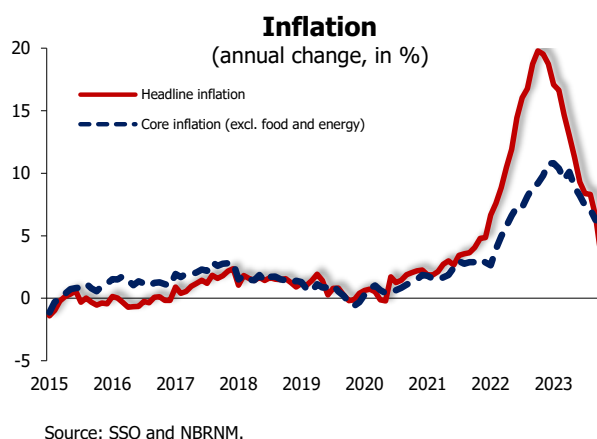
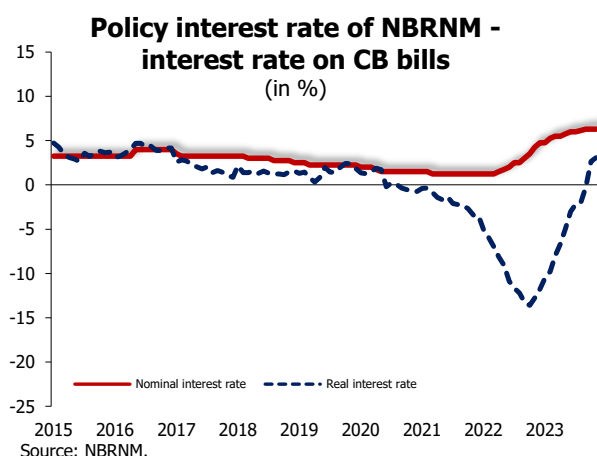
⁴⁸ Refers to debt without repo agreements.

II. Monetary policy⁴⁹

In the fourth quarter of 2023, the National Bank did not make further changes to the monetary policy position, and the policy rate was maintained at the level of 6.3%, appropriate to the conditions in the economy. The decisions were made in conditions of a further slowdown in inflation and favorable foreign exchange market, but also when there are still risks, which in addition to external, is also due to certain domestic factors. In addition, although the annual inflation rate has been continuously decelerating, however the average rate remains at a relatively higher level compared to the historical average. On the basis of the inflation and risk perceptions, in the last quarter of the year, the European Central Bank also kept the policy rates at the same level. Foreign reserves in the fourth quarter of 2023 were maintained at an appropriate level and in the safe zone, while the banks' deposit base registered a solid annual growth rate. However, the conditions for the monetary policy conduct remains vague. The National Bank will continue to closely monitor risks in the domestic and global economy and, if necessary, will act through all available instruments, in order to maintain both exchange rate and medium-term price stability.

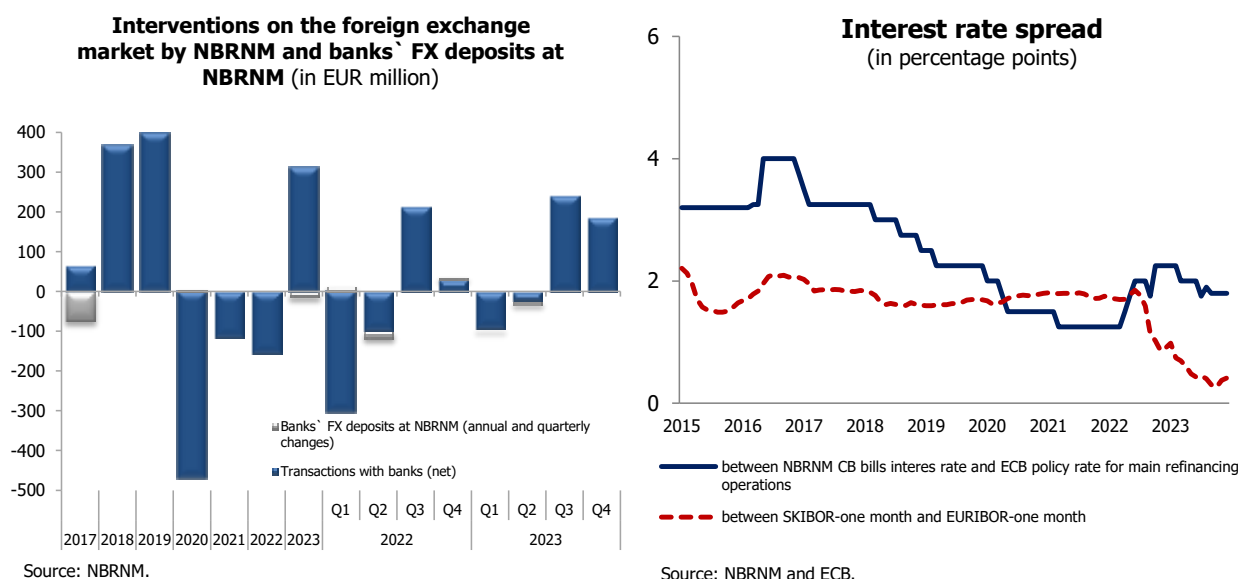
During the fourth quarter of 2023, the National Bank preserved the policy rate at 6.3%. Interest rates on overnight and seven-day deposit facilities also remained unchanged, i.e. they were maintained at the level of 4.2% and 4.25%, respectively. The offered amount of CB bills remained at the level of Denar 10,000 million, and the changes in the reserve requirement continued to be implemented, which encourage lending to projects related to domestic production of electricity from renewable sources. During the last quarter of 2023, the National Bank on two occasions adopted a macro-prudential measure for increasing the countercyclical capital buffer rate for the exposures of the domestic banks in the country. First, in October, the National Bank increased the countercyclical capital buffer by 0.25 percentage points, from the previously determined 1% to 1.25%, applied as of 1 November 2024, and then in December it was further increased from 1.25% to 1.5%, applied as of the first quarter of 2025. The enhanced measure aims to act to preventively and to additionally strengthen the capital position of banks, in accordance with the measures taken in many European Union Member States, which require higher capital adequacy of banks as a safeguard against heightened environmental risks.

⁴⁹ For more information on the new monetary measures, see the National Bank website: https://www.nbrm.mk/content/MPI%20publikacii/Hronologija_na_promenite_vo_postavenosta_na_monetarnite_instrumenti_na_Narodnata%20banka.pdf



The performance⁵⁰ of the main macroeconomic indicators in the domestic economy suggested that there is a need for further caution in conducting policies. The growth of the economic activity is moderate and in line with the expectations, which according to the latest forecasts point to slower economic growth this year, amid lower foreign demand. The real GDP growth in the third quarter of 2023 amounted to 1.2% on an annual basis (following the growth of 1.1% in the previous quarter) and is in line with the expectations according to the October forecasting round. The available high-frequency data for the fourth quarter of 2023, although small in number and for one month of the quarter (October 2023), show solid positive movements in industrial production, as well as a slowdown in the real fall in total trade turnover. The performances in domestic prices are also in line with the October expectations, but when there are still risks. Namely, domestic inflation continued to slow down and reduced to 3.1% on an annual basis in November 2023. These performances reflect the significant reduction of the pressure from the food and energy price components, as well as the reduced price pressures from the less volatile categories, in accordance with the undertaken monetary measures. Moreover, the annual inflation rate in our country has significantly slowed down and almost came closer to the inflation in the euro area. Consumers' inflation expectations expressed in the November surveys of the European Commission are also more moderate. However, the average inflation rate remains at a relatively high level, compared to the historical average. Risks in terms of the future dynamics of prices are still present, which in addition to the uncertainty arising from the movement of prices in world markets, are also due to certain domestic factors. Hence, there is a need for further precaution, including in relation to the policies that affect the demand of the economy. The foreign exchange market is stable and the movements are favorable. The level of foreign reserves at the end of November is appropriate for maintaining the stability of the exchange rate of the domestic currency. From the beginning of the year, foreign reserves grew, given the favorable movements on the foreign exchange market and interventions with purchase of foreign currency by the National Bank. The performances are the result of the reduced pressures from the energy crisis, and thus the lower demand by companies, as well as the increased net purchase from natural persons which is a signal of the confidence in the domestic currency, amid solid foreign currency liquidity of the banks. In the monetary sector, data as of November 2023 suggest that deposits and loans continue to grow within the expectations for the last quarter of the year.

⁵⁰ It refers to the available information during the fourth quarter of 2023 that was taken into account when making the decisions on the monetary stance in that period.

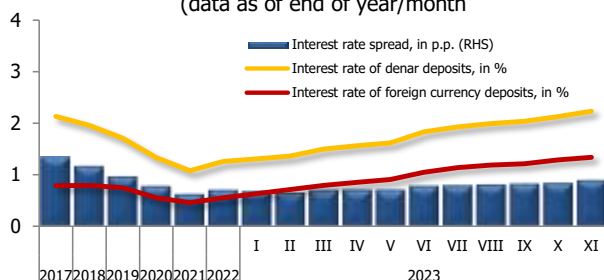


Given the applied monetary strategy, when making monetary decisions one takes into account the setup of the European Central Bank (ECB) policy as well, which during the fourth quarter of 2023 did not change the interest rates, i.e. it kept the policy rate at the level of 4.5%. Thus, the spread between the National Bank and the ECB policy rates in November 2023 equaled 1.8 percentage points (unchanged compared to the end of the third quarter). Regarding the indicative market interest rates on the one-month SKIBOR and the one-month EURIBOR, the spread between them slightly increased by 0.11 percentage points at the end of December 2023, compared to the previous quarter.

Regarding the deposit interest rates in the domestic economy, in November 2023 the interest rates on denar and foreign currency deposits increased and amounted to 2.2% and 1.3%, respectively (2.0% and 1.2%, respectively, at the end of September). Moreover, the interest rate spread increased by 0.1 percentage points compared to the end of the previous quarter and amounted to 0.9 percentage points. As for the newly received⁵¹ total deposits, the interest rate spread in November remained unchanged compared to the end of the previous quarter and equaled 0.9 percentage points, amid an equal increase in denar interest rates (from 2.6% in September to 2.7% in November) and in foreign currency interest rates (from 1.7% in September to 1.8% in November), compared to September 2023.

