

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



**Quarterly Report  
February 2021**



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## Introduction

**In conditions of present negative effects of the COVID-19 pandemic on the domestic economy, a solid level of foreign reserves and no inflationary pressures, the monetary setup remained accommodative.** After three reductions being made since the beginning of the year, during the fourth quarter the National Bank has kept the policy rate at the historically lowest level of 1.5%. The monetary easing so far has favoured credit flows in the economy and increased liquidity in the banking system. The changes in the banking regulations also acted in this direction, providing greater flexibility of the banks and credit cycle maintenance. At the same time, the fiscal support of the real sector by the domestic economy continued. Thus, in the fourth quarter of the year solid annual growth rates of total deposits and total loans were preserved, meaning, the forecasts for the deposits were exceeded, while the loans remained within expectations. In the foreign exchange market, the National Bank intervened with net sales during the fourth quarter of the year, amid reduced foreign exchange inflows due to the pandemic. However, the need for selling foreign currency was significantly lower. Foreign reserves are still at an appropriate level and are maintained in the safe zone, registering at a growth pace in the last quarter that is better than expected in the latest forecasts. In conditions of prolonged pandemic and the emergence of the second wave, the policies remained accommodative globally, which will be retained for a longer period than previously expected, i.e. until the sustainable recovery of the real sector from the crisis.

**Similar to the October forecasts, the sources of risk remain almost entirely linked to the COVID-19 pandemic.** Regarding the risks from the external environment, although some of those listed in October have been overcome, such as the uncertainty over the development of coronavirus vaccines and the Brexit agreement between the United Kingdom and the EU, meanwhile new negative risks have emerged that prevail in global terms. Currently, they refer to the emergence of coronavirus mutations that are more virulent and that could impose stricter restrictive measures, limitations on the supply side of vaccines and logistical problems regarding their storage and delivery, possibly prolonging the vaccination process worldwide, as well as uncertainties related to the safety and efficiency of vaccines, which would lead to a slower overcoming of the health and economic crisis. As in October, other risks relate to the possible early withdrawal of fiscal and monetary measures for economic support, the prospect of longer-term negative effects on potential growth, possible deterioration of corporate solvency, growing debt and the default risk by certain countries in case of possible deterioration of financial conditions, as well as possible re-intensification of geopolitical and trade tensions. On the other hand, better global pandemic management and faster and more effective immunization pose positive risks. The unfavorable risks related to the domestic environment are also present and are mainly related to the efficiency in dealing with the health crisis, similar to the October forecasts, and our country's membership in the NATO alliance and the possible start of negotiations for full EU membership are a positive risk in the medium term.

**The comparison of the latest macroeconomic indicators of the domestic economy with their forecast dynamics within the October forecasting round indicates certain deviations in the individual segments of the economy.** Estimated GDP data for the third quarter show a decline of 3.3% on an annual basis, which is a significant improvement compared to the decrease in the second quarter (of 14.9%). The average change in GDP in the first three quarters of the year is in line with the expectations from the October forecast. However, compared to October, domestic demand made a more favorable contribution than projected, while the contribution of net exports was less favorable, mainly due to the faster-than-expected recovery in imports. A more detailed analysis shows improvement in all expenditure components. Thus, public consumption made the largest positive contribution to the annual change in GDP, amid increased budget support to the health sector to deal with the pandemic, and a significant positive contribution was made by gross investment, related to the growth of construction activity. On the other hand, the export of goods and services remains the component with the largest negative contribution to the GDP change rate, although in the third quarter there is an evident recovery, amid improved activity of some industrial facilities with foreign capital and the traditional segment. Private consumption also made a negative contribution, which is more moderate



