

# **National Bank of the Republic of North Macedonia**



## **Quarterly Report May 2023**



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## Introduction

**In the first quarter of the year, the National Bank continues to tighten monetary policy,** which started at the end of 2021 by active liquidity management through the interventions on the foreign exchange market, and since last April, also by increasing interest rates. **Namely, during this period, the policy rate increased twice, by a total of 0.75 pp, up to the level of 5.50%.** At the same time, the interest rates on the deposit facilities and the seven-day deposits increased, reaching 3.40% and 3.45%, respectively. In May, interest rates further increased by 0.25 pp. The tightening of the monetary policy is conditioned by the need to further stabilize the inflation, as well as the inflation expectations on more permanent basis. Although the headline inflation has plunged since last November and the core inflation also been downward since February, they are still high, amid the uncertainty related to the external environment. The current monetary setup is supported and improved by the few prior changes to the reserve requirement instrument, aimed at boosting the denar savings. The monetary measures have also been strengthened by the adopted systemic measures, i.e. the introduction of a countercyclical capital buffer and the macro prudential measures related to the credit demand quality, which aims to further strengthen the resilience of the banking system. Given the monetary strategy of a stable exchange rate of the denar against the euro, the changes in the domestic monetary policy also reflect the changes in the monetary policy of the European Central Bank.

**Key risks to the current baseline macroeconomic scenario are similar to those in the October forecasting round. The external surrounding risks,** both on short and medium run, remained unfavorable. Uncertainty from the war in Ukraine poses ongoing risks in terms of its impact on supply chains and prices. The eventual tightening of global financial conditions, due to the possible endurance of the inflation, may also have a limiting effect on global growth. Events in the financial systems in the US and Switzerland had limited effects, given the quick reaction of policy makers, but contributed to increasing uncertainty and volatility in the markets. Regarding **the specific risks of the domestic environment,** in the medium term, favorable effects of NATO membership, a positive outcome of the EU membership negotiations, as well as of the possible use of the geographical advantages of our economy within the initiated process of adjustment to the global supply chains.

**By quantitative indicator of the external environment significant for the Macedonian economy,** the estimates for 2023 and 2024 for the foreign effective demand are almost unchanged compared to the October forecasts, while, on the other hand, the foreign effective inflation has been revised upwards for both years. The expectations for the primary commodities prices on the world stock markets, expressed in euros, have been revised in a different direction compared to the October perceptions, but for both years expectations for a drop in prices still prevail.

**The latest cycle of macroeconomic forecasts for 2023 and 2025 does not indicate major changes in the perceptions for the Macedonian economic growth compared to the October forecast.** In conditions of almost unchanged assumptions for the domestic and external environment and taking into account the latest available information about the announced infrastructure projects, the forecasted economic growth for 2023 equals 2.1%, which in the middle of both scenarios from the October forecast<sup>1</sup>. **For 2024 and 2025, the GDP forecasts remained unchanged, i.e. it is further expected that the growth will accelerate and equal 3.6% and 4%, respectively.** Regarding the growth structure in the period 2023 - 2024, it is expected that also in current forecasts it would result from domestic demand, while net exports will make a small negative contribution. The largest individual positive contribution is expected from gross investments, especially in 2024, also due to the realization of capital infrastructure projects related to the construction of road corridors. Household consumption would experience moderate growth rates over the forecast period, with growth being smaller than in 2022, in line with the enduring uncertainty, stable but relatively more moderate growth in real disposable income, and tighter financial conditions. For public consumption, in accordance with fiscal plans, a minimal negative contribution to GDP growth is expected. After strong growth in the past

<sup>1</sup> In October forecast round, the growth rate in 2023, according to the baseline scenario, equaled 2.6%, while according to the alternative scenario, it equaled 1.8% with incorporated assumptions for smaller influence of the announced infrastructural investments and investments in some segments of the export sector.



two years, more moderate growth rates for exports are expected in the coming period, under the influence of the smaller influence of foreign demand and more moderate FDI. Similar movements are expected for imports, which after the high performance in 2022 caused by imports for supplies, will continue to grow, but more moderately.

**With regard to the future price trend in the domestic economy, the latest forecasts point to unchanged inflation expectations, i.e. they confirm the October observations about its slowdown and its reduction to a single-digit level, in the interval from 8 to 9% in 2023,** in conditions of assessments for downward movements in the world prices of primary commodities, the effects of the gradual tightening of the monetary policy, as well as partly due to the measures of other policy makers. **It is expected that the energy component will significantly contribute to the slowdown of inflation in 2023, as a result of the assumptions about the reduction of energy prices, with a gradual easing of price pressures being also expected for food.** In contrast, it is expected that the core inflation, which later started the upward adjustment, will register moderate acceleration. **In the medium run, it is expected that the inflation rate will continue to slow down and will reduce to 3%, close to the historical average.** Risks to the inflation forecast in the medium run are still associated with the uncertainty in terms of the future movements of the world energy and food prices and the intensity of transmission on domestic inflation. Also, the wage growth, and especially the possible effects on the prices, are risk factor that should be carefully monitored.

**The latest assessments of the credit activity of the banking sector contribute to a more moderate growth compared to the October forecasts, still pointing to a slowdown in credit growth in 2023 and a gradual acceleration of growth in the next two years.** Namely, the annual growth of credit activity slowed down in the first quarter of 2023, and it is expected that this trend will continue until the end of the year in conditions of uncertainty and tighter financial conditions. The adopted systemic and macro prudential measures aimed at strengthening the resilience of the banking sector are also expected to have certain impact, which complies with the introduction of the requirement for allocating a countercyclical capital buffer for the banks, which will be introduced in August 2023, as well as the setting of thresholds in relation to the volume of indebtedness among the population, which aim to prevent systemic risks in the household lending segment and the real estate market. Thus, at the end of 2023, credit growth will equal to 5.7% on an annual basis (7.1% according to October forecasts). With the gradual acceleration in the economic growth and the stabilization of the expectations, growth and lending activity are expected to accelerate in the next period, whereby the credit growth for the period 2024 - 2025 would equal 6.6% on average (7.5% in October forecast). *By sources of financing, it is expected that the credit growth, as until now, will be supported to deposit growth.* At the same time, the measures taken by the National Bank would contribute to further encourage saving, primarily in domestic currency, with which in 2023 the growth of total deposits is expected to accelerate and it would rise to 6.9% (6.5 % according to the October forecasts). In the following two years, at intensified economic activity and increased purchasing power of households, a further solid deposit growth is expected, which would equal 7.7%, on average in the period 2024 – 2025.

**The stronger downward correction of expectations for stock prices of energy and food caused changes in expectations within the new forecast round, i.e. a more favorable external position and a significantly lower current account deficit is expected in 2023, compared to the October forecast.** Namely, the expected movements in the external sector envisage substantial **narrowing of the current account deficit by 3.6% of the GDP in 2023** (5.6% in the October forecasts). This would mostly result from the narrowing of the trade deficit, with a significant downward correction in the energy balance, in conditions of an almost unchanged balance in the non-energy component. On the other hand, after the significant strengthening of private transfers in 2022, more moderate growth and a certain reduction of their share in GDP is expected. Also, the expectations for the positive services balance are slightly more moderate, in part due to the effects of the new project for the construction of road corridors in the forecast period. **In the next period, prices are expected to stabilize, which together with the expectations for better global economy and the recovery of the most important trading partners, and thus, improved non-energy trade balance, would contribute to a further narrowing of the current account deficit to 3.2% of GDP in 2024 and 2.7% of GDP in 2025.** For the period 2024 – 2025, the current forecast predicts a higher average deficit in the current account



(by 1.3 pp of GDP) compared to the October forecasts, which is due persisting high energy prices. **The financial net inflows in the period 2023 - 2025 would fully finance the current account deficit and will further increase the foreign reserves.** Most of the financing would be achieved through foreign direct investments, as well as long-term government borrowing. *Throughout the entire period of the forecast it is expected that the foreign reserves will be maintained at a level appropriate to the international standards for maintaining the stability of the exchange rate.*

**In general, in the latest macroeconomic scenario, basically there were no major changes in the expectations for the GDP growth and inflation compared to the October forecasting round.** The external position of the domestic economy is assessed as mainly favorable, with significantly smaller pressure on the current account in 2023 compared to the October forecasts and further increase in the foreign reserves that will remain in the safe zone throughout the forecasting period. **Such evaluations are still accompanied by high uncertainty and mostly downward risks from the external environment.** *The National Bank closely monitors macroeconomic data and risks and, as before, will undertake all necessary measures by using all available instruments for maintenance of the stability of the exchange rate and for stabilization of inflation in the medium run.*

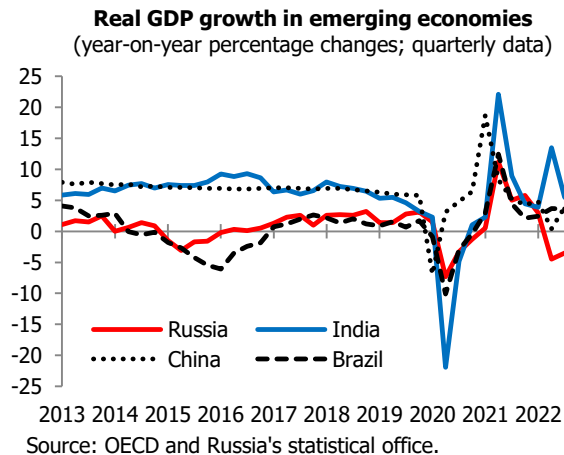
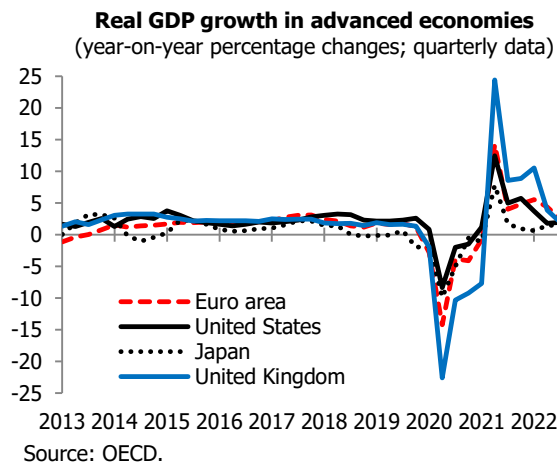


## I. Macroeconomic developments

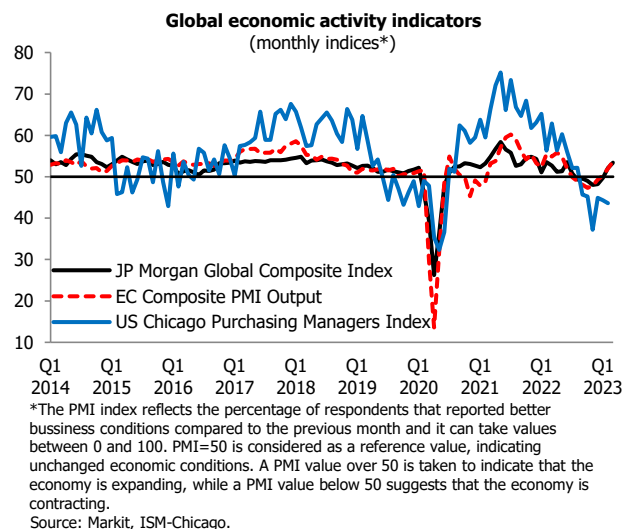
### 1.1. International economic surrounding

*In the fourth quarter of 2022, global economic activity continues to record growth, but at a slower pace, which is mainly due to the prolonged war in Ukraine, high inflation and tight monetary policy at the global level. In the euro area, which is our most important trade partner, the slowdown in economic growth continued in the fourth quarter, reducing to 1.8% on an annual basis (2.4% in the third quarter), as a result of the smaller contribution of domestic demand, given lower growth in investments and household consumption. The inflation registered a slow growth in the first two months of 2023 at global level, primarily due to the downward trend in energy prices, as well as synchronized tightening of monetary policy worldwide. In March, the US adequately managed the risks associated with unfavorable developments in the banking sector, which limited the possible spillover of financial stress on European banks, allowing the most important central banks to continue to tighten monetary policy. On the world stock markets, in the first quarter, a further downward movement of the food products and crude oil prices was recorded, and in conditions of more favorable expectations for the Chinese economy, the prices of basic metals increased. According to the International Monetary Fund's April 2023 forecasts, the global economic growth will decelerate in 2023 to 2.8%, after which it will accelerate moderately and climb to 3% in 2024. Such a weak prospects reflects the tightening policies needed to reduce inflation and deteriorating financial conditions, the prolonged duration of the war in Ukraine, and increasing geo-economic fragmentation. At the same time, the latest assessments have been minimally revised downwards compared to the January ones, but the risks related to future growth are significantly downward.*

The global economy also recorded growth in the fourth quarter of 2022, although at a slower pace, which is mainly a result of the prolonged war in Ukraine, which in turn contributed to increased global uncertainty, accompanied by high inflation and monetary policy tightening. The growth slowdown is broad-based, with weaker achievements in both developed and emerging economies. Within **developed countries**, economic growth in Japan and the United Kingdom slowed to 0.4% (1.5% and 1.9% respectively, in the third quarter), in the United States to 0.9% (1.9% in the previous quarter), and in the euro area at 1.8% (2.4% in the third quarter). Moreover, the slowdown in growth in the euro area and in the United States is due to the reduced contribution of domestic demand, with lower growth in gross investments and household consumption. Slower trade growth and a deterioration in net exports is the main factor for the smaller economic growth in the UK, partly offset by stronger growth in gross investments. In the group of **emerging economies**, the Chinese economy, after solid growth in the third quarter (3.9%), slowed down (2.9%) in the last quarter of 2022, and the more significant slowdown in activity (by 1.3 pp) is also observed in India and Brazil (growth of 4.2% and 2.3% respectively), due to the weaker household consumption in India, and Brazil, primarily due to investments.



**As for the estimates for the global growth in the first quarter of 2023,** the average value of the global PMI in this period equaled 51.7 (48.4 in the last quarter of 2022), indicating a growth of the global economic activity in the following period. The upward change of the index mainly arises from more favorable movements in the services sector, with some improvement in the part of the manufacturing industry. Annually, the global PMI index decreased and equaled 1.3%.



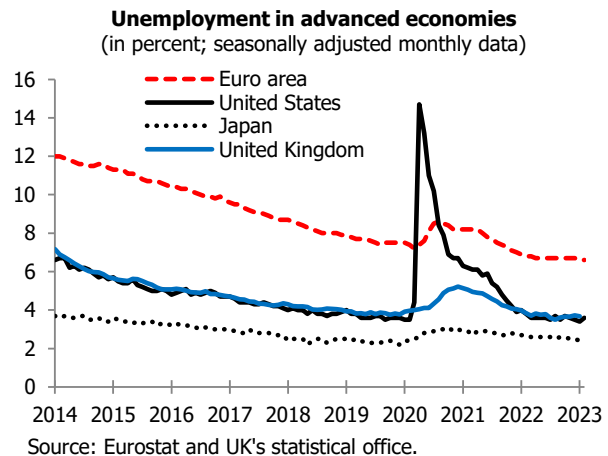
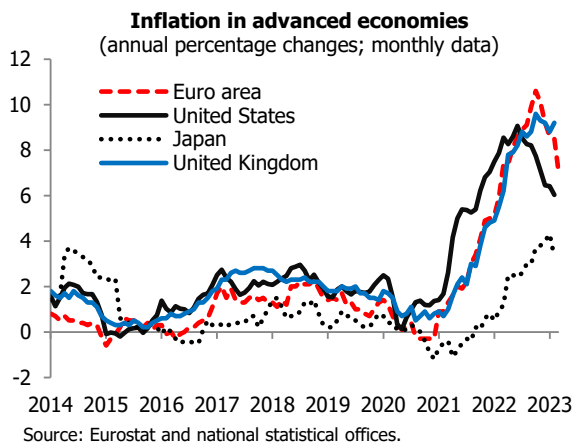
**According to the baseline scenario of the April forecasts of the International Monetary Fund,** the growth is expected to decelerate reducing to 2.8% in 2023<sup>2</sup>. A moderate acceleration of global economic growth is predicted for 2024, which will rise to 3.0% and remain at that level in the medium term, which represents the lowest medium-term forecasts in the last few decades. The economic growth forecast in 2023 and 2024 have been revised minimally downwards compared to the January projections. Such small growth prospects mirror the tightened policies for curbing the inflation, the worsening financial conditions, the protracted war in Ukraine and increasing geo-economic fragmentation. The risks relative to the forecasted global growth are mostly downward. The main downside risk is related to the turmoil in the financial sector, which, if they eventually intensify and expand, will adversely affect financing conditions and the confidence of consumers and businesses. The remaining risks relate to the

<sup>2</sup> The baseline scenario assumes that recent adverse developments in the financial sector are included but with limited effect. Under the alternative scenario, which assumes additional disruptions in the financial sector, the forecasts of the global economic growth in 2023 is lower by 0.3 pp and by 0.2 pp in 2024.



increased vulnerability of highly indebted countries in less favorable financial conditions, to the eventual escalation of the war in Ukraine, which would cause a new blow to food and energy prices, but also to the greater inertness of core inflation, which could lead to a stronger tightening of monetary policy. On the other hand, the global economy may prove more resilient than expected, especially in the area of household consumption, where positive risks are perceived from the accumulated savings from the years of the pandemic and from further favorable movements in the labor market in a large number of economies.

**Inflation at the global level has slowed in the first two months of 2023** amid a downward trend in energy prices, a synchronized tightening of monetary policy worldwide and further improvement in supply chains. The slowdown in annual price growth in the euro area and the United States, which began at the end of the previous year, continued in the first two months of 2023, i.e. it decreased on average to 8.0%<sup>3</sup> and 6.2%, respectively, thanks to the slowing price growth in the energy component. In contrast to the USA and the euro area, in Japan inflation remained on average at the level of the previous quarter (3.8%), but since February, a downward movement of prices has been observed in this economy, as well.



**The euro area, as our most important trade partner, recorded an annual growth of economic activity of 1.8% in the fourth quarter, after the increase of 2.4% in the third quarter.** The reason for the decelerated economic growth stems from the domestic demand, primarily from the reduced contribution of investments to growth. In contrast, in conditions of slow growth of import activity, partly due to lower demand for energy imports and a more moderate slowdown in exports, net exports had a positive contribution to economic growth. According to the ECB's March forecasts, economic activity growth of 1.0% is expected in 2023, which represents an upward revision compared to the December 2022 forecasts, after which a certain growth acceleration of growth is predicted, projected at 1.6% in 2024 and 2025, but weaker than previous forecasts<sup>4</sup>. Labor market movements in the euro area have registered further improvement, with the unemployment rate in the first two months of 2023 at a historic low of 6.6%, (6.7% in the last quarter of 2022). Inflation in the euro area slowed down in the first quarter of 2023, bringing it down to 8.0% on average for this period (10.0% in the fourth quarter of 2022), in conditions of three times lower growth in energy prices, and further acceleration of food prices and core inflation. At the same time, unlike in 2022, the price growth in this period mainly results from the basic component, which explains about 50% of inflation. Hence, in the context of lower estimates for energy prices, in the ECB's

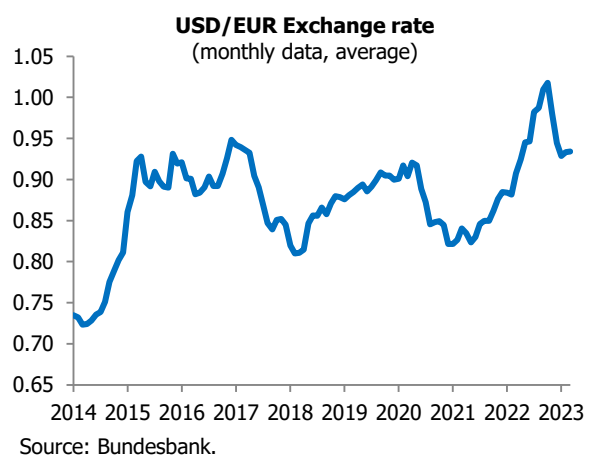
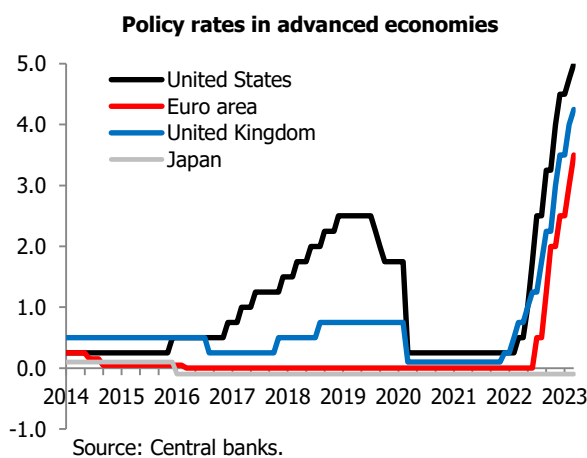
<sup>3</sup> The data refer to the first quarter of 2023.

<sup>4</sup> In December 2022 forecasts, the forecasted GDP growth in the economic activity was 0.5% in 2023 and 1.9% in 2024 and 2025..



March forecasts, the future inflation trend has been revised downwards, and would slow down to 5.3% in 2023, 2.9% in 2024 and to 2.1% in 2025<sup>5</sup>.

**In the first quarter of 2023, in conditions of enduring price pressures and expectations that inflation will remain above the target level for a longer period, developed countries continued to tighten monetary policy, but more moderately than in the previous quarter.** After the increase in the policy rate of 0.25 pp in February, in March FED passed a decision on its additional increase of 0.25 pp despite the turmoil in the banking sector, with it moving in a range of 4.75% to 5.0%. At the same time, in order to maintain financial stability, in March there was an increase in the FED assets, despite the constant reduction of the portfolio of treasury and mortgage-backed securities in the previous period. The Bank of England increased the policy rate by 0.5 pp in February and March and 0.25 pp, with which it reached 4.25%. After the increase in the policy rate of 0.25 pp in February, in March FED passed a decision on its additional increase of 0.25 pp despite the turmoil in the banking sector, with it moving in a range of 4.75% to 5.0%. At the same time, in order to maintain financial stability, in March there was an increase in the FED assets, despite the constant reduction of the portfolio of treasury and mortgage-backed securities in the previous period. The Bank of England increased the policy rate by 0.5 pp in February and by 0.25 pp in March, thus reaching 4.25%. Moreover, in March, as planned, the ECB stopped the full reinvestment of the matured securities within the Securities Purchase Program (APP), so that in the coming period the portfolio will gradually decrease in accordance with the set dynamics.

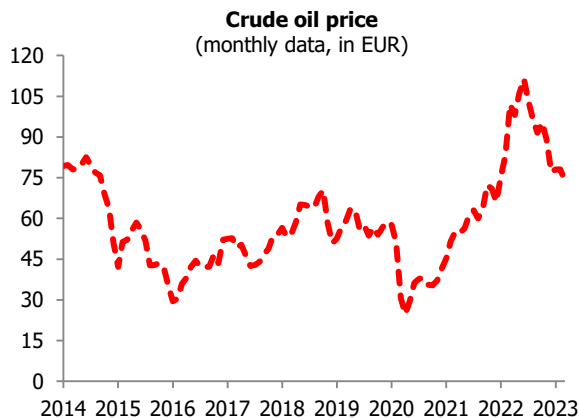


**In the first quarter of 2023, the value of the US dollar against the euro continued to decrease, i.e. it recorded a depreciation of 5.0% on a quarterly basis,** which is partly a reflection of the tighter monetary policy in the euro area in the recent period. On an annual basis, the value of the US dollar against the euro rose by 4.6%, averaging Euro 0.93 in the first quarter of 2023.

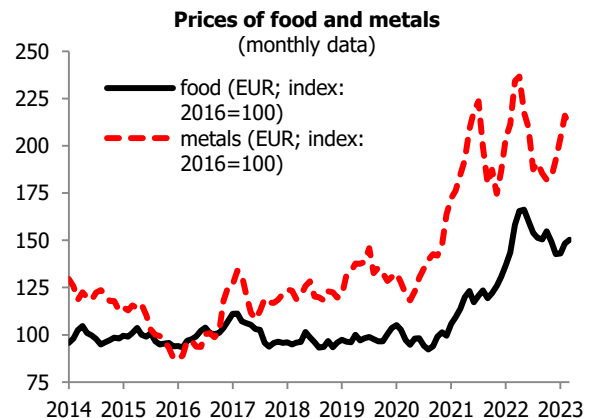
**The primary commodities prices recorded divergent movements in the world stock markets in the first quarter of 2023.** Thus, the downward trend in oil prices continued during this period and averaged 76.7 euros per barrel, which is 12.0% lower compared to the fourth quarter of 2022, i.e. 11.8% analyzed on annual basis. The decrease in oil prices is a reflection of reduced demand for oil, amid growth slowdown in global economic activity. A quarterly drop of 1.1% was also recorded by the food price index on the world stock

<sup>5</sup> In December 2022, the inflation in the euro area was forecasted at 6.3% in 2023, 3.4% in 2024 and 2.3% in 2025..

markets<sup>6</sup>, while the basic metals price index<sup>7</sup> shows a quarterly growth of 13.0% in the analyzed period, which is mainly due to optimism due to the reopening of China and more favorable expectations for global activity, and partly due to lower energy prices. Hence, the price index of non-energy primary products (expressed in euros)<sup>8</sup> shows certain price stabilization.

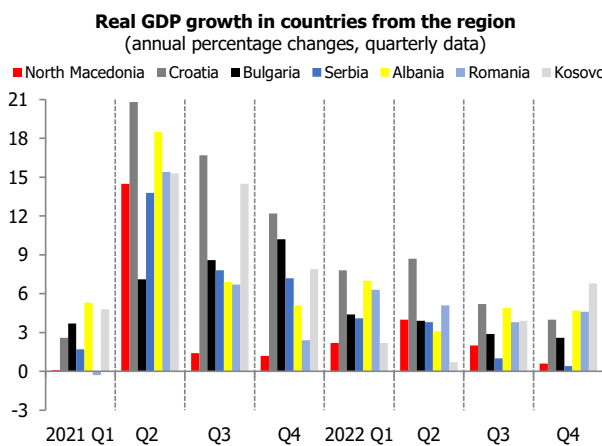


Source: IMF and NBRNM calculations.

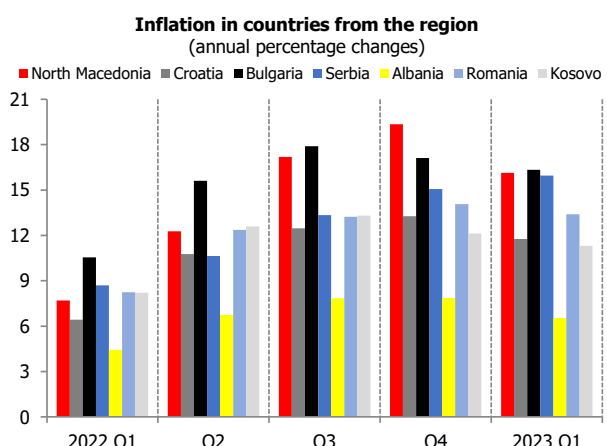


Source: IMF and NBRNM calculations.

**In relation to the countries in the region, the economic activity in the fourth quarter of 2022 continues to grow, but mostly more moderately**, with the exception of Romania and Kosovo, where growth acceleration of growth has been registered. At the same time, the accelerated growth in Romania is the result of better achievements in net exports due to the larger slowdown in imports and larger household consumption, while in Kosovo it is due to the growth in private and public consumption. **In terms of inflation, in almost all analyzed countries of the region, in the first quarter of 2023**, a downward path of inflation is registered, compared to the last quarter of 2022, in conditions of slow growth of food and energy prices. Only in Serbia registered accelerated growth, with stronger growth of the food component and core inflation.



Source: Eurostat.



Source: Eurostat and national statistical offices.

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

<sup>7</sup> This index includes the following metals: aluminum, cobalt, copper, iron, steel, molybdenum, nickel, tin, uranium, and zinc.

<sup>8</sup> This aggregate index includes the precious metals index, the food and beverages index, the agricultural raw materials index and the index of basic metals.



## 1.2. Domestic supply

*In the fourth quarter of 2022, the activity in the domestic economy registered a real growth of 0.6% on an annual basis, registering a deceleration compared to the growth of 2% in the previous quarter. This is partly the result of the unfavorable effects of the energy crisis and increased expenses, which caused a further decline in construction, affecting also the industrial output, primarily in the most energy-intensive segments (the metal industry). At the same time, the services sector (trade, transport and catering) continues to record solid growth, the realization of which in the same period of 2021 was poorer due to the COVID-19 pandemic. High-frequency data on the supply demand side available for the period January-February 2023 indicate favorable developments in the domestic economy in the first quarter of the year. The managers' assessments of the enterprises' operations for the first quarter of 2023 are more favorable in all significant sectors of the economy, compared to the same period of the previous year. For the next period, the managers of the enterprises within the retail trade, manufacturing industry and the service sector have more favorable expectations, while in construction the expectations are slightly less favorable.*

In the fourth quarter of 2022, the real growth of the domestic economy was 0.6% on an annual basis, which represents a slowdown compared to the growth of 2% in the previous quarter (given a decrease on a quarterly basis of 0.8%, seasonally adjusted). Structurally, the annual growth in the fourth quarter is mostly due to the positive contribution of the group of activities "trade, transport and catering", which were one of the most affected activities by the COVID-19 crisis. On the other hand, the most pronounced negative contribution is made by construction and industry, under the influence of the unfavorable effects of the energy crisis and the growth of costs. The negative contribution in the "information and communications" activity stems from the high comparison base, which is related to the previous high demand for IT platforms and various digital solutions during the pandemic.

### GDP and components- annual growth rates (in %)

	annual growth rates, in %																	
	2018	2019	2020	2021	2022	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	
Agriculture	8.3	0.1	2.5	-5.2	2.0	4.0	5.4	6.1	-3.4	-1.7	-5.7	-3.6	-8.5	1.6	4.3	3.5	-0.9	
Industry	5.3	1.4	-6.7	0.9	-1.5	-4.7	-23.9	-5.1	7.0	-6.5	10.9	-0.7	1.3	-4.1	0.7	-1.7	-1.1	
Manufacturing	6.2	2.6	-4.8	7.9	-1.8	-1.4	-26.9	-1.9	11.2	0.3	23.6	5.7	5.5	-2.5	1.9	-2.9	-3.2	
Construction	-11.0	5.5	-4.0	-5.5	-8.4	1.6	-14.5	1.6	-3.8	0.8	-3.6	-3.7	-11.0	-16.7	-1.0	-9.1	-8.1	
Trade and transport	5.0	6.7	-10.6	4.3	7.8	-1.0	-30.2	-6.2	-4.8	-11.2	31.5	2.7	1.1	7.4	6.4	9.1	8.3	
Information and communication	-4.1	6.8	4.5	15.9	2.6	11.9	-3.7	5.0	5.2	10.7	21.4	13.6	18.0	6.6	7.3	-0.7	-2.0	
Financial and insurance activities	2.6	0.4	-0.1	-0.9	1.3	2.1	-4.6	0.6	1.7	-1.5	2.5	-4.2	-0.1	1.0	-0.7	5.8	-0.9	
Real estate activities	0.1	0.2	1.1	8.3	4.1	3.5	-2.7	-1.0	4.6	6.1	9.5	7.8	9.9	4.7	7.2	3.1	1.3	
Professional, scientific and technical activities	7.9	8.0	-8.7	15.4	8.7	-8.1	-11.3	-11.1	-4.2	7.6	17.6	19.8	17.2	17.1	12.1	5.6	0.5	
Public administration	2.0	5.2	3.2	5.6	0.0	2.3	3.2	2.7	4.4	2.5	6.4	6.9	6.4	2.1	0.9	-0.9	-1.9	
Art, entertainment and recreation; Other service activities	6.6	9.6	-22.6	23.5	11.0	-14.0	-23.2	-32.9	-20.0	3.1	22.8	39.9	32.2	17.7	14.2	11.8	1.5	
Gross Domestic Product	2.9	3.9	-4.7	3.9	2.1	-0.3	-15.4	-4.3	1.3	0.1	14.5	1.4	1.2	2.2	4.0	2.0	0.6	

\*From the release for GDP of 02.03.2023

Source: State Statistical Office and NBRNM calculations.