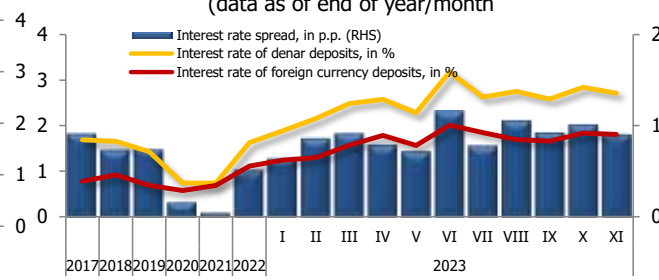
⁵¹ Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.

Spread between interest rates of denar and foreign currency deposits
(data as of end of year/month)



Source: NBRNM.

Spread between interest rates of denar and foreign currency deposits (new business)
(data as of end of year/month)

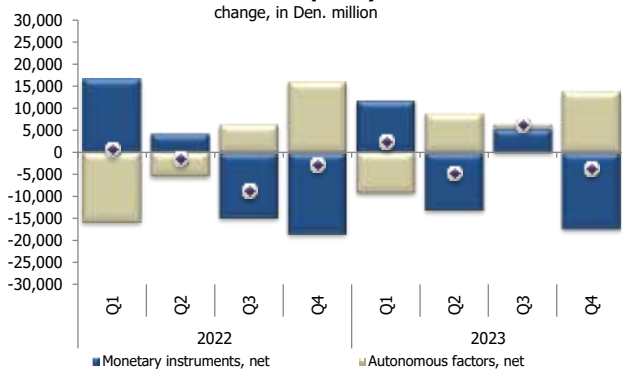


Source: NBRNM.

2.1. Banks' liquidity

In the fourth quarter of 2023, banks' denar liquidity decreased. The decrease in banks' denar liquidity entirely results from the changes in the monetary instruments, while the autonomous factors contributed to creating liquidity.

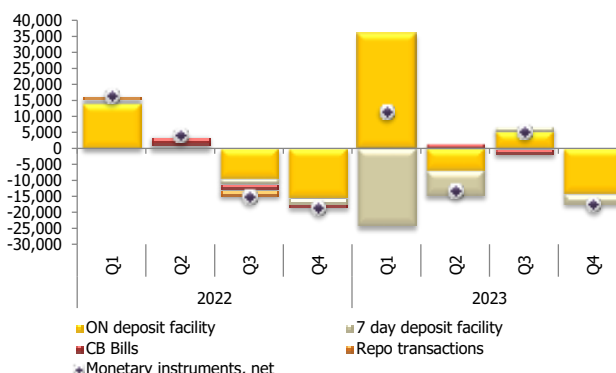
Banks' liquidity
change, in Den. million



Source: NBRNM.

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

Monetary instruments
change, in Den. millions

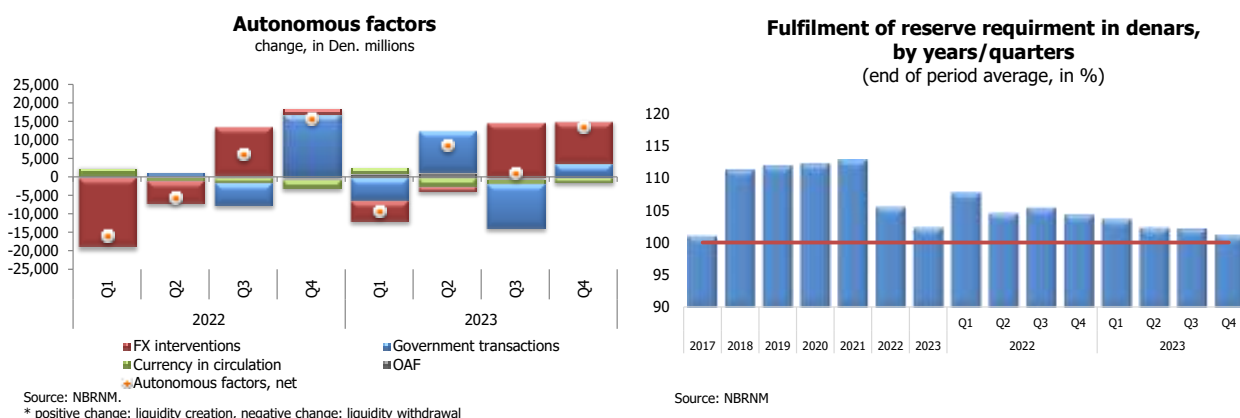


Source: NBRNM.

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

In terms of change in monetary instruments, banks' investments in deposit facilities (overnight and seven-day) increased by a total of Denar 17,221 million, thus withdrawing liquidity from the banking system. In the fourth quarter, 7-day deposits increased by Denar 3,111 million, while overnight deposits increased by Denar 14,110 million. The balance of the basic instrument - CB bills, remained unchanged and at the end of the fourth quarter it amounted to Denar 10,000 million.

The autonomous factors, net, in the fourth quarter of 2023 created liquidity in the banking system of Denar 13,755 million. This change in the autonomous factors stems from foreign currency interventions (the National Bank purchased foreign currency on the foreign exchange market) and from government transactions, while currency in circulation contributed to a small withdrawal of liquidity.



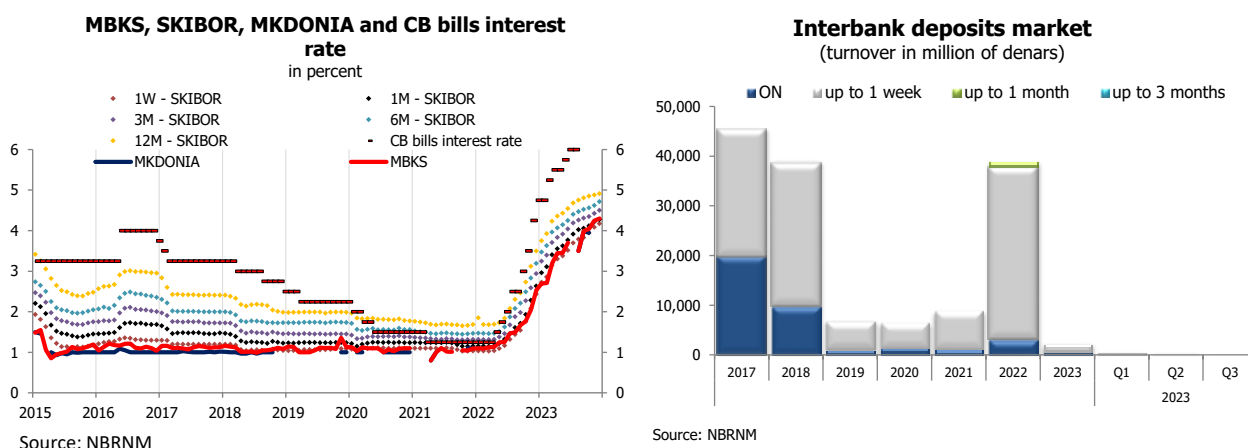
In the fourth quarter of 2023, the banks continued to have more allocated funds on the accounts with the National Bank than the determined amount of the reserve requirement in denars, on average by about 1.2%.

III. Financial market developments

The interest rate on the interbank deposit market in the fourth quarter of 2023 increased by 0.5 percentage points on a quarterly basis and averaged 4.2%. Additionally, all average SKIBOR quotations slightly went up. In the primary government securities market, the new issues were mainly with longer maturities, while the secondary securities market reported trade in government securities and CB bills. The stock exchange turnover on the Macedonian Stock Exchange increased by 43.4% compared to the previous quarter, while the MBI-10 registered a quarterly increase of 5.4%. The indices on the regional stock exchanges moderately increased, on average by 5.8% quarterly. In the international financial markets, volatility indices on the bond and stock markets, i.e. MOVE and VIX indices registered an upward change, indicating increased uncertainty and market volatility. The spreads between the yields of Macedonian and German Eurobonds slightly expanded compared to the previous quarter, amid more pronounced reduction of the yields of German government bonds and minor changes in the yields of Macedonian Eurobonds.

3.1. Unsecured interbank deposit market

In the fourth quarter of 2023, compared to the previous quarter, the average interest rate on the interbank deposit market (MBKS) increased by 0.4 percentage points and equaled 4.2%, amid unchanged policy rate of the National Bank. In the last quarter of 2023, the trading on the interbank deposit market increased and equaled Denar 991 million (Denar 153 million in the previous quarter), mostly as a result of the increase in overnight and seven-day transactions. On a quarterly basis, all average SKIBOR quotations slightly increased up to 0.3 percentage points.