compared to the second quarter, primarily due to the easing of restrictive measures to prevent the spread of coronavirus, adjusting consumer behavior to the new normal, as well as support for fiscal and monetary measures. The slower decline in private consumption and exports, together with the growth of investments and public consumption, contributed to the upward adjustment of imports, as well. The currently available high-frequency data for the fourth quarter indicate more favorable developments in the domestic economy compared to the third quarter, which is in line with the October expectations. On an annual basis, the October forecasts<sup>1</sup> predicts a decline in the GDP of 4.9% in 2020 and increase of 3.9% and 3.6% in 2021 and 2022, respectively. The main factors influencing such assessments are the expectations for gradual depletion of the consequences of the pandemic, the recovery of the activity of export-oriented facilities, the growth of disposable income and the increased propensity for household spending, as well as the inflow of new foreign investments and intensified realization of infrastructure projects.

In the fourth quarter of 2020, the annual inflation rate moderately accelerated and amounted to 2.2%. Inflation in this period exceeds the expectations for the quarter within the October forecasts, and the deviation is mostly related to the growth of the food and energy component, while the movement of core inflation is in line with expectations. For the whole of 2020, the annual inflation rate is in line with expectations and is 1.2%, mainly driven by the growth of food component prices, and to a lesser extent, by the positive contribution of core inflation, while the energy component had a negative contribution. In conditions of revisions in different directions in the external input assumptions, the uncertainty arising from the movement in the world prices of primary products in the next period and their impact on domestic prices remains pronounced, especially in conditions of a second wave of the COVID-19 pandemic and the occurrence of a mutation of the coronavirus. According to October forecasts, inflation of 1.5% is expected in 2021, moving to the level of 1% in medium run.

The latest available data **indicate performances in the current and financial transactions that are in line with the expectations in the April forecast.** In the third quarter, atypical for this period of the year, the current account registered a moderate deficit of 0.4% of GDP, compared to the surplus realized last year. This shift is largely due to the deteriorated secondary income surplus, as well as the weaker performance of services, in conditions of significantly reduced travelings as a result of the COVID-19 pandemic. These movements were partially offset by the lower primary income deficit and the slight narrowing of the trade deficit. At the same time, the financial account recorded net outflows of 1.2% of GDP, which mainly result from outflows based on currencies and deposits and portfolio investments, and to a lesser extent from direct investments. The data on the gross foreign reserves for the fourth quarter indicate a change dynamics that is better than expected in the October forecasts, so that for the entire 2020 they registered a growth despite the expected slight decline. According to October forecast for the period 2021 - 2022, the foreign reserves will increase and the adequacy indicators will hover in a safe zone.

**In the fourth quarter, the lending activity of the banking sector accelerated,** typical for the end of the year. The National Bank, since the beginning of the crisis has monitored the situation at the credit market and acted by adopting a series of measures, thus creating conditions to reduce financing costs through loans from banks, as well as to provide additional liquidity in the banking system. Moreover, the sound solvent and liquidity position of banks are factors that continue to have a stimulating impact on the loans supply. By sector, the quarterly credit growth stems equally from increased credit support to both corporate sector and households. On an annual basis, the credit growth at the end of the fourth quarter was 4.7%, which is within the forecasted annual growth according to the October forecast (5.3%). Regarding the sources of financing, in the fourth quarter, solid growth of total deposits was registered. The growth of the deposit base in this period is common and in part is related to certain seasonal factors, and in part is a reflection of payments from anti-crisis measures to support the domestic economy. Analyzing by sector, the quarterly deposit increase is primarily due to the growth of corporate

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<sup>1</sup> In October 2020, a downward correction of the forecasts for decline in 2020 from 3.5% to 4.9% was made, with the growth expectations for 2021 also being revised downwards, from 4.7% to 3.9%.



deposits amid solid growth of household deposits. The annual growth of total deposits at the end of December reached 5.7%, which is above the forecasted growth with the October forecast (of 4.4%). In the next period, it is expected that the banks' deposit base will further increase, providing stable sources for financing credit growth.