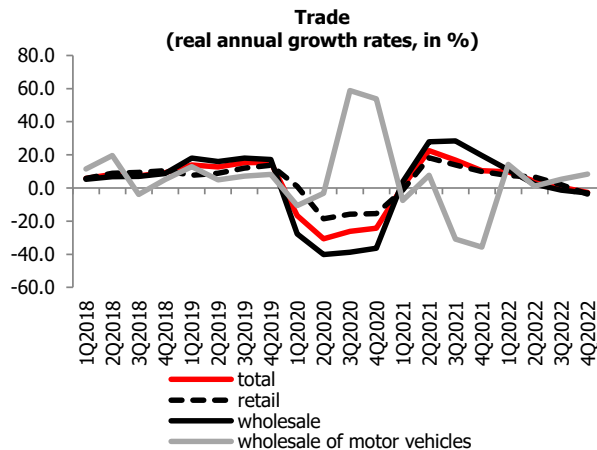
### GDP and components-Contributions to the GDP growth (in pp)

	contribution in GDP growth, in p.p.																	
	2018	2019	2020	2021	2022	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	
Agriculture	0.5	0.0	0.2	-0.4	0.1	0.2	0.3	0.4	-0.3	-0.1	-0.4	-0.3	-0.6	0.1	0.3	0.3	-0.1	
Industry	0.7	0.2	-0.9	0.1	-0.2	-0.6	-3.1	-0.7	0.9	-0.8	1.3	-0.1	0.2	-0.5	0.1	-0.2	-0.1	
Manufacturing	0.7	0.3	-0.5	0.8	-0.2	-0.1	-3.0	-0.2	1.2	0.0	2.3	0.6	0.6	-0.3	0.2	-0.3	-0.4	
Construction	-1.1	0.5	-0.4	-0.5	-0.7	0.1	-1.2	0.1	-0.5	0.1	-0.3	-0.4	-1.3	-1.0	-0.1	-0.9	-0.8	
Trade and transport	0.9	1.3	-2.1	0.8	1.4	-0.2	-5.9	-1.2	-0.9	-2.2	5.0	0.5	0.2	1.3	1.2	1.7	1.5	
Information and communication	-0.3	0.4	0.3	1.1	0.2	0.7	-0.2	0.3	0.3	0.7	1.5	0.9	1.2	0.5	0.5	-0.1	-0.2	
Financial and insurance activities	0.1	0.0	0.0	0.0	0.0	0.1	-0.2	0.0	0.1	-0.1	0.1	-0.2	0.0	0.0	0.0	0.2	0.0	
Real estate activities	0.0	0.0	0.1	0.8	0.4	0.4	-0.3	-0.1	0.4	0.7	1.0	0.7	0.9	0.5	0.7	0.3	0.1	
Professional, scientific and technical activities	0.3	0.4	-0.4	0.7	0.4	-0.4	-0.5	-0.5	-0.2	0.4	0.9	0.8	0.7	0.9	0.6	0.3	0.0	
Public administration	0.2	0.6	0.4	0.7	0.0	0.3	0.4	0.3	0.5	0.3	0.9	0.8	0.7	0.3	0.1	-0.1	-0.2	
Art, entertainment and recreation; Other service activities	0.2	0.3	-0.7	0.6	0.4	-0.5	-0.8	-1.1	-0.6	0.1	0.7	0.9	0.8	0.6	0.5	0.4	0.0	
Gross Domestic Product	2.9	3.9	-4.7	3.9	2.1	-0.3	-15.4	-4.3	1.3	0.1	14.5	1.4	1.2	2.2	4.0	2.0	0.6	

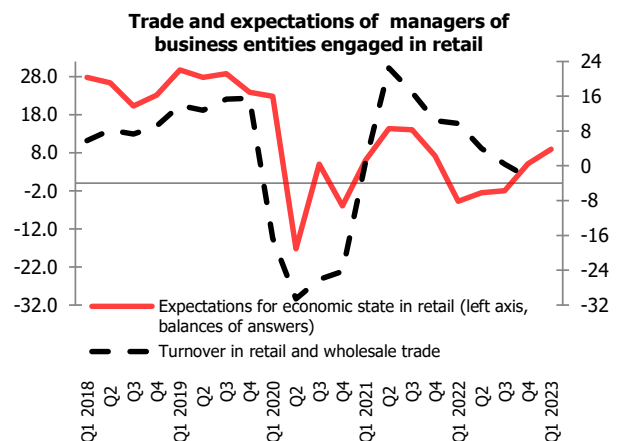
\*From the release for GDP of 02.03.2023

Source: State Statistical Office and NBRNM calculations.

Analyzed through high-frequency data, **in the fourth quarter of the year the total trade turnover recorded a real decrease on an annual basis**, in conditions of a decrease in retail and wholesale trade, while the trade in motor vehicles recorded a solid growth. In the period January - February 2023, the performance of the total trade improved, i.e. the trade in motor vehicles continues to grow, and a high growth is also registered in the wholesale trade, while in the retail trade the turnover is still slightly smaller on an annual basis. The perceptions of the corporate managers in the sector "retail trade" on the business situations during the first quarter of 2023 are favorable compared to the same quarter in the previous year, with the expectations in terms of the business activity in the forthcoming period being favorable, as well.

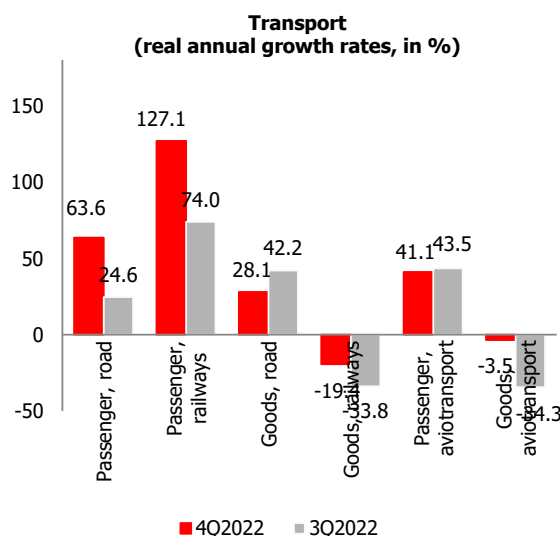


Извор: Државен завод за статистика.

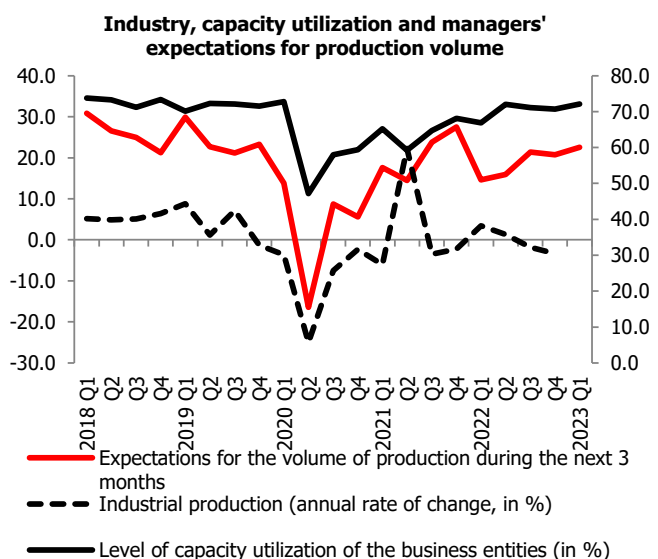


Source: Retail survey of EC. State Statistical Office and NBRNM.

In the fourth quarter of 2022 the **transport** generally registered favorable performances, in conditions of high increase in all types of road traffic, as well as in the freight road traffic. The improved performances in road traffic reflect the greater mobility of the population, unlike last year, when measures to prevent the spread of COVID-19 were into force. On the other hand, in conditions of underperformance with some of the traditional industrial activities, a decrease was registered in both freight rail and air traffic.



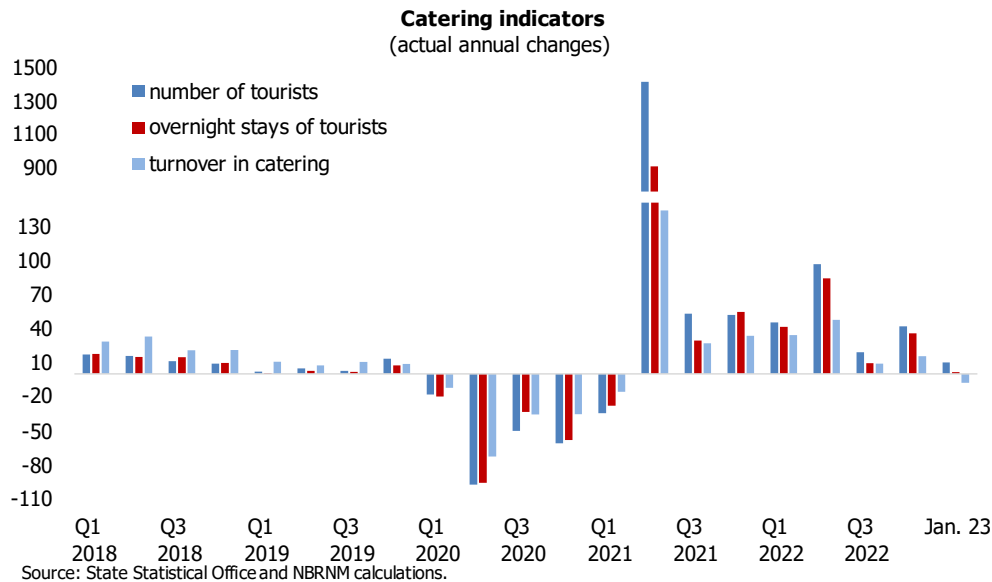
Source: State Statistical Office.



Source: State Statistical Office and Industry survey of EC.

Within the **catering sector**, and in the fourth quarter of 2022 the high annual real growth of number of tourists, overnight stays, as well as total turnover continued, but more intensively than in the previous quarter. Moreover, the growth in the number of tourists and overnight stays is a result of the increased number of overnight stays of foreign, as well as domestic tourists, in conditions of facilitated

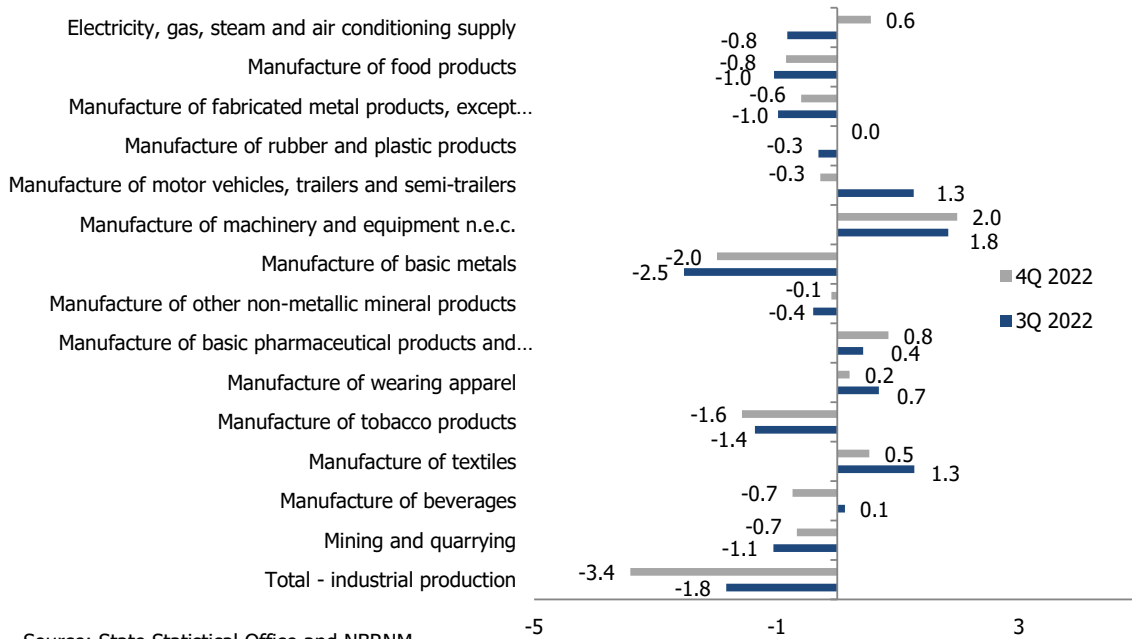
traveling conditions. In January 2023, the annual growth in the number of tourists and overnight stays decelerated substantially, while the total turnover registered a decrease, which is due to the high comparison base. The perceptions of the corporate managers in the services sector on their business situations during the first quarter of 2023 are more favorable compared to the same quarter in the previous year, with the expectations for the upcoming period in terms of demand also being more favorable.



**In the fourth quarter of the year the industrial output<sup>9</sup> registered a real decrease in activity of 3.4% annually** (decrease of 1.8% in the previous quarter), as a result of the negative contribution of the manufacturing industry and mining, while the contribution of the energy sector as positive. By activity, the largest negative contribution was registered in part of the traditional activities, mainly with the energy most intensive ones, such as the production of metals, while additional negative contribution was made by the production of tobacco products, production of food products, and production of beverages. On the other hand, a more pronounced positive contribution is made by some of the activities where larger foreign export capacities are operating, such as the production of machines and devices. In the period January - February 2023, the decline in industrial output is smaller, in conditions of growth in the energy sector and mining and a more moderate negative contribution from the manufacturing industry. The industrial sector managers have more favorable perceptions of the business situations in the first quarter of 2023, compared to the same quarter last year, with less favorable expectations in terms of the movement of manufacturing in the upcoming period.

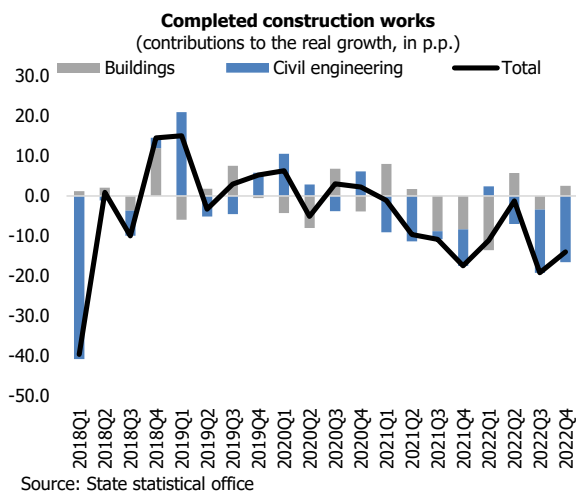
<sup>9</sup> The analysis of trends in industry uses data on the SSO's monthly data for the industrial output indices.

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

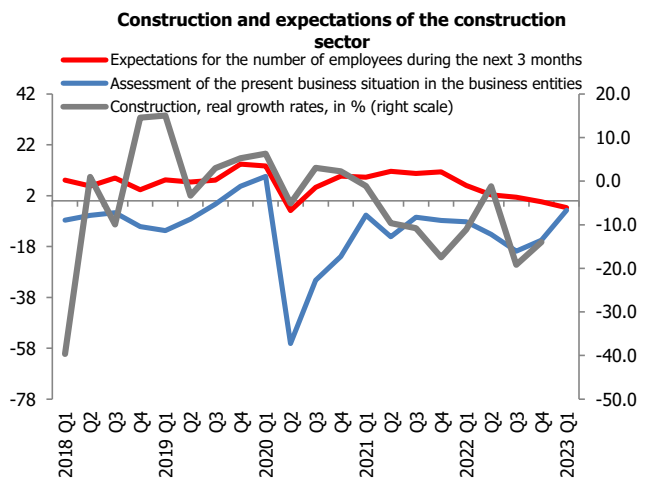


Source: State Statistical Office and NBRNM.

According to the available high-frequency data, **in the fourth quarter of the year, the activity in the construction sector recorded a further real decline on an annual basis, but milder compared to the decline in the previous quarter.** At the same time, the decline in total construction works is entirely due to the high fall in civil engineering, while building construction recorded a small growth. The decrease in construction can be related to the slower implementation of the started public infrastructure projects and the high growth in the already high prices of construction materials and other expenses. Already in January 2023, construction moves into the positive zone, with high real growth on an annual basis, both in building construction and in civil construction. Perceptions of the corporate managers in the construction sector for the movement of their activity in the first quarter of 2023 were more favorable compared to the same quarter last year, with slightly less favorable expectations for the following period.



Source: State statistical office

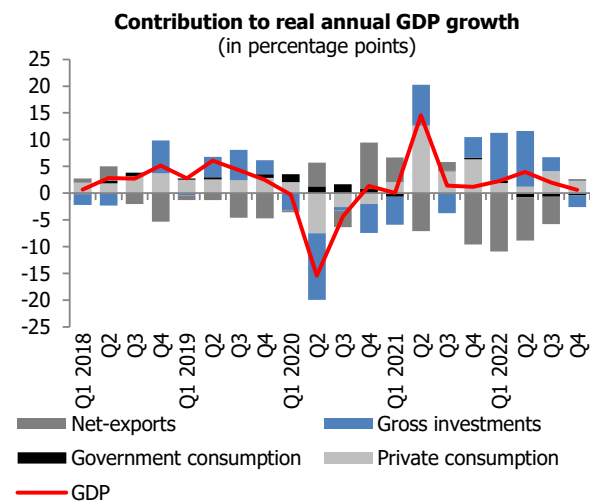


Source: Construction survey of EC, State Statistical Office and NBRNM.

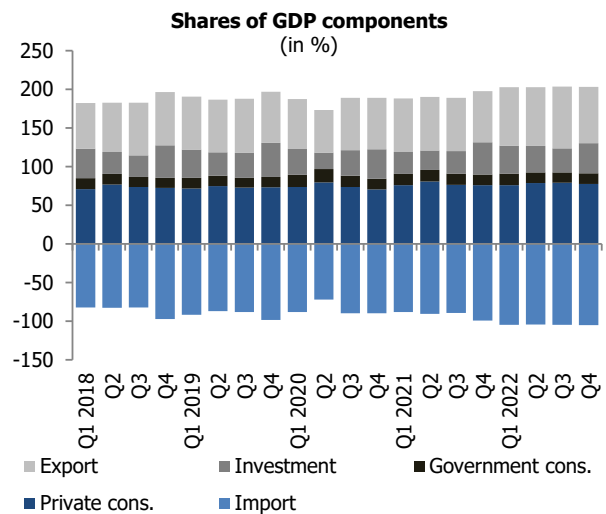
### 1.3. Aggregate demand

**Observed by the aspect of the demand, the real annual GDP growth of 0.6% in the fourth quarter of 2022 is almost entirely due to the positive contribution of the domestic demand and the net exports. The growth generator of the domestic demand in this quarter is private consumption, which further increases, although more moderately, amid slow growth of private transfers and a further decline in the rest of the components of real disposable income. On the other hand, with the gradual depletion of the inventories effect, the gross investments declined, with the contribution of public consumption also being negative. The growth of exports also slowed down, but even in the last quarter of 2022 it remained a component with the highest individual positive contribution to GDP, registering a double-digit annual growth rate. In these conditions, and with more moderate domestic demand, the growth of imports registered more pronounced deceleration, so this quarter the net export component had a positive contribution to GDP, as well.**

The GDP structural analysis<sup>10</sup> regarding the demand shows that in the last quarter of 2022 the domestic and net export demand contributed positively to the growth. From the aspect of individual components, the main growth generator of the domestic demand this quarter was the private consumption, while the gross investments and the public consumption recorded a real annual decrease. Exports continue to be the component with the highest individual positive contribution to GDP growth, which recorded stronger growth than imports, so this quarter, net exports also had a positive contribution to GDP.



Source: State Statistical Office and NBRNM calculations.



Source:SSO and NBRNM calculations.

<sup>10</sup> The quarterly changes of the GDP and its components are calculated using seasonally adjusted data.





	Real annual growth rates (%)												Contributions to real annual growth (in p.p.)**											
	2019	2020	2021	2022	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3	2022-Q4	2019	2020	2021	2022	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3	2022-Q4
Private consumption	3.5	-3.6	8.3	3.1	2.8	15.9	5.6	9.0	2.5	1.5	5.4	3.0	2.5	-2.3	5.3	2.1	1.9	11.3	3.7	5.7	1.7	1.0	3.6	2.0
Government consumption	2.5	9.8	-0.4	-2.6	-4.5	0.6	0.3	1.8	2.7	-5.2	-4.7	-2.8	0.4	1.4	-0.1	-0.4	-0.8	0.2	0.0	0.2	0.4	-0.9	-0.7	-0.4
Exports of goods and services	8.9	-10.9	11.7	13.4	7.1	44.8	3.7	1.3	11.3	14.2	17.8	10.2	5.4	-6.8	6.8	8.9	4.2	22.4	2.2	0.8	7.6	9.6	11.9	6.4
Imports of goods and services	10.1	-10.9	11.9	16.1	0.0	43.8	0.9	11.6	21.2	19.8	19.4	6.5	-7.3	8.3	-8.4	-13.2	0.0	-26.2	-0.6	-8.5	-16.5	-15.9	-15.3	-6.2
Gross capital formation	8.7	-15.1	1.7	15.0	-15.5	35.2	-11.3	10.1	31.8	41.5	9.0	-5.3	3.1	-5.2	0.3	4.9	-4.9	7.2	-3.5	3.5	9.0	10.2	2.5	-1.3
Domestic demand	4.9	-5.5	5.5	5.4	-3.1	17.2	0.4	8.5	9.5	9.0	5.0	-0.2	5.9	-6.1	5.5	6.5	-3.8	18.7	0.2	9.4	11.1	10.3	5.3	0.3
Net exports*	13.7	-10.7	12.4	23.9	-19.2	40.8	-7.3	40.4	56.9	37.8	24.8	-1.1	-2.0	1.5	-1.6	-4.4	4.2	-3.8	1.6	-7.8	-8.8	-6.3	-3.4	0.2
Statistical discrepancy													0.0	0.0	0.0	0.0	-0.3	-0.4	-0.3	-0.4	0.0	0.0	0.0	0.1
GDP	3.9	-4.7	3.9	2.1	0.1	14.5	1.4	1.2	2.2	4.0	2.0	0.6	3.9	-4.7	3.9	2.1	0.1	14.5	1.4	1.2	2.2	4.0	2.0	0.6

\*decrease represents lower deficit

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

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

Source: SSO and NBRNM calculations.

### 1.3.1. Private consumption

In the fourth quarter of 2022, the private consumption continued to grow, although slower and registered annual and quarterly growth of 3.0% and 0.5% (annual and quarterly increase of 5.4% and 2.8%, respectively, in the previous quarter). The increase in the consumption is still underpinned by the private transfers, which registered annual increase, but more moderately compared to the previous quarters. On the other hand, the pension bill<sup>11</sup>, the wage bill<sup>12</sup> and bank lending to households registered annual decrease in the real indicators. In conditions of heated uncertainty arising from the military conflict in Ukraine and intensified price pressures, so during this quarter, additional economic measures for living standard protection<sup>13</sup> were adopted, which contributed partially to maintenance of the household consumption..

The available private consumption<sup>14</sup> data for the first quarter of 2023 show further real annual decline in some disposable income components, i.e. in wages and pensions<sup>15</sup>, and real annual fall in household loans. The results of the Bank Lending Survey from March show a net tightening of the overall credit conditions and net reduction of the demand for total household loans. In addition, the retail trade registered a decrease on a real basis, with the gross VAT revenues also registering a decrease. On the other hand, domestic production of durable goods and the import of consumer goods registered an increase. The consumer confidence indicator<sup>16</sup> points to more favorable perceptions for the first quarter of 2023 relative to the previous quarter, as well as compared to the same and period in 2022. In the first quarter of the year, in conditions of prolonged uncertainty,

<sup>11</sup> Adjustment of the pensions was made with the September pension, according to the new methodology which provides adjustment with a combined model of 50% increase in average wage of all state employees and 50% increase in consumer price, according to the official State Statistical Office data. For more information at the following [link](#). Moreover, in accordance with the latest set of target measures to help the most vulnerable groups of citizens adopted in October, in the next 4 months (November and December 2022 and January and February 2023) denar 1,500 will be provided for pensioners that receive a pension of up to denar 11,525 and denar 750 for pensioners whose pensions amount from denar 11,525 to denar 14,000.

[https://www.mtsp.gov.mk/septemvri-2022-ns\\_article-so-septemvriskata-penzija-penzionerite-dobivaat-povisoki-penzii-za-6-8-procenti-soglasno-novata-meto.nsp](https://www.mtsp.gov.mk/septemvri-2022-ns_article-so-septemvriskata-penzija-penzionerite-dobivaat-povisoki-penzii-za-6-8-procenti-soglasno-novata-meto.nsp).

<sup>12</sup> More details in Section 1.3. Employment and wages.

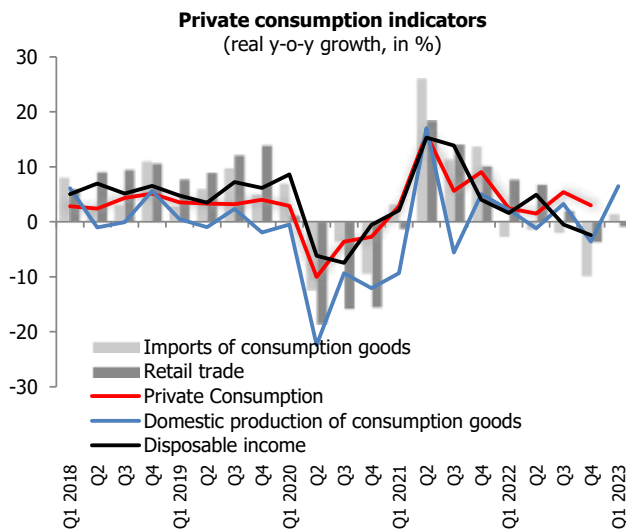
<sup>13</sup> Economic measures to protect the standard of living and liquidity of companies continued to be implemented in the fourth quarter of 2022. Thus, on 9 October 2022, the Government adopted a new set of financially support measures intended for the most vulnerable categories of citizens, targeted support for public and health institutions, support the liquidity of companies and investments in energy efficiency and renewable energy sources. On 30 October 2022, the Government made a decision on more favorable electricity prices for food industry companies of 80 euros per megawatt/hour, and for primary and secondary public schools, public enterprises in the field of water supply and waste water removal that operate with pumping and treatment plants, at a price of 95 euros per megawatt/hour. In the beginning of November 2022, the Government made a decision on determining a price cap in retail trade of oak and beech firewood and pellet, as well as the decision to continue subsidizing the heat energy price for households. On 26 December 2022, in accordance with the Ministry of Economy budget for 2023, funds have been provided to deal with the energy crisis and support households and companies, with the measure to freeze the margins of basic food products also being extended until the end of April 2023.

<sup>14</sup> Data on wages are as of January 2023, while data household loans, pensions, retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT refer to the period January-February 2023 year.

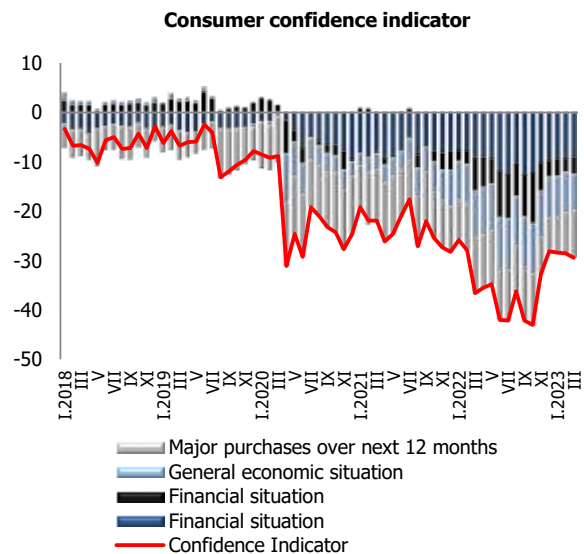
<sup>15</sup> In accordance with the latest set of target measures to help the most vulnerable groups of citizens adopted in October, in the next 4 months (November and December 2022 and January and February 2023), Denar 1,500 will be paid to pensioners that receive pension of up to Denar 11,525 and Denar 750 to pensioners whose pensions range from Denar 11,525 to Denar 14,000..

<sup>16</sup> European Commission's Consumer Survey as of March 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.

additional economic measures aimed at protecting the households' standard of living have been adopted.<sup>17</sup>



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

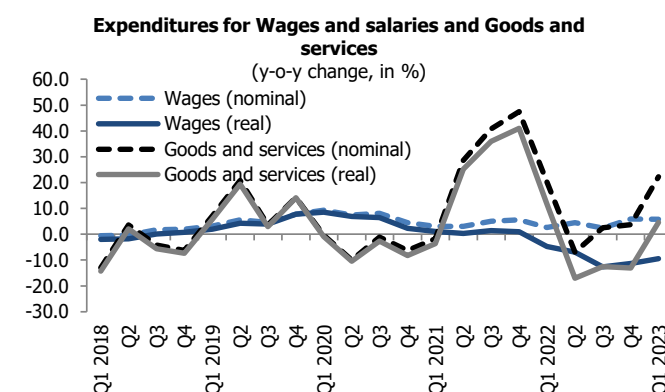


Source: European Commission and NBRNM's calculation.

### 1.3.2. Public consumption

**The public consumption registered a real annual decrease also in the last quarter of 2022, which equaled 2.8% (increase of 1.4%, on a quarterly basis).** According to the budget data, this period witnessed a real decrease in almost all major categories of public consumption, which was slightly more pronounced in the costs of goods and services, and wage expenses.

**According to the fiscal data for the period January – February 2023 the budget executions suggest a lower real annual decline in public consumption also in the first quarter of the year amid decline in all its major categories (except in costs of goods and services and local authorities).**



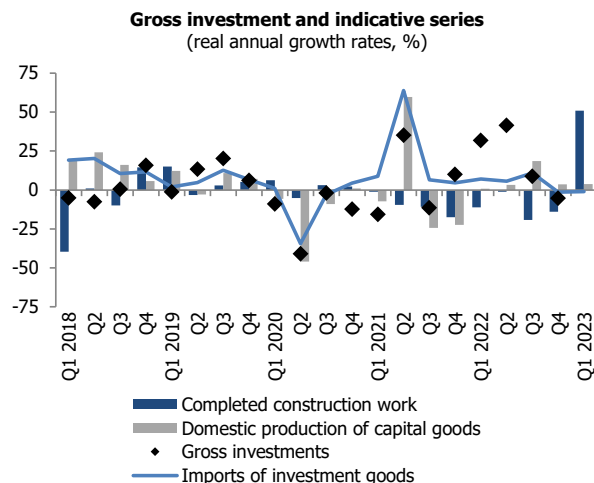
Source: Ministry of Finance and NBRNM calculations.  
The calculations include expenditures of Consolidated Budget of Central Government and Funds, deflated by CPI.

<sup>17</sup> Economic measures to protect the standard of living and liquidity continued to be implemented in the first quarter of 2023. Thus, the price of white and semi-white bread has been frozen since 1 March 2023, the prices of some pasta and some dairy products have been reduced and frozen since 16 March, with the simultaneous abolition of pasta customs, and since 1 April the prices of certain hygiene products were also reduced and frozen. For now, these measures are scheduled to be applied until 31 May 2023. Also, for the period from 21 March to the end of April 2023, the price of chicken eggs and rice was frozen. For more details at the following link: <https://vlada.mk/sednici>.

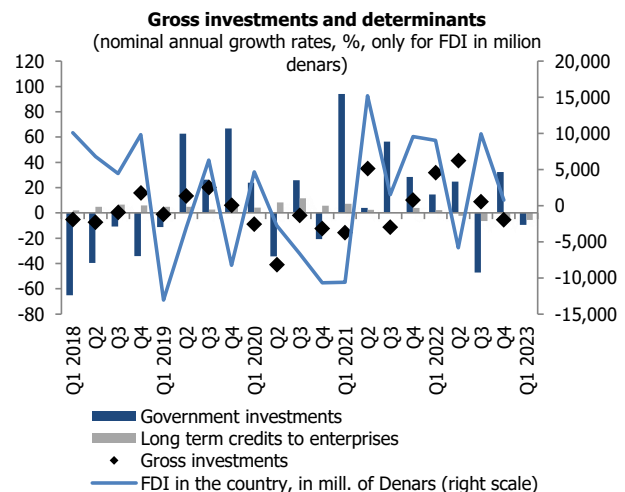
### 1.3.3. Investment consumption

**After four quarters of continuous growth, gross investment in the fourth quarter of 2022 registered real annual and quarterly decrease of 5.3% and 9.8%, respectively.** Such movements on an annual basis are a reflection of the gradual depletion of the effect of inventories, and the unfavorable effects of the energy crisis and higher production costs probably contributed to unfavorable movements of investments in fixed assets. Thus, from the aspect of indicative investment categories, in this period a real decline was registered in the import of working capital, as well as a decrease in the construction works performed and in the long-term corporate loans. In the rest of the indicative categories, positive trends were observed, mostly weaker compared to the previous quarter (in income based on profit tax, domestic production of capital goods and foreign direct investments), with high growth in government capital investments.

**As for the movements in the high frequency data on the gross investments<sup>18</sup>, the movements are slightly more favorable in the period January - February 2023.** Namely, a high two-digit real annual growth has been registered in the completed construction works, and the growth continues in the domestic production of capital goods, in income generated from the profit tax and in stocks of finished products. At the same time, the decline in total industrial output, the import of working capital and long-term corporate loans is slowing its pace, with the decrease also being registered in government capital investments after the growth in the previous quarter. On the other hand, the results of the Lending Survey for the first quarter point to a net tightening of overall lending terms and a net decrease in the demand for corporate loans.