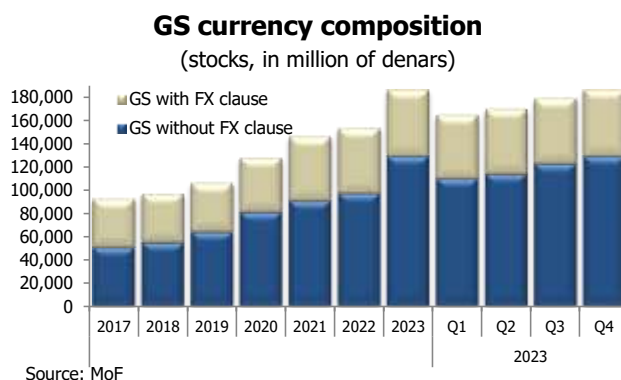
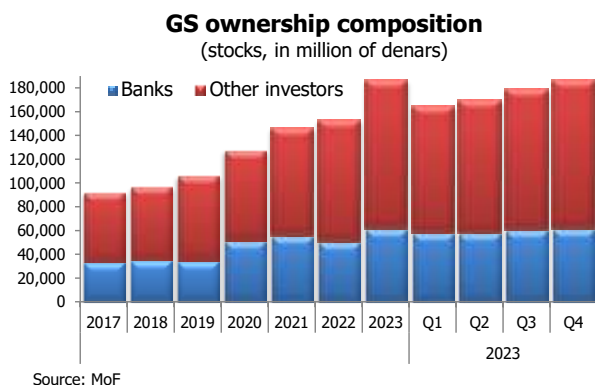
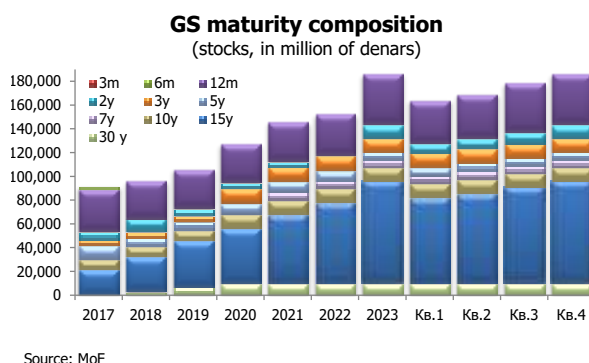
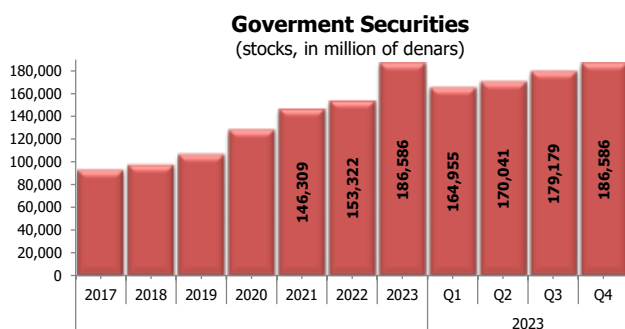


3.2. Government securities market

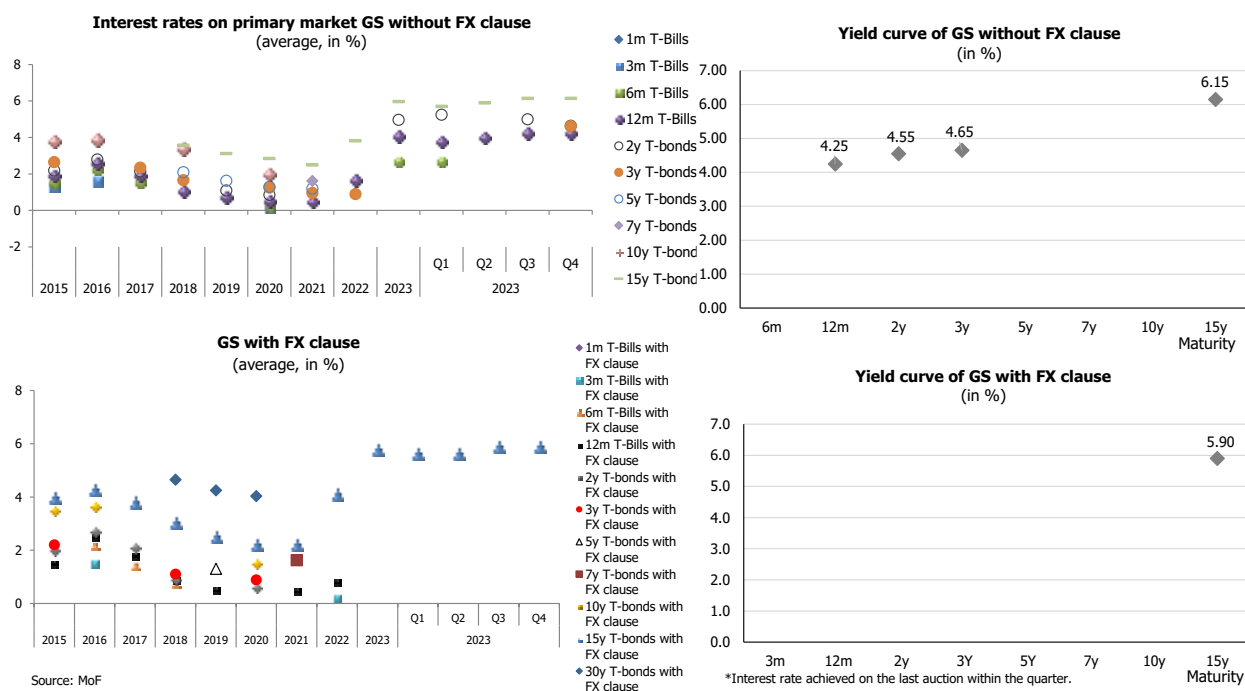
The stock of government securities issued on the primary market in the fourth quarter of 2023 increased by Denar 7,406 million or 4.1% on a quarterly basis and reached Denar 186,586 million. Moreover, the quarterly growth is mainly in securities with longer maturities, fifteen-year and two-year government bonds (growth of Denar 5,202 million and Denar 1,686 million, respectively). Analyzing the structure of government securities, government bonds dominate, with a share of 77.1%. Thus, the fifteen-year government bonds still make up most of the maturity structure of government securities of 46.1% (45.1% in the previous quarter), 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.⁵² Also, in this quarter, the two-year bonds⁵³ increased the share in the maturity structure of government securities to 6.0% (5.3% in the previous quarter). Analyzing maturity, the rest of the government securities registered a decrease in their share, compared to the previous quarter. Analyzing the currency structure, denar government securities without currency clause still dominate, making up 69.1% of total government securities (68.4% in the previous quarter). Observing the ownership structure, the banks' share in this quarter slightly decreased from 33.6% to 32.7%, at the expense of the increased share of other investors (67.3%). Within other investors, the pension funds remain dominant (with a share of 46.6%).

⁵² Revised Fiscal Strategy for 2024 - 2028, Ministry of Finance, December 2023.

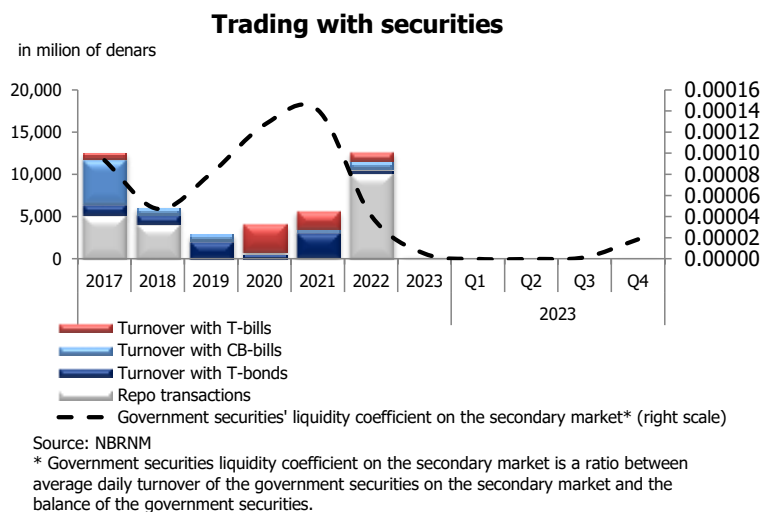
⁵³ In October, the first green bond in the amount of Denar 600 million at an interest rate of 4.75% per annum with a maturity of two years was issued; the second civil bond was issued in November in the amount of Denar 1,085 million at an interest rate of 5.0% and with a maturity of two years; in December, a regular bond in the amount of Denar 4,380 million at an interest rate of 4.55% and with a maturity of two years was issued.



During the fourth quarter of 2023, interest rates on issued government securities, set by the Ministry of Finance, did not record major changes compared to the previous quarter. Thus, twelve-month treasury bills without a currency clause were issued on the primary market at an average weighted interest rate of 4.25% (unchanged compared to the previous quarter). During the quarter, a two-year green government bond was issued for the first time, along with a two-year civil government bond and a two-year regular government bond, without currency clause, at interest rates of 4.75%, 5% and 4.55% respectively, i.e. at an average weighted interest rate of 4.65% (5% in the previous quarter). Also, after a longer period, three-year government bonds without currency clause were again issued, at an average weighted interest rate of 4.63%. The interest rates on the issued fifteen-year government bonds without and with currency clause equaled 6.15% and 5.90%, respectively, and remained unchanged compared to the previous quarter.

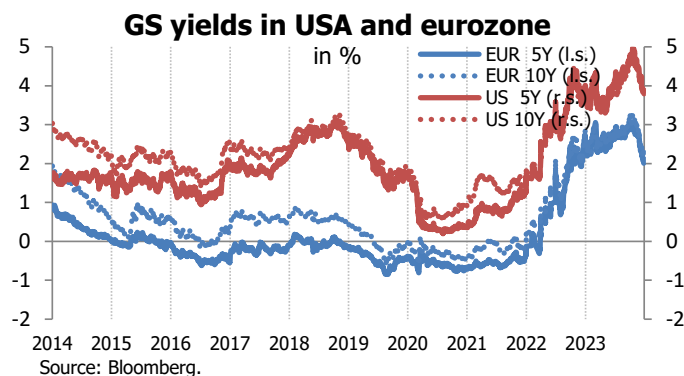


In the last quarter of 2023, trading in securities on the secondary market increased to Denar 223 million (Denar 17.5 million in the previous quarter), whereby this market segment reported trading in CB bills, treasury bills with residual maturity of one month (with an average yield of 4.25%) and government bonds with residual maturity from ten to fifteen years (with an average yield of 6.05%). Such changes point to moderate increase in trading on the secondary securities market, also seen through the liquidity ratio⁵⁴.