**In general**, after the strong initial impact of the pandemic on both the domestic and the global economy, there is a gradual economic recovery, due to targeted and less restrictive measures for preventing its spreading, relatively rapid normalization of production and export activity, adjustment of the behavior and habits of the entities towards the new situation, as well as the monetary and fiscal measures taken. For now, the flows in the economy are stable, and the latest macroeconomic indicators generally follow the projected trends. Solid credit support to the domestic economy is expected to continue, in the absence of higher inflationary pressures and maintenance of foreign reserves in the safe zone. Although the discovery of the vaccine earlier than expected and the process of mass immunization against the viral infection started in some countries in the world is a new turning point in dealing with the COVID-19 pandemic, the uncertainty and risks of the pandemic still exist, as globally, as well as in the domestic economy. In the period ahead, the National Bank will continue to carefully monitor the performance and potential risks, in order to adequately adjust the monetary setup, if necessary.

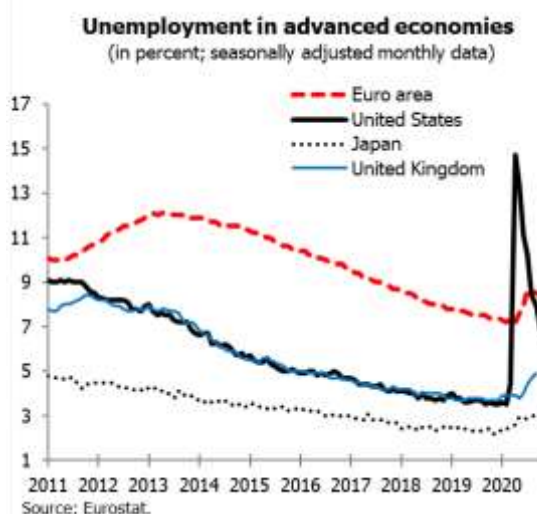
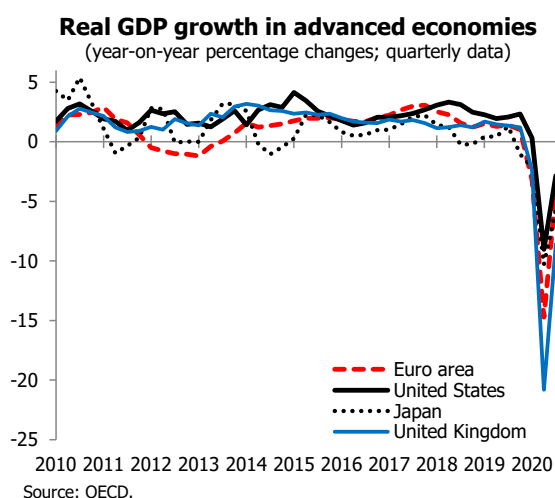


## **I. Macroeconomic developments**

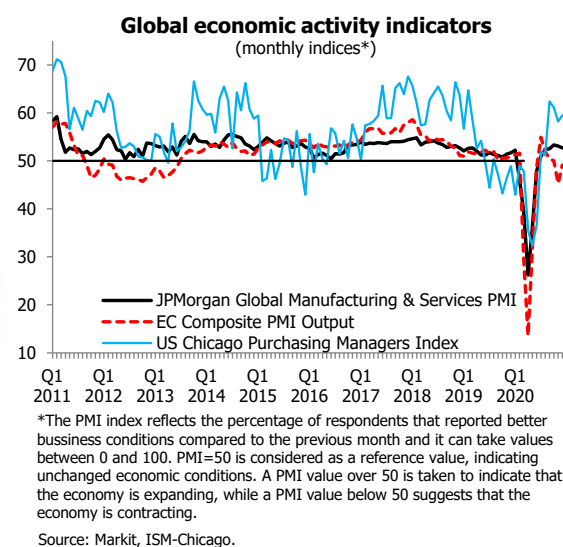
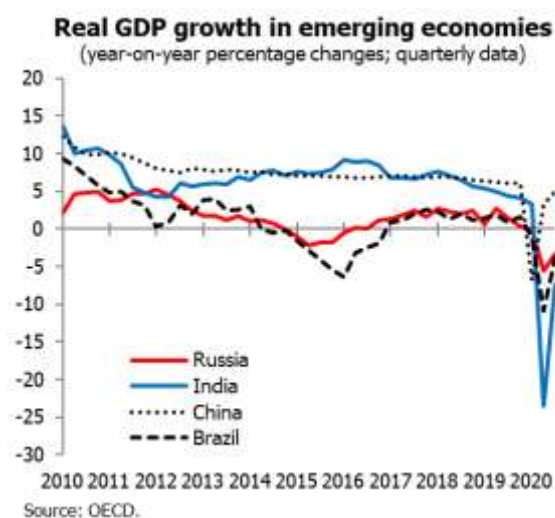
### **1.1. International economic surrounding**