Source: State Statistical Office, Ministry of Finance and NBRNM



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

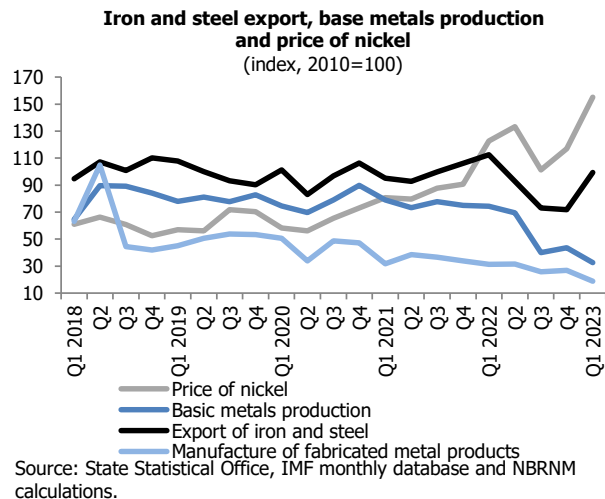
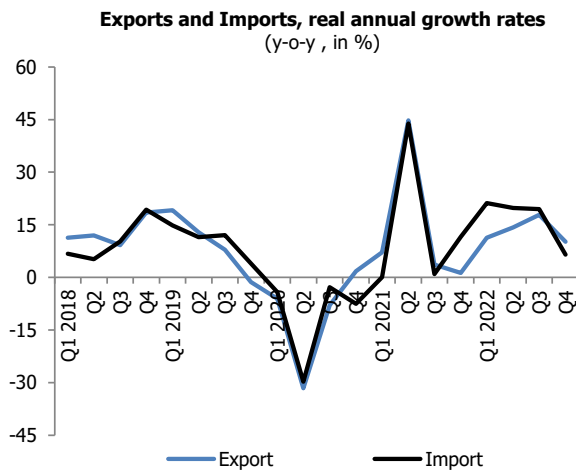
### 1.3.4. Net export demand

**In the last quarter of 2022, net exports made a positive contribution to GDP, for the first time in four quarters, as a result of the higher growth of exports relative to imports.** Namely, the exports continue registering an increase on an annual basis, but a little slower, recording a growth rate of 10.2%, at quarterly decline of 3.7% (annual growth of 17.8% and quarterly decline of 1.5%, respectively, in the previous quarter). Thus, also in this quarter it was the component with the highest individual positive contribution to GDP growth. Analyzing the nominal values of the foreign trade statistics, the largest contribution to such performances was made by the export-oriented automotive companies in foreign ownership, while positive contribution was also made by the export of energy. In the conditions of a decrease in gross investments, as well as the slow growth of private consumption and

<sup>18</sup> Data on completed construction works and inventories of finished products are as January 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 January – February 2023.

exports, the growth of imports slowed down significantly in the last quarter, achieving a growth rate of 6.5% (with a quarterly fall of 7%).

**Foreign trade data in January – February 2023 indicate deficit narrowing in the first quarter of the year compared to the same period last year, amid nominal growth of the export and nominal decrease in the import of goods.**



## 1.4. Employment and wages

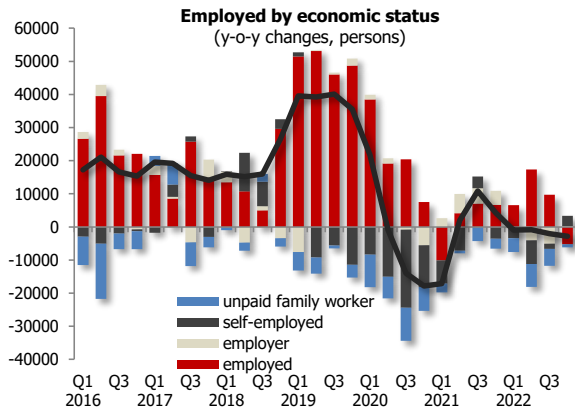
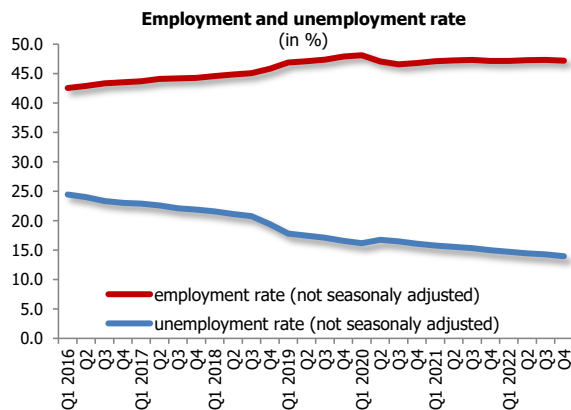
***The slowdown of the economic activity in the last quarter of 2022 affected the labour market, as well. Thus, the number of unemployed in this quarter decreased by 0.4% annually, while the employment rate maintained at the level of 47.2%. Although the number of unemployed is lower than 8%, and the unemployment rate reduced to the bottom level of 14%, however, labor supply developments are not favorable. Namely, in the fourth quarter a further reduction of active population was registered, at the expense of the moderate increase of inactive population. Business tendency surveys suggest a slightly more optimistic expectations of corporate managers in terms of new employments in the first quarter of 2023, compared to the expectations for the previous quarter. Observing the competitiveness indicators, the labor productivity is increasing, but slowly, while the growth in unit labor costs accelerates.***

Labor market movements<sup>19</sup> during the last quarter of 2022 were influenced by weaker economic activity, while uncertainty stemming from the development of the war in Ukraine is still high, and the energy crisis continues. Thus, **in the fourth quarter of 2022, the number of employed persons decreased by 0.4% on an annual basis** (while decreasing by 0.6%<sup>20</sup> on a quarterly basis). By activity, a more pronounced negative contribution is made by the reduced employment in the activities

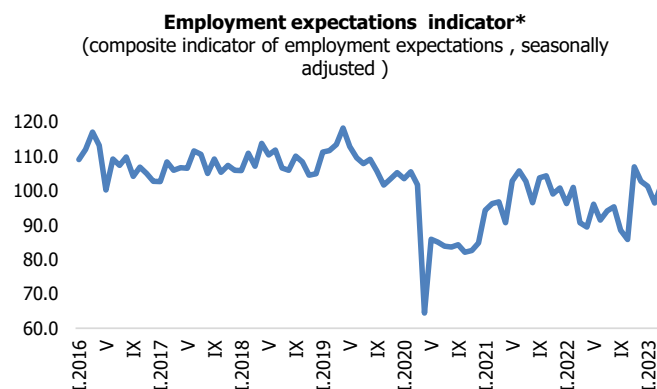
<sup>19</sup> When processing data by quarters in 2021 and 2022 by the SSO, the regional demographic distributions by gender and by five-year age groups for calibration of the population were used in accordance with the data from the Population, Households and Apartments Census 2021.

<sup>20</sup> Analysis of quarterly dynamics is made by using seasonally adjusted data.

"agriculture", "public administration" and "construction". In terms of economic status<sup>21</sup>, a decline on an annual basis is observed in the categories "employees" and "unpaid family workers", while there are positive trends in the categories "own account workers" and "employer".



**The employment rate remained at the level of 47.2%**, the same as in the fourth quarter of 2021. **The signals of the business tendency surveys<sup>22</sup> are mainly more favorable** with respect to the expectations about the number of employees in the following quarter.



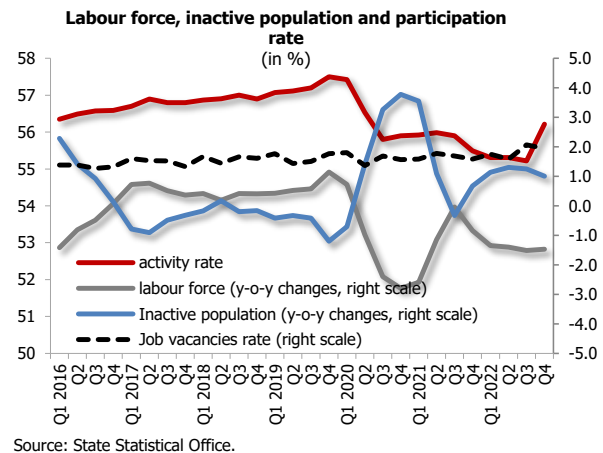
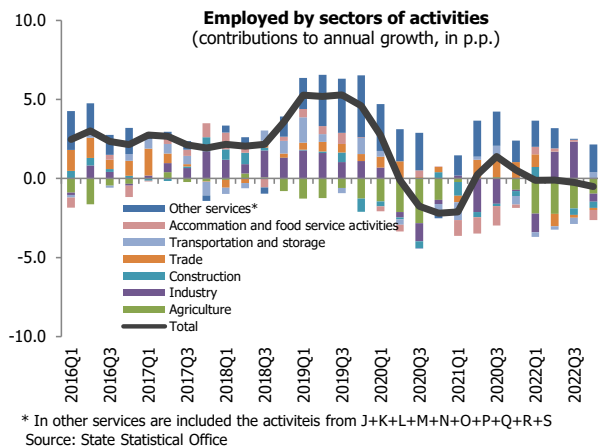
In the fourth quarter of 2022, **the vacancy rate<sup>23</sup> equals 1.9%** (1.6% in the same quarter of 2021) and remains relatively stable for a longer period (in the last five years it ranges near 1.7%). By activity, the highest rates of vacancies were observed in "accommodation facilities and catering services" (3.8%), "administrative and auxiliary services" (3.4%), "information and communications" (3%),

<sup>21</sup> 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).

<sup>22</sup> Source: European Commission, business tendency surveys, employment expectations in the next 3 months in industry, services, retail trade and construction (surveys conducted in January, February and March 2023).

<sup>23</sup> 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.

"construction" (3%), "transport" (2.7%), "art, entertainment, recreation" (2.6%), as well as in "manufacturing industry" (2.3%).



**In the fourth quarter of 2022, labor supply registered a fall.** Namely, in the fourth quarter, total active population registered a minor quarterly decrease of 1.5% which also slightly decreased the activity rate to 54.9% (as opposed to 55.5% in the same quarter of 2021). At the same time, there is an increase in the inactive population (by 1% on an annual basis).

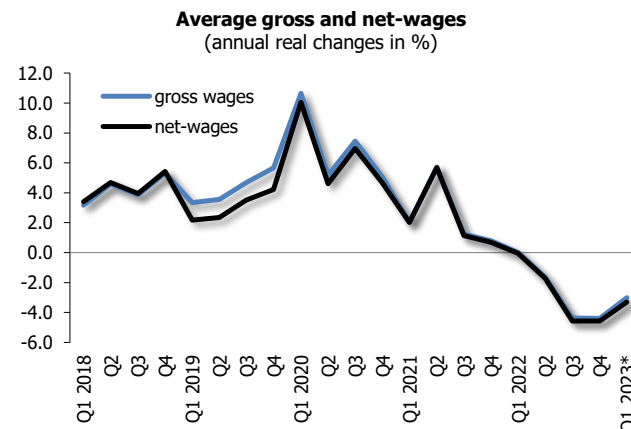
**The larger fall in the supply relative to the decrease in the demand of labor force in the fourth quarter of 2022 resulted in further fall in unemployment.** Thus, the number of unemployed in the fourth quarter decreased by 8% annually, while the unemployment rate reduced to 14% (annual fall of 1 pp, respectively). Thus, the number of unemployed in the fourth quarter decreased by 8% annually, while the unemployment rate reduced to 14% (annual fall of 1 pp, respectively).

**The net and gross wages in the fourth quarter registered an annual growth of 13.9% and 14.1%, respectively,** (in the previous quarter growth of 11.8% and 12%, respectively). The annual wage growth is partly a result of the increase in the minimum wage of 18.5% in March 2022, in accordance with the latest legislative changes<sup>24</sup>, as well as the increase in part of the public sector<sup>25</sup> wages from September 2022 last year, as well as of certain structural factors, such as lack of labor force in some labor market segments. Analyzing by activity, an annual wage growth was recorded in all economic activities, especially in activities hit by the pandemic. At the same time, the greatest growth was observed in the following activities: "art, entertainment and recreation", "manufacturing industry", "accommodation facilities and food service activities", "administrative and auxiliary activities", "construction", and "trade". In conditions of rapid growth in consumer prices of 19.3%, **real net and gross wages in the fourth quarter reduced by 4.6% and 4.4%, respectively on an annual basis.** In January 2023, the nominal average net wage increased by 13.2%, while the real net wage decreased by 3.3%.

<sup>24</sup> Pursuant to the latest amendments to the growth of the minimum wage (Official Gazette of the Republic of North Macedonia No. 41/22) from March 2022, the minimum net wage was extraordinarily increased by Denar 2,806, in accordance with the three-party agreement reached between the Government, the unions and the employers, where the government will subsidize the part related to contributions (from March 2022 to December 2022 in the amount of Denar 1,197 for each month). The minimum gross wage, from March 2022 to February 2023, is Denar 26,422 (previously Denar 22,146), i.e. the minimum net wage is Denar 18,000 (previously Denar 15,194). Moreover, the latest amendments provide a new methodology which will adjust the minimum wage in the next period, i.e. from March 2023, i.e. with the increase of the average wage paid in the RNM for the previous year and the consumer price index - 50% of the increase of each indicator, respectively. Also, it is also defined that the minimum wage cannot be lower than 57% of the average net wage paid in the RNM for the previous year.

<sup>25</sup> In accordance with the Budget revision, the September wage increased by 15% for the employees in justice department, secondary and primary education and child care, 7% for the employees in higher education, while the wages of the employees in the MOI and health department grew by 5%.

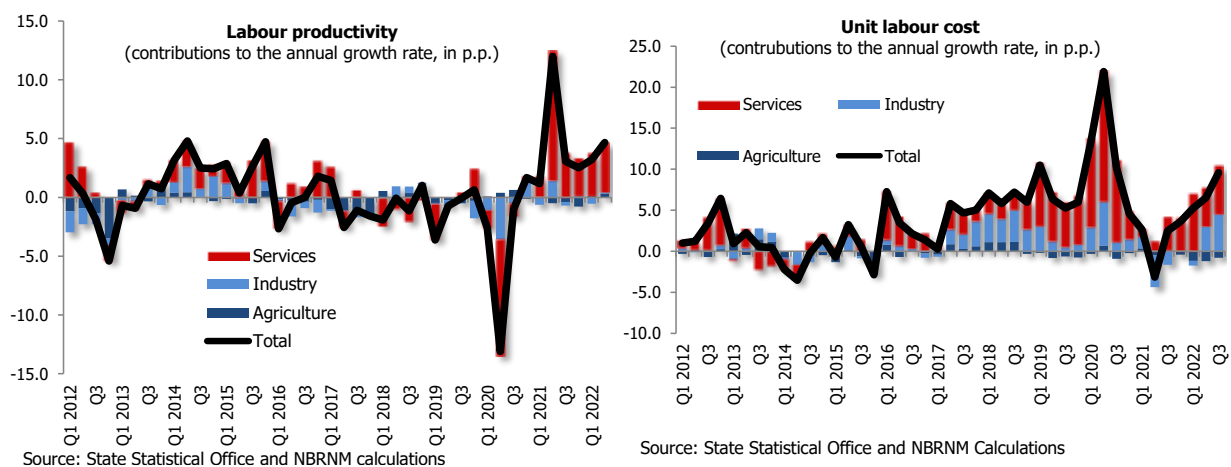




Source: State Statistical Office.

\*Data in Q1 is with last available data, January 2023.

**Labour productivity growth<sup>26</sup> decelerated in the fourth quarter of 2022 and it equaled 0.6%<sup>27</sup>** on annual basis (increase of 2.5% in the preceding quarter), which is entirely a reflection of the slowdown in the growth of economic activity with a slight decrease in the number of employees. Analyzed by sector, productivity growth came from the service sector, amid a slight decline in industry and no change in agriculture. **Simultaneously, the annual increase in the nominal unit labor costs reached 13.5%** (9.6% in the previous quarter), due to the further moderate growth of nominal gross wages, amid slowdown in productivity growth. Most of the increase in unit labor costs accounts for higher costs in service sector and industry.



## 1.5. Inflation

***In the first quarter of 2023 the inflation rate further decelerate on annual basis and equaled 16.1%, on average. Inflation is still mostly determined by external factors, that is, by the dynamics in food and energy import prices. The downward movement of the prices of basic food products and energy on the world markets led to a slow growth of domestic prices of food and energy, with a certain stabilization***

<sup>26</sup> Total labor productivity is a weighted sum of productivity of each sector. Sector productivity is the ratio of the sector's value added to the number of employees.

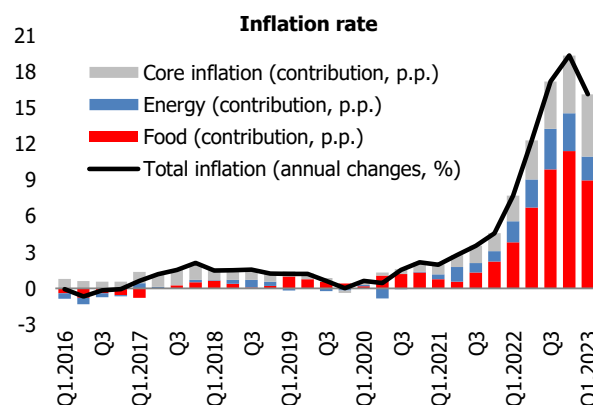
<sup>27</sup> Data on total productivity and nominal unit labor cost are internal calculations of the National Bank and therefore should be interpreted with caution. Namely, according to the 2021 Census of Population, Households and Dwellings, there was a structural break in the series for the number of employees in the first quarter of 2022. To continue conducting consistent analysis of labor productivity and unit cost, the official data on the number of employees have been adjusted.



**of core inflation. The price realizations were also the result of the new measures adopted to alleviate the price pressures in food products. Regarding the factors likely to affect future short-term consumer prices dynamics, in the first quarter of 2023 a deceleration of the growth rate of domestic producer prices and foreign imported inflation is registered, in conditions of intensified growth in nominal unit labor costs in the fourth quarter of the previous year. Regarding the inflation expectations in the coming period, according to the National Bank Survey, economic analysts expect its gradual deceleration, after it reached high levels in 2022 and are mainly in line with the inflation forecast of the National Bank and the international institutions.**

### 1.5.1. Current inflation

**In the first quarter of 2023 the inflation rate further decelerate on annual basis an in average equaled 16.1%** (19.3% in the preceding quarter)<sup>28</sup>. The greatest impact on this dynamic is the reduced contribution of food prices to inflation, complemented by the downward path of energy price growth, with a certain stabilization of core inflation. The inflation rate continues to be mainly influenced by factors on the supply side, i.e. the import prices of food and energy, in conditions of prolonged duration of the war in Ukraine and further global uncertainty and their transfer effect on the prices of other products and services in the price index.



Source: State statistical office and NBRNM calculations.

**In the first quarter of 2023, the core inflation equaled 10.2% on an annual basis (9.8% in the previous quarter)**, which is mostly due to higher prices of catering services, attributable to the increased food and energy prices. Greater contribution was also made by prices of personal hygiene products and routine household maintenance, non-alcoholic beverages and transport services. The other inflation sub-indices, which exclude the most volatile prices, registered certain growth slowdown in this quarter, compared to the previous quarter. Thus, the total index, excluding energy<sup>29</sup>, liquid fuels and lubricant oils (for transport) and unprocessed food registered an annual growth of 15.8% (17.6% in the previous quarter), while the total index, excluding energy, liquid fuels and lubricant oils (for transport), unprocessed food, tobacco and alcoholic beverages, registered an annual growth of 16.6% (18.2% in the previous quarter).

<sup>28</sup> On a quarterly basis, domestic consumer prices increased by 0.4%, and by 1.0% seasonally adjusted.

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



	(annual changes, in %)							(contributions to annual changes, in p.p.)						
	2021	2022					2023 Q1	2021	2022					2023 Q1
		Q1	Q2	Q3	Q4	2022			Q1	Q2	Q3	Q4	2022	
<b>Consumer price index - all items</b>	<b>3.2</b>	<b>7.7</b>	<b>12.3</b>	<b>17.2</b>	<b>19.3</b>	<b>14.2</b>	<b>16.1</b>	<b>3.2</b>	<b>7.7</b>	<b>12.3</b>	<b>17.2</b>	<b>19.3</b>	<b>14.2</b>	<b>16.1</b>
<b>Food</b>	3.3	10.4	18.0	26.7	30.3	21.5	24.6	1.2	3.8	6.7	9.9	11.4	8.0	9.0
<b>Energy</b>	6.4	13.4	17.8	25.5	23.6	20.2	15.3	0.8	1.8	2.3	3.4	3.1	2.7	2.0
Electricity	4.3	9.4	9.4	20.2	20.2	14.8	14.0	0.3	0.7	0.7	1.5	1.5	1.1	1.0
Heat energy	-1.7	9.4	9.4	23.0	30.1	17.8	14.2	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Fuels and lubricants	17.4	29.1	42.0	37.7	21.2	32.3	4.2	0.5	0.9	1.4	1.3	0.8	1.1	0.1
<b>Food and energy (volatile prices)</b>	4.1	11.2	18.0	26.4	28.6	21.2	22.2	2.0	5.6	9.1	13.2	14.5	10.7	11.0
<b>Core inflation calculated by the NBRNM</b> (total index - food and energy (categories 01.1, 04.5, 07.2.2))	2.4	4.2	6.5	7.9	9.8	7.1	10.2	1.2	2.1	3.2	3.9	4.8	3.5	5.2
<b>Overall index excluding energy, liquid fuels and lubricants and unprocessed food (SSO)</b>	2.7	6.0	10.4	15.1	17.6	12.3	15.8							
<b>Overall index excluding energy, liquid fuels and lubricants, unprocessed food, tobacco and alcoholic beverages (SSO)</b>	2.6	6.1	10.5	15.7	18.2	12.7	16.6							

Source: State Statistical Office and NBRNM calculations.

**Slow annual growth of food prices was registered also in the first quarter of 2023, after the downward movement that started in November last year.** Price growth decreased to 24.6% from 30.3% in the previous quarter, amid a slowdown in price growth for most food products, mostly due to the prices of bread, cereals and vegetables. However, the annual growth of prices in the "bread and cereals" category is still high and forms approximately one third of the increase in the prices of the food component, which is partly a reflection of the high participation of this product category in food consumption. The increased prices of meat and the "milk, cheese and eggs" category had a more significant contribution to the food component. The slow growth of domestic food prices is in line with the downward movement of the prices of basic food products on the international market, the reduced pressure of energy sources on the operating costs in the food industry in conditions of favorable movements in the prices of electricity and oil derivatives. In the first quarter, the sales prices of domestic food producers recorded a slowdown in the annual growth rate, while the growth in foreign effective food prices, denominated in euros, stabilized<sup>30</sup>. In addition to such movements, in order to alleviate price pressures in food products, during February and March measures were adopted to freeze the prices of certain categories of basic food products<sup>31</sup>, and until then the measure for subsidizing electricity for domestic producers of food products.

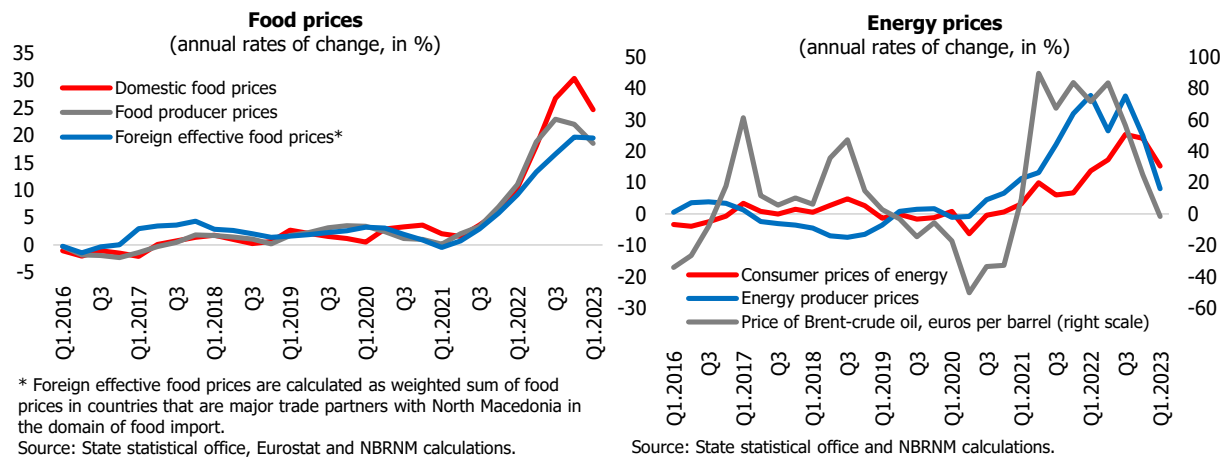
**The slowdown in the energy prices growth continued in the first quarter of 2023,** but more intensively compared to the previous quarter, although it is still in the double-digit change zone and equals 15.3% (23.6% in the previous quarter). This dynamic is the result of the more moderate

<sup>30</sup> Data on sales prices of domestic food producers and foreign effective food prices refer to the first two months of first quarter of 2023.

<sup>31</sup> On 28 February 2023, the Government of the RNM adopted a decision on freezing the price of bread in the period from 1 March to 31 May 2023.

Thus, the price of white and semi-white bread of 450 grams and more is frozen at the level of Denar 33, i.e. up to Denar 33 for white and semi-white bread below 450 grams, in relation to the bread weight. At the same time, the Government adopted a decision on abolishing the subsidized price of electricity for food industry companies ([link](#)). On 10 March, the Government adopted a decision on reducing, i.e. freezing the prices of part of the pastas and some of the milk products in the period from 16 March to 31 May 2023. Thus, the prices of macaroni and spaghetti are reduced by 15% relative to those applied in retail trade on 1 March and they will be frozen at that level until the measure is in effect. In addition, the Government also adopted a decision on abolishing the customs duties on pastas for the period from 13 March to 31 May 2023, whereby accordance with the Assessment presented, the effect of abolishing the customs duties coincides with the amount of the reduction of the prices of pastas. The prices of milk products, such as: pasteurized cow's milk (with 2.8%, 3.2% and 3.5% fat), curd, cow's / mixed white cheese, cow's yellow cheese, sour milk, cream and yogurt, are reduced by 10% relative to the prices valid in retail trade on 1 March, and they will be frozen at that level while the measure applies ([link](#)). On 21 March, the Government adopted a decision on freezing the prices of fresh chicken eggs and rice at the level valid on 15 March in retail trade, which will apply until 30 April 2023 ([link](#)). This measure is in conformity with the methodological explanations of the State Statistical Office ([link](#)), and it will reflect on the price index in April. Also, on April 3, the Government made a decision to set the highest prices for 11 types of fruits and vegetables, including tomatoes, cucumbers, onions, cauliflower, peppers, beans, lentils, bananas, oranges, tangerines and lemons. This measure will be valid from 5 to 30 April ([link](#)). Besides the interventions in the prices of food products, on 29 March the Government adopted a decision on reducing, i.e. freezing the prices of some hygienic products for the period from 1 April to 31 May 2023. Thus, the prices of toilet paper, wet wipes, diapers and sanitary napkins are reduced by 13% relative to those applied in retail trade on 20 March and they will be frozen at that level until the measure is in effect ([link](#)).

growth in all categories within the energy component, above all the domestic prices of oil derivatives, which follow the downward movement of the price of crude oil on the world stock markets. Electricity prices for households also recorded slower growth, but remained the main driver of price growth in the energy component, due to the transmission effect of the regulatory price growth in July last years and the increase in January<sup>32</sup>.



In the first quarter of 2023, **the industrial producer prices** registered an increase of 13.0% on an annual basis<sup>33</sup>, which still shows a slowdown in the growth of production prices, but more pronounced (21.2% in the previous quarter). This trend results mainly from the slow growth of production prices of energy and other intermediate products, with a significant impact being the lower price of electricity on the free market, as well as the reduction of the price of electricity for companies that are on the regulated market<sup>34</sup>. From a structural point of view, the drivers of the price growth of industrial producer prices in this quarter are the higher production prices of food products and beverages. **Producer prices of energy and consumer goods, as an aggregate category and factor that influence the dynamics of consumer prices**, also registered a slower annual growth of 13.3% (20.4% in the previous quarter). **The foreign effective inflation**<sup>35</sup>, as an indicative indicator of imported inflation, registers a further decelerated growth, which equals 10.1% (11.6% in the previous quarter). **Nominal unit labor costs** in the fourth quarter of 2022 recorded an annual growth of 13.5%, which is an acceleration compared to the registered annual growth in the last quarter (9.6%)<sup>36</sup>.

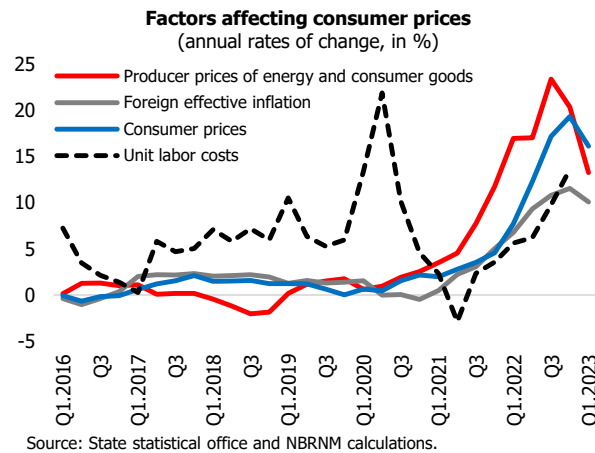
<sup>32</sup> In accordance with the decision of the Energy Regulatory Commission (ERC), in January 2023 the following changes have been made to the price of electricity for the universal supplier, as follows: the price in the first and second block went down by 4.11% and 2.95% respectively, while the 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 ([prices](#)). In addition, from January 2023 the tax rate for the turnover of electricity to households is 10%, instead of 5% as was in the past year and a half. In July last year, when the four block tariff model was introduced, the price of electricity for the universal supplier increased on average by 9.9% (the low tariff by 8.8%, while the high tariff by 10.4% on average).

<sup>33</sup> The analysis of producer prices of industrial products uses data for the first two months of the first quarter of 2023.

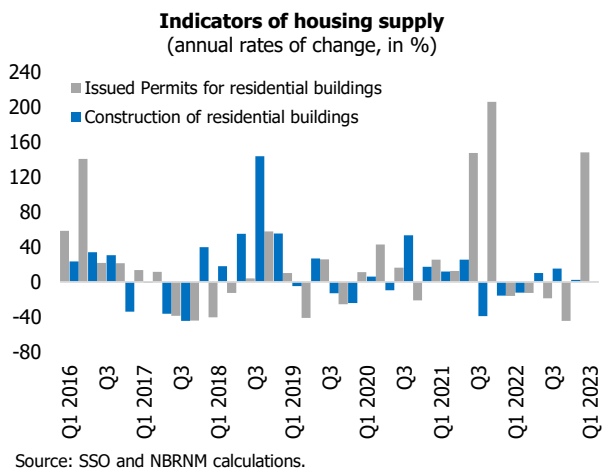
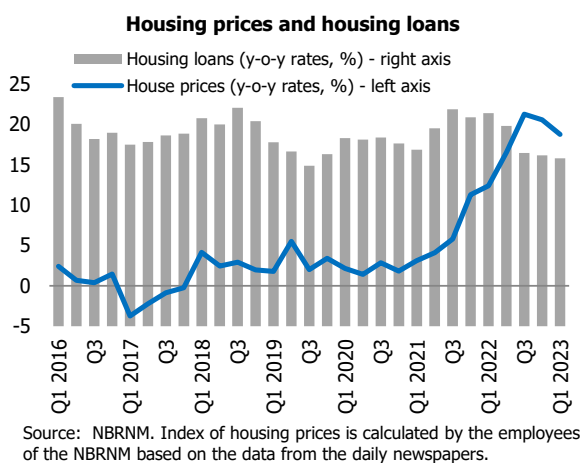
<sup>34</sup> According to the press release of the REC ([link](#)), since January 2023, the electricity price reduced by 20.15% for more than 70 thousand small-size companies present on the regulated market.

<sup>35</sup> 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 first quarter of 2023.

<sup>36</sup> The data are internal calculations of the National Bank and should be interpreted with caution. Namely, according to the 2021 Census of Population, Households and Dwellings, there was a structural break in the series for the number of employees in the first quarter of 2022. To continue conducting consistent analysis, the official data on the number of employees have been adjusted.



In the first quarter of 2023, there was further moderate **deceleration in the growth of housing prices** measured using the Hedonic index<sup>37</sup>, which are higher by 18.8% on an annual basis (20.6% in the previous quarter). From the aspect of the supply, the fourth quarter of 2022 also registered favorable trends in terms of the value of constructed residential buildings, but smaller than in the previous two quarters, with a recorded annual growth of 2.3%, while the available data on the value of the approvals issued for the construction of residential buildings in the first quarter of 2023<sup>38</sup> do not indicate, for now, to an annual growth, thus stopping the decline registered during the past year. Analyzing housing demand, it is still supported by bank lending, although there is further deceleration in the annual growth of housing loans<sup>39</sup>.



### 1.5.2. Inflation expectations

Regarding the expected trend of the inflation rate, domestic and international institutions predict a downward trend in consumer prices in the coming period. However, compared to previous forecasts, they are mainly higher, primarily due to supply-side factors commodities, amid expectations for moderate growth of activity, both globally and in the domestic economy. Namely, the uncertainty regarding the future dynamics of the prices of primary commodities on the world stock markets, especially on the energy and food markets, still exists and is emphasized due to the military developments in Ukraine and

<sup>37</sup> 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.

<sup>38</sup> The analysis refers to the first month of the first quarter of 2023.

<sup>39</sup> Available data for the first two months of the first quarter of 2023.