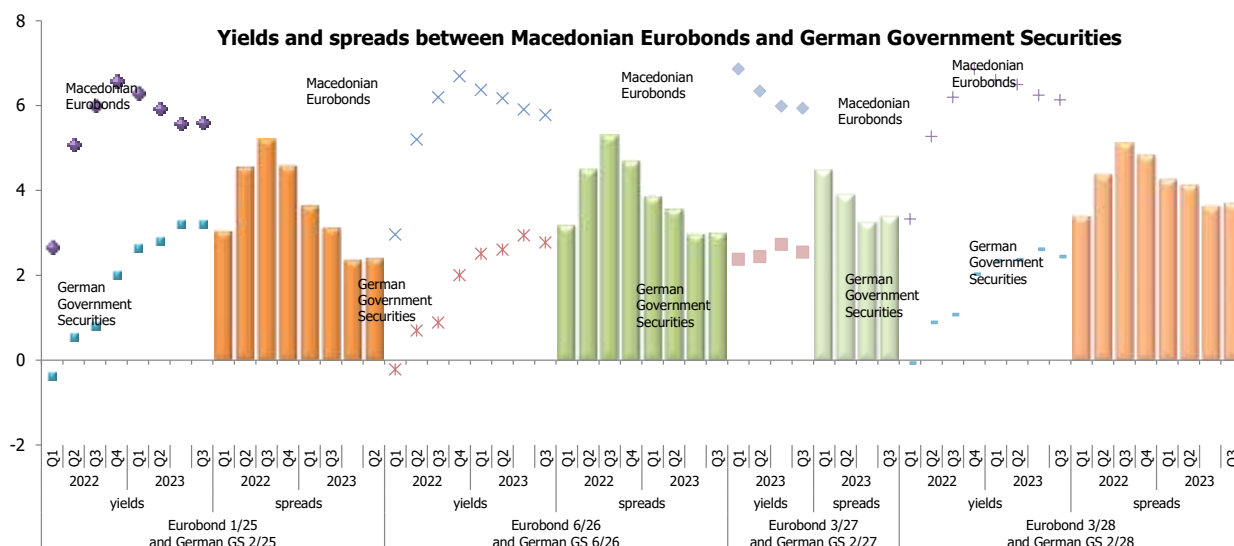


⁵⁴ The liquidity ratio on the secondary market is the correlation between the average daily turnover and the stock of government securities.

In the US financial markets in the fourth quarter of 2023, yields on 10-year government securities⁵⁵ increased and averaged around 4.4% (4.1% in the previous quarter), while for the euro area, yields on 10-year government securities decreased slightly on an average level, to 2.8% (2.9% in the previous quarter).



The yields of the Macedonian Eurobonds⁵⁶ in the fourth quarter of 2023, on average, registered minor changes, compared to the slightly more pronounced reduction of the yields in relevant German government bonds. This slightly expanded the spreads, which averaged 2.4, 3.0, 3.4 and 3.7 percentage points, respectively.

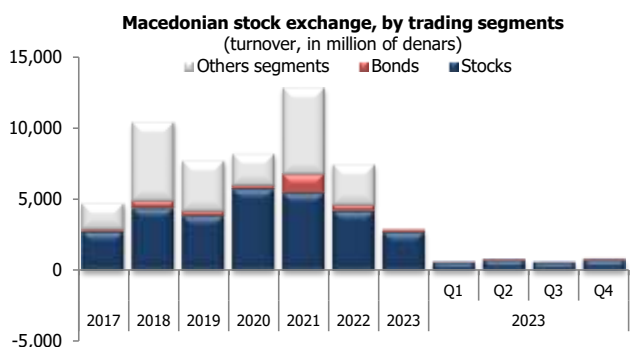


⁵⁵ As for the Euro area, these are generic government bonds derived from the yield curves of government bonds of Germany and France, while for the USA, those are generic yields derived from the yield curve of the US government bonds.

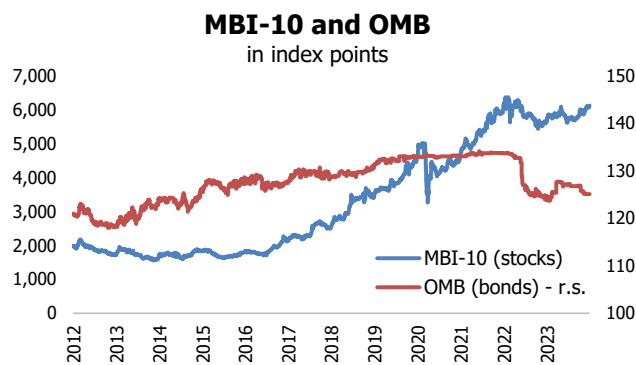
⁵⁶ These include the Macedonian Eurobonds issued in January 2018, in June 2020, March 2021 and March 2023. Eurobonds are issued in the nominal amount of Euro 500 million, Euro 700 million, Euro 700 million, and Euro 500 million, respectively, with a maturity of 7, 6, 7 and 4 years, respectively, and annual interest rates of 2.75%, 3.675%, 1.625% and 6.96%, respectively.

3.3. Stock markets

At the end of the fourth quarter of 2023, the value of the Macedonian stock exchange index MBI-10 increased by 5.4% (increase of 1.6% in the previous quarter) and equaled 6,116 index points. The total stock exchange turnover registered a quarterly increase of 43.4% (after the decrease of 29.3% in the previous quarter), due to the increased turnover in shares and bonds. The value of the bond index (OMB) during the quarter decreased by 2 index points, compared to the previous quarter, and equaled 125 index points.

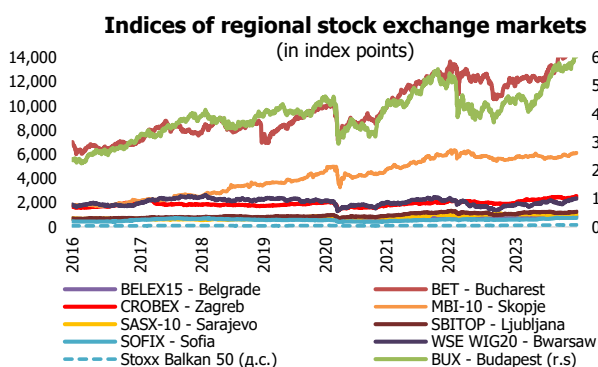


Source: Macedonian Stock Exchange

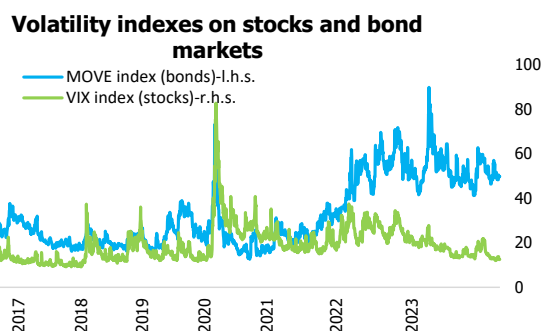


Source: Macedonian Stock Exchange

In the fourth quarter of 2023, stock exchange indices of the region registered an accelerated quarterly growth which averaged 5.8% (increase of 4.7% in the previous quarter). Moreover, all regional indices increased, except the Serbian, which registered a decrease. Furthermore, volatility indices of the bond and stock markets, i.e. MOVE and VIX⁵⁷ indices recorded a daily growth, i.e. the MOVE index increased by 7.7% on average (after the decrease of 10.4% in the previous quarter), while the VIX index increased by 4.5% on average (after the decrease of 11.9% in the previous quarter). The movements of both indices observed together, point to a moderate increase in the global capital market volatility, amid increased uncertainty about the economic activity globally.



Source: Macedonian stock exchange, national stock exchange markets.



Source: Chicago Board Options Exchange (CBOE)

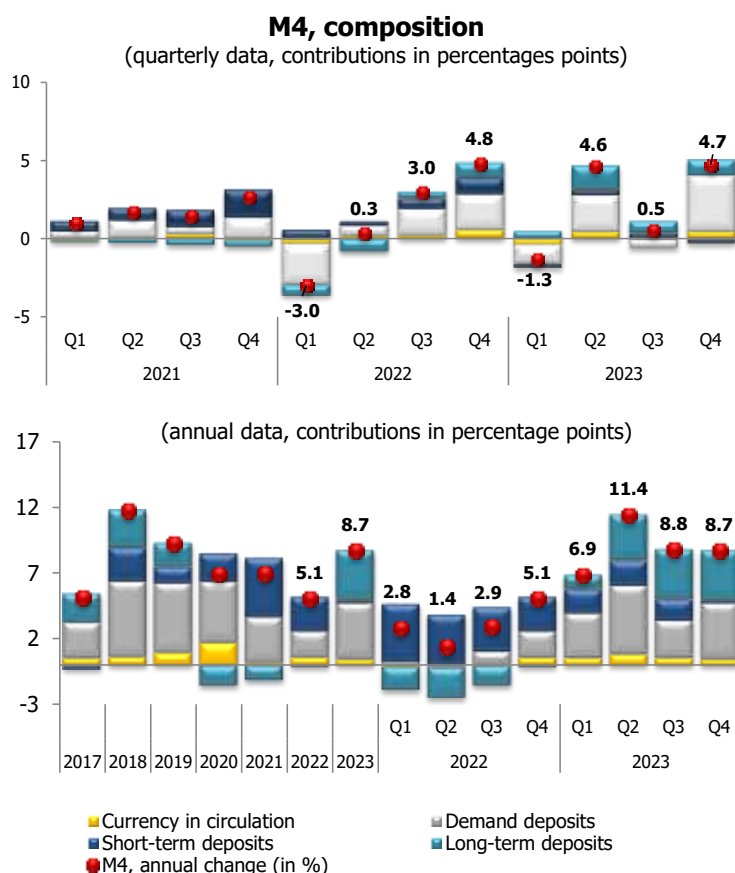
⁵⁷ The MOVE Index (Merrill Lynch Option Volatility Estimate) shows the implicit volatility in the US government securities markets. The VIX Index (Volatility Index) is constructed based on the implied volatility of S&P500 index options. Investors use both indexes as indicators of the conditions and expectations for the financial markets volatility. Downward path in indexes indicates a decrease in volatility.