***In the third quarter of 2020, there is a significant slowdown in the annual decline in economic activity in both developed and most of the developing countries. These developments in the global economy are largely due to the gradual easing of restrictive measures aimed at preventing the spread of the pandemic. As for the euro area, as our most important trade partner, in the third quarter there was a real annual decrease of 4.3%, which is a slightly lower decline compared to the fall of 14.7% in the previous quarter. The latest perceptions for the global economic growth are more favorable compared to the October forecasts and are influenced by the use approval of several vaccines and the beginning of the vaccination in some of the developed countries from December 2020, the more favorable expectations for the second half of 2020 and the announcements for an additional fiscal stimulus in some of the developed countries in the period ahead. Namely, the IMF forecasts from January 2021 point to a more moderate fall in the global economic activity in 2020 of 3.5%, while in 2021 a slightly stronger recovery and global economic growth of 5.5% is expected, with unchanged growth expectations. of 4.2% in 2022. However, there is still extremely high uncertainty about the further development of the pandemic and its effects on global economic activity.***

After the severe annual drop in the second quarter, the global economic activity declined in the third quarter of 2020, which was significantly smaller, as a result of the gradual easing of the restrictive measures aimed at preventing the pandemic spread, as well as the effects of stimulating fiscal and monetary policy of the countries. Within the developed countries, the euro area registered a real annual decline of 4.3% (compared to the decrease of 14.7% in the second quarter), amid a slowdown in all countries in the euro area. The UK economy registered a real annual decrease of 8.6% in the third quarter (compared to the decrease of 20.8% in the second quarter), with a slower decline in almost all components of GDP being registered, except in exports, with the net exports making a smaller positive contribution. The Japanese economy registered a real annual decrease of 5.7% (compared to the one of 10.3% in the second quarter), with better performance in household and government consumption and net exports than in the previous quarter being registered, as well as poorer investment performance, amid growing uncertainty the pandemic brings. The US economy registered a real annual decrease of 2.8% (compared to the decrease of 9% in the previous quarter), amid a significant slowdown in the domestic demand reduction compared to the second quarter, especially in household consumption.



**Slowing down the decrease in the economic activity in the third quarter of the year is also observed in most of the emerging economies**, which, as in the developed economies, is mainly due to the restrictive measures relaxation to prevent the pandemic spread. Thus, India's economy registered a real annual decrease of 7.5% (compared to 23.5% drop in the second quarter), given a smaller decline in private consumption and investments, while the net exports deteriorated amid larger drop slowdown in imports compared to exports. The Brazilian economy registered a real annual decline of 3.9% (compared to the fall of 10.9% in the second quarter), with the improvement being entirely due to the slower decline in domestic demand. In the third quarter, the Russian economy registered an annual real fall of 3.3% (compared to the decrease of 5.6% in the second quarter), amid larger domestic demand compared to the previous quarter, in conditions of monetary and fiscal support provided by the Government, but with less favorable movements in net exports, mainly due to smaller oil exports. China, on the other hand, remains the only economy that register grow on an annual basis, following a sharp drop in the first quarter. Thus, the Chinese economy in the third quarter registered real annual growth of 4.9%, which is an acceleration compared to the growth of 3.2% in the previous quarter, mainly due to the positive performance in exports, private consumption and investments, in conditions of stimulus fiscal policy.