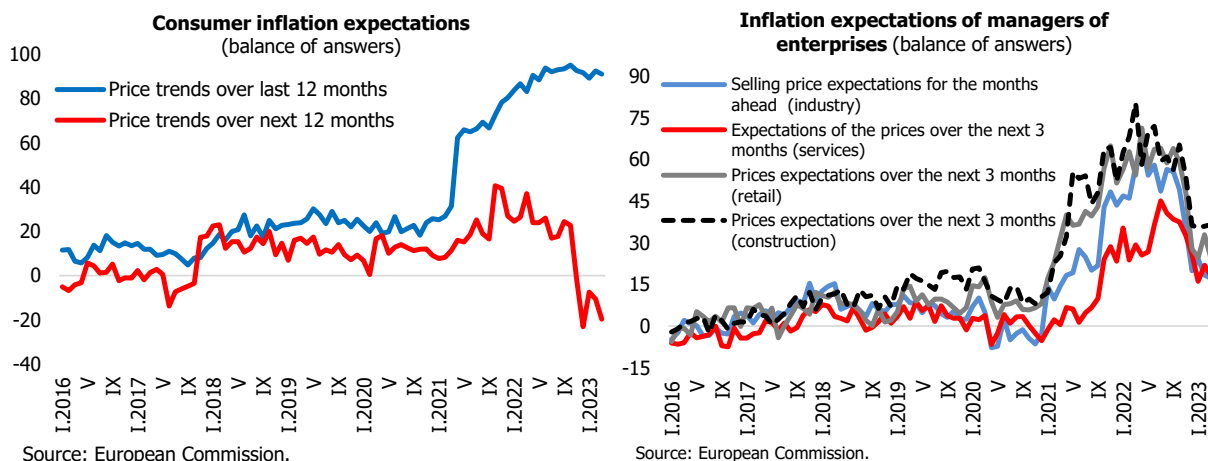
the sanctions against Russia. The expectations of the surveyed economic analysts presented in the **Survey Expectations and Expectations for the Movement of Real GDP**<sup>40</sup>, conducted in March 2023 are in the same direction, according to which deceleration in the inflation rate is expected, to the level of 10.4% in 2023, 5.5% in 2024 and 4.1% in 2025.

#### Forecasts and expectations for the inflation rate

	2023	2024	2025
Economic analysts	10.4	5.5	4.1
IMF	9.2	3.5	2.3
Consensus Forecast	9.2	3.1	/
Ministry of Finance	7.1	2.5	2.0
NBRNM	8-9	2.4	/

Source: Inflation and real GDP growth expectations survey, March 2023; IMF, World Economic Outlook, April 2023; Consensus Forecast, March 2023; Ministry of Finance, Revised Fiscal Strategy 2023-2025 (with outlook to 2027), December 2022; and NBRNM, April 2023.

The short-term expectations of consumers and corporate executives show the same tendency for the price movements expressed in surveys in the first quarter of 2023. Thus, according to the **consumer expectations for price changes in the next 12 months**<sup>41</sup>, the anticipated downward price trajectory reflects larger number of persons that expect a decline or unchanged prices, against the number of persons that expect higher prices. With regard to the expectations in **the corporate sector**<sup>42</sup>, in the first quarter, the ratio of corporate managers that expect price growth of their products in the coming three months in all activities is further reducing, with somewhat unfavorable expectations in construction compared to those in retail trade, manufacturing industry and service sector.



## 1.6. Balance of payments

***In the fourth quarter of 2022, the current account recorded a deficit of 1.9% of GDP, which is lower by 0.9 pp of GDP compared to the same period last year. The improvement is mostly the result of the lower deficit in the balance of goods and services. Namely, the deficit in trade of goods is lower by 0.4 pp. of GDP, with a simultaneously increased surplus in services by 0.3 p.p. from GDP, as a result of better realization in several services categories. Secondary income had the same impact, the surplus of which increased as a result of higher private transfers. In total for 2022, the current account deficit increased by 2.9 pp of GDP,***

<sup>40</sup> 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).

<sup>41</sup> European Commission's Consumer Survey as of March 2023.

<sup>42</sup> European Commission's business tendency surveys in industry, retail trade, construction and services sector as March 2023.



*entirely due to the higher trade deficit, with 3/4 of the deterioration stemming from the energy deficit. The changes in other components contributed to the improvement of the current account balance, with the main positive contribution being the increased surplus in secondary income and services. The financial account in the fourth quarter recorded inflows on a net basis, mostly as a result of realized net inflows in direct investments and loans, and to a lesser extent in trade credits. Net inflows in the financial account in 2022 reached 7.7% of GDP, with significant growth in net inflows from direct investments. At the same time, net inflows were also recorded in the other categories of the financial account, with the exception of the "currency and deposits" category, where there are still net outflows, although more moderate. The net inflows in the financial account enabled the full financing of the deficit in the current account and the simultaneous solid growth of foreign reserves.*

	2021					2022					2021					2022				
	q1	q2	q3	q4	I-XII	q1	q2	q3	q4	I-XII	q1	q2	q3	q4	I-XII	q1	q2	q3	q4	I-XII
	In millions of euro										% of GDP									
I. Current account	-41.5	-102.9	110.6	-332.6	-366.4	-388.8	-234.0	96.6	-246.2	-772.4	-0.4	-0.9	0.9	-2.8	-3.1	-3.0	-1.8	0.7	-1.9	-6.0
Goods and services	-311.9	-435.5	-362.7	-764.5	-1874.5	-680.7	-737.0	-552.6	-741.7	-2712.0	-2.7	-3.7	-3.1	-6.5	-16.0	-5.3	-5.7	-4.3	-5.8	-21.0
Credit	1799.8	1905.2	2002.3	2036.6	7743.9	2139.8	2419.4	2550.0	2554.6	9663.7	15.4	16.3	17.1	17.4	66.2	16.6	18.8	19.8	19.8	74.9
Debit	2111.6	2340.6	2365.0	2801.1	9618.4	2820.5	3156.4	3102.5	3296.2	12375.7	18.1	20.0	20.2	24.0	82.3	21.9	24.5	24.1	25.6	96.0
Goods	-504.3	-564.1	-504.6	-797.3	-2370.3	-850.3	-899.4	-881.4	-821.7	-3452.8	-4.3	-4.8	-4.3	-6.8	-20.3	-6.6	-7.0	-6.8	-6.4	-26.8
Services	192.5	128.6	141.9	32.9	495.9	169.6	162.3	328.9	80.0	740.8	1.6	1.1	1.2	0.3	4.2	1.3	1.3	2.5	0.6	5.7
Primary income	-128.8	-133.6	-128.7	-130.2	-521.3	-138.7	-136.9	-137.2	-145.3	-558.1	-1.1	-1.1	-1.1	-1.1	-4.5	-1.1	-1.1	-1.1	-1.1	-4.3
Secondary income	399.2	466.2	602.0	562.0	2029.4	430.5	639.9	786.4	640.8	2497.6	3.4	4.0	5.1	4.8	17.4	3.3	5.0	6.1	5.0	19.4
II. Capital account	0.2	2.5	0.0	4.4	7.1	0.2	-0.6	-1.1	-2.1	-3.6	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	-41.3	-100.4	110.6	-328.1	-359.2	-388.6	-234.6	95.5	-248.3	-776.1	-0.4	-0.9	0.9	-2.8	-3.1	-3.0	-1.8	0.7	-1.9	-6.0
III. Financial account	-643.9	-177.3	633.8	-251.2	-438.6	-13.3	-74.9	-524.6	-377.9	-990.7	-5.5	-1.5	5.4	-2.1	-3.8	-0.1	-0.6	-4.1	-2.9	-7.7
Direct investment	21.8	-206.4	-13.8	-189.1	-387.5	-111.7	-137.7	-181.8	-239.0	-670.2	0.2	-1.8	-0.1	-1.6	-3.3	-0.9	-1.1	-1.4	-1.9	-5.2
Portfolio investment	-636.9	8.6	477.4	34.9	-115.9	26.4	69.1	-221.7	74.1	-52.1	-5.4	0.1	4.1	0.3	-1.0	0.2	0.5	-1.7	0.6	-0.4
Currency and deposits	27.6	119.7	146.7	139.1	433.1	24.3	118.5	133.7	107.5	383.9	0.2	1.0	1.3	1.2	3.7	0.2	0.9	1.0	0.8	3.0
Loans	-19.1	-147.2	17.9	-100.5	-248.9	53.5	-34.9	-175.1	-210.0	-366.4	-0.2	-1.3	0.2	-0.9	-2.1	0.4	-0.3	-1.4	-1.6	-2.8
Trade credit and advances	-38.3	48.0	5.2	-135.7	-120.8	-5.1	-86.1	-79.6	-110.2	-281.0	-0.3	0.4	0.0	-1.2	-1.0	0.0	-0.7	-0.6	-0.9	-2.2
Other accounts receivable/payable	1.1	0.0	0.4	0.3	1.9	-0.3	0.0	0.0	-0.3	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV. Special drawing rights (Net incurrence of liabilities)	0.0	0.0	163.4	0.0	163.4	0.0	0.2	0.4	0.1	0.7	0.0	0.0	1.4	0.0	1.4	0.0	0.0	0.0	0.0	0.0
V. Net errors and omissions	8.9	17.6	26.3	9.1	61.9	1.8	27.0	33.9	-5.8	57.0	0.1	0.2	0.2	0.1	0.5	0.0	0.2	0.3	0.0	0.4
VI. Reserve assets	611.5	94.5	-333.5	-67.9	304.7	-373.5	-132.7	654.0	123.8	271.6	5.2	0.8	-2.9	-0.6	2.6	-2.9	-1.0	5.1	1.0	2.1

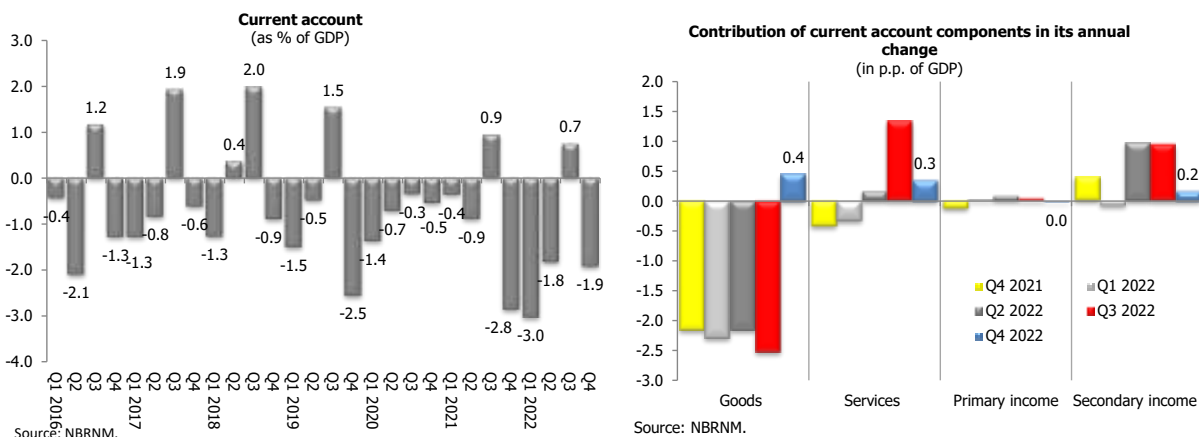
Source: NBRNM.

### 1.6.1. Current account

**In the third quarter of 2022, the balance of payments' current account registered a deficit in the amount of Euro 246.2 million, or 1.9% of the GDP.** The analysis on an annual basis indicates a narrowing of the current account deficit (of 0.9 pp of the GDP), which largely stems from reduced trade deficit. A positive contribution to the decrease in the current account deficit, although a little bit smaller, was also observed in services, whose surplus recorded an annual growth, which is mostly due to the realized net inflows in business services, as opposed to outflows in the same period of the previous year, as well as higher net inflows based on telecommunications, computer and information services. The higher surplus in the secondary income of 0.2 pp of the GDP had the same effect, as a result of the better realization in private transfers.

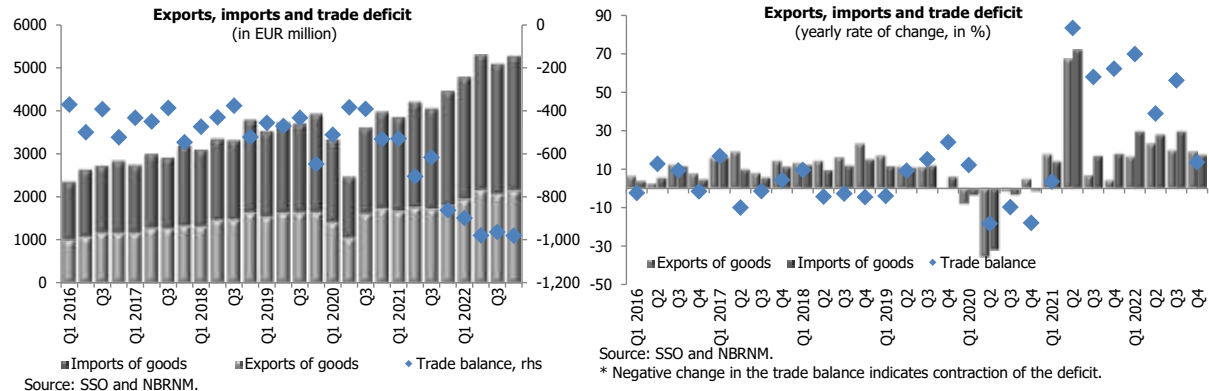
For the entire year 2022, the current account deficit in the balance of payments expanded by 2.9 pp and reached 6% of GDP, which is entirely due to the increased trade deficit, in conditions of higher growth of imports compared to the growth of export of goods. This situation was a result of the high growth of the stock exchange prices of primary commodities on the world markets, especially pronounced in the case of energy, which contribute to the deterioration of the trade balance by 3/4. These unfavorable developments were mostly mitigated by the higher surplus in secondary income, under the influence of the growth of private transfers, which after the complete lifting of the restrictive measures related to travel recorded a constant growth. The growth of net inflows in services, mainly in telecommunication, computer and information services, as well as business services, had a similar impact.





### Foreign trade in goods and movement of the Nominal and the Real Effective Exchange Rate (NEER and REER)<sup>43</sup>

**Foreign trade in the fourth quarter of 2022 amounted to Euro 5,265.9 million, or 37.8% of GDP,** which compared to the same quarter of the previous year, represents an increase of Euro 810.7 million, or 2.7 pp from GDP. The trade of the domestic economy with foreign countries continues to grow and recorded an annual rate of 18.2% in the fourth quarter. These achievements were the result of the growth of both components of the trade, more pronounced in the case of imports. Namely, despite the gradual slowdown in energy stock prices, especially in the last two months of the year, energy imports remained at a relatively high level and, together with the imports of new manufacturing companies, was the main factor that contributed to a stronger growth of import of goods.



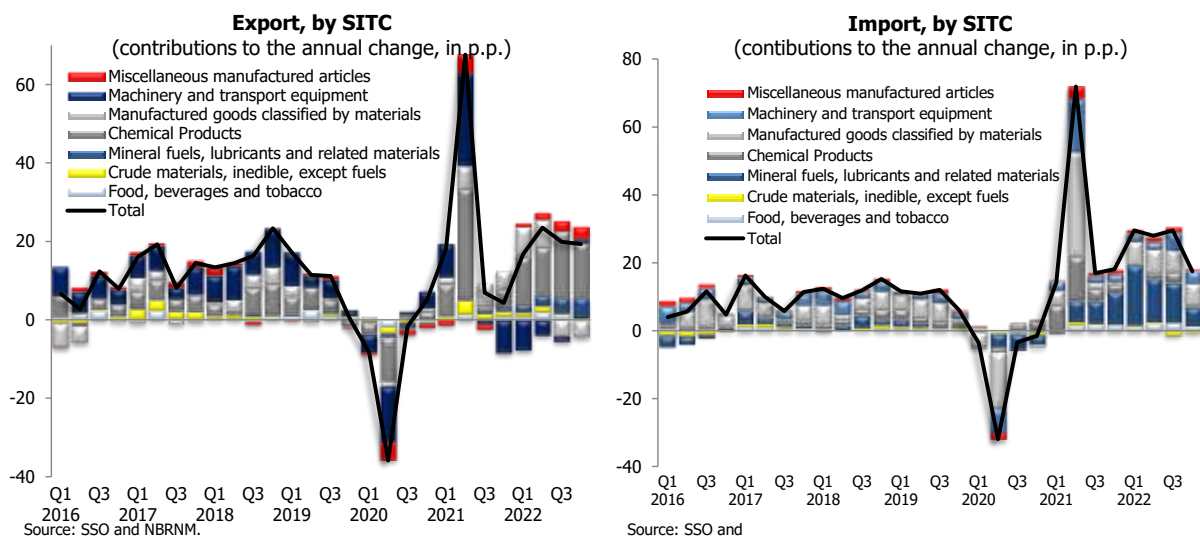
**In the fourth quarter of 2022, the export of goods registered an increase of 19.3% on annual basis.** This performance is mainly due to the positive contribution of the export of chemical products, which represents the export category of products of some of the foreign companies from the automotive industry. The energy component also recorded a positive contribution, mainly due to the growth of electricity exports, with higher export prices and exported quantities as a result of production surpluses resulting from unusually warm weather conditions at the end of the year and reduced consumption. In the same way, the increased export of road vehicles, electrical machines and equipment and the export of furniture, which are also part of the export of the automotive industry, as well as the higher export of the textile industry, acted likewise. On the other hand, reduced exports of iron and steel, as well as industrial equipment and machinery, had a negative effect on the export growth in the fourth quarter of 2022. **The import of goods in the fourth quarter of 2022 increased by 17.5% on an annual basis.** The import of energy in this quarter also contributes to the upward movement of the import component. This is mainly due to the growth of the import of petroleum products and the import of natural gas, while the import of electricity has decreased. At the

<sup>43</sup> 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.



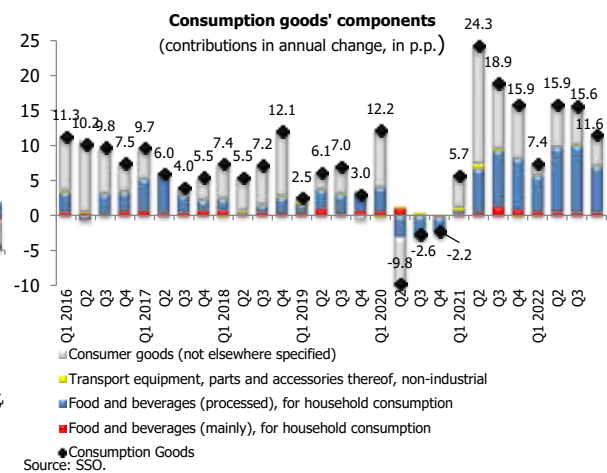
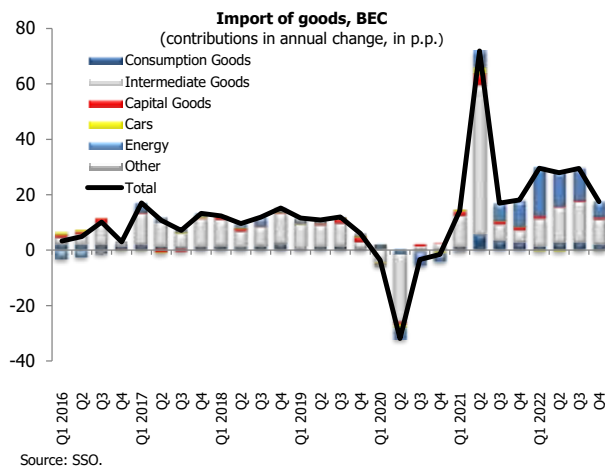
same time, the growth of energy imports is mainly due to the high imported prices in accordance with the movements of the world stock markets (which, despite the slowdown, in November and December are still at higher levels than in the same quarter of the previous year), while at the same time a small volume growth in derivatives and lower imported volumes in natural gas. Some of the import categories related to foreign companies from the automotive sector also had a positive contribution to the growth of imports, analyzed through the growth of the import of non-ferrous metals, as well as the higher import of equipment and machinery. **Both foreign trade components in the fourth quarter of 2022 resulted in trade deficit widening by 13.7% on an annual basis**, amid widening of the deficit in both the energy and the non-energy balance.

The latest available data for the period January - February 2023 indicate a significant narrowing of the foreign trade deficit by 26.3% compared to the same period last year, in conditions of solid growth in the export of goods with a simultaneous decrease in the import of goods. At the same time, the annual growth of the export component of 10.2% mainly results from the export performance of the automotive sector with increased export of equipment and machinery, road vehicles and export of furniture, as well as from the increased export of electricity, against the reduced export of iron and steel. The import of goods registered an annual decrease of 1.5%, which is primarily due to the reduced import of electricity, and to a lesser extent to the lower import of non-ferrous metals and iron and steel, while the import of equipment and machinery grew.

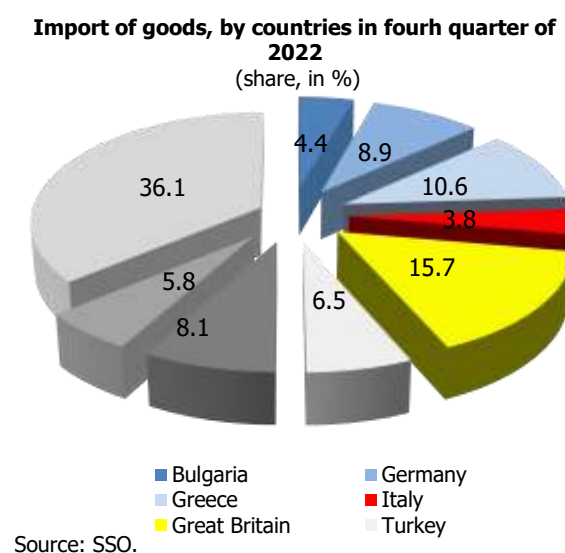
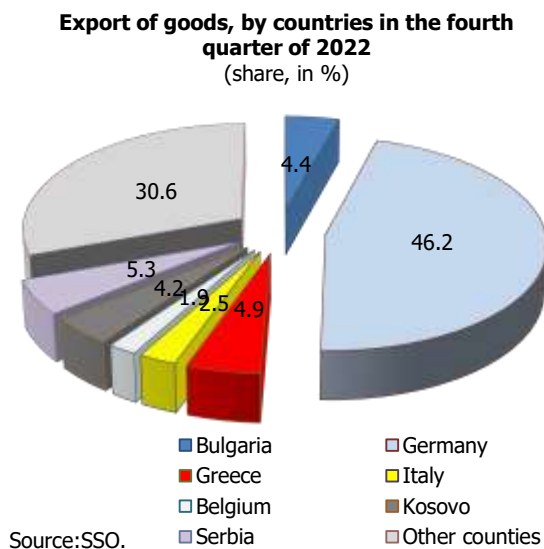


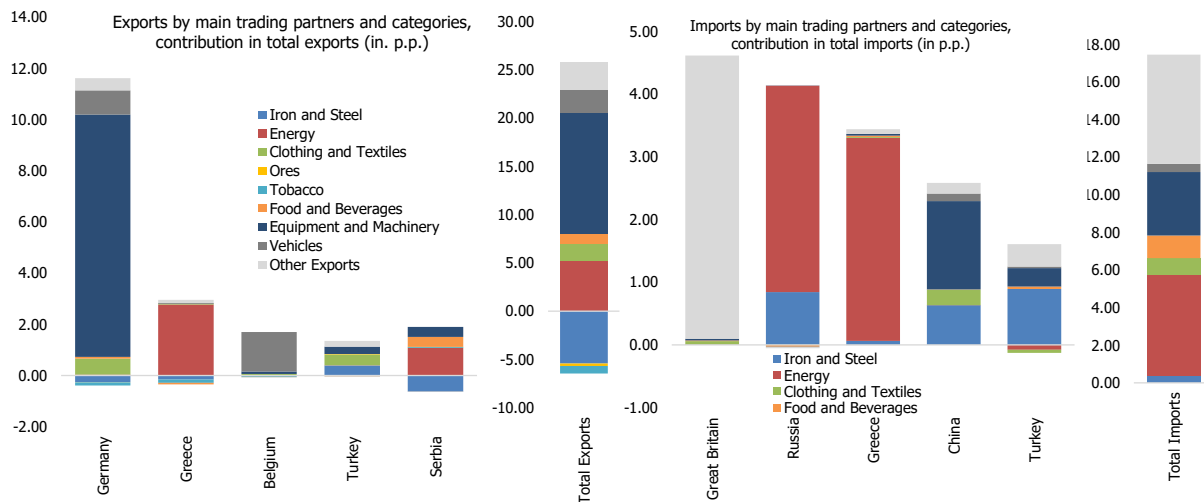
From the aspect of the import of goods by division according to the System of National Accounts (SNA), in the fourth quarter of 2022, the imports grew due to the import of intermediate products, and due to the energy imports. In terms of imports intended for private consumption<sup>44</sup>, the highest contribution to the growth of this category was made by the import of food and beverages (processed) mainly for utilization in households, as well as the import of consumer goods not mentioned elsewhere. Analyzing dynamics, the increase in the private consumption further decelerates on an annual basis in the fourth quarter and still indicates significant pressures on total imports.

<sup>44</sup> 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.

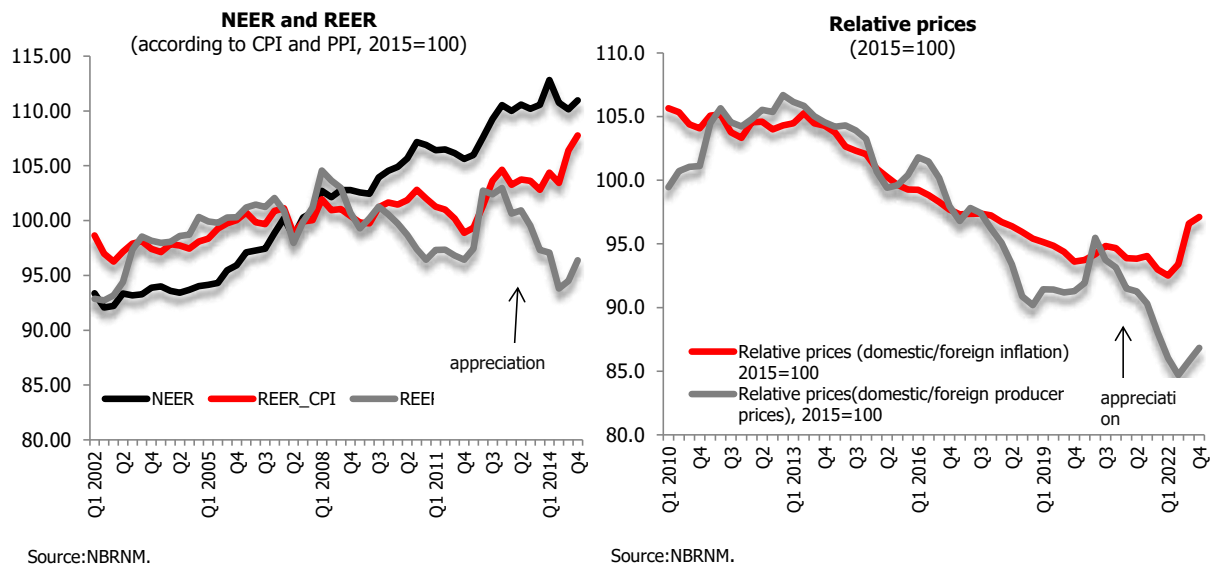


**The foreign trade analysis, by trading partner, shows that in the fourth quarter of 2022, the European Union was the major trading partner of the domestic economy, making up 59.1% of total foreign trade.** The analysis shows that the annual growth in the third quarter was dispersed among several countries. On the export side, largest contribution was again made by the exports to Germany, which is mostly due to the export of various products from chemical industry. Exports to Serbia also made a positive contribution as a result of higher energy exports, and increased exports to Turkey were mainly due to textile and clothing exports, as well as iron and steel exports. According to data on trade partners on the **import** side, the import of precious metals from Great Britain and the import of energy from Russia and Greece have a positive contribution. The import of equipment and machinery from China, as well as the import of iron and steel from Turkey, also recorded an increase. Regarding the foreign trade **balances** by partner, the higher annual trade deficit was mostly due to the higher negative trade balance with Great Britain, Russia and Canada, and less to the deteriorated balance in the trade with Greece and Poland. On the other hand, higher surplus was registered in the trade with Germany, while a lower deficit with Serbia, Romania and Ukraine, as well as a surplus in the trade with Belgium compared to the same period last year



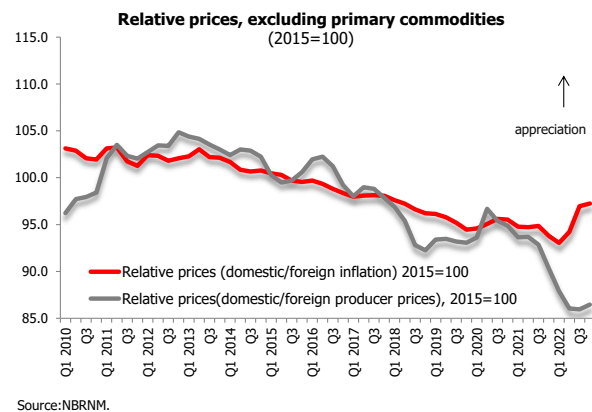
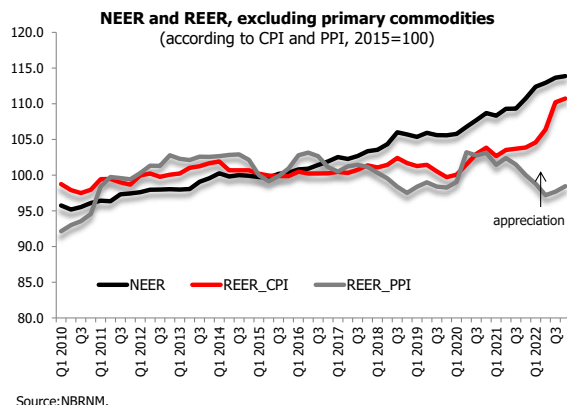


In terms of the price competitiveness indicators, in the fourth quarter of 2022, the REER deflated by consumer prices appreciated by 4.8% annually, while the REER deflated by producer prices depreciated by 1%. Such performances reflect the changes in relative prices, i.e. increase in relative consumer prices by 4.4% and a decline in relative producer prices of 1.4%, on an annual basis. The nominal effective exchange rate registered slight annual increase of 0.4%, at an appreciation of the Russian ruble, offset by the depreciation of the Turkish lira, against the denar.



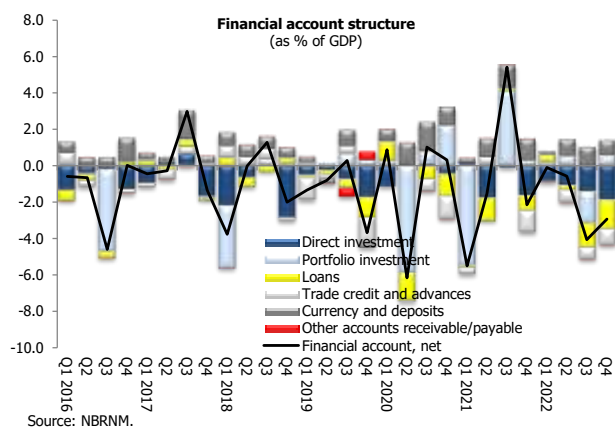
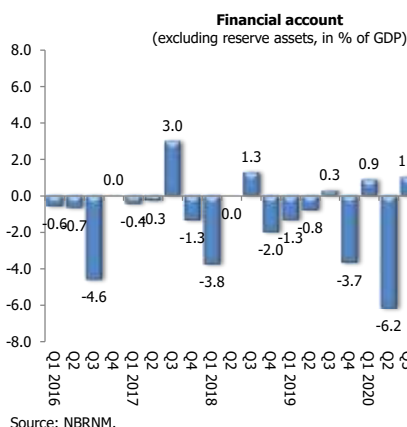
The analysis of REER indices, as measured using weights based on the foreign trade without primary commodities, also shows similar movements. Namely, the REER deflated by consumer prices appreciated by 6.6% on an annual basis, while the REER based on producer prices depreciated by 1.6% compared to the same period last year, in conditions of higher relative consumer expenses by 3.7% and lower industrial products producers by 4.3%, annually. The nominal effective exchange rate appreciated by 2.8%, due to the depreciation of the Turkish lira against the denar.

In terms of price competitiveness for the period January – February 2023, REDK deflated by the consumer prices and the producers of industrial products prices recorded an appreciation on an annual basis of 4.7% and 1.2%, respectively. Based on the calculation using weights based on the foreign trade without primary commodities, the REER index deflated by consumer prices appreciated by 5.2%, while the REER index deflated by producer prices slightly decreased by 0.6%.



### 1.6.2. Financial account

**In the fourth quarter of 2022, the financial account in the balance of payments registered net inflows of Euro 377.9 million, or 2.9% of GDP.** In this period, one of the main sources of financing are foreign direct investments, which for the most part result from intercompany lending, as well as investments in equity, given net outflows at reinvested profits due to dividend payments. High net inflows were also observed in the case of loans, which for the most part result from the realization of long-term loans, which is primarily due to the borrowing of the Government abroad (the borrowing from the International Monetary Fund)<sup>45</sup>, as well as with the "trade credits and advances" category. On the other hand, net outflows were registered in currencies and deposits, which is entirely due to high net outflows in other sectors (mainly in the household sector). Portfolio investments also recorded net outflows in the fourth quarter of 2022, but to a lesser extent, reflecting investment by depository institutions and other financial institutions in equity and debt securities.