IV. Monetary and credit aggregates

In the fourth quarter, the broad money M4 registered strong quarterly growth, influenced by usual seasonal factors, coupled with the effect of the financial support measures from the government budget for certain vulnerable categories of households. Consequently, a significant contribution to the growth was made by demand deposits, as the most liquid component of money supply. At the same time, the banks' credit activity registered a slight increase, aimed at both companies and households. The results of the Bank Lending Survey (BLS) in the fourth quarter of 2023, point to further net tightening of total credit standards in both sectors, in households with slightly stronger intensity, while in companies with weaker intensity, compared to the Survey in the previous quarter. Credit demand in both companies and households continues to register a net decrease, but at a more moderate pace compared to the previous survey.

4.1. Monetary aggregates

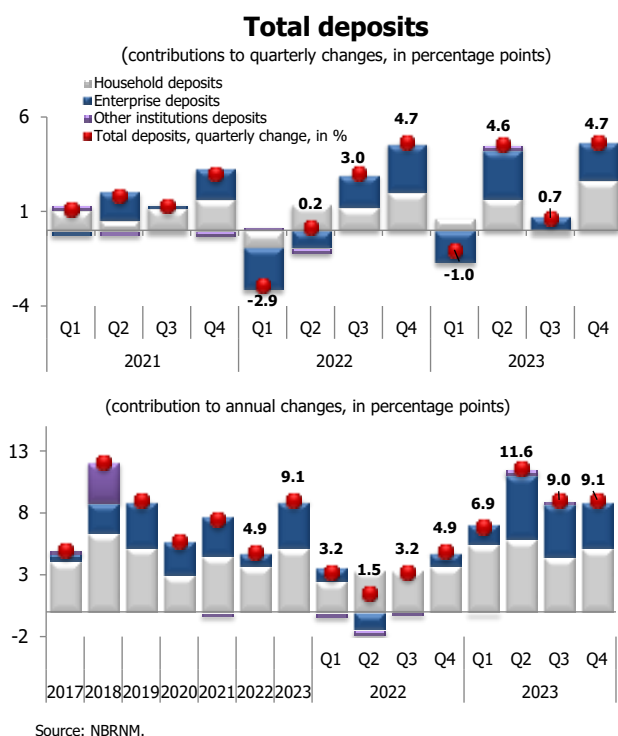
In the fourth quarter of 2023, broad money M4 registered strong quarterly growth of 4.7% (increase of 0.5% in the previous quarter). Structurally observed, the faster growth in this quarter primarily results from demand deposits, as the most liquid component of money supply (contribution of 3.6 percentage points), which in addition to seasonal factors, was also due to the financial assistance disbursed within the measures for supporting the vulnerable categories of citizens and subsidies to farmers. Also, long-term deposits and currency in circulation increased (with a positive contribution of 1.0 and 0.4 percentage points, respectively), with a negative contribution of short-term deposits (of 0.3 percentage points). Regarding the currency structure, the growth in this quarter is mainly in denar deposits (including demand deposits) with a contribution of 3.9 percentage points, amid a more moderate contribution of foreign currency deposits (of 0.4 percentage points). Consequently, the share of foreign currency deposits in M4 was 38.7% at the end of the fourth quarter, which is less by 1.4 percentage points compared to the end of the third quarter. On an annual basis, monetary aggregate M4 grew with similar dynamics, which at the end of the fourth quarter equaled 8.7% (8.8% at the end of the previous quarter).



Source: NBRNM.

In the fourth quarter of 2023, **total financial system deposits**⁵⁸ increased by 4.7% on a quarterly basis (growth of 0.7% in the previous quarter). Observed by **sector**, growth was also registered in both household and corporate deposits (with a contribution of 2.7 and 2.0 percentage points, respectively), amid stagnation of other sectors deposits. Observing by **currency**, the growth of denar deposits prevails (including demand deposits, with a contribution of 4.3 percentage points), amid more moderate growth in foreign currency deposits (contribution of 0.4 percentage points). In terms of **maturity**, the favorable developments continued, with intensified increase in long-term deposits (with a contribution of 1.1 percentage points), amid reduction in short-term deposits. **On an annual basis**, the growth of total deposits equaled 9.1% at the end of the fourth quarter (9.0% at the end of the third quarter).

⁵⁸ 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				2023			
	Q1	Q2	Q3	Q4	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	-1.0	4.6	0.7	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	-1.3	2.5	-0.5	3.9
Denar deposits	-0.2	-0.7	-0.6	-1.2	-1.0	-0.9	0.3	0.7	0.3	1.0	0.4	0.4
FX deposits	0.8	1.3	1.4	2.8	0.9	0.3	0.9	1.5	0.0	1.0	0.8	0.4
Short-term deposits	0.7	0.9	1.2	1.9	0.6	0.3	0.7	1.2	-0.2	0.4	0.4	-0.3
Long-term deposits	-0.1	-0.3	-0.4	-0.4	-0.7	-0.9	0.4	1.0	0.5	1.7	0.8	1.1
Households	1.1	0.5	1.2	1.7	-0.9	1.4	1.2	2.0	0.7	1.7	0.0	2.7
Enterprises	-0.3	1.5	0.2	1.6	-2.2	-0.9	1.7	2.5	-1.7	2.5	0.8	2.0
Other institutions deposits	0.3	-0.2	-0.1	-0.3	0.2	-0.3	0.1	0.1	-0.1	0.4	-0.1	0.0

Source: NBRNM.

Following the stagnation in the third quarter, **household deposits** registered a significant growth of 4.2% in the fourth quarter of the year. Taking into consideration the seasonal factors, as well as the effects of the government support to the vulnerable categories of households, the key developments from **currency aspect** were registered mainly in denar deposits (including demand deposits), growth of 3.7 percentage points amid more moderate growth of foreign currency deposits (positive contribution of 0.4 percentage points). Analyzing the **maturity structure**, strong quarterly growth was registered in long-term deposits (of 2.0 percentage points), amid quarterly decrease in short-term deposits (of 0.9 percentage points), which suggests keeping of the favorable trends, i.e. directing toward longer-term instruments by households. **Annually**, the increase in total household deposits accelerated and reached 7.9% in the fourth quarter of 2023 (6.8% at the end of the previous quarter).

Corporate deposits also registered an intensified increase of 6.9% in the fourth quarter of 2023 (increase of 2.8% in the previous quarter). Analyzing the **currency structure**, the fourth quarter registered a significant growth of denar deposits (including demand deposits) and a smaller increase in foreign currency deposits (with a contribution of 6.4 and 0.5 percentage points, respectively). Observing by **maturity**, short-term deposits moderately increased (with a positive contribution of 1.2 percentage points), while long-term deposits decreased (negative contribution of 0.3 percentage points). **Annually**, corporate deposits increased by 13.2% at the end of the fourth quarter of 2023 (increase of 15.7% at the end of the third quarter).

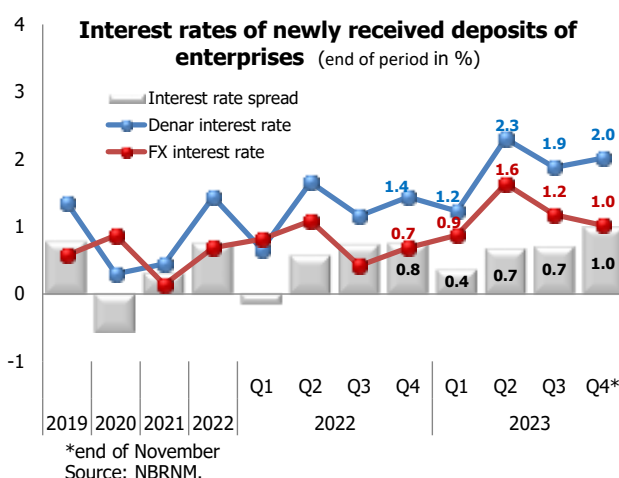
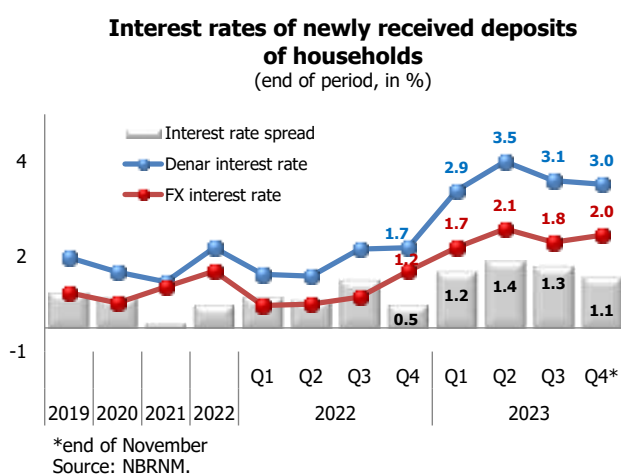
Household deposits												
	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %												
Total household deposits	1.7	0.8	1.8	2.6	-1.4	2.1	1.9	3.1	1.0	2.6	0.0	4.2
contribution to quarterly change of total deposits, in p.p.												
Deposit money	0.6	0.5	0.9	0.5	-1.8	1.1	0.7	2.5	-0.2	1.2	-1.1	3.1
Denar deposits	0.1	-0.6	-0.4	-1.3	-1.4	-0.8	0.0	0.7	0.5	0.9	0.5	0.7
FX deposits	1.0	0.9	1.3	3.3	1.8	1.8	1.2	-0.1	0.8	0.4	0.6	0.4
Short-term deposits	1.1	1.0	1.3	2.3	0.9	1.3	0.7	-0.6	0.1	-0.5	-0.2	-0.9
Long-term deposits	-0.1	-0.7	-0.4	-0.2	-0.4	-0.3	0.5	1.2	1.1	1.8	1.3	2.0

Source: NBRNM.

Enterprise deposits												
	2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
quarterly change, in %												
Total household deposits	-0.9	5.6	0.8	5.8	-7.8	-3.2	6.3	9.3	-5.8	9.4	2.8	6.9
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	-4.5	5.5	0.2	6.0
Denar deposits	-0.3	-0.4	-0.8	-1.4	-0.4	-0.2	1.1	0.5	0.6	1.4	0.8	0.4
FX deposits	-0.3	2.9	2.1	2.1	-1.4	-2.6	0.4	5.7	-1.9	2.5	1.8	0.5
Short-term deposits	-0.7	1.3	1.6	1.7	-0.6	-0.8	0.9	5.4	-1.1	2.2	2.2	1.2
Long-term deposits	0.1	1.2	-0.4	-0.9	-1.1	-2.0	0.7	0.7	-0.2	1.7	0.4	-0.3

Source: NBRNM.