**In terms of forecasts for the growth in the fourth quarter, the latest high-frequency survey indicators generally point to an improvement compared to the third quarter.** Thus, the





average value of the PMI index in the fourth quarter of the year was 53 (compared to 52 in the third quarter), largely reflecting the more favorable ratings for manufacturing, especially for China and the USA, as well as ratings for new orders and employment.

**According to the IMF forecasts from January 2021, for 2020 the global economy is estimated to decline by 3.5%, while in 2021 and 2022 recovery and economic growth of 5.5% and 4.2% are expected, respectively, which compared to the October forecasts, it is an upward revision for 2020 and 2021.** The upward revision for 2020 is largely due to the more favorable global perceptions for the second half of 2020, compared to previous expectations, while the small upward revision for 2021 is largely due to the announced measures for additional support the fiscal policy provides in some developed countries, especially in the United States and Japan, as well as the approved use of multiple vaccines and the start of the vaccination process in several countries during December 2020. The baseline scenario assumes stronger economic activity starting from the second quarter of 2021, assuming increased availability and effectiveness of vaccines and treatments to deal with the virus, as well as additional fiscal stimulus and the continuation of favorable financial conditions. In addition, vaccines are expected to be widely available in developed countries and some emerging countries during the summer of 2021, and by the second half of 2022, vaccines are expected to be available worldwide, while therapies for virus treatment will become more effective and more globally accessible in 2021 and 2022. However, the baseline scenario presupposes further implementation of restrictive measures and economic shutdown, until the vaccine becomes widely available.

**The growth forecasts for the global economy are characterized by extreme uncertainty related to the prospects for coping with the pandemic.** On the other hand, the agreement between the EU and the United Kingdom of December 2020, related to Brexit, means one major negative risk less. Upward growth risks in the forthcoming period are the more favorable developments in terms of production and distribution of vaccines, the improvement and greater effectiveness of therapies for virus management, as well as possibly more pronounced stimulus fiscal policy than expected, which would contribute to higher economic growth compared to the baseline scenario. On the other hand, the downward risks are considered the new accelerated spread of the infection, the possible introduction of significantly tougher measures for dealing with the virus than expected, as well as the slower progress in the medical treatment against the virus, including the slower vaccines distribution and increased aversion of the population for vaccination. In addition, the early termination of policies to support the economy, as well as the tightening of financing conditions, may also contribute to weaker economic performance in the coming period.<sup>2</sup>

**When it comes to global inflation,** it was relatively low in the fourth quarter, largely due to falling energy prices and weak demand globally. Observed by countries, changes in the inflation rate are in different directions, as a result of certain specific factors, but generally no significant price pressures are observed. Thus, in the euro area, in the fourth quarter there was a small negative annual inflation rate (-0.3%, as opposed to stagnation in the third quarter), and a negative inflation rate in the same period was observed in Japan (-0.8%, versus a rate of 0.2% in the third quarter). On the other hand, in the fourth quarter in the United Kingdom and the United States there is a relatively low but positive annual inflation rate (0.8% and 1.2% respectively), which is unchanged compared to the third quarter.

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<sup>2</sup> Based on the risks, the IMF develops two alternative scenarios, with the first scenario assuming faster implementation of the vaccination process, while maintaining the assumption that developed economies will receive vaccines from developing countries faster, so that activity will accelerate first in developed countries. The second scenario assumes a slower implementation of vaccination, with the vaccine becoming widespread available later than expected in both groups of countries. According to the first scenario, the level of global GDP is expected to be higher by about 0.75% in 2021 and by almost 1% in 2022 compared to the baseline scenario. According to the second scenario, the level of global GDP is expected to be lower by 0.75% in 2021, and in 2022 it will begin to return to the level of the baseline scenario.