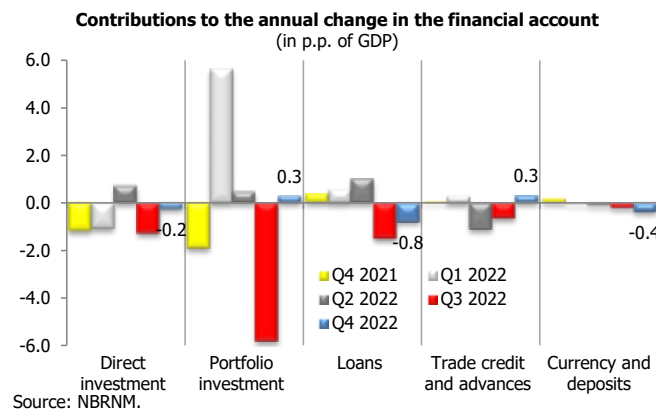


The year-to-year analysis points to better financial flows in the last quarter of 2022, with realized net inflows recording a growth of 0.8 pp of GDP compared to the same period of the previous year. At the same time, changes in loans have the biggest contribution to higher net inflows, due to higher net inflows in long-term loans, as a result of the fulfilled arrangement of the state with the International Monetary Fund (IMF). Currencies and deposits also have a positive impact on the net inflows in the financial account, where with the stabilization of expectations, lower net outflows were recorded in this quarter, compared to the same period last year. Realizations in direct investment also positively impacted financial flows in the fourth quarter of 2022, amid higher net inflows on an annual basis, mainly as a result of growth in inflows based on intercompany lending and equity. On the other hand, the net inflows

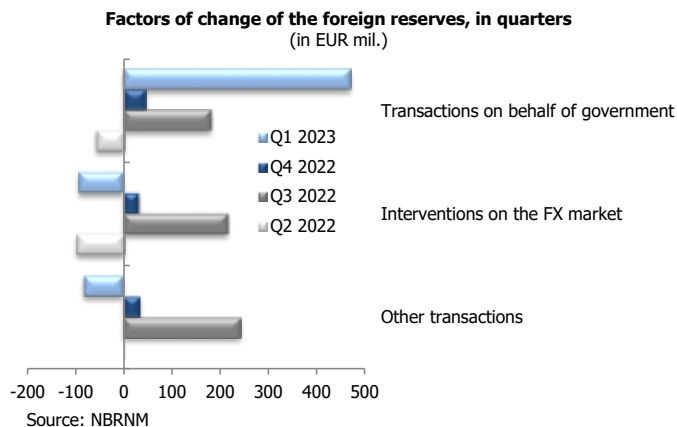
<sup>45</sup> On 23.11.2022, RN Macedonia received the first tranche of the approved PLL arrangement by the IMF, in the amount of Euro 110 million.

of trade credits are decreasing, while the net outflows of portfolio investments are increasing (mostly due to higher net outflows of depositary institutions).

For the entire 2022, the net inflows in the financial account reached Denar 990.7 million or 7.7% of GDP. The favorable performance in this period is due to the net inflows in almost all financial account components, with the direct investments having the largest contribution, while the sole exception is the currency and deposits category, which further registered net outflows.



**At the end of the fourth quarter of 2022, the gross foreign reserves were valued at Euro 3862.9 million**, which is a quarterly increase of Euro 109.1 million. Analyzed by the growth factors, the increase in the foreign reserves generally stems from the transactions for the account of the Government, as well as the National Bank interventions on the foreign exchange market, as well as the foreign reserves management operations.



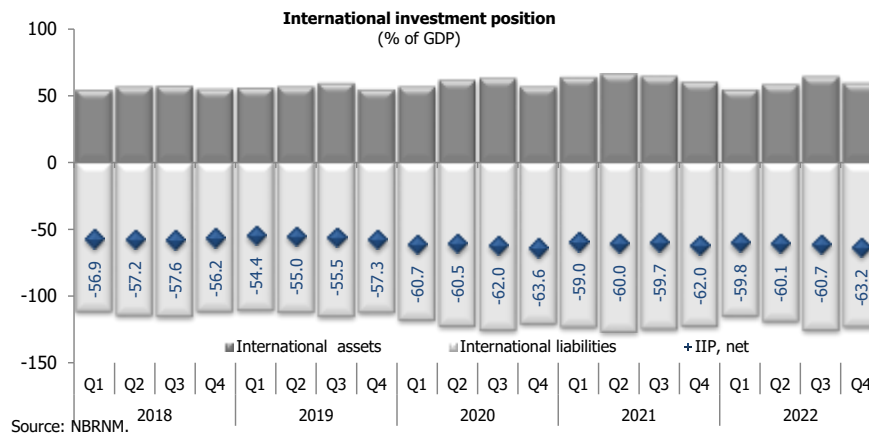
**At the end of the first quarter of 2022, the gross foreign reserves amounted to Euro 4,159.2 million**, which is an increase of Euro 296.3 million compared to the end of 2022. The largest part of the change arises from the transactions for the Government account.<sup>46</sup>

### 1.6.3. International investment position and gross external debt

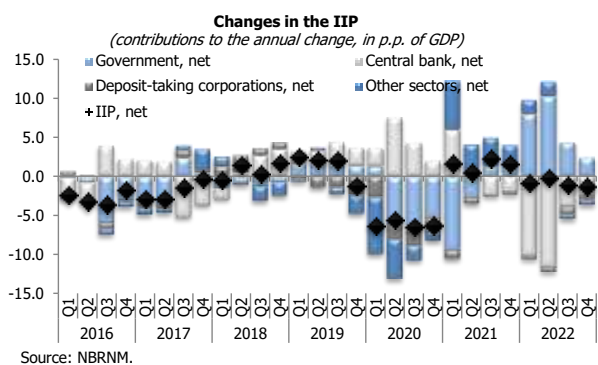
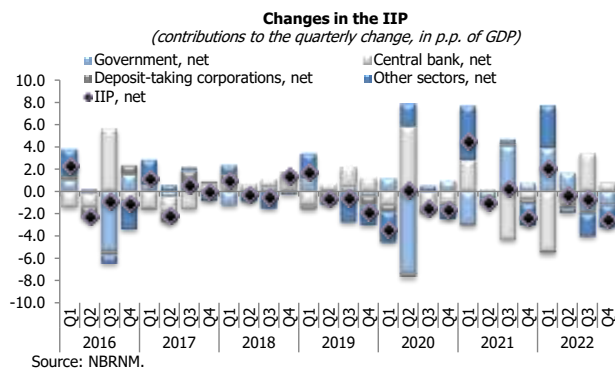
**At the end of the fourth quarter of 2022, the net debt position of the Macedonian economy amounted to Euro 8,150.8 million, or 63.2% of GDP.** Compared to the previous quarter, the net debt position widened by 2.5 pp of GDP, amid larger decrease in international assets relative to the decrease of international liabilities. Analyzed by sector, the quarterly deterioration mostly results from the growth of the net liabilities of the other sectors (mainly based on direct investments), as well as from

<sup>46</sup> On 13.3.2023, година the ninth Eurobond worth Euro 500 million was issued, with a maturity of four years and a coupon interest of 6.96%.

the growth of the net liabilities of the Government (in the case of new borrowing from the IMF)<sup>47</sup>. On the other hand, the growth of the net assets of the central bank (higher assets in foreign reserves) has a positive impact on reducing the net debt position of the Macedonian economy, while the net liabilities of the depository institutions are almost the same.



Annually, the negative international investment position widened by 1.2 pp of GDP<sup>48</sup>, as a result of the increase in the international liabilities and decrease in the international assets (by 11.5 and 0.6 pp of GDP<sup>49</sup>, respectively). Analyzed by sector, the annual deterioration is due to the reduced net assets of the central bank, higher net liabilities of other sectors (based on direct investments) and higher net liabilities of depository institutions (based on currencies and deposits). On the other hand, the reduction of the net liabilities of the Government contributed to the reduction of the net debt position on an annual basis.



**At the end of the fourth quarter of 2022, the level of the gross external debt was Euro 10,855.8 million, or 84.2% of GDP, which is a fall of 1.9 pp of GDP, compared to the previous quarter. By excluding the effect of the specific foreign reserves management activities of the National Bank<sup>50</sup>, the gross external debt amounts to 80.7% of GDP and registers a small quarterly growth of 0.2 pp of GDP, which is due to the growth of public and decrease in private debt (of 1.0 pp and 0.8 pp of GDP, respectively). The quarterly increase in the public debt is due to the larger debt of the higher debt of the Government abroad, as a result of the increase in long-term liabilities based on a higher market value of previously issued debt securities and higher long-term loans (withdrawal of the first tranche of**

<sup>47</sup> Withdrawal of the first tranche of the Precautionary and Liquidity Line (PLL) approved by the International Monetary Fund in November 2022, in the amount of Euro 110 million (out of a total of Euro 530 million approved by the arrangement).

<sup>48</sup> In absolute amounts, the net debt position of the Macedonian economy in the fourth quarter of 2022 registered an annual growth of Euro 905.9 million.

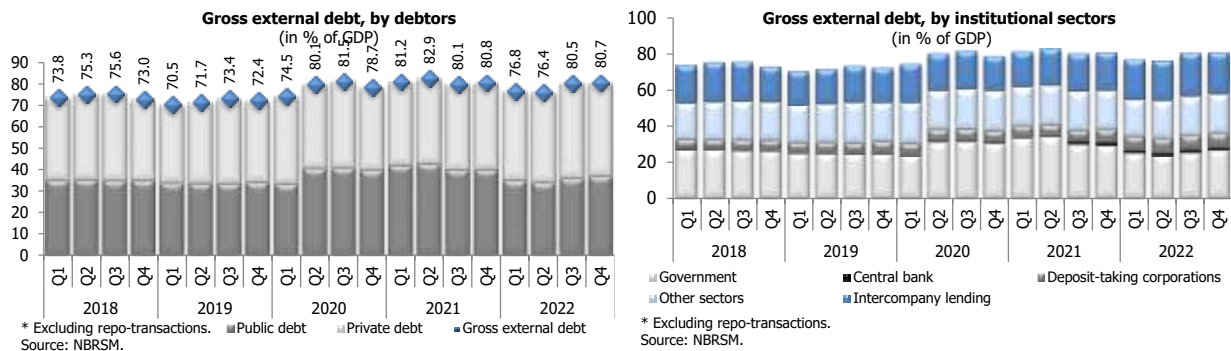
<sup>49</sup> In absolute amounts, the international assets and liabilities recorded an annual growth in the fourth quarter of 2022, by Euro 646.5 and 1,552.3 million, respectively. The change through relative indicators also reflects the larger differences in nominal GDP for 2021 and 2022.

<sup>50</sup> The specific foreign reserves management activities of the central bank include repo agreements and other foreign reserves management operations.

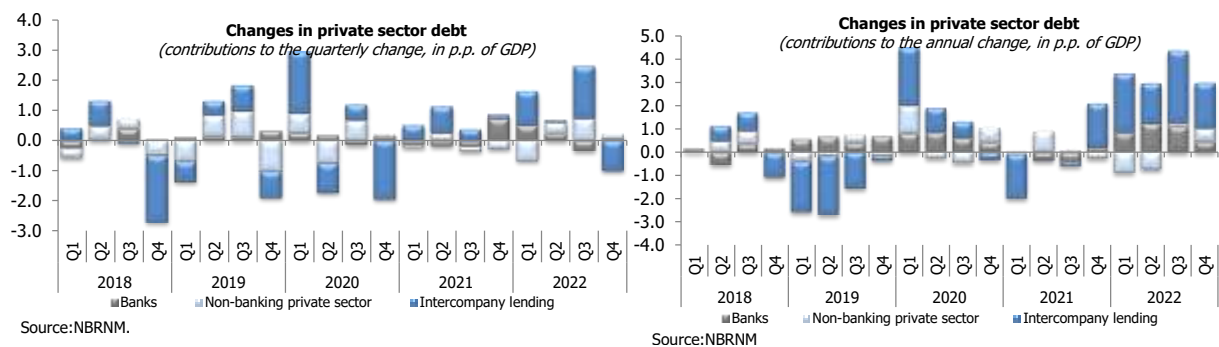




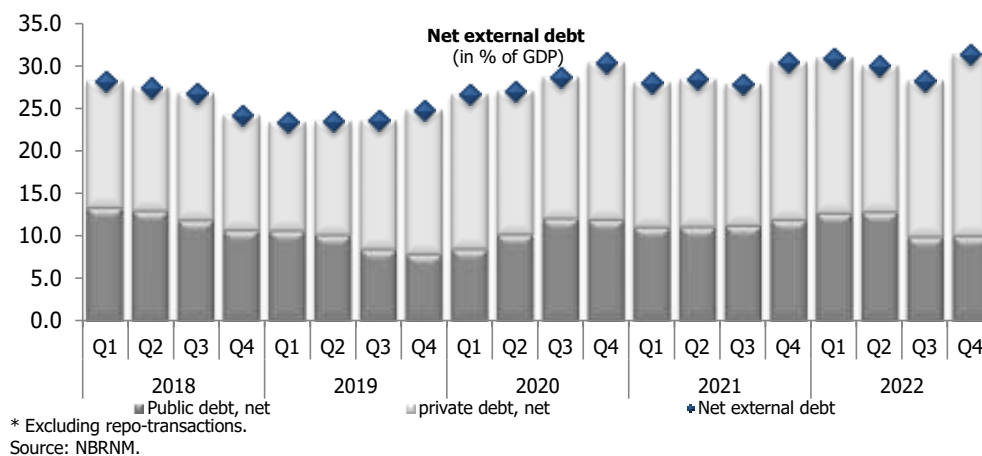
the Prudential Liquidity Loan from the IMF). On the other hand, the reduced private debt is mainly due to the decrease in the intercompany lending.



The gross external debt remained almost unchanged on an annual basis in relation to GDP<sup>51</sup>, in conditions of a decrease in the public debt, with a simultaneous growth of private debt (of 3.0 pp of the GDP, respectively). The change in the public debt is mostly due to the lower government debt, while the increase in the private debt results from the higher intercompany lending, and to a lesser extent, from the higher debt of the non-banking private sector (higher trade credits) and private banks (higher short-term liabilities in currencies and deposits).



As of 31.12.2022, the net external debt amounts Euro 4,048.6 million, or 31.4% of the GDP, which is a quarterly growth of 3.1 pp of the GDP, in the conditions of increase in the private net debt of 3.0 pp of the GDP and minimal increase of the public net debt of 0.1 pp of the GDP.



<sup>51</sup> In absolute terms, the gross external debt in the fourth quarter of 2022 recorded an annual growth of Euro 970.2 million, in conditions of nominal growth of both private and public debt. The change through relative indicators also reflects the larger differences in nominal GDP for 2021 and 2022.година.





*External debt ratios of the national economy remain in the safe zone.* Gross external debt to GDP ratio still classifies our economy in the group of highly indebted countries, while all other solvency and liquidity ratios point to low indebtedness of the country. Taking into account that in the structure of gross external debt, trade credits take a high share, as a form of financing foreign trade, with the share of intercompany debt, as a form of financing the operations of companies with foreign capital, also being large, the risk profile of the debt position of the economy is mitigated. Namely, the level of the gross external debt excluding trade credits and intercompany debt equals 49.5% of GDP<sup>52</sup>, 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	3.2	140.4	59.7	13.9	1.5	1.0	27.9
31.12.2011	3.1	148.4	64.6	16.8	1.8	1.2	25.2
31.12.2012	2.9	142.1	67.6	13.1	1.6	1.0	26.7
31.12.2013	2.5	137.3	67.3	15.8	1.6	1.1	23.3
31.12.2014	3.0	149.1	74.0	17.2	1.8	1.1	22.3
31.12.2015	2.7	143.9	73.2	20.0	1.7	1.1	21.3
31.12.2016	2.4	149.4	79.3	14.9	1.7	1.2	21.9
31.03.2017	2.7	138.7	76.6	12.7	1.5	1.0	23.5
30.06.2017	2.7	140.7	77.7	12.7	1.3	0.9	24.2
30.09.2017	2.7	138.2	76.4	12.7	1.3	0.9	24.6
31.12.2017	2.7	139.2	76.9	12.7	1.3	0.9	23.9
31.03.2018	2.2	132.8	78.3	15.8	1.3	0.9	25.1
30.06.2018	2.2	135.5	79.9	15.8	1.3	1.0	25.6
30.09.2018	2.2	136.0	80.1	15.8	1.3	1.0	25.6
31.12.2018	2.2	131.4	77.4	15.8	1.4	1.0	25.8
31.03.2019	2.1	119.5	74.4	8.9	1.4	1.0	25.8
30.06.2019	2.1	121.5	75.6	8.9	1.4	1.0	26.4
30.09.2019	2.1	124.4	77.4	8.9	1.4	1.0	27.6
31.12.2019	2.1	123.2	76.6	8.9	1.6	1.0	25.5
31.03.2020	2.5	121.8	73.9	16.8	1.4	1.0	26.6
30.06.2020	2.5	121.8	73.9	16.8	1.4	1.0	26.6
30.09.2020	1.9	129.9	80.7	13.6	1.7	1.0	22.9
31.12.2020	1.9	122.3	77.9	13.6	1.9	1.1	20.4
31.03.2021	2.2	127.6	84.3	16.3	1.9	1.2	21.5
30.06.2021	2.2	130.2	86.0	16.3	1.9	1.2	22.0
30.09.2021	2.2	125.9	83.1	16.3	1.8	1.3	22.2
31.12.2021	2.2	126.9	83.8	16.3	1.8	1.3	21.5
31.03.2022	1.8	118.2	83.8	9.2	1.3	0.9	26.0
30.06.2022	1.8	117.6	83.4	9.2	1.2	0.9	26.3
30.09.2022	1.8	124.0	87.9	9.2	1.3	0.9	26.8
31.12.2022	1.8	124.3	88.1	9.2	1.5	1.0	25.0
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.

<sup>52</sup> Refers to debt without repo agreements.



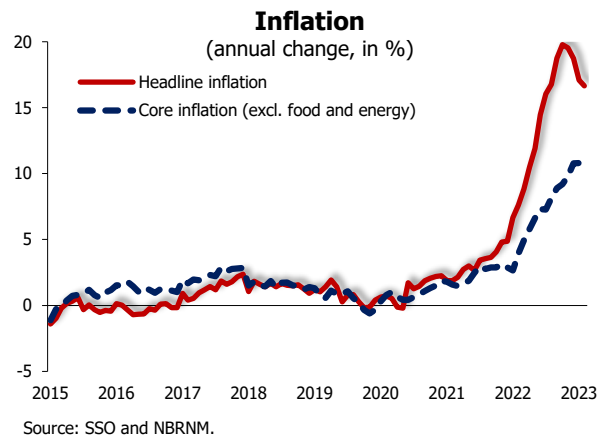
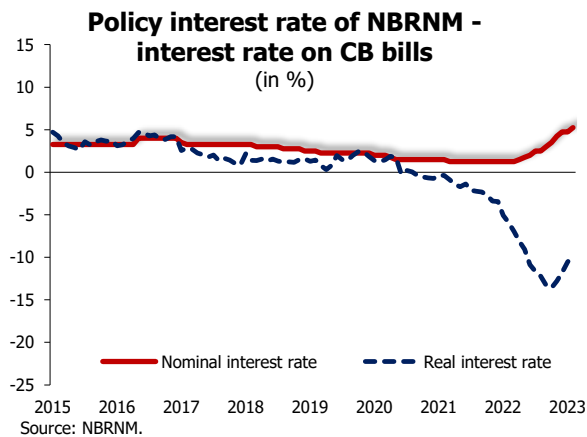
## II. Monetary policy<sup>53</sup>

*During the last quarter of 2023, the National Bank continued to further tighten of the monetary policy, which started fin 2021. Thus, from January to March, the interest rate on CB bills increased twice, by a total of 0.75 pp, to the level of 5.50%. When making the decisions, price movements were again taken into account. Namely, the annual inflation rate continues to slow down during the first quarter, and inflation expectations are gradually calming down. However, despite the slowdown, they are still at a relatively higher level, and the decisions are aimed at contributing to the stabilization of inflation and inflation expectations on a more permanent basis. Also, given the monetary strategy of a stable exchange rate of the denar against the euro, the changes in the domestic monetary policy are in line with the changes in the monetary policy of the European Central Bank, which contribute to the tightening, as well. In the first quarter of 2023 the foreign reserves remained at appropriate level and are maintained in the safe zone, with the banks' deposit base registering a solid annual growth rate. The risks in the global and domestic economy are still pronounced, so the National Bank will continue to closely monitor them and, if necessary, will act by applying all instruments at its disposal, in order to maintain both exchange rate and medium-term price stability. In the first quarter of 2023, the foreign reserves remained on an adequate level and are maintained in the safe zone, with the deposit base of the banks recording a solid annual growth rate. The risks in the global and domestic economy remained pronounced, and the National Bank will continue to closely monitor them and, if necessary, it will act using all instruments at its disposal, in order to maintain the stability of the exchange rate and medium-term price stability.*

During the first quarter of 2023, the policy rate - the interest rate on the CB bills, was increased twice by totally 0.75 pp, and reached 5.50%. Changes in the monetary policy setup still result from the inflation and inflation expectations. The changes in the policy rate were also supplemented with the growth of interest rates on overnight and seven-day deposit facilities, by totally 0.75 pp, respectively, to a levels of 3.40% and 3.45%, respectively, as of March 2023. The offered amount of CB bills equaled Denar 10,000 million again, with the changes in the reserve requirement being further applied, which encourage lending to projects related to domestic production of electricity from renewable sources..

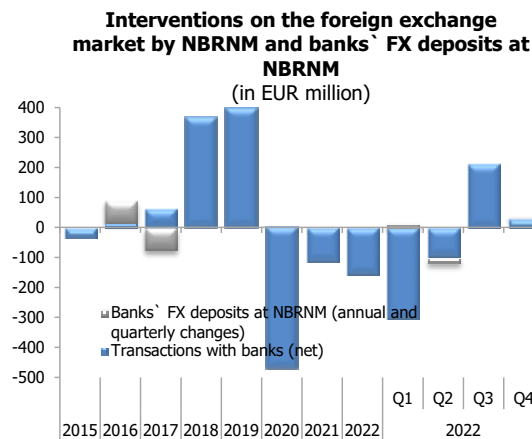
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<sup>53</sup> For more information on the new monetary measures, see the National Bank website: [https://www.nbrm.mk/content/MPI%20publikacii/Hronologija\\_na\\_promenite\\_vo\\_postavenosta\\_na\\_monetarnite\\_instrumenti\\_na\\_Narodnata%20banka.pdf](https://www.nbrm.mk/content/MPI%20publikacii/Hronologija_na_promenite_vo_postavenosta_na_monetarnite_instrumenti_na_Narodnata%20banka.pdf)

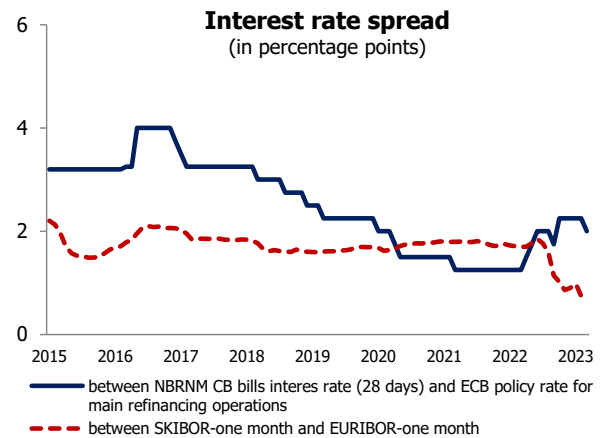


The estimates of the performances in the basic macroeconomic indicators in the domestic economy<sup>54</sup> n showed that they are mostly within the latest October forecast, but the risks persist. As for the domestic economic activity, in the fourth quarter of 2022, the real GDP growth, as expected, slowed down, whereby on average, for the entire 2022, the economy registered a real growth of 2.1%, which is very close to the expectations in the October forecast. High-frequency data for the first quarter of 2023 showed solid real annual turnover growth in total trade, as well as more moderate negative trends in industrial output. The annual inflation rate slowed down and in February 2023 it reduced to 16.7%. The slowdown in the annual inflation rate is conditioned by the slower growth of the prices in the energy and core component of inflation, with certain stabilization in the food component and inflation expectations. The risks to the inflation forecast for 2023 are generally balanced. However, the high uncertainty is still pronounced in the movement of world prices of primary products in the following period, amid uncertain economic effects of the war in Ukraine. Given the connection of our currency to the euro, the monetary policy decision-making is also influenced by the changes in the monetary policy of the European Central Bank, which in the first quarter of 2023 continued by increasing the policy rates, as well. Uncertainty and risks, especially in relation to inflation and the need to anchor inflation expectations on a longer-term basis, as well as the further increase in interest rates in the euro area, pointed to the need for further tightening of monetary policy, i.e. conducting prudent domestic policies. Foreign reserves are maintained in the safe zone and in line with the forecasts, and their level meets the adequacy requirements according to the international standards. The movements of the domestic foreign exchange market have been stable since the beginning of the year, with the National Bank only occasionally participating in the foreign exchange market. From the aspect of movements in total deposits and total loans as of February, credit activity is slowing down, while growth in deposits is accelerating, in relation to the expectations from the October forecasts.

<sup>54</sup> t refers to the available information during the first quarter of 2023 that was taken into account when making the decisions on the monetary stance in that period.



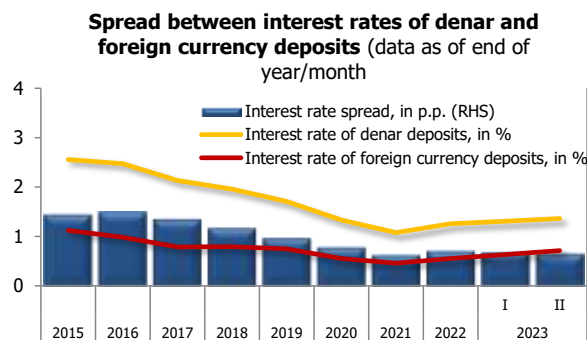
Source: NBRNM.



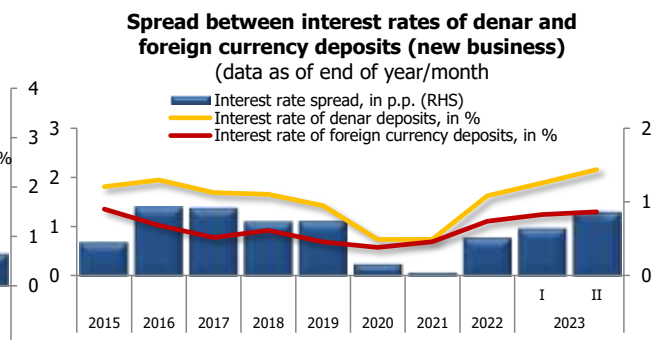
Source: NBRNM and ECB.

In the first quarter of 2023, the ECB increased its policy rate by 1.0 pp and it reached a level of 3.5%. Thus, the spread between the policy rates of the National Bank and the ECB at the end of March 2023 amounted to 2.0 pp and decreased by 0.25 pp compared to the previous quarter. Regarding the indicative market interest rates on one-month EURIBOR and one-month SKIBOR, the spread between them decreased by 0.2 pp at the end of the first quarter of 2023, compared to the previous quarter.

In the domestic economy, in terms of interest rates on total deposits (in denars and in foreign currency) in February 2023, the interest rates on denar and foreign currency deposits are higher by 0.1 pp in relation to the end of December 2022, that is, they amount to 1.4% and 0.7%, respectively. Consequently, interest rate spread remained unchanged compared to the end of 2022 and equaled 0.7 pp. In total newly accepted<sup>55</sup> deposits, the interest rate spread in February increased compared to the end of 2022 and equaled 0.9 pp, driven by the pronounced growth of denar than the growth of foreign exchange interest rates, compared to December 2022.



Source: NBRNM.

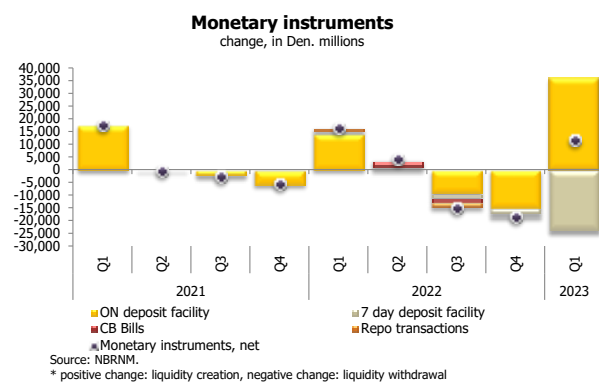
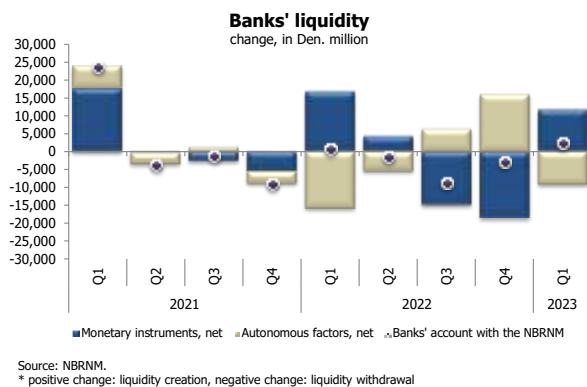


Source: NBRNM.

## 2.1. Banks' liquidity

In the first quarter of 2023, the banks' denar liquidity slightly increased, which mostly results from the change in the monetary instruments, while the change in the autonomous factors caused liquidity withdrawal.

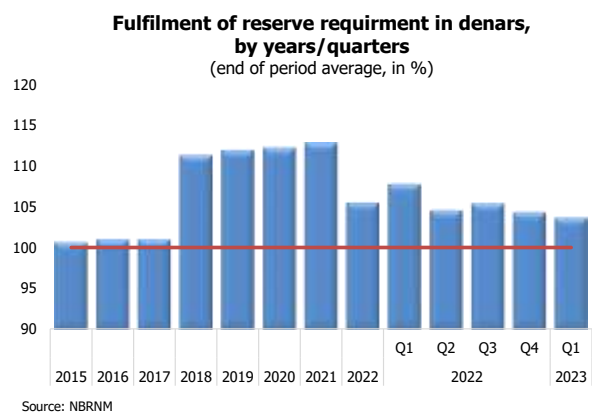
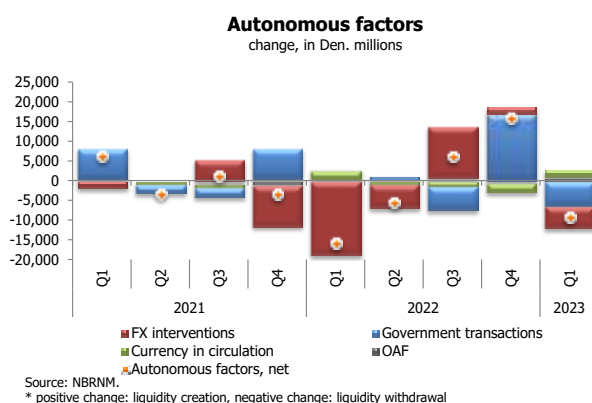
<sup>55</sup> Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.



From the aspect of the change in monetary instruments, banks' investments in deposit facilities (overnight and seven day) decreased by a total of Denar 12,216 million, thus creating a liquidity in the banking system. At the same time, the liquidity created in its entirety derives from the overnight deposits at the National Bank, which decreased by Denar 36,030 million in the first quarter, while the banks' placements in seven-day deposits increased by Denar 23,814 million and contributed to the reduction of liquidity. At the end of the first quarter, the stock of the main instrument - the CB bills of the NBRNM was Denar 10,000 million and registered an increase (of Denar 527 million) compared to the end of the previous quarter.

Banks' interest in placing their foreign assets in a foreign currency deposit with the National Bank decreased by about Euro 4.5 million during the first quarter of 2023. Namely, this instrument for managing the banks' foreign currency liquidity was reactivated in the second half of 2020, given the increased uncertainty on the international markets, which gives the banks in the country a chance to place part of their foreign assets in short-term and safe instruments of the central bank.

The autonomous factors, net, in the first quarter of 2023 contributed to liquidity withdrawal in the banking system of Denar 9,210 million. Such change is mostly a result to a Government transactions and interventions of the National Bank, while currency in circulation acted towards liquidity creation.



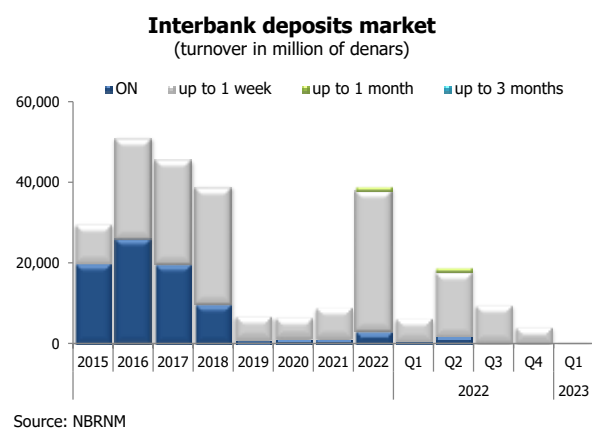
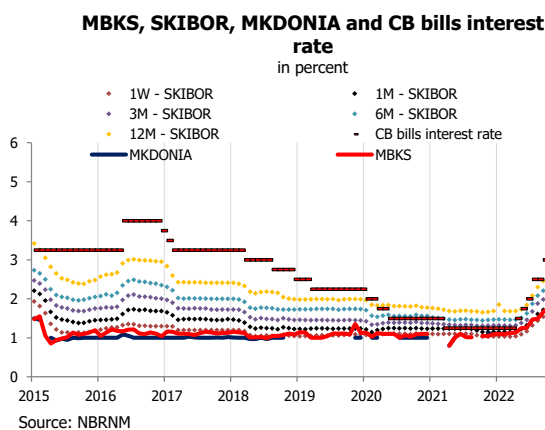
In the first quarter of 2023, the banks continued to have more allocated funds on the accounts with the National Bank than the determined amount of the reserve requirement in denars, on average by about 3.6%.