The analysis of the returns⁵⁹ on new savings shows that in November, interest rates on the newly accepted⁶⁰ denar and foreign currency deposits of households equaled 3.0% and 2.0%, respectively (3.1% and 1.8%, respectively in September). In such circumstances, the interest rate spread between the new denar and foreign currency savings of households in November equaled 1.1 percentage points (1.3 percentage points in the third quarter). Interest rates on newly accepted denar and foreign currency corporate deposits in November equaled 2.0% and 1.0%, respectively (1.9% and 1.2%, respectively in September). With such shifts, the interest rate spread between the newly accepted denar and foreign currency corporate deposits at the end of November widened to 1.0 percentage points. Analyzing the total accepted deposits (denar and foreign currency), the interest rates on corporate and household deposits continue to grow. Thus, in November they amounted to 2.2% and 1.7%, respectively, and were higher than in September 2023, when they amounted to 1.9% and 1.5%, respectively.



4.2. Lending activity

In the fourth quarter of the year, the banks' credit activity moderately accelerated, which is usual dynamics in the last quarter of the year, with an additional effect of the placed funds from a credit line from

⁵⁹ 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.nsp.x.

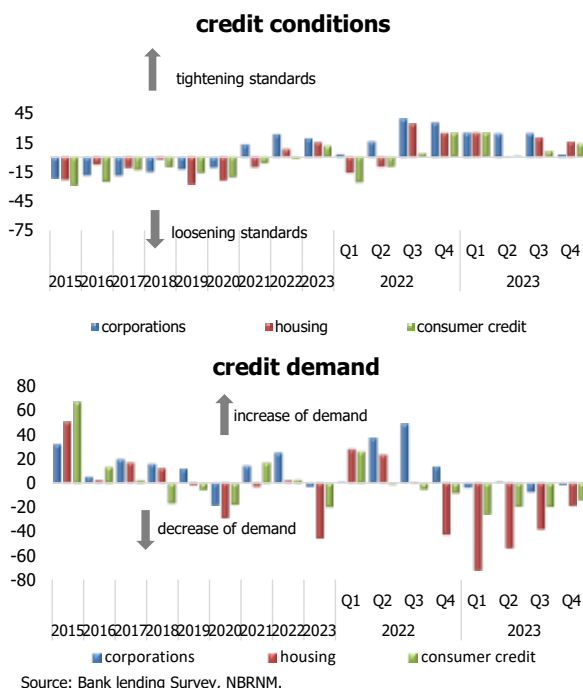
⁶⁰ Note that the interest rates on newly accepted deposits typically vary. Volatility of interest rate on newly accepted deposits results from the fact that they result from the volume of newly accepted deposits (which varies from month to month) and their interest rate.

an international financial institution⁶¹. However, the growth in this quarter was moderate and amounted to 1.9%, following the growth of 0.5% in the previous quarter. **The Bank Lending Survey** conducted in the fourth quarter of 2023 shows further net tightening of the **credit conditions**, which is weaker in companies, and slightly stronger in households, compared to the third quarter. The **demand for loans** continues to show net decrease, in both sectors, but at a slightly more moderate pace compared to the previous survey. For the first quarter of 2024, banks in the part of the corporate sector expect a significant net easing of the credit conditions, amid a stronger net increase in the demand, and there are similar expectations in the household sector, but in this respect banks expect a more moderate net easing of the credit conditions.

Total credits of private sector

	2021				2022				2023			
	Q1	Q2	Q3	Q4	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	0.0	2.6	0.5	1.9
	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	-0.3	1.3	0.7	1.7
Foreign currency credits	0.5	0.8	0.4	0.7	1.3	1.6	1.4	1.4	0.4	1.3	-0.3	0.2
Short-term credits	0.5	0.6	-0.4	0.8	1.4	0.5	-0.1	0.5	-0.4	0.1	-0.5	0.1
Long-term credits	0.5	1.9	1.5	2.6	1.3	2.0	1.2	2.5	0.6	2.5	1.0	1.8
Households	0.8	1.4	0.9	0.8	0.8	1.3	0.8	0.7	0.6	1.1	0.7	0.9
Corporations	0.4	1.1	0.3	2.3	1.8	1.3	0.3	1.9	-0.6	1.5	-0.3	1.0

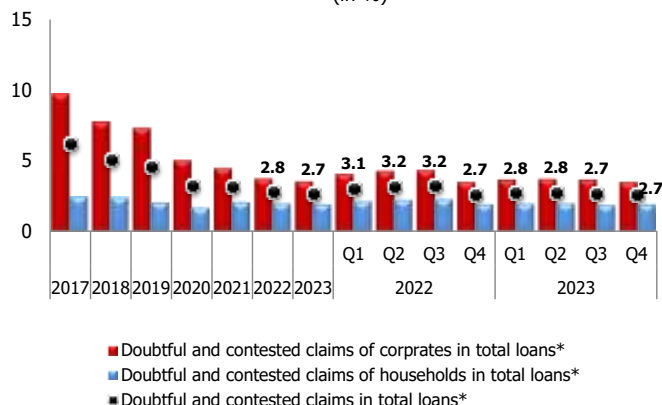
Source: NBRNM.



The analysis of the sector structure of private sector loans indicates a strong quarterly growth and an almost equal contribution of corporate and household loans (contribution of 1.0 and 0.9 percentage points, respectively). Observing by **currency**, the growth results from denar loans (with a contribution of 1.7 percentage points), with a small contribution of foreign currency loans in this quarter (of 0.2 percentage points). There are also favorable developments with respect to the **maturity structure**, with stronger growth in long-term compared to short-term loans (with a contribution of 1.8 and 0.1 percentage points, respectively). The share of **doubtful and contested claims** in total loans remained at the level of 2.7%.

⁶¹ On 22.12.2023, the Development Bank of North Macedonia AD Skopje placed funds in the amount of Euro 64.5 million of the loan from the European Investment Bank through the EIB 7 Credit Line for permanent working capital and investments for SMEs and for mid-cap companies, including green transition.

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, in line with the monetary policy setup, the growth rate of total loans in the fourth quarter of 2023 continued to slow down and reduced to 5.1% (5.8% at the end of the previous quarter). Amid stronger deposit growth, loan/deposit ratio in the fourth quarter decreased to 81.6% (83.8% at the end of the third quarter).

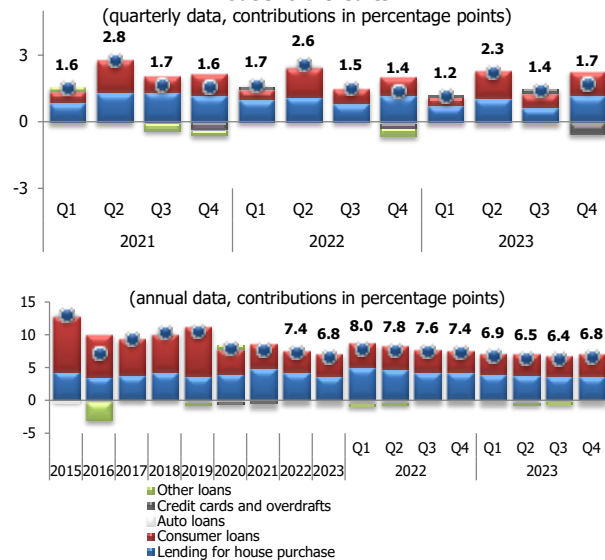
In the fourth quarter of 2023, the **lending to the household sector** registered a quarterly growth of 1.7% (growth of 1.5% in the previous quarter), which results from the moderate growth of housing and consumer loans, with stagnation of other loans at a level of the previous quarter, as well as a decrease in credit cards and overdrafts. The results of the **Bank Lending Survey** for the fourth quarter of this year, point to a more moderate net decrease in the demand for total loans in the **household sector**, compared to the previous quarter. **From a currency viewpoint**, both denar and foreign currency loans contributed to the growth. Analyzing the **maturity structure**, the growth arises from the long-term loans, amid decrease in the short-term loans. **Annually**, at the end of the fourth quarter of 2023, total household loans increased by 6.7% (increase of 6.4% in the previous quarter).

Total credits of households

	2021				2022				2023			
	Q1	Q2	Q3	Q4	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	1.2	2.2	1.5	1.7
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	0.3	0.8	0.9	0.6
Foreign currency credits	0.5	1.4	0.6	0.6	0.6	1.3	1.0	1.3	0.8	1.4	0.5	1.1
Short-term credits	0.2	0.1	0.0	-0.2	0.2	0.1	0.0	-0.2	0.2	0.0	0.3	-0.3
Long-term credits	1.1	2.7	1.6	2.0	1.3	2.4	1.5	1.9	1.0	2.2	1.2	2.0

Source: NBRNM.