**In the third quarter of the year the euro area registered a real annual decline of 4.3%,** which is a significant slowdown compared to the decrease of 14.7% in the second quarter. This shift is largely due to the easing of restrictive measures introduced during the summer in order to prevent the spread of the pandemic. Thereby, the economic recovery is present in all sectors, with the services sector, which was the most affected sector by the pandemic, in the third quarter contributing the most to the slower decline in GDP. In terms of demand, better performance compared to the second quarter is seen in all expenditure components of GDP, with household consumption being the main determinant of the smaller economic downturn. Observed by countries, in the third quarter all euro area countries registered real annual decline, but it is significantly milder compared to the one in the second quarter. Regarding unemployment in the euro area, in the period October - November, the average unemployment rate was 8.4% (slight decrease compared to 8.6% in the period July - September). According to the ECB forecasts from December, a real annual GDP decline in the euro area of 7.3% is expected in 2020, followed by a recovery in 2021 and 2022 with growth rates of 3.9% and 4.2%, respectively and further growth of 2.1% in 2023. Compared to the September forecasts, an upward revision was made for 2020 and 2022, and a downward revision for 2021<sup>3</sup>. The annual inflation rate in the euro area in the fourth quarter of 2020 was -0.3% (after the stagnation in the third quarter), as a result of falling energy prices, still weak domestic demand due to the pandemic, as well as a temporary reduction in the rate of VAT in Germany<sup>4</sup>. According to the December ECB forecasts, the inflation rate in the euro area is estimated at 1%, 1.1% and 1.4% in 2021, 2022 and 2023, respectively, with no major changes compared to the September projections.<sup>5</sup>

**In the fourth quarter of 2020, developed countries continued their monetary stimulus policy to mitigate the negative effects of the pandemic,** keeping interest rates at current low levels. The FED kept the interest rate spread at the level of 0-0.25%, and at the same time continued with the implementation of additional measures to stimulate economic activity<sup>6</sup> and announced continuation of some of the measures aimed at maintaining the capitalization of the banking system at a high level during the fourth quarter of the year<sup>7</sup>. The Bank of England left its interest rate unchanged at 0.1% in the fourth quarter, but decided to increase the volume of government bond purchases by an additional British pound 150 billion (total of British pound 875 billion), while continuing to implement other programs for quantitative easing, in order to support the economy. The ECB interest rates remained

<sup>3</sup> In December, the ECB revised the forecasts for September 2020, 2021 and 2022, which forecasted that real GDP would decline by 8% in 2020, while for 2021 and 2022 growth of 5% and 3.2%, respectively was forecasted.

<sup>4</sup> The of German Government has decided to temporarily reduce the VAT rate in the period from 01.07.2020 to 31.12.2020, so the policy rate is reduced to 16% (from 19%), and the preference rate is reduced to 5% (from 7%).

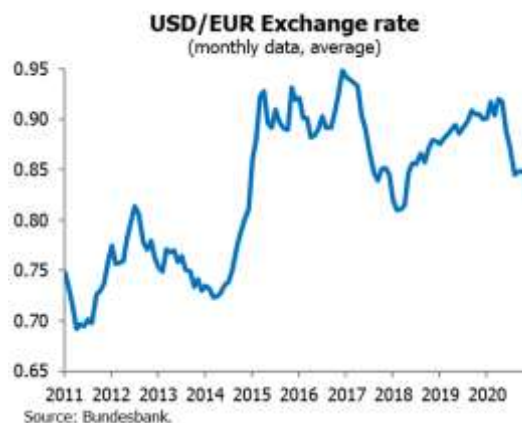