### III. Financial market developments

***In the first quarter of 2023, the interest rate on interbank deposit market registered a quarterly growth of 0.7 pp and averaged 2.9%, given the increased policy rate of the National Bank. Additionally, all average SKIBOR quotations went up. In the primary government securities market, the new issues were mainly with longer maturities, while the secondary securities market reported trade only in repo transactions in a small amount. On the Macedonian Stock Exchange, stock turnover decreased by 58.8% compared to the previous quarter, while the value of the MBI-10 recorded a quarterly increase of 3.4%. In the international financial markets, volatility indices on the bond and stock markets, i.e. MOVE and VIX indices is reducing slightly, indicating lower uncertainty and volatility on the markets. The spreads between the yields of Macedonian and German Eurobonds narrowed compared to the previous quarter, amid a stronger increase in the yields of German government bonds and moderate decrease in the yields of Macedonian Eurobonds.***

#### 3.1. Unsecured interbank deposit market

In the first quarter of 2023, the average interest rate on the interbank deposit market (MBKS) increased by 0.7 pp compared to the previous quarter and equaled 2.9%, amid increased key interest rate of the National Bank by 0.75 pp (to 5.50%). The trading on the interbank deposit market decreased to Denar 691 million in the first quarter (Denar 4,158 million in the previous quarter), mainly reflecting the decrease in the transactions with seven-day maturity and less the decrease in overnight transactions, while the transactions up to one month registered slight increase. On a quarterly basis, all average SKIBOR quotations increased up to 0.9 pp.



#### 3.2. Government securities market

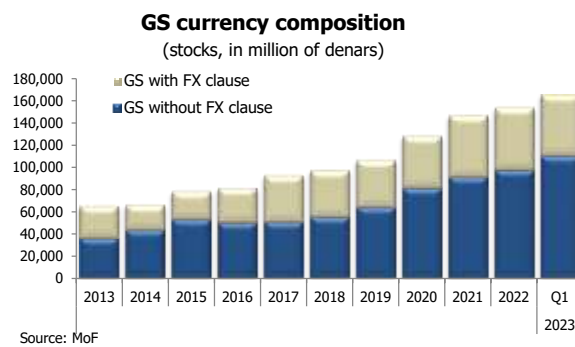
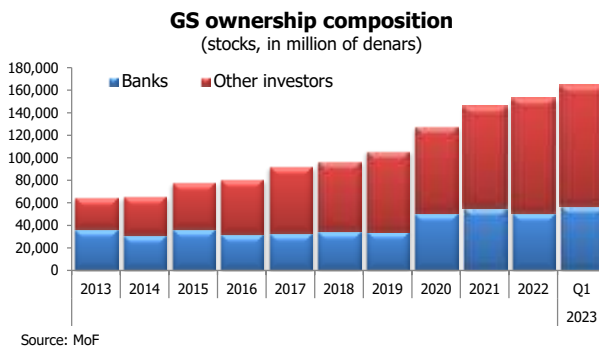
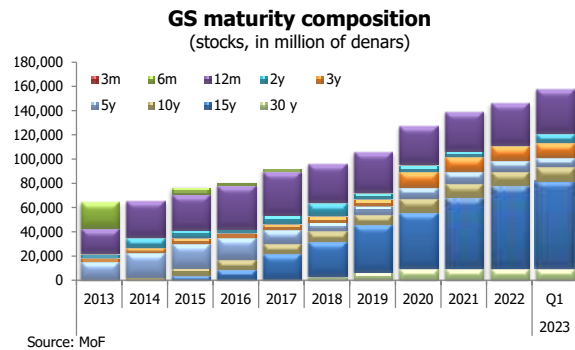
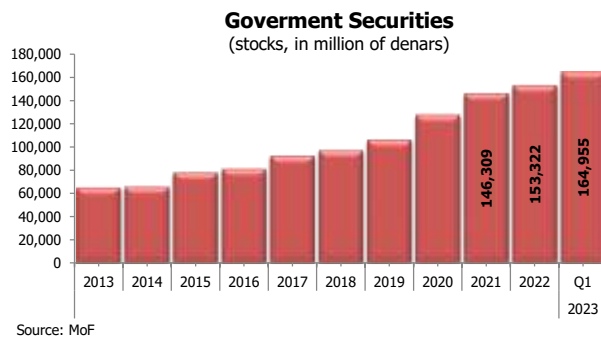
The stock of government securities issued on the primary market in the first quarter of 2023 increased by Denar 11,633 million, or 7.6% on a quarterly basis and amounted to Denar 164,955 million. Analyzing the structure of government securities, government bonds remain dominant category in the stock of total government securities issued on the primary market, with a share of 77.7%. Thus, the fifteen-year government bonds still make up most of the maturity structure securities (43.9%), 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<sup>56</sup>. In the first quarter, the share of two-year government bonds and six-month treasury bills grew (by 4.6 pp and 0.3 pp, respectively), while the share of all other government securities decreased quarterly. By currency

<sup>56</sup> Revised Fiscal Strategy for 2023– 2025 (with prospects until 2027), Ministry of Finance, December 2022.

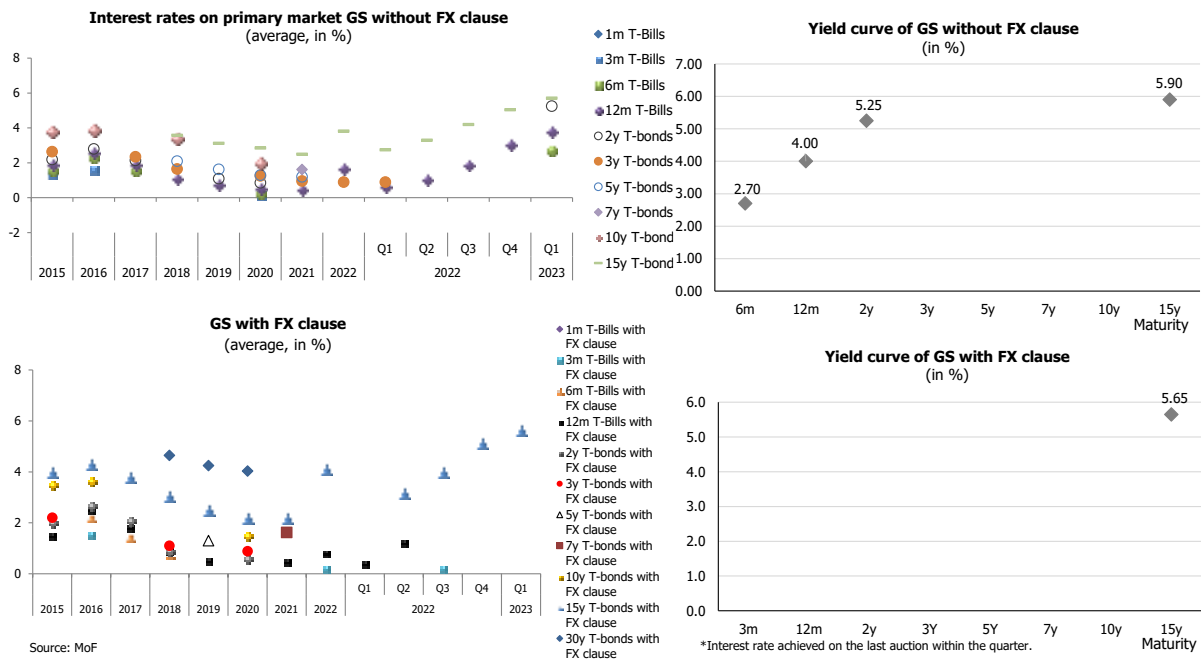




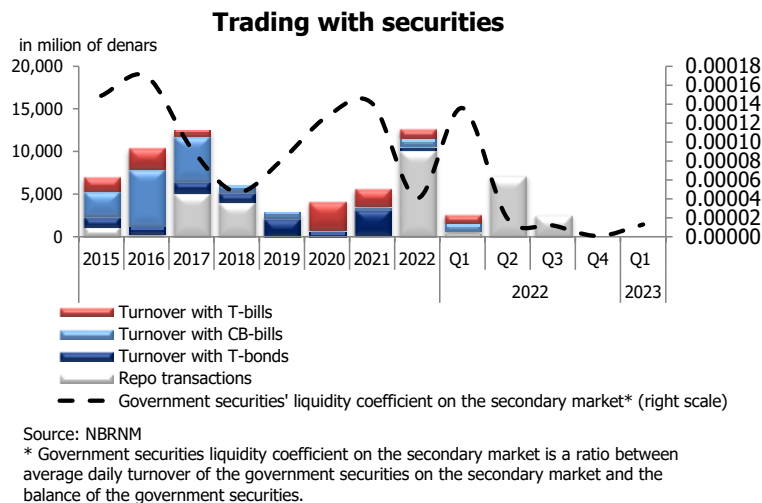
structure, government securities in domestic currency without a currency clause remain dominant, constituting 66.5% of the total government securities (63.4% in the previous quarter). Observing the ownership structure, banks increased their share in this quarter from 32.9% to 34.9%, at the expense of the reduced share of other investors (65.1%). Within other investors, the pension funds remain dominant (with a share of 45.7%).



During the first quarter of 2023, interest rates on government securities, set by the Ministry of Finance, recorded upward changes. Thus, six-month and twelve-month treasury bills without a currency clause were issued on the primary market with an average weighted interest rate of 2.7% and 3.8% (3.1% in the previous quarter for twelve-month treasury bills without a currency clause, while six-month treasury bills without a currency clause were last issued in the second quarter of 2020 with an interest rate of 0.3%). During the quarter, fifteen-year government bonds were issued with and without currency clause with average weighted interest rates of 5.7% and 5.65%, respectively (5.0% and 5.2% in the previous quarter, respectively). Also, after a long period, in the first quarter of 2023 two-year government bonds without a currency clause with an interest rate of 5.25% were issued (they were last issued in the fourth quarter of 2020 with an interest rate of 0.9%).



In the first quarter of 2023, trading in securities slightly increased and amounted to Denar 135 million (Denar 8 million in the previous quarter) on the secondary market, whereby only repo transactions with government securities with one-year maturity were concluded in this market segment (with a repo interest rate of 3.5%). Such changes point to a slightly increased trading on the secondary securities market, also seen through the liquidity ratio<sup>57</sup>.

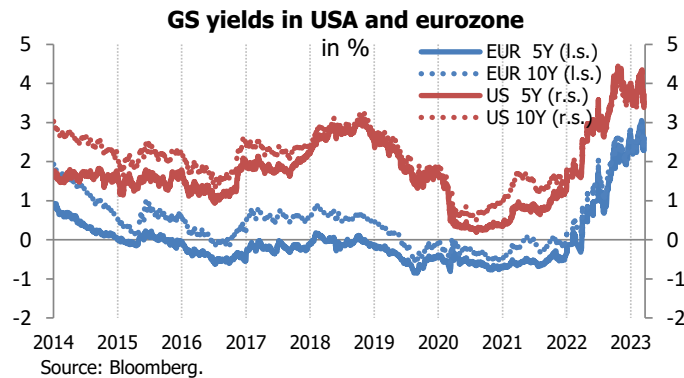


At the financial markets in the euro area in the first quarter of 2023, the yields on 10-year government securities<sup>58</sup> averaged around 2.6% (2.4% in the previous quarter), while the yields on US 10-year government bonds<sup>59</sup> equaled 3.6% (3.8% in the previous quarter), amid further increase in FED and ECB policy rates in response to the exacerbated inflation pressures and pronounced geopolitical risks.

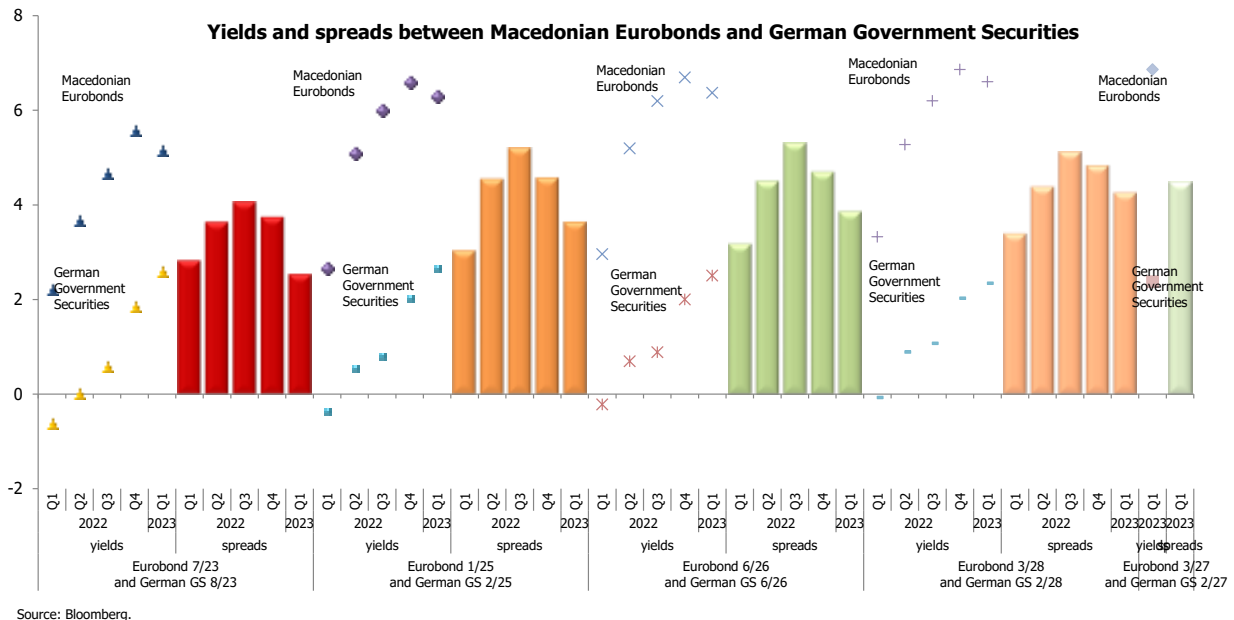
<sup>57</sup> The liquidity ratio on the secondary market is the correlation between the average daily turnover and the stock of government securities.

<sup>58</sup> Those are generic government bonds derived from the yield curves of government bonds of Germany and France.

<sup>59</sup> Those are generic yields derived from the yield curve of government bonds of the United States..



The yields on Macedonian Eurobonds<sup>60</sup> in the first quarter of 2023 reduced, amid a simultaneous fast upward shift of the yields on German government bonds. This narrowed the spreads, which averaged 2.5 pp, 3.6 pp, 3.9 pp and 4.3 pp, respectively. In March 2023, the ninth Eurobond was issued in the amount of Euro 500 million at a coupon rate of 6.96% and a maturity of four years. The spread of the latest Eurobond is 4.5 pp.

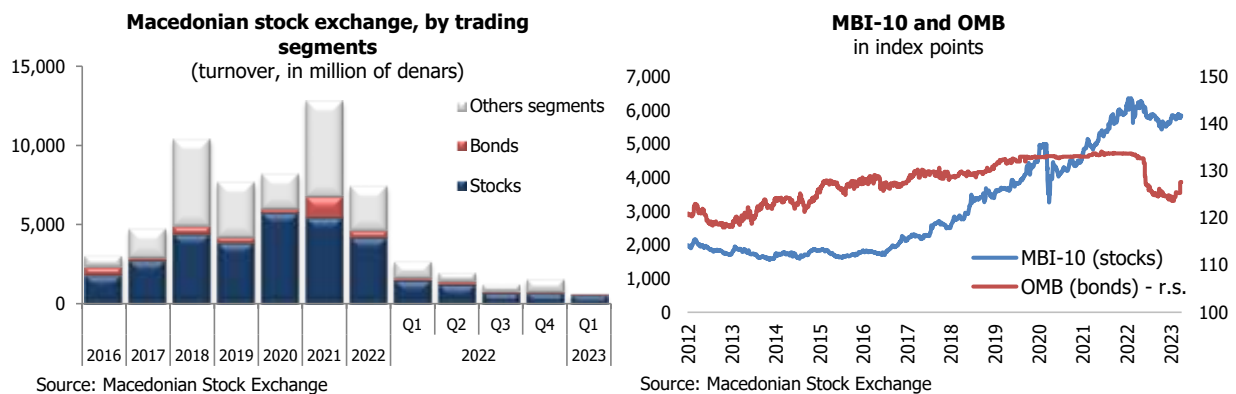


### 3.3. Stock markets

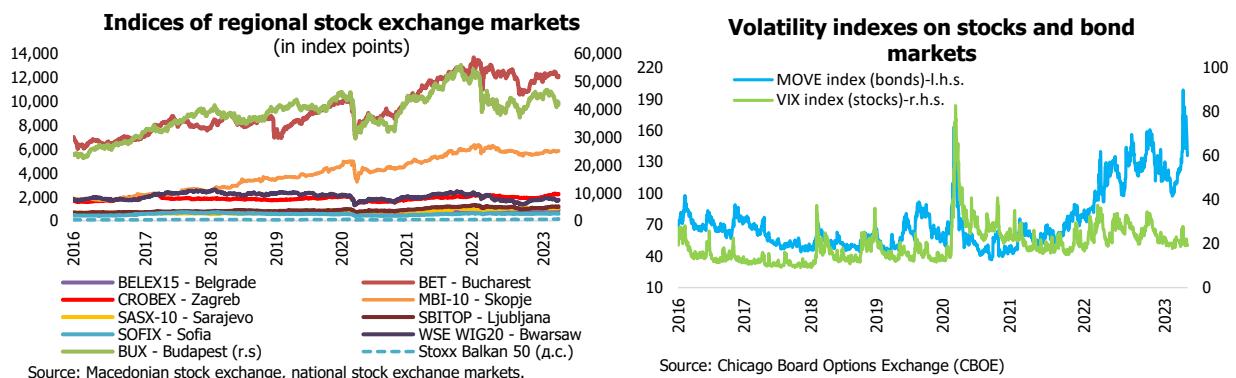
In the fourth quarter of 2023, the value of Macedonian stock exchange index MBI-10 increased by 3.4% (increase of 1.2% in the previous quarter) and reached 5,843 index points. The total stock exchange turnover registered a quarterly decrease of 58.8% (growth of 27% in the last quarter), as a result of the decreased turnover based on block transactions, shares and bonds. The value of the bond index (OMB) during the quarter increased by 3 index points and equaled 128 index points.

<sup>60</sup> These include the Macedonian Eurobonds issued in July 2016, in January 2018, in June 2020 and March 2021.

Eurobonds are issued in the nominal amount of Euro 450 million, Euro 500 million, Euro 700 million, and Euro 700 million, respectively, with a maturity of 7, 7, 6 and 7 years, respectively, and annual interest rates of 5.625%, 2.75%, 3.675% and 1.625%, respectively.



In the first quarter of 2023, stock exchange indices of the region registered decelerated quarterly growth, which on average equaled 4.5% (rise of 9.2% in the previous quarter). Slow growth was registered in most stock market indices of the region, and a slight decline was observed in the Hungarian and Polish indices. Furthermore, the volatility indices of the bond and stock markets, i.e. MOVE and VIX indices<sup>61</sup> recorded downward change, i.e. the MOVE index decreased moderately by 6.7% on average (after the increase of 2.1% in the previous quarter), while VIX index declined by 18.2% on average (following the increase of 1.5% in the previous quarter). The movements of the two indices viewed together indicate a moderate reduction in uncertainty and volatility in global capital markets.



## IV. Monetary and credit aggregates

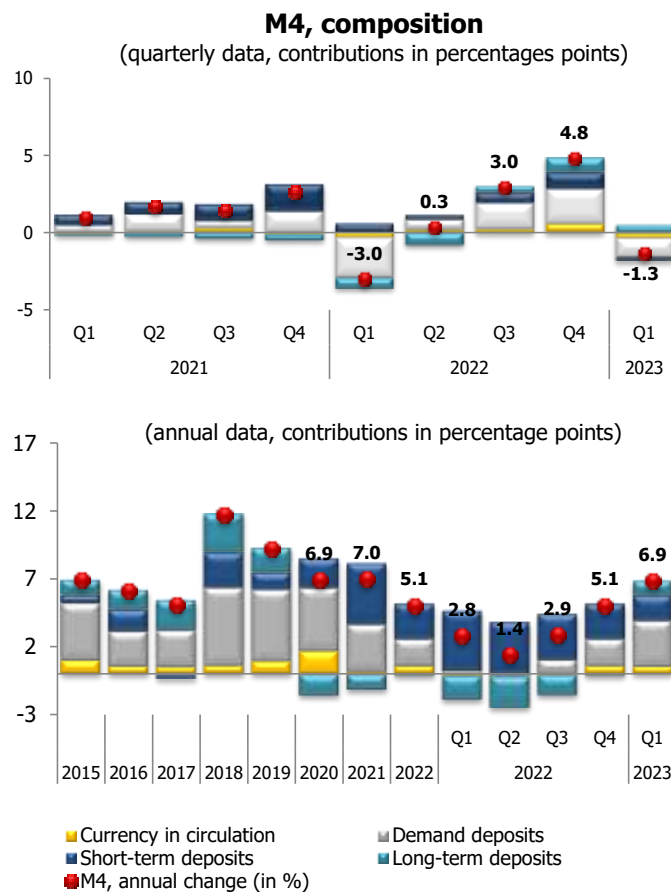
***In the first quarter of 2023, the broad money supply M4 recorded a quarterly decline of 1.3%, which is a usual movement for this period of the year influenced by seasonal factors. From the aspect of sectors, the decrease primarily results from the most liquid component of the money supply, i.e. from the reduction of demand deposits (with a contribution of 1.2 pp), while also reducing cash in circulation and short-term deposits (with a contribution of 0.4 pp and 0.2 pp, respectively), while long-term deposits show further growth (positive contribution of 0.5 pp). The tightening of the monetary policy and the reduced deposit base caused a slowdown in credit activity, which was at rest in the first quarter. The result, viewed by sector, results from the reduced credit activity in the corporate sector, while the household***

<sup>61</sup> The MOVE Index (Merrill Lynch Option Volatility Estimate) shows the implicit volatility in the US government securities markets. The VIX Index (Volatility Index) is constructed based on the implied volatility of S&P500 index options. Investors use both indices as indicators of the conditions and expectations for the financial markets volatility.

**loans grow. The results obtained from the Lending Activity Survey (AKA) in the first quarter of 2023 mainly indicate a net tightening of overall credit conditions, more moderate for enterprises compared to the previous quarter, and for households almost identical to the previous survey, while at the same time net - reduction of the credit demand of the total credits among enterprises.**

## 4.1. Monetary aggregates

During the first quarter of 2023, the broad money M4 recorded a quarterly decline of 1.3%, which represents a usual movement for this period of the year under the influence of seasonal factors. Analyzed by **structure**, the reduction primarily results from the most liquid component of the money supply, i.e. from the reduction of demand deposits (with a contribution of 1.2 pp), at a decrease in cash in circulation and short-term deposits (with a contribution of 0.4 pp and 0.2 pp, respectively), while long-term deposits show further growth (positive contribution of 0.5 pp). By **currency**, the denar deposits (without demand deposits) further register positive developments, i.e. minor quarterly rise, while the demand deposits remained unchanged. Moreover, the share of foreign deposits in M4 was 40.5% at the end of the first quarter, equaled 40.5%, which is by 0.5 pp more compared to the end of the previous quarter. Annually, the growth of M4 further accelerated and reached 6.9% at the end of the first quarter of 2023 (5.1% at the end of the previous quarter).



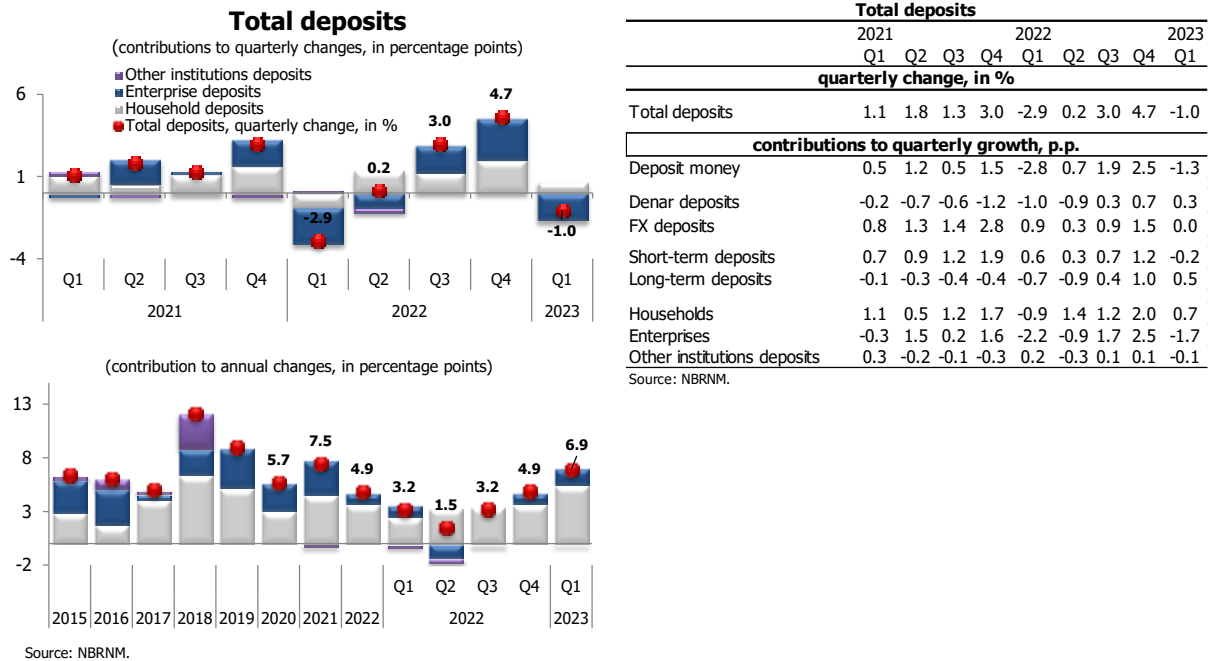
Source: NBRNM.

Total financial system deposits<sup>62</sup> in the first quarter of 2023 decreased by 1.0% on a quarterly basis (a quarterly growth of 4.7% in the previous quarter). The **sector-by-sector analysis** shows that

<sup>62</sup> 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.



the reduced deposits was fully driven by the decrease in corporate and other sector deposits, amid minor growth of household deposits. By **currency**, a decline is registered in denar deposits (including demand deposits) by 1.0%, while foreign currency deposits remained unchanged. From the aspect of **maturity**, there is a decrease in short-term deposits, while long-term deposits are growing. On an **annual basis**, the growth of total deposits reached 6.9% (growth from 4.9% at the end of the previous quarter).



**The household** deposits also in the first quarter of the year registered a growth, but more moderately (quarterly rate of 1.0% compared to the rise of 3.1% in the previous quarter). Analyzed by **currency**, the increase was mostly due to foreign currency deposits, amid further growth also of denar deposits (demand deposits included). Analyzed by **maturity structure**, growth is observed by all maturity blocks, with a key contribution of long-term deposits, which for the third quarter in a row are a component that significantly contributes to growth. Namely, the favorable trends of deposits in local currency and in the long term, observed from the middle of 2022, point to stabilization of expectations and strengthening of confidence in the banking system, when there are higher and higher returns on these deposits, to which the monetary measures taken also contribute. On an annual basis, the growth of total household deposits in the first quarter of 2023 reached 8.4% (5.8% at the end of the previous quarter).

**Corporate deposits** in the first quarter of 2023 recorded a decrease of 5.8% (growth of 9.3% in the previous quarter), which is a usual movement for this period of the year influenced by seasonal factors. From the aspect of the **currency structure**, a decrease is registered both in denar deposits (including demand deposits) and in foreign currency deposits. By maturity the decrease is more pronounced in short-term deposits, with a smaller decrease being registered in long-term deposits. On an annual basis, at the end of the first quarter of 2023 corporate deposits went higher by 5.9%, mainly due to the low comparative base from last year when a more pronounced fall was observed under the adverse effects of the energy crisis (growth of 3.7 % at the end of the previous quarter).





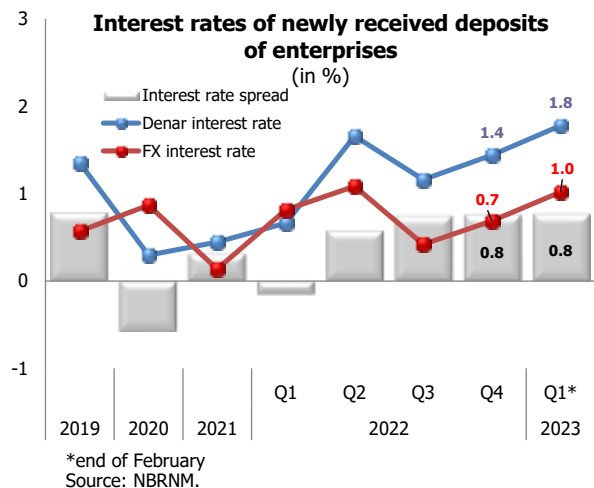
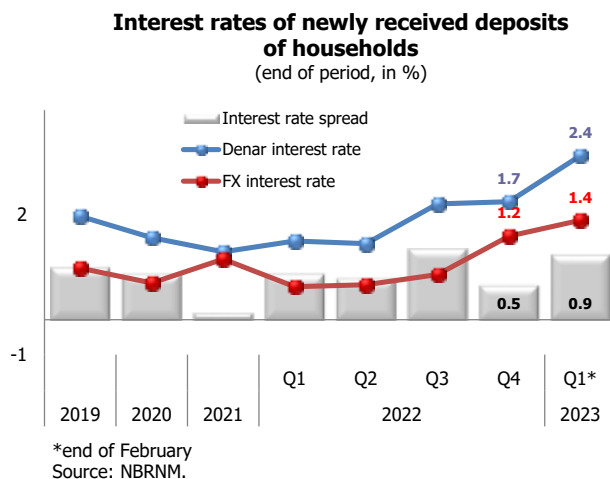
Household deposits									
	2021				2022				2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
quarterly change, in %									
Total household deposits	1.7	0.8	1.8	2.6	-1.4	2.1	1.9	3.1	1.0
contribution to quarterly change of total deposits, in p.p.									
Deposit money	0.6	0.5	0.9	0.5	-1.8	1.1	0.7	2.5	-0.2
Denar deposits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

Source: NBRNM.

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

Source: NBRNM.

The analysis of the returns<sup>63</sup> on new savings shows that in February, the interest rates on the newly accepted<sup>64</sup> denar and foreign currency deposits of **households** equaled 2.4% and 1.4%, respectively (1.7% and 1.2%, respectively in December). In such circumstances, the interest rate spread between the new denar and foreign currency savings of households in February widened to 0.9 pp (0.5 pp quarter). Interest rates on newly accepted denar and foreign currency **corporate** deposits in February 1.8% and 1.0%, respectively (1.4% and 0.7%, respectively in December). With such changes, the interest spread between the newly accepted denar and foreign currency corporate deposits at the end of February remained almost at the same level of 0.8 pp. Regarding the total accepted deposits (denar and foreign currency), the interest rates on the corporate and household deposits in February equaled to 1.8% and 0.9%, respectively, and are higher than in December 2022 (1.3% and 0.8% respectively).



## 4.2. Lending activity

The lending activity of the banks in the first quarter of the year was at a standstill. This situation is in line with the results of the **Lending Survey**. Thus, in relation to the conditions for credit approval, in the first quarter of 2023, there is a net tightening of the total **lending terms** for enterprises, more moderate compared to the previous survey, while for households there is still a net tightening of the total lending terms with same dynamic. Among enterprises, a decrease in credit demand was observed, in contrast to the net increase in the Survey from the previous quarter, while in the household sector, the banks in the Survey indicated a more pronounced net decrease in the demand for loans. For the second

<sup>63</sup> 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](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix).

<sup>64</sup> 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.



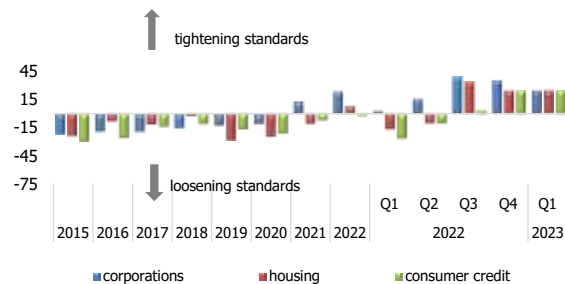
quarter of 2023, banks in the corporate sector expect a slight net tightening of credit conditions, with a more moderate net increase in credit demand, while for households a slight net easing of credit conditions is expected, with a net increase in the demand for credits.

#### Total credits of private sector

	2021				2022				##
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
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
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
Foreign currency credits	0.5	0.8	0.4	0.7	1.3	1.6	1.4	1.4	0.4
Short-term credits	0.5	0.6	-0.4	0.8	1.4	0.5	-0.1	0.5	-0.5
Long-term credits	0.5	1.9	1.5	2.6	1.3	2.0	1.2	2.5	0.6
Households	0.8	1.4	0.9	0.8	0.8	1.3	0.8	0.7	0.6
Corporations	0.4	1.1	0.3	2.3	1.8	1.3	0.3	1.9	-0.6
Source: NBRNM.									

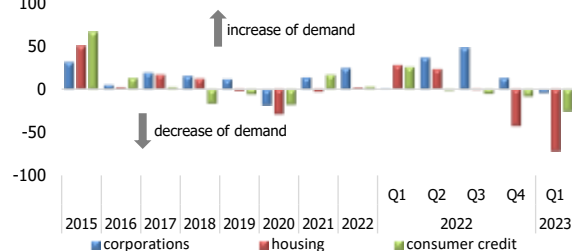
Source: NBRNM.