Household credits*



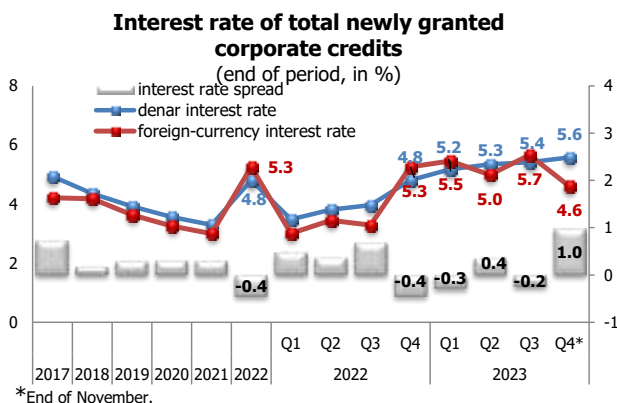
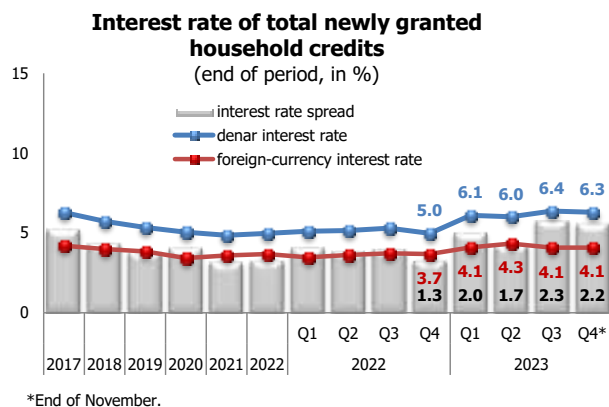
*Total loans to households do not include loans to self-employed individuals.
Source: NBRNM.

In the fourth quarter of 2023, the amount of **total loans extended to the corporate sector** increased by 2.1% (after the fall of 0.6% in the previous quarter). The results of the **Bank Lending Survey** for the fourth quarter of 2023 indicate a more moderate net reduction of the total corporate loan demand, compared to the previous survey. By **currency**, lending in domestic currency is increasing, as opposed to foreign currency loans, which are decreasing. According to the **maturity structure**, this quarter noted a faster growth in long-term loans, compared to the growth in short-term loans. **Annually**, the growth of total corporate loans continued to decelerate and reduced to 3.3% at the end of the fourth quarter (5.1% at the end and of the previous quarter).

Total credits of corporations												
	2021				2022				2023			
	Q1	Q2	Q3	Q4	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	-1.3	3.1	-0.6	2.1
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	-1.1	2.0	0.5	2.9
Foreign currency credits	0.6	0.1	0.2	0.8	2.0	1.8	1.8	1.5	-0.2	1.1	-1.1	-0.7
Short-term credits	0.9	1.1	-0.7	1.9	2.7	0.9	-0.3	1.3	-1.4	0.3	-1.3	0.6
Long-term credits	-0.1	1.1	1.5	3.3	1.3	1.5	1.0	3.1	0.2	2.6	0.7	1.6

Source: NBRNM.

According to the data on the interest rates⁶² on newly approved loans⁶³ in November, interest rates on denar and foreign currency loans **to households** equaled 6.3% and 4.1%, respectively (6.4% and 4.1%, respectively in September). In such conditions, the interest rate spread between the new denar and foreign currency household lending amounted to 2.2 percentage points (2.3 percentage points in the previous quarter). **Regarding corporations**, the interest rates on newly approved denar and foreign currency loans equaled 5.6% and 4.6%, respectively (5.4% and 5.7%, respectively in September), whereby the interest rate spread between the new denar and foreign currency corporate lending increased and equaled 1.0 percentage points. In terms of **total loans** granted to the private sector, at the end of November, the interest rates on household and corporate loans equaled 5.6% and 5.4%, respectively, i.e. they remained at the level of September 2023.



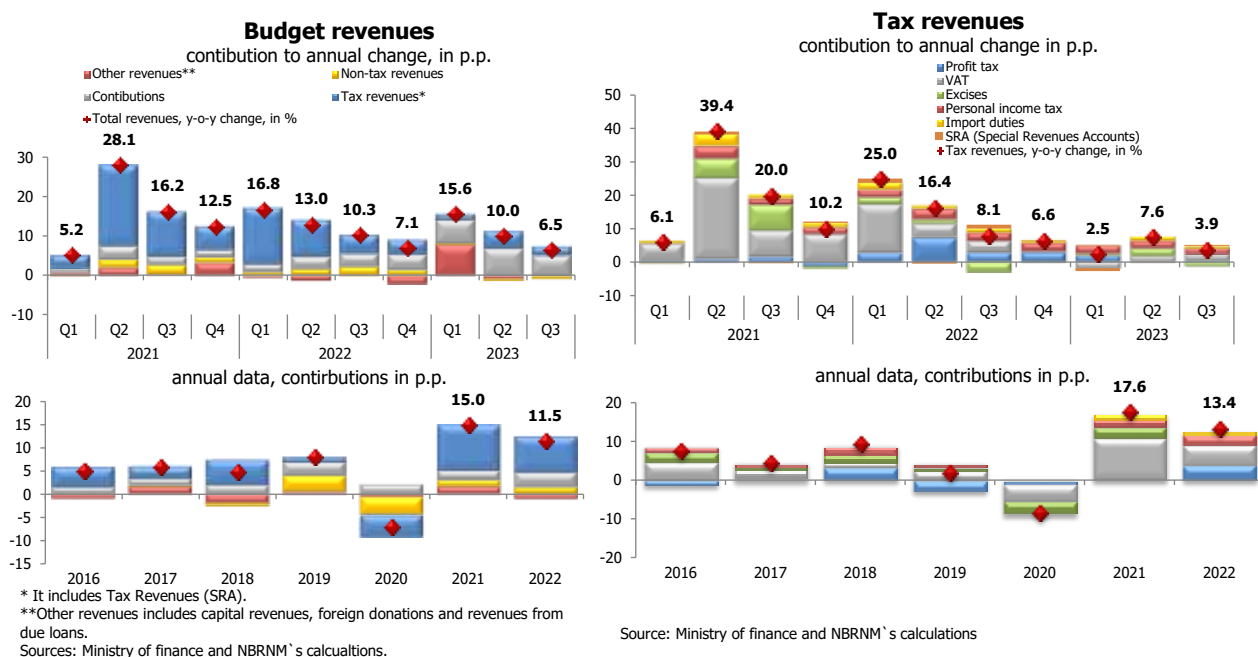
⁶² Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix.

⁶³ Note 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.

V. Public finance

After the substantial deficit in the second quarter and the strong growth in costs related to the start of project activities for road corridors, budget developments in the third quarter of 2023 were more moderate. Thus, the annual growth of budget revenues of 6.5% was accompanied by a more moderate annual growth of budget expenditures of 3.4%, whereby the budget deficit reduced to 0.5% of GDP (0.7% of GDP in the same quarter last year). In the period January - November 2023, the budget deficit was 3.3% of GDP, which is around 66.6% of that planned for 2023, entirely financed by government borrowing on the domestic market, as well as by government deposits with the National Bank, with small net deleveraging abroad. At the end of the third quarter of 2023, the total public debt equaled 56.8% of GDP.

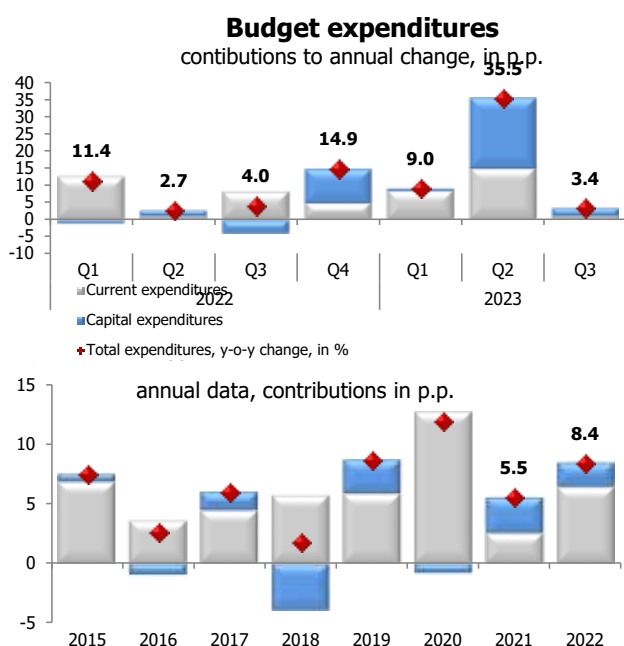
In the third quarter of 2023, total revenues in the Budget of the Republic of North Macedonia⁶⁴ grew by 6.5%, on an annual basis (10.0% in the second quarter of 2023). The annual growth of budget revenues is a reflection of the increased inflows in contributions and taxes⁶⁵ (with a positive contribution of 5.1 and 2.3 percentage points, to the growth of total revenues), while the other categories of budget revenues registered a decline.



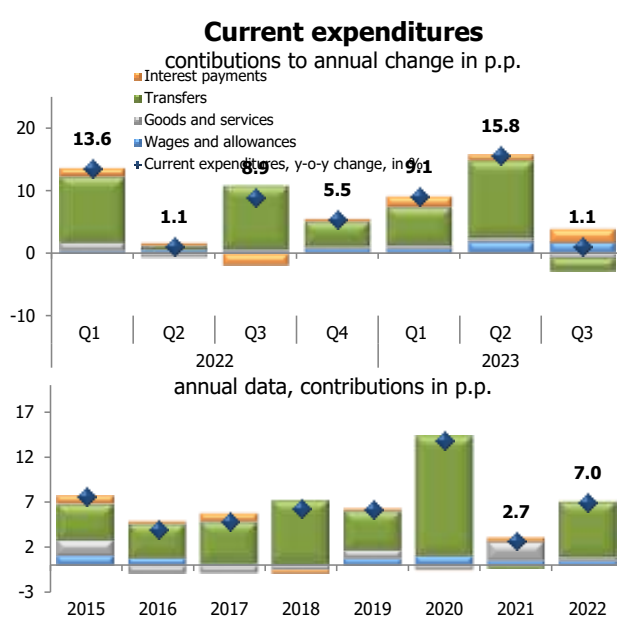
The growth of total tax revenues of 3.9% during the third quarter of 2023 primarily results from the higher revenues from direct taxes (positive contribution of 2.4 percentage points), amid a more moderate growth of indirect taxes (with positive contribution of 1.3 percentage points). Analyzing indirect taxes, the growth reflects the higher revenues from VAT (positive contribution of 1.8 percentage points), amid smaller positive contribution of import duties and small negative contribution of the revenues from excise duties.

⁶⁴ Central budget and budgets of funds.

⁶⁵ It also includes own revenue accounts (SSP).