#### credit conditions



Source: Bank lending Survey, NBRNM.

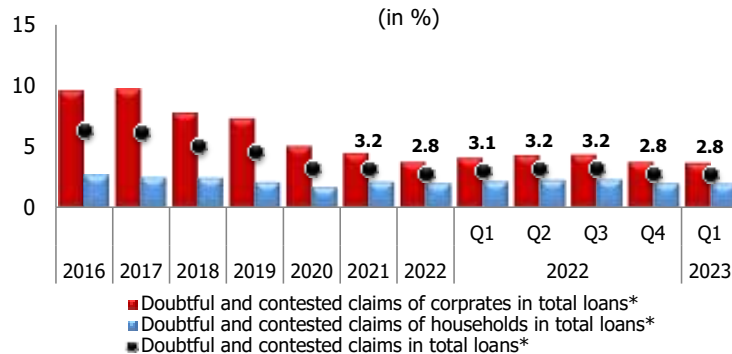
#### credit demand



Source: Bank lending Survey, NBRNM.

The analysis of sectoral structure of loans to the private sector indicates an increase in lending to households, given the decrease in corporate loans. **Observing by currency**, the foreign currency loans<sup>65</sup>, registered an increase, while the denar loans decreased. Regarding the **maturity structure**, the short-term loans decreased, as opposed to long-term loans which registered an increase. In addition, the share of the **doubtful and contested claims** in the total loans remain low at the level of 2.8%.

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



\* It refers to the share of the doubtful and contested claims within the each respective sector's total loans

**On an annual basis**, total loans in the first quarter of 2023 are higher by 6.6% (9.4% at the end of the previous quarter), with a slow growth in lending to both enterprises and households. At the same time, the share of total loans in total deposits increased and in the first quarter amounted to 85.6% (84.6% at the end of the last quarter of 2022).

<sup>65</sup> Foreign currency loan data also include denar loans with currency clause.

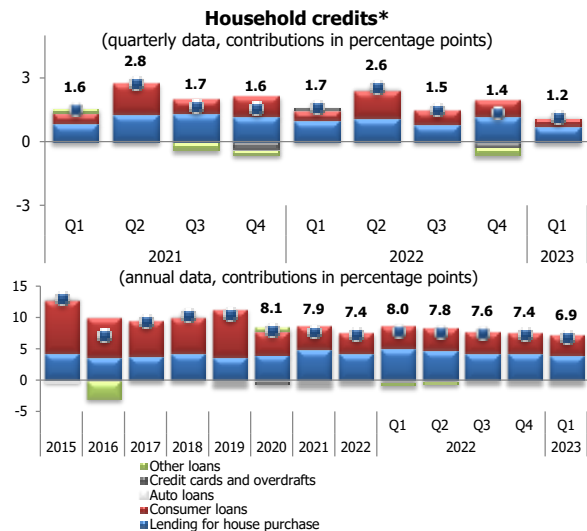


**Lending to the household sector** also grew during the first quarter of 2023, but slightly more moderately compared to the previous quarter. The quarterly growth of 1.2% (an increase of 1.4% in the previous quarter) results almost equally from the increase in consumer and housing loans. The results of the **Lending Survey** for the first quarter of this year, for the **household sector** indicate a net decrease in the demand for total loans with a net tightening of credit conditions. From the aspect of **currency**, the growth mostly stems from foreign currency loans, with a more moderate growth of denar loans. In terms of **structure**, the growth mostly results from the positive contribution of long-term loans, with a smaller positive contribution of short-term loans. **On an annual basis**, total household loans at the end of the first quarter of 2023 are higher by 6.8% (7.3% in the previous quarter).

**Total credits of households**

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

Source: NBRNM.



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

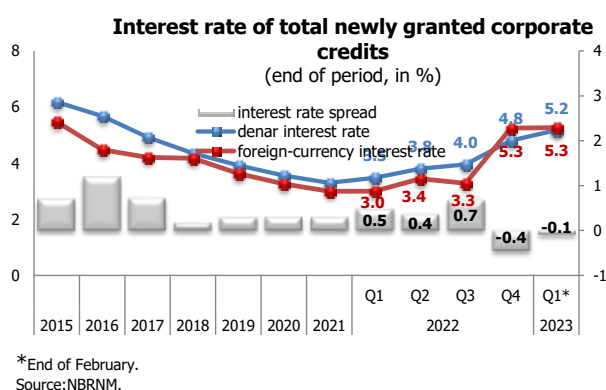
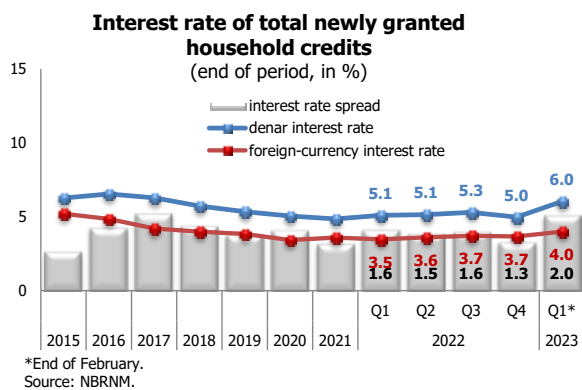
In the first quarter of 2023, the amount of **total loans approved to the corporate sector** decreased by 1.3% (growth from 3.9% in the previous quarter). According to the results of the **Lending Survey** for the first quarter of 2023, banks indicate a net decrease in the demand for total loans by enterprises, with a net tightening of credit conditions, but more moderately compared to the last quarter. By **currency**, the decrease in total corporate loans results from the decrease in denar and foreign currency loans (including loans with a foreign currency clause). According to **maturity structure**, there is a decrease in short-term loans, as opposed to long-term loans, which registered a small growth. Compared to the annual level, the growth of total corporate loans slowed down and at the end of the first quarter it was reduced to 6.2% (11.5% at the end of the previous quarter).

**Total credits of corporations**

	2020		2021		2022		2023	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
quarterly change, in %								
Total credits of corporations	1.0	0.8	2.3	0.6	4.9	3.7	2.8	0.7
Contribution in quarterly change of corporation credits (in p.p.)								
Denar credits	0.5	0.2	2.3	0.3	4.1	1.7	0.9	-1.0
Foreign currency credits	0.6	0.6	0.1	0.2	0.8	2.0	1.8	1.5
Short-term credits	0.9	0.9	1.1	-0.7	1.9	2.7	0.9	-0.3
Long-term credits	0.4	-0.1	1.1	1.5	3.3	1.3	1.5	1.0

Source: NBRNM.

According to the data on the interest rates<sup>66</sup> on newly approved loans<sup>67</sup> in February, interest rates on denar and foreign currency loans to **households** equaled 6.0% and 4.0%, respectively (5.0% and 3.7%, respectively in December). In such conditions, the interest rate spread between the new Denar and foreign exchange lending to households amounted to 2.0 pp and registered upward changes compared to the previous quarter, when it equaled 1.3 pp. Interest rates on newly approved denar and foreign currency **corporate** loans equaled 5.2% and 5.3%, respectively (4.8% and 5.3%, respectively in December), thus the interest rate spread between the new denar and foreign currency corporate lending reduced to 0.1 pp. Regarding **total loans** granted to the private sector, at the end of February the interest rates on household and corporate loans amounted to 5.3% and 4.6%, respectively, as opposed to 5.9% and 3.8%, respectively in December 2022.



## V. Public finance

***In the fourth quarter of 2022, the growth of budget revenues continues to slow down, which equaled 7.1% on an annual basis. At the same time, the growth of budget expenditures significantly accelerated and reached 14.9% on an annual basis, mostly as a result of the high growth of capital expenditures, and less of current expenditures. In such conditions, a higher budget deficit was realized compared to the same quarter of last year, which reached 2.4% of GDP or about half of the total realized deficit throughout 2022. In the period January - February 2023, the budget deficit equaled to 0.6% of GDP, which represents 13.3% of the budget planned for 2023 and was financed through net borrowing of the state on the domestic securities market. The total public debt at the end of 2022 reached 59.7% of GDP and is higher by 0.5 pp. compared to the previous quarter, and lower by 1.3 pp compared to the end of 2021.***

In the fourth quarter of 2022, total Budget revenues of the Republic of North Macedonia<sup>68</sup> increased by 7.1%, on an annual basis (10.1% in the previous quarter). In conditions of slower rise in the tax revenues<sup>69</sup> of 6.6% (with positive contribution of 3.8 pp), most of the growth in the total budget revenues arise from the revenues based on paid contributions<sup>70</sup>, the annual growth of which further

<sup>66</sup> 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](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspix).

<sup>67</sup> 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.

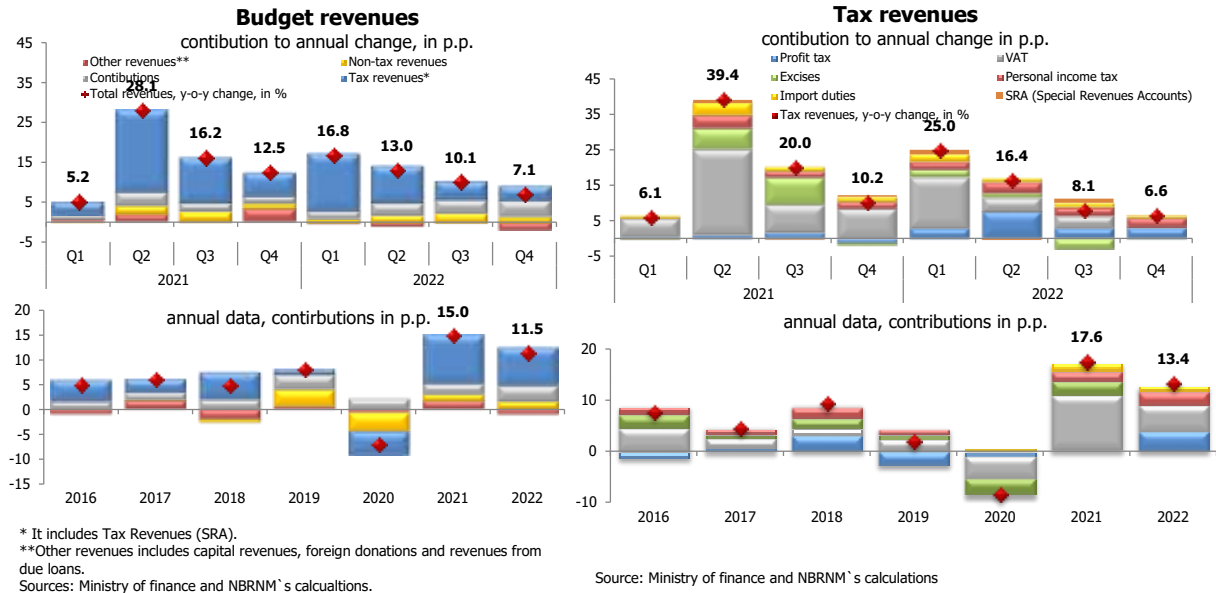
<sup>68</sup> Central budget and budgets of funds.

<sup>69</sup> It also includes own revenue accounts (SSP).

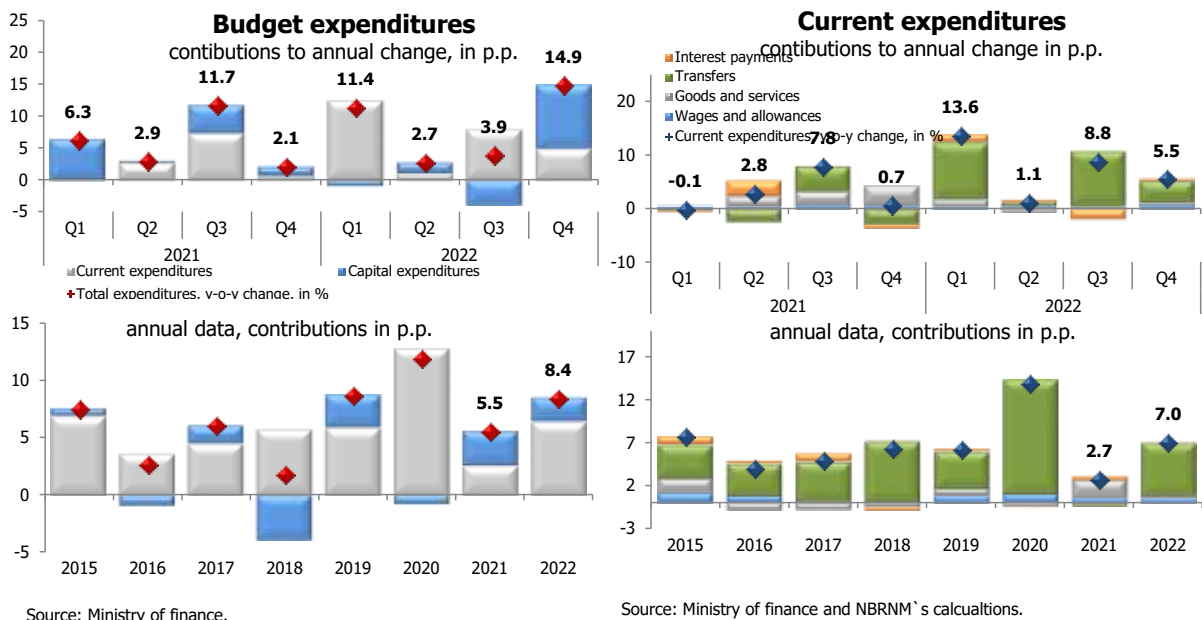
<sup>70</sup> The increase in contributions is partly related to the increased minimum net wage to Denar 18.000 in March 2022.



accelerates and 12.7% (with positive contribution of 4.0 pp). The nontax revenues were higher by 22% (with a positive contribution of 1.4 pp), while the other revenues<sup>71</sup> decreased by 45.5%<sup>72</sup> annually, which is due to the high comparison base in the last year.



The annual growth of tax revenues in the fourth quarter of 2022 (6.6%) mainly results from the performance of direct taxes (a positive contribution of 5.5 pp), with a further slowdown in growth, and thus the positive contribution from indirect taxes (0.9 pp). In direct taxes, a greater growth was achieved in income from profit tax (contribution of 2.9 pp), with a solid positive contribution from personal income tax (2.6 pp).



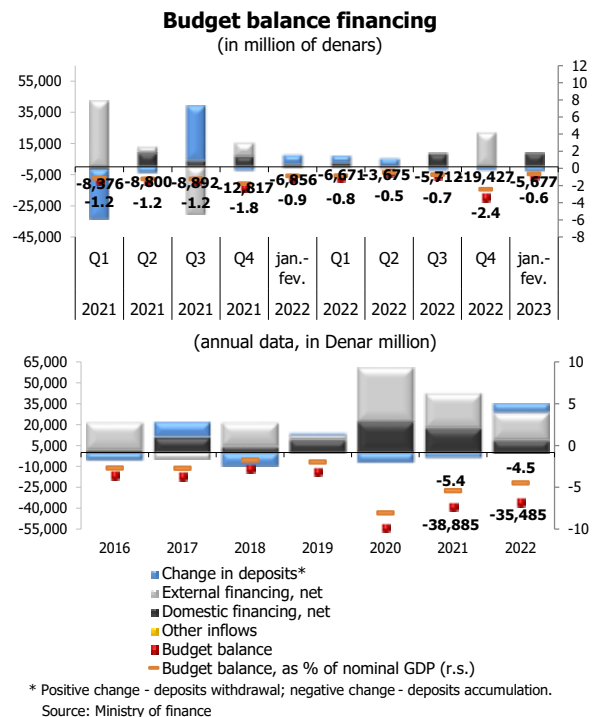
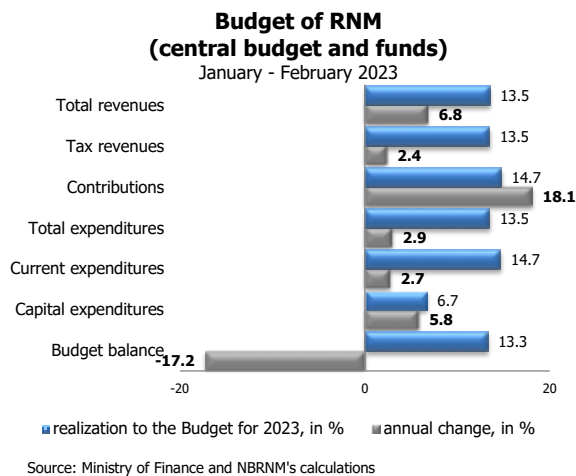
Total budget expenditures realized in the fourth quarter of 2022 are higher by 14.9% on an annual basis. From a structural point of view, the high growth of total expenses mostly results from significantly higher capital expenses (with a contribution of 10.0 pp), and to a lesser extent from current

<sup>71</sup> Other revenues include capital revenues, donations from abroad and revenues from recovered loans.

<sup>72</sup> The decrease in other revenues is due to the decrease in foreign donations, which results from the higher comparison base from the same quarter in 2021 (in November 2021, the Government received a significant commodity donation - COVID-19 vaccines).



expenses (with a contribution of 4.9 pp). The annual growth of current expenses equals 5.5% and mostly results from the "transfers"<sup>73</sup> category with a positive contribution of 4.0 pp, while the categories "goods and services", "salaries and allowances" and "interest payments" have a smaller positive contribution (of 0.5 pp, 0.7 pp and 0.4 pp, respectively).



The budget deficit in the fourth quarter of 2022 reached Denar 19,427 million or 2.4% of GDP, which represents a higher achievement compared to the same period of the previous year (deficit of 1.8% of GDP). The realized deficit was mainly financed through net borrowing of the Government on the foreign market<sup>74</sup>, while reducing the net borrowing on the domestic market and increasing the government deposits in the National Bank.

<sup>73</sup> Category of transfers include pension expenses, social security costs, health care costs and other transfers (mainly subsidies). The increase in transfers in the fourth quarter of 2022 is mostly associated with the payments of various types of assistance to citizens to deal with the crisis in accordance with the Law on Financial Support for Vulnerable Categories of Citizens to Deal with the Energy Crisis, as well as the increase in pensions for 6.8% in September 2022 in accordance with the new matching methodology. Also, subsidy payments to the energy sector are also included.

<sup>74</sup> The borrowing of the state on the foreign market mostly results from the issued bond for the German financial market, issued at the end of September 2022 in the value of Euro 250 million and from the withdrawal of the first tranche of the approved Precautionary and Liquidity Line (PLL) from the International Monetary Fund in November 2022, in the amount of Euro 110 million (out of a total of Euro 530 million approved by the arrangement).



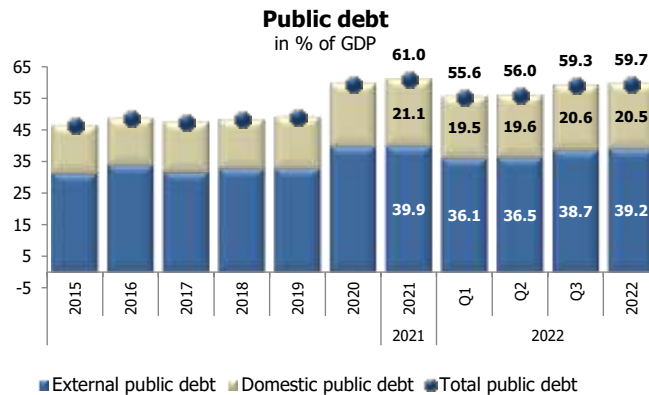


Budget of Republic of North Macedonia (Central budget and budgets of funds)

	Budget for 2022	Revised Budget for 2022	2022							2023		2022								2023	
			I reallocation	II reallocation	Q1	Q2	Q3	Q4	Total	Budget 2023	Jan.-Feb. 2023	Q1		Q2		Q3		Q4		Jan.-Feb.	
												Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.
<b>TOTAL REVENUES</b>	<b>238,899</b>	<b>245,758</b>	<b>245,758</b>	<b>245,758</b>	<b>57,106</b>	<b>59,207</b>	<b>62,200</b>	<b>64,520</b>	<b>243,033</b>	<b>282,052</b>	<b>38,036</b>	<b>16.8</b>	<b>16.8</b>	<b>13.0</b>	<b>13.0</b>	<b>10.1</b>	<b>10.1</b>	<b>7.1</b>	<b>7.1</b>	<b>6.8</b>	<b>6.8</b>
Tax revenues and contributions	210,829	221,770	221,770	221,770	52,314	53,787	55,629	58,456	220,186	250,689	34,784	18.1	16.4	13.9	12.5	9.0	8.2	7.8	6.8	6.2	6.2
Taxes*	136,458	143,173	143,173	143,173	35,013	34,713	36,002	36,899	142,567	162,600	21,802	25.0	14.3	16.4	9.3	8.1	4.8	3.8	1.0	0.6	0.6
Contributions	74,371	78,597	78,597	78,597	17,301	19,074	19,627	21,617	77,619	88,089	12,982	6.1	2.0	9.5	3.1	10.8	3.4	12.7	4.0	18.1	5.6
Non-tax revenues	19,171	17,043	17,043	17,043	3,681	4,067	4,893	4,568	17,209	19,894	2,574	12.4	0.8	26.9	1.6	33.9	2.2	22.0	1.4	9.7	0.6
Capital revenues	3,330	2,180	2,180	2,180	281	507	971	514	2,273	2,800	155	44.8	0.2	113.9	0.5	-20.9	-0.5	90.4	0.4	-16.2	-0.1
Foreign donations	5,570	4,765	4,765	4,765	830	846	707	982	3,365	8,669	523	-25.8	-0.6	-50.8	-1.7	22.3	0.2	-60.3	-2.5	4.8	0.1
<b>TOTAL EXPENDITURES</b>	<b>272,428</b>	<b>288,493</b>	<b>288,493</b>	<b>288,493</b>	<b>63,777</b>	<b>62,882</b>	<b>67,912</b>	<b>83,947</b>	<b>278,518</b>	<b>324,810</b>	<b>43,713</b>	<b>11.4</b>	<b>11.4</b>	<b>2.7</b>	<b>2.7</b>	<b>3.9</b>	<b>3.9</b>	<b>14.9</b>	<b>18.1</b>	<b>2.9</b>	<b>2.9</b>
Current expenditures	234,192	256,384	256,384	256,384	58,861	59,267	63,720	68,033	240,881	276,059	40,457	13.6	12.3	1.1	1.0	8.8	7.9	5.5	5.9	2.7	2.5
Capital expenditures	38,236	32,109	32,109	32,109	4,916	3,615	4,192	15,914	28,637	48,751	3,256	-10.0	-0.9	40.1	1.7	-38.2	-4.0	85.3	12.2	5.8	0.4
<b>BUDGET DEFICIT/SURPLUS</b>	<b>-33,529</b>	<b>-42,736</b>	<b>-42,736</b>	<b>-42,736</b>	<b>-6,671</b>	<b>-3,675</b>	<b>-5,712</b>	<b>-19,427</b>	<b>-35,485</b>	<b>-42,759</b>	<b>-5,677</b>										
Financing	33,529	42,736	42,736	42,736	6,671	3,675	5,712	19,427	35,485	42,759	5,677										
Inflow	45,103	54,513	54,513	54,513	7,716	6,853	7,190	25,084	46,843	94,876	8,295										
Other inflows	500	500	500	500	186	312	188	320	906	0	216										
Foreign loans	21,269	65,524	65,524	65,524	836	638	145	23,276	24,895	66,876	552										
Deposits	-3,296	-38,141	-38,141	-38,141	4,515	4,859	-1,447	-1,566	6,361	-5,626	-2,531										
Treasury bills	26,620	26,620	26,620	26,620	2,259	1,044	8,324	3,054	14,681	33,616	10,058										
Sale of shares	10	10	10	10	0	0	0	0	0	0	0										
Outflow	11,574	11,777	11,777	11,777	1,045	3,178	1,478	5,657	11,358	52,117	2,618										
Repayment of principal	11,574	11,777	11,777	11,777	1,045	3,178	1,478	5,657	11,358	52,117	2,618										
External debt	6,045	6,235	6,235	6,235	1,045	1,853	993	1,896	5,787	36,506	725										
Domestic debt	5,529	5,542	5,542	5,542	0	1,325	485	3,761	5,571	15,611	1,893										
Other outflows																					

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

In the period January - February 2023, the total budget revenues are higher by 6.8% on an annual basis. The largest part of the growth of budget revenues, or 5.6 pp, results from better realization in contributions, while tax and nontax revenues have a small positive contribution (of 0.6 pp, respectively), as opposed to capital revenues, which have a negative contribution (of 0.1 pp). Simultaneously, the budget expenditures were higher by 2.9%, on an annual basis, mostly due to the higher current expenditures<sup>75</sup>, with a contribution of 2.5 pp, amid a small positive contribution of capital expenditures (of 0.4 pp). Budget deficit amounted to Denar 5,677 million or 0.6% of GDP<sup>76</sup>, in the first two months of 2023, constituting 13.3% of the budget deficit forecast for 2023. The budget deficit in this period was financed through net borrowing of the Government on the domestic market, with a slight decrease in foreign net borrowing and an increase in the government deposits with the National Bank.



Source: MoF and NBRNM calculations.

The total public debt<sup>77</sup> at the end of the fourth quarter of 2022 is 59.7% of GDP, which is an increase of 0.5 pp of GDP, compared to the previous quarter. This change results from the increase in the external public debt by 0.5 pp and reduction of the internal public debt by 0.1 pp of GDP, while at the end of the quarter they equaled 39.2% and 20.5% of GDP, respectively. Observing the debt structure, total government debt<sup>78</sup> equaled 51.0% of GDP, which is higher by 0.6 pp, compared to the previous

<sup>75</sup> The growth mostly results from the increase in the item transfers, especially in the part of social transfers for the most vulnerable groups of citizens in accordance with the Law on financial support for vulnerable categories of citizens to deal with the energy crisis.

<sup>76</sup> The analysis uses the National Bank's April forecasts for the nominal GDP for 2023.

<sup>77</sup> The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 62/05, 88/08, 35/11, 139/14 and 98/19) as the sum of the government debt and the debt of public companies 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.

<sup>78</sup> Government debt is defined as a sum of debts of the central government, the public funds and the municipalities.

quarter, while the debt of public enterprises (guaranteed and non-guaranteed)<sup>79</sup> was 8.7% of GDP, or by 0.2 pp lower. At the end of the fourth quarter of 2022, compared to the end of 2021, total public debt decreased by 1.3 pp of GDP <sup>80</sup>.

## VI. Macroeconomic forecasts and risks

The macroeconomic picture for the period 2023 – 2025 in the latest forecasts has not changed significantly compared to previous estimates. GDP realizations in 2022 are close to expectations, which together with the latest assumptions about the external environment and specific domestic factors **point to a growth of economic activity in 2023 of 2.1%**<sup>81</sup>. **This means stable growth of the domestic economy, which, in the assessment of slow growth among key trade partners, is largely related to the effects of announced infrastructure projects, as well as additional investments and utilization of capacities in the export sector.** For 2024 and 2025, the GDP forecasts remain the same, i.e. a growth acceleration is expected, which would equal 3.6% and 4%, respectively. **In terms of the growth structure in the period 2023 - 2024, even in the current forecasts, it would result from domestic demand, and net exports will have a small negative contribution.** And within this forecast round, as in the previous one, it is expected that domestic inflation will decelerate and reduce to a single-digit level, in the interval from 8% to 9% in 2023, and in the medium term it will continue to slow down, reducing below 3%, close to the historical average. Such expectations **are based on assessments of a downward movement of oil and food stock prices, a slowdown in foreign effective inflation and the absence of greater pressures from domestic demand.** The expected movements in the external sector predict a more significant narrowing of the current account deficit in 2023 to 3.6% of GDP, **in conditions of a significant reduction in imported price pressures, especially in the prices of two important energy sources - electricity and natural gas, which would contribute to the narrowing of the energy trade deficit and a better position in the balance in the trade of goods.** In the next period, **stabilization of prices is expected, which together with better expectations for the global economy, recovery of the most important trade partners, and thus the improvement of the nonenergy trade balance, would lead to a further** narrowing of the deficit in current transactions to 3.2% of GDP in 2024 and 2.7% of GDP in 2025. **During the entire forecast round, solid flows are expected in the financial account as well, with which the foreign reserves will be kept at the appropriate level.**

<sup>79</sup> 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).

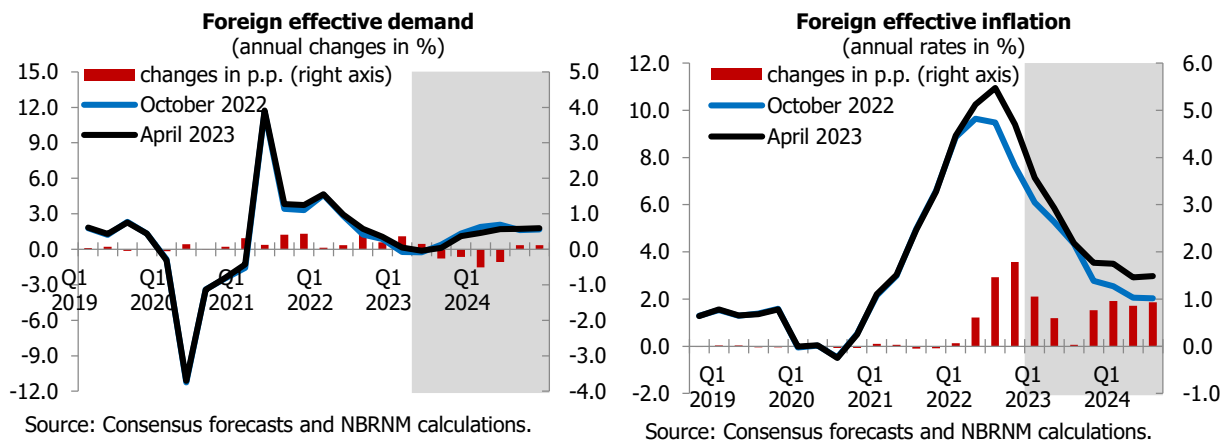
<sup>80</sup> The greater difference between the realized nominal GDP for 2021 and 2022 also reflected in the relative public debt indicators.

<sup>81</sup> In the October forecast, the growth rate in 2023 according to the baseline scenario equaled 2.6%, and according to the alternative scenario 1.8%, incorporating the assumptions for a smaller contribution of the announced infrastructure investments and the investments in part of the export sector.

## 6.1. Underlying assumptions in the external environment forecast<sup>82</sup>

The latest estimates for the **foreign effective demand**<sup>83</sup> indicate larger growth slowdown in 2023, which would reduce to 0.3% (as in October), and then its recovery with a growth rate of 1.7% in 2024 (1.8% in October).

On the other hand, the latest estimates of **the foreign effective demand**<sup>84</sup> further indicate a significant slowdown in growth in 2023, which would decrease to 0.3% (the same as in October), and then its recovery with a growth rate of 1.7% in 2024 (1.8% in October). The upward correction of the estimates is due to the expectations of higher inflation among almost all of our import partners, with Italy, Germany and Bulgaria making the largest contribution for the two years on average.



Regarding the **euro/US dollar exchange rate**, a more significant downward revision has been made for 2023 and a depreciation of the US dollar against the euro of 2.7% is currently expected, instead of the 1.4% appreciation predicted in October. This shift is largely a reflection of the expectations for further and greater tightening of the monetary policy by the ECB in relation to the FED, in conditions of relatively high performance of basic inflation in the euro area. On the other hand, a more moderate fall in the value of the US dollar against the euro is expected for 2024, which will equal 2.6% (fall of 3.3% in October).

In the latest forecast round, a slight upward correction of the estimates for the entire forecast period has been made for the **oil price denominated in euros**<sup>85</sup>, while its decline is still expected (of 17.9% and 8.2% in 2023 and 2024, respectively), but slightly lower than projected in October (down 20.0% and 9.2%, respectively). Such movements are largely the result of expectations for growth in oil

<sup>82</sup> Historical data on foreign demand, foreign inflation, exchange rate of the US dollar/euro and EURIBOR are sourced from Eurostat, while the World Bank statistics is a source of the data on prices of oil, food and metals. The forecasts of foreign demand, foreign inflation, foreign exchange rate of the US dollar and EURIBOR are based on the Consensus Forecast, while the forecasts of the prices of oil, food and metals are based on the forecasts of market analysts. The analysis uses various reports of the IMF, the World Bank, ECB, FAO, OPEC and specialized economic portals.

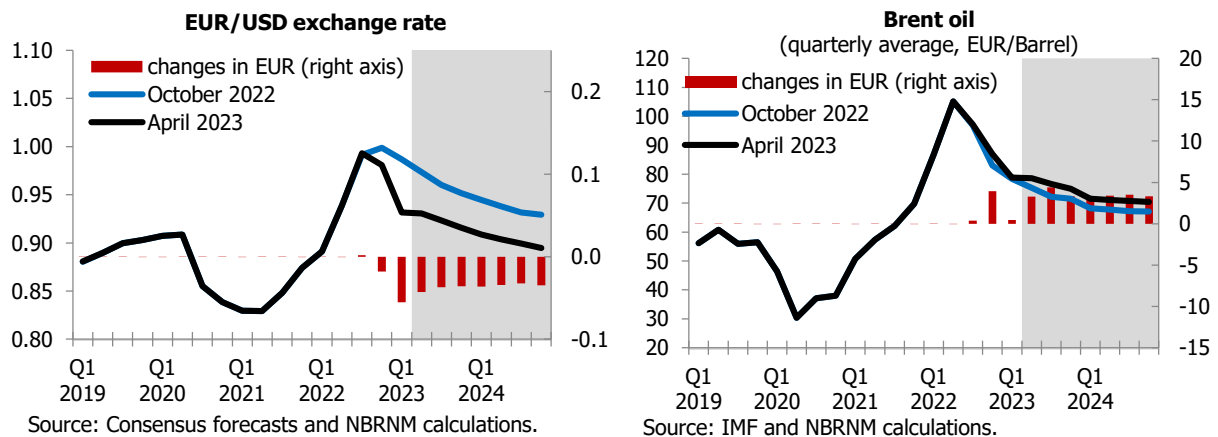
<sup>83</sup> Foreign effective demand is calculated as the weighted sum of GDP indices of the major trading partners of the Republic of North Macedonia. The calculation of this index includes Germany, Greece, Italy, the Netherlands, Belgium, Spain, Serbia, Croatia, Slovenia and Bulgaria.

<sup>84</sup> The foreign effective inflation is calculated as 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 calculation of this indicator includes Bulgaria, Germany, Greece, Spain, France, Italy, Austria, Slovenia, Poland, Croatia and Serbia. Inflation in Poland, Croatia and Serbia has been adjusted for the changes in the exchange rate.

<sup>85</sup> The analysis of prices of oil, metals and food commodities, uses various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals.

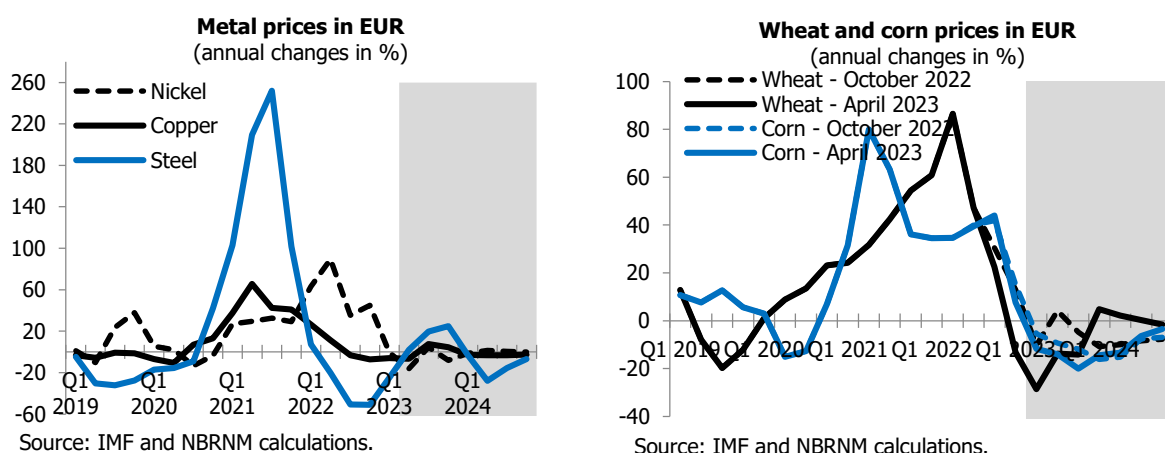


demand, mainly from China, and the decision of OPEC+<sup>86</sup> member countries to reduce their oil production.



**In terms of metal prices**, the revisions are mostly upward. Thus, a smaller drop in copper and nickel prices is currently expected in 2023 compared to the one forecasted in October, while for 2024, estimates are almost the same as in October and point to a stabilization of the nickel price and a small drop in the copper price. Regarding **steel**, small growth rather than decrease in 2023 is currently expected, as well as a larger price drop in 2024 compared to October estimates. Such movements in the price of copper and nickel in the current year are the result of expectations for greater demand for the metals, mainly from China, while in the case of steel, it is the result of a lack of supply on the US side.

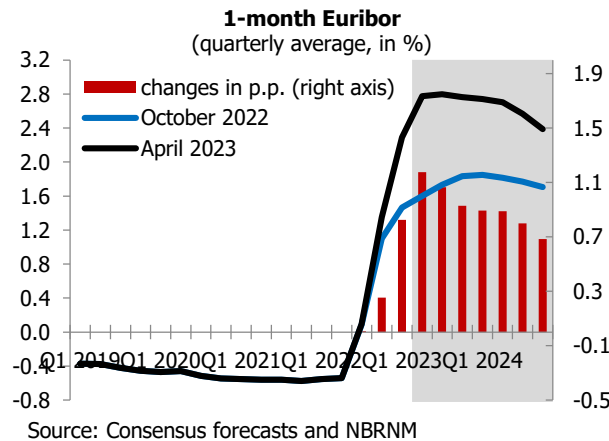
**In terms of food prices**, the prices of wheat and corn denominated in euros on the world stock markets for 2023 have been revised downwards compared to October, with a more significant drop in their prices being expected. The downward correction in one part results from the continuation of the Black Sea initiative<sup>87</sup>, and in the case of wheat, it is the result of estimates for larger production and global inventories, while in the case of corn, it is the result of expectations for lower global demand and higher inventories. On the other hand, for 2024, prices have been revised upwards, with an increase, rather than a decrease, in wheat prices and a smaller decrease in corn prices being expected.



<sup>86</sup> At the meeting held on 3 April 2023, OPEC+ member countries decided to voluntarily reduce oil production by an additional 1.16 million barrels per day, starting from May until the end of 2023. This measure is an additional adjustment to oil production, following Russia's previous announcement of a voluntary reduction in production by 500,000 barrels per day, bringing the total reduction by all members to 1.66 million barrels per day.

<sup>87</sup> On 18 March 2023, a renewal of the Black Sea Cereals Initiative was agreed, which was initially agreed on 22 July 2022 (for more see the following website [link](#)).

**Regarding the one-month EURIBOR**, according to the latest estimations, the revisions go upwards for the entire forecast round, currently expecting that it will equal on average 2.66% and 2.6%, respectively (1.66% and 1.78% in October, respectively). These movements are in line with the gradual normalization of the ECB monetary policy, and expectations for further interest rate increase.



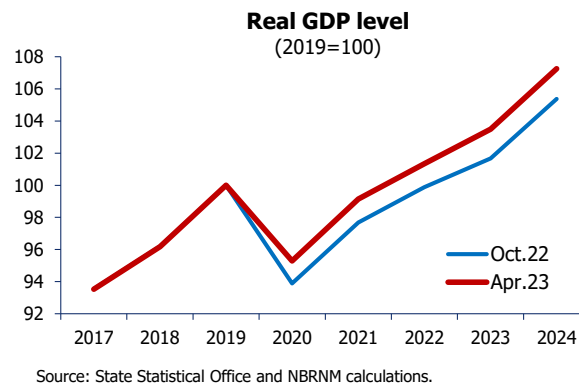
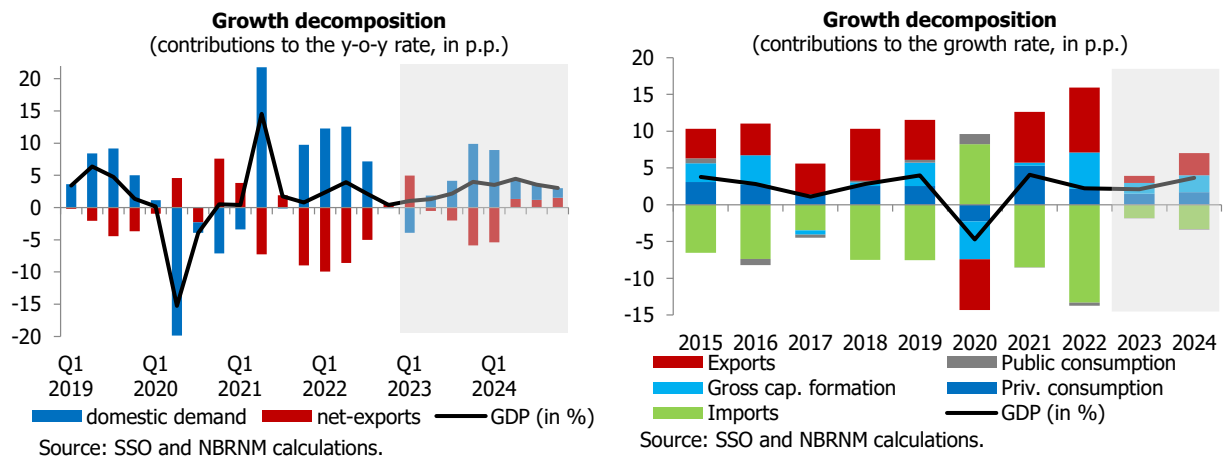
## 6.2. Forecast and effects on monetary policy

***The environment for conducting monetary policy and according to the latest projections is unpredictable and most influenced by future inflation dynamics and changes in inflation expectations.*** In circumstances of more permanent pressures of the inflation in the euro area and expectations for further growth of the ECB's interest rates, within this forecast round, the expectations for the **foreign interest rate** have also changed upwards, as an important factor for the domestic monetary policy. ***On the other hand, the external position of the domestic economy in this round is assessed mainly as more favorable***, with significantly less pressure on the current account in 2023 compared to the October forecast, especially due to significantly less pressure from terms of trade, and above all, from prices of energy sources. In such conditions, as well as with expected solid flows in the financial account, ***the foreign reserves would record growth on an aggregate basis and would remain at a level appropriate to international standards for maintaining the stability of the exchange rate.***

***The key risks to the baseline macroeconomic scenario are similar to those of the October forecast round. The risks from the external environment, both in the short and medium term, remain unfavorable.*** Geopolitical turmoil and its possible effects on supply chains and world prices, a possible tightening of global financial conditions, as well as developments in financial systems in individual economies may limit global growth. On the other hand, ***the risks from the domestic environment are again assessed as positive in the medium term***, and are related to the effects of NATO membership, EU membership negotiations and the possible use of the geographical advantages of our economy within the initial process of adjustment to global supply chains.

**After decelerated growth in the second half of 2022, which in the last quarter reduced to 0.6%, in the first quarter of 2023, according to the available high-frequency indicators, the growth rate is estimated to accelerate slightly.** It is mostly due to the decrease in import activity, which is expected in the second quarter as well, in conditions of reduced needs from the creation of inventories, characteristic of the previous year. Since the second half of the year, the economic activity is expected to intensify, especially in the investment sector, and acceleration of growth is expected in other GDP categories, as well. **Hence, economic activity growth of 2.1% for the entire year 2023 is expected, which would accelerate and rise to 3.6% in 2024 and 4% in 2025.** From the

aspect of the growth structure in 2023 and 2024, it is expected that the growth will result from domestic demand, with a small negative contribution of net exports.

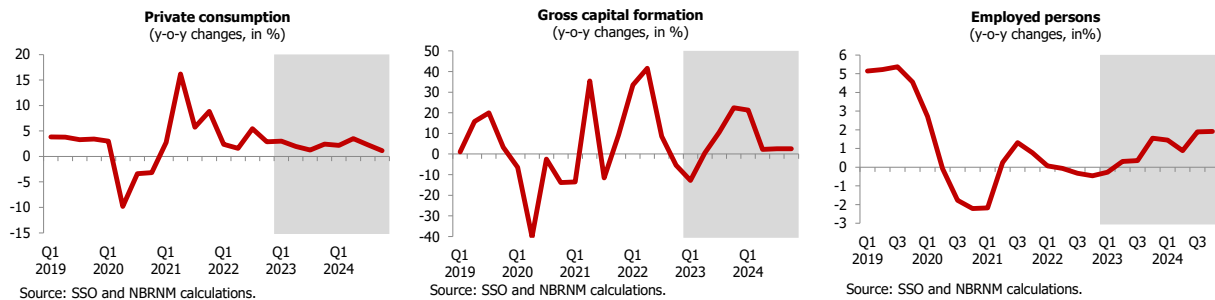


Within the framework of **domestic demand**, it is expected that gross investments and private consumption will be the growth generators in the period 2023-2024. The largest single positive contribution is expected from gross investments, especially in 2024. Namely, after the high realization in 2022, largely related to the growth of **inventories**, a more moderate growth rate of gross investments is expected for 2023, which will then accelerate in 2024. Growth will be supported by the new multi-year cycle of public investments in road and railway infrastructure, especially in the part of road infrastructure construction (corridor 8 and 10-e), which will start in the second quarter of 2023 and is expected to continue on medium term. At the same time, private investments are also expected to increase, which will primarily result from the need for energy sustainability and greater use of renewable energy sources (mainly photovoltaic power plants), as well as from the announced investments in part of the export sector, which would also give a new positive stimulus for the overall investment cycle in the medium term. In addition, it is expected that foreign direct investments will be solid and in line with historical achievements, and favorable signals are also expected from the growth of exports and foreign effective demand, especially in 2024, with further solid but more moderate credit support from the banking sector.

It is expected that **household consumption** will register moderate growth rates during the forecast period, which will make an additional positive contribution to economic growth. However, it is estimated that growth in 2023 will be smaller compared to 2022, which is consistent with further uncertainty and reduced purchasing power, while the growth of real disposable income is expected to slow, primarily due to the decline in private transfers of real basis. On the other hand, a stronger real growth in 2023 is expected for the wage and pensions bill compared to the previous year, in conditions of solid nominal growth and a slower inflation rate. The assessment of wage growth takes into account



the effect of the increase in the minimum wage and of the wage increase in part of the public sector<sup>88</sup>, while the increase in pensions is in line with the regular adjustment<sup>89</sup>, direct financial support of pensioners by the Government in the first quarter of the year<sup>90</sup> and the estimates for moderate growth in the number of pensioners. In 2024, a slight acceleration of the growth rate of private consumption is expected, with accelerated real growth of disposable income, in conditions of more favorable shifts in some factors. Thus, with the intensified economic activity in 2023, an increased demand for labor force and a moderate acceleration of the number of employees, increased growth of real wages, as well as real growth in private transfers from abroad are expected. Credit is also expected to support household consumption over the forecast round, but more moderately.



In accordance with the fiscal plans<sup>91</sup>, in the period 2023 - 2024, a decline in real **public consumption** is expected on an aggregate basis, so that it would have a minimal negative contribution to the expected GDP growth on average.

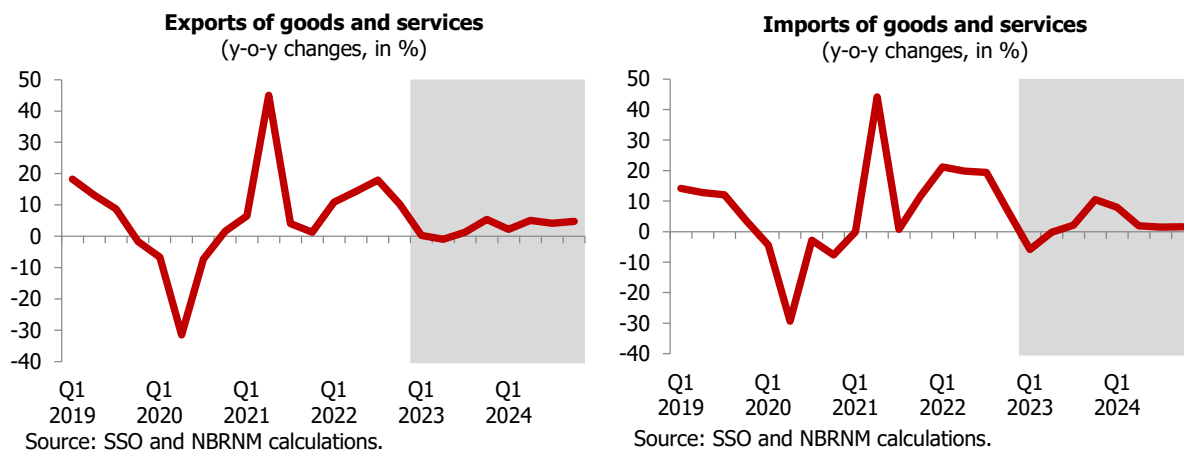
After the strong growth of **export demand** in the past two years, more moderate growth rates are expected in the coming period. Thus, in 2023, a growth slowdown is expected, with a high comparison basis from the previous year, but also under the influence of the weaker impulse of foreign demand, the unfavorable price conjuncture in metal prices and more moderate FDI. However, favorable changes in the external environment and acceleration of the growth rate are expected in 2024. Namely, by mitigating the energy crisis in the euro area and reducing the level of energy prices, lower production costs and accelerated growth of foreign effective demand are expected, which will have a stimulating effect on the traditional export sector, and above all on the metal industry, thus this activity will have a significant contribution to the growth of exports in 2024. In addition, further favorable results are expected for export-oriented automotive industry companies and their positive contribution to growth in the two forecast years.

<sup>88</sup> According to the amendments to the Law on the Minimum Wage, the minimum wage for the previous year is being adjusted in March every year by 50% of the increase in the average net paid wage in the country and 50% of the increase in the consumer price index, for the previous year, according to the data of the State Statistics Office. Also, it is also defined that the minimum wage cannot be lower than 57% of the average net wage paid in the country for the previous year, according to the data of the State Statistical Office. For 2023, the legally prescribed minimum net wage is Denar 20,175 (18,000 in 2022). Also, according to the amendments to the Law on Administrative Officers, the minimum wage becomes part of the basic component of the wage of the administrative officers, so that it will increase automatically every year by the amount of the increase in the minimum wage.. In addition, an increase in wages in healthcare from March has been announced, of Denar 3,000 for nurses and Denar 2,000 for other employees, as well as an increase in the wages of elected officials in accordance with the decision of the Constitutional Court to delete Article 4 of the Law on amending Law on wages and other benefits of elected and appointed persons in the Republic of Macedonia and Article 1 of the Law on amending the Law on wages and other benefits of elected and appointed persons in the Republic of Macedonia.

<sup>89</sup> Form September 2022, the adjustment of the age pension will be calculated by the change to the consumer price index in the amount of 50% and the change to the average wages paid to all employees in the Republic of North Macedonia for 50%. The pension shall be adjusted every year on 1 of March and 1 of September according to the percentage which is calculated as the sum of the growth in the consumer price index in the previous half of the year and the percentage of the increase in the average wages paid to all employees in the Republic of North Macedonia in the previous half of the year, compared to the half of the year that precedes.

<sup>90</sup> Target measures aimed at helping the most vulnerable groups of citizens adopted in October 2022, envisaged that in the next four months Denar 1,500 to be paid to pensioners that receive pension of up to Denar 11,525 and Denar 750 to pensioners whose pensions range from Denar 11,525 to Denar 14,000.

<sup>91</sup> Public consumption forecasts are based on data from the 2023 Budget from December 2022 and Revised Fiscal Strategy 2023–2025 ( with prospects until 2027) from December 2022.



Similar movements are expected in the **real import of goods and services**. Namely, in conditions of a high comparison basis in 2022 caused primarily by imports for supplies with the start of the war in Ukraine, a slow growth of imports is expected in 2023 and its acceleration in 2024 in accordance with the shifts in exports and domestic demand, and especially investments. At the same time, the activities related to the construction of the road infrastructure, which will be carried out by a foreign contractor, would contribute to an increase in imports during the projection period. According to the estimates for the growth of exports and imports, in the period 2023 - 2024, a small negative contribution from net exports to the total economic growth is expected.

**The latest forecasts for the credit market indicate a slowdown in the growth of credit activity in 2023 and a gradual acceleration of growth in the next two years.** Namely, the annual growth of credit activity slowed down in the first quarter of 2023, and it is expected that this trend will continue in the next three quarters of the year, in conditions of uncertainty and tighter financial conditions, in accordance with the tight monetary policy in the past period. Consequently, at the end of 2023, credit growth will amount to 5.7% on an annual basis (9.4% at the end of 2022). According to the estimates for the gradual acceleration of economic growth and stabilization of expectations, an increased demand for loans and an acceleration of the growth of credit activity are expected in the coming period. Thus, in the period 2024 – 2025, credit growth would amount to 6.6% on average. Credit growth, as before, will be supported by the deposit growth, as the main source of financing. At the same time, the measures taken by the National Bank would contribute to further encourage savings, primarily in domestic currency. Thus, in 2023, acceleration of the total deposits growth is expected and it would equal 6.9% (4.9% at the end of 2022). In the next two years, with intensified economic activity and increased purchasing power of the population, further solid deposit growth is expected, which would equal 7.7% on average in the period 2024-2025.

**After the pronounced deterioration in 2022, the current account deficit would narrow in 2023 by 2.4 pp of GDP on an annual basis and would amount to 3.6% of GDP.** This is expected to result mostly from a narrowing of the trade deficit, more specifically from the energy component, despite a more moderate surplus forecasted in the secondary income and services balance. Namely, downward movements in energy and food stock prices this year, after one of the historically highest increases in 2022, would cause a significant downward correction in the energy balance, which, in conditions of an almost unchanged nonenergy component, would contribute to a lower trade deficit. On the other hand, after the significant strengthening of private transfers in 2022, more moderate growth and a certain reduction of their participation in GDP is expected. Also, the expectations for the positive balance of services are slightly more moderate, in part due to the estimated net outflows from the new project for the construction of road corridors during the forecast period. **For 2024, a further improvement of the current account deficit is forecasted, by 0.4 pp of GDP, which would equal 3.2% of GDP.** In conditions of stabilization of price movements and assuming the exhaustion of the negative effects of the war in Ukraine, as well as higher foreign demand, a further improvement of the trade deficit is expected, under the influence of the nonenergy balance, as a result of more favorable expectations for the metalworking sector and the stronger contribution from exports to the automotive



industry. Positive movements are also expected in the surplus of services, where there would be further solid export realization. On the other hand, a further decrease in the share of net inflows in secondary income in GDP is expected. The acceleration of economic activity and the expectations for solid export achievements among companies with foreign capital would lead to a higher primary income deficit. **In 2025, a further narrowing of the current account balance to 2.7% of GDP is expected,** with an expected further improvement in the balance of goods and services, taking into account the assumptions of a complete stabilization of energy prices and the growth of global economic activity. **The net financial inflows in the period 2023 - 2025 would fully finance the current account deficit, while enabling additional growth of foreign reserves.** The largest part of the financing would be from foreign direct investments, as well as the long-term borrowing of the state. **It is important to note that during the entire period of the projection, it is expected that the foreign reserves will be maintained at the appropriate level.**

**Balance of Payment forecast (% of GDP)**

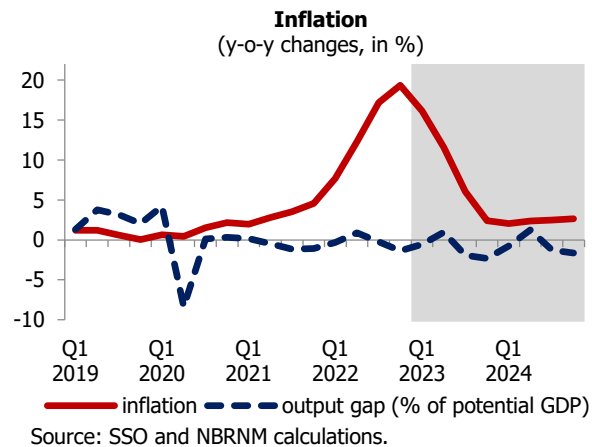
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Current account</b>	<b>-1.8</b>	<b>-2.6</b>	<b>-0.8</b>	<b>0.2</b>	<b>-3.0</b>	<b>-2.9</b>	<b>-3.1</b>	<b>-6.0</b>	<b>-3.6</b>	<b>-3.2</b>	<b>-2.7</b>
Balance of goods & services	-16.2	-15.2	-14.1	-12.7	-14.3	-12.7	-16.0	-21.0	-18.4	-16.5	-15.5
Goods, net	-20.1	-18.8	-17.8	-16.2	-17.3	-16.6	-20.3	-26.8	-23.3	-22.1	-21.1
Services, net	3.8	3.5	3.7	3.5	3.0	3.9	4.2	5.7	4.9	5.5	5.6
Primary income, net	-3.2	-4.0	-4.0	-4.2	-4.6	-3.8	-4.5	-4.3	-4.2	-4.5	-4.6
Secondary income, net	17.6	16.6	17.3	17.1	16.0	13.6	17.4	19.4	19.0	17.9	17.3
Private sector, net	17.1	15.7	16.1	16.1	15.6	12.6	16.2	19.0	17.7	17.2	16.7
<b>Capital account</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financial account</b>	<b>0.5</b>	<b>-5.8</b>	<b>0.9</b>	<b>-4.5</b>	<b>-5.6</b>	<b>-3.9</b>	<b>-5.1</b>	<b>-7.7</b>	<b>-6.0</b>	<b>-2.2</b>	<b>-4.3</b>
FDI, net	-2.2	-3.3	-1.8	-5.6	-3.2	-1.4	-3.3	-5.2	-3.7	-3.8	-3.8
Portfolio Investment, net	-0.7	-4.4	0.2	-3.0	1.3	-2.6	-1.0	-0.4	-0.3	1.4	-0.8
Other Investment, net	3.5	1.9	2.5	4.1	-3.7	0.1	-0.8	-2.1	-2.0	0.2	0.2

Source: NBRNM.

The slow growth of domestic prices, which started in November last year, continued in the first three months of this year. In the conditions of assessments of downward movements in the world prices of primary commodities, effects of the gradual tightening of the monetary policy, partly due to the measures taken to freeze the prices of certain basic food products<sup>92</sup> **in 2023, the inflation rate will slow down and reduce at a single-digit level, in an interval of 8 to 9%,** depending on the effects of price control measures and changes in regulated energy prices. By individual components, the biggest contribution to inflation will be made by the food component, where a strong slowdown in growth is expected, with a similar dynamic being expected for energy prices<sup>93</sup>. In contrast, core inflation, which later began its upward adjustment, would accelerate moderately. **In the medium term, a further slowdown of the inflation rate is expected, which will decrease below 3%, close to the historical average.** At the same time, in 2024, a slowdown in price growth is expected in all three components, in the context of forecasts for a mostly downward trend of stock market food and oil prices, a slowdown in foreign effective inflation and the absence of significant pressures through the channel of domestic demand and output gap. At the same time, the risks for the projection in the medium term, especially with regard to the future movements of energy and food prices, are still significantly expressed due to the uncertainty surrounding the development of the war in Ukraine, which is why the uncertainty related to further transmission effects on domestic inflation is high. Also, wage growth and possible price effects are a risk factor that should be closely monitored.

<sup>92</sup> More details on the measures of the Government for freezing the prices in section 1.5 Inflation.

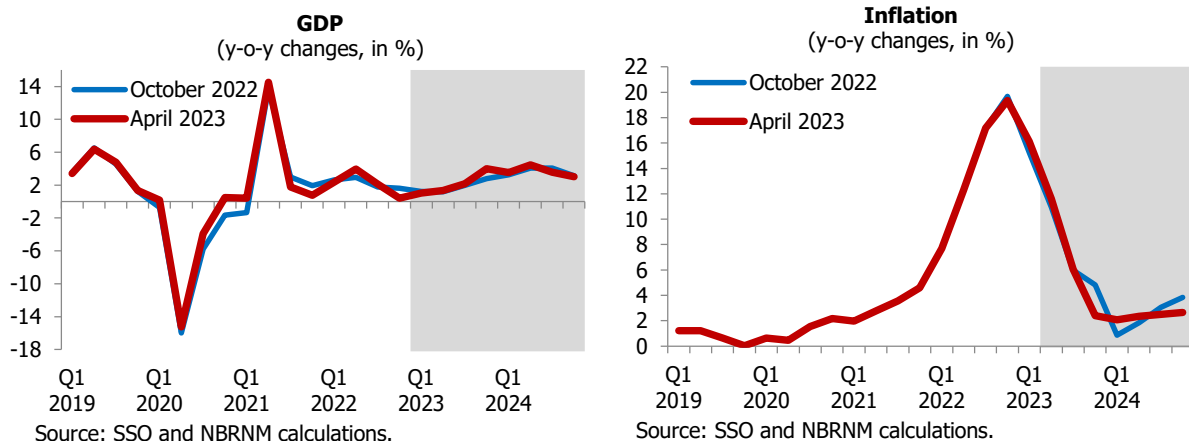
<sup>93</sup> Including the effect of the legal increase, i.e. return of the VAT rate of electricity from 10% to 18% in July 2023.



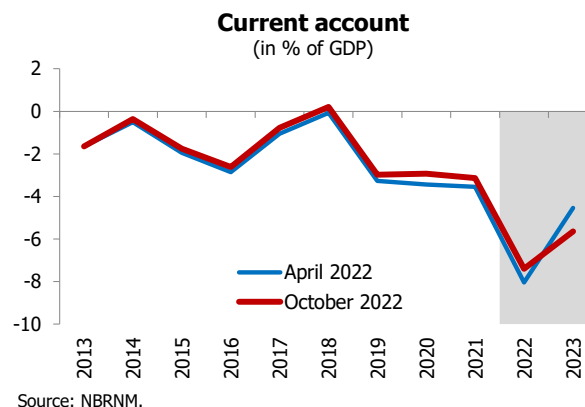
### 6.3. Comparison with the previous forecast

*In the latest macroeconomic scenario, basically no essential changes have been made in the expectations for GDP growth and inflation compared to the October forecast round. However, the stronger downward correction to the expectations for stock market energy and food prices changed expectations in favor of a more favorable external position compared to the previous forecast and a significantly lower current account deficit in 2023. Moreover, in the forecast period, slightly lower net inflows in the financial account than previously planned are expected.*

The October macroeconomic forecasts predicted that the domestic economy would grow by 2.6% in 2023, supported by domestic specific factors (that is, the announced large infrastructure investments from the beginning of 2023 and investments in part of the export sector), that is by 1.8% if these effects are not fully realized. In this context, the latest information that has become available in the meantime indicates that the activities related to the infrastructure projects would start from the second quarter of the year, and the positive effects for the economic activity would begin to be observed in the second half of the year, when accelerated execution is expected of construction activities. **Considering this, and taking into account the unchanged forecast for foreign effective demand, the latest estimate for the domestic economy growth of 2.1% in 2023 does not deviate significantly from October, that is, it is between the two October scenarios. At the same time, the projected growth of 3.6% in 2024 is the same as in October, with maintained assumptions for the full realization of the effects of domestic factors and the absence of additional unexpected shocks from the external environment.** By GDP components, in the forecast period there are certain deviations regarding the volume of the expected growth rates in relation to October, but on an aggregate basis the growth structure does not deviate from the previous estimates. Moreover, it is still expected that domestic demand will be the main driver of growth in the forecast period. Moreover, it is expected that gross investments and private consumption in 2023 will have an identical contribution to the one assessed in October, while in 2024 it is still expected that the positive contribution of investments will prevail, and it will be slightly more pronounced, which is in line with the assumption of uninterrupted implementation of public infrastructure projects, with simultaneously higher foreign direct investments and higher exports than previous expectations. On the other hand, the largest correction, primarily for 2023, has been made in the assessment of public consumption, which is now expected to have a neutral, rather than negative, contribution to growth, due to the higher planned spending in the 2023 Budget, against those in the Fiscal Strategy 2023 - 2025, which was the basis for the October forecast. In terms of the external sector, for 2023 there are no major changes in terms of the scope of the expected negative contribution of net exports to growth, while more significant change has been made for 2024, when this component is expected to further contribute negatively to the growth, as opposed to its small positive contribution, as assessed in October forecast.



**The forecast for domestic price movements remained unchanged from the October estimates, with the inflation rate still being forecasted to slow to single digits in 2023, in the range between 8% and 9%, and to fall below 3% in 2024.** Within the individual components, for 2023, a certain upward correction has been made in the core inflation, in conditions of higher performance in the first quarter and upward revisions of the estimates for the foreign effective inflation. On the other hand, in the case of energy and food inflation, the revisions are downward, in accordance with the lower realizations of energy prices at the beginning of this year (lower growth of regulated prices than predicted), as well as the significant downward revisions of food prices on the world stock markets relative to October forecasts. On the other hand, for 2024, an upward correction of the assessment of food inflation and a downward correction of the assessment of energy inflation have been made, while there are no major deviations in the core inflation compared to October.



**This forecast round predicts lower current account deficit for 2023 compared to the October projections, by significant 2 pp of GDP (3.6% of GDP, against 5.6% of GDP in October), given lower trade deficit influenced by the downward correction in the energy trade balance due to the significant downward correction in energy prices, more specifically natural gas and electricity. Expectations for private transfers have also improved, which is partly due to better realization. For the period 2024 - 2025, the current forecast predicts a higher average deficit in the current account, by 1.3 pp of GDP compared to October forecasts, i.e. from 1.6% of GDP to 3% of GDP according to current forecasts.** Such expectations stem from energy prices which are still maintained at a high level. On the other hand, expectations for private transfers are slightly better compared to October. **Regarding the financial flows, viewed collectively for the period 2023 - 2025, slightly lower net inflows are expected compared to the October forecasts.** At the same time, the current forecast predicts higher net inflows of foreign direct investments in the projection period, which represents a significant source for financing the deficit of current transactions



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

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2023	2024	2023	2024
IMF	April 2023	1.4	3.6	9.2	3.5
World Bank	April 2023	2.4	2.7	9.1	3.0
European Commission	May 2023	2.0	3.1	7.9	3.7
EBRD	May 2023	2.0	3.0	-	-
Consensus Forecast	April 2023	1.6	3.1	9.0	3.1
Ministry of Finance	December 2022	2.9	4.1	7.1	2.5
National Bank of the Republic of North Macedonia	April 2023	2.1	3.6	8-9	2.4

Source: IMF, World Economic Outlook, April 2023; World Bank, Western Balkans Regular Economic Report, Spring 2023; European Commission European Economic Forecast, Spring 2023; EBRD Regional Economic Prospects, May 2023; Consensus Forecast, April 2023; Ministry of Finance, Revised Fiscal Strategy 2023-2025, December 2022; and the National Bank of the Republic of North Macedonia, April 2023.