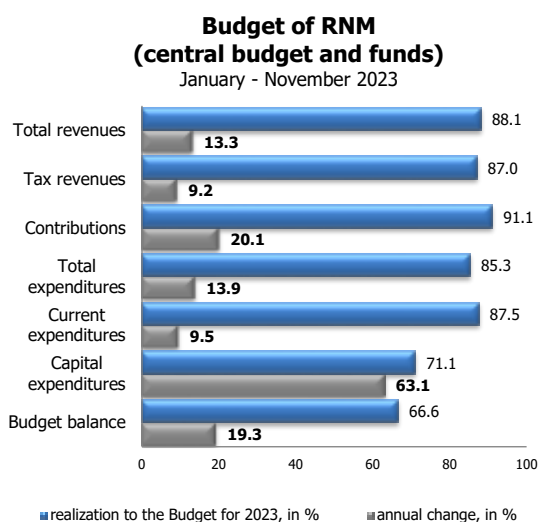


Source: Ministry of finance.

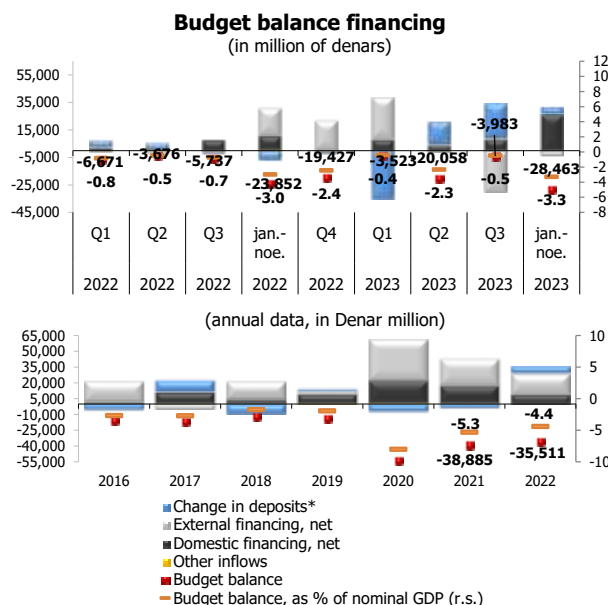


Source: Ministry of finance and NBRNM's calculations.

Total budget expenditures registered in the third quarter of 2023 recorded a moderate growth of 3.4% on an annual basis. Structurally observed, the growth of total expenditures stems from the higher capital expenditures (contribution of 2.4 percentage points), amid positive contribution of current expenditures (contribution of 1.0 percentage points). The annual growth of current expenditures of 1.1% mostly results from the category of "interest payments" and "wages and compensations" (positive contribution of 2.2 and 1.7 percentage points, respectively), with negative contribution from the categories of "transfers"⁶⁶ and "goods and services" (contribution of 2.1 and 0.7 percentage points, respectively).



Source: Ministry of Finance and NBRNM's calculations



* Positive change - deposits withdrawal; negative change - deposits accumulation.

Source: Ministry of finance

⁶⁶ Category of transfers includes pension expenses, social security costs, health care costs and other transfers (mainly subsidies). The negative contribution is due to the higher base compared to the same period last year when support to the energy sector and subsidies to farmers were paid.



In the third quarter of 2023, the budget deficit was Denar 3,983 million or 0.5% of GDP⁶⁷, which is slightly lower compared to the same period last year (deficit of 0.7% of GDP). The deficit in the third quarter was financed through net borrowing on the domestic market and by government deposits, given net deleveraging on the foreign market⁶⁸.

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

	2023						2023							
	Budget 2023	Reallocation Budget 2023	Q1	Q2	Q3	Jan.-Nov. 2023	Q1	Q2	Q3	Jan.-Nov. 2023	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.
TOTAL REVENUES	282,052	282,052	66,009	65,142	66,329	248,473	15.6	15.6	10.0	10.0	6.5	6.5	13.3	13.3
Tax revenues and contributions	250,689	253,205	56,651	60,485	60,232	224,060	8.3	7.6	12.5	11.3	8.3	7.4	12.8	11.6
Taxes*	162,600	162,235	35,896	37,352	37,403	141,207	2.5	1.5	7.6	4.5	3.9	2.3	8.9	5.2
Contributions	88,089	90,970	20,755	23,133	22,829	82,853	20.0	6.0	21.3	6.9	16.3	5.1	20.1	6.3
Non-tax revenues	19,894	17,962	3,905	3,787	4,459	15,005	6.1	0.4	-6.9	-0.5	-8.9	-0.7	-3.6	-0.3
Capital revenues	2,800	2,800	193	180	1,026	2,002	-31.3	-0.2	-64.5	-0.6	5.7	0.1	-9.6	-0.1
Foreign donations	8,669	8,085	5,260	690	612	7,406	533.7	7.8	-18.4	-0.3	-21.4	-0.3	156.0	2.1
TOTAL EXPENDITURES	324,810	324,811	69,532	85,200	70,312	276,936	9.0	9.0	35.5	3.4	3.4	13.9	13.9	13.9
Current expenditures	276,059	279,888	64,208	68,607	64,512	245,006	9.1	8.4	15.8	14.9	1.1	1.0	9.5	8.8
Capital expenditures	48,751	44,923	5,324	16,593	5,800	31,930	8.3	0.6	359.0	20.6	38.4	2.4	63.1	5.1
BUDGET DEFICIT/SURPLUS	-42,759	-42,759	-3,523	-20,058	-3,983	-28,463								
Financing	42,759	42,759	3,523	20,058	3,983	28,463								
Inflow	94,876	94,851	9,568	21,875	35,237	71,098								
Other inflows	0	0	287	344	230	1,192								
Foreign loans	66,876	65,885	31,142	530	175	31,997								
Deposits	-5,626	-14,045	-35,048	16,139	24,985	4,909								
Treasury bills	33,616	43,001	13,187	4,862	9,847	33,000								
Sale of shares	10	10	0	0	0	0								
Outflow	52,117	52,092	6,045	1,817	31,254	42,635								
Repayment of principal	52,117	52,092	6,045	1,817	31,254	42,635								
External debt	36,506	36,428	1,065	1,381	30,249	35,830								
Domestic debt	15,611	15,664	4,980	436	1,005	6,805								
Other outflows														

* Includes Special Revenues Accounts (SRA)

Source: Ministry of Finance and NBRNM calculations.

In the period January - November 2023, total budget revenues grew by 13.3% on an annual basis. Most of the growth resulted from the improved performances in contributions, tax revenues⁶⁹ and donations from abroad, while capital revenues and non-tax revenues made small negative contribution. At the same time, budget expenditures increased by 13.9% annually. Analyzed by category, the growth of budget expenditures is mostly derived from the higher current expenditures⁷⁰ and capital expenditures. Budget deficit amounted to Denar 28,463 million or 3.3% of GDP in the first eleven months of 2023, constituting 66.6% of the budget deficit forecast for 2023. The deficit was fully financed through net borrowing in the domestic market, as well as by government deposits in the National Bank, given small net deleveraging in the foreign market.⁷¹

⁶⁷ The analysis uses the National Bank's October forecasts for the nominal GDP for 2023.

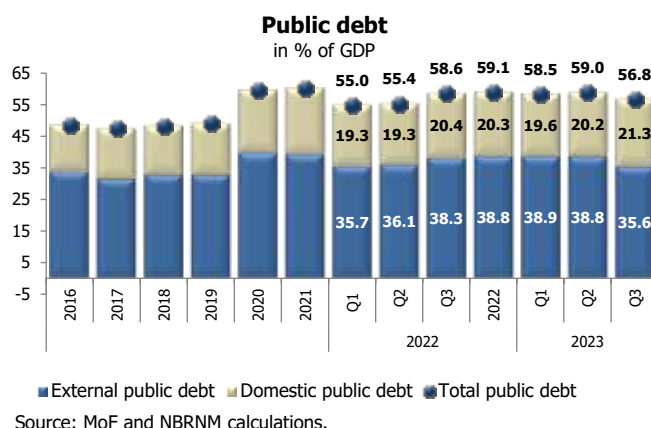
⁶⁸ The Eurobond issued in July 2016, in the amount of Euro 450 million, with a 7-year maturity and at an interest rate of 5.625%, was fully paid in July.

⁶⁹ The growth of tax revenues partly results from the collection of the solidarity tax in the amount of about Denar 2.5 billion in the period October - November 2023.

⁷⁰ The growth mostly stems from the item transfers, which is increased due to the transfers to the energy sector to deal with the energy crisis, the payment of subsidies to farmers and increase in pensions.

⁷¹ In March, the ninth Eurobond in the amount of Euro 500 million was issued, at a coupon rate of 6.96% and with a maturity of four years. In contrast, also in July, the Eurobond issued in July 2016 was fully paid, in the amount of Euro 450 million, with a 7-year maturity and an interest rate of 5.625%.

The first civil bond in the amount of Denar 1,448 million at an interest rate of 5% and with a maturity of two years was issued in July, while the second one in November, in the amount of Denar 1,085 million at an interest rate of 5% and with a maturity of two years. Also, the first green bond was issued in October in the amount of Denar 600 million, at an interest rate of 4.75% and with a maturity of two years.



At the end of the third quarter of 2023, total public debt⁷² equaled 56.8% of GDP, which is a reduction of 2.2 percentage points of GDP compared to the end of the previous quarter. The reduction of the public debt is entirely due to the reduction of the external debt (related to the payment of an Eurobond in this quarter), amid increased domestic debt. In terms of the debt structure, the total government debt⁷³ decreased by 2.2 percentage points and equaled 49.1%, while the debt of public enterprises (guaranteed and non-guaranteed)⁷⁴ slightly increased by 0.1 percentage points of GDP and reached 7.8% of GDP. Total public debt decreased by 1.8 percentage points of GDP at the end of the third quarter of 2023, compared to the same period of 2022.

⁷² 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.

⁷³ Government debt is defined as a sum of debts of the central government, the public funds and the municipalities.

⁷⁴ 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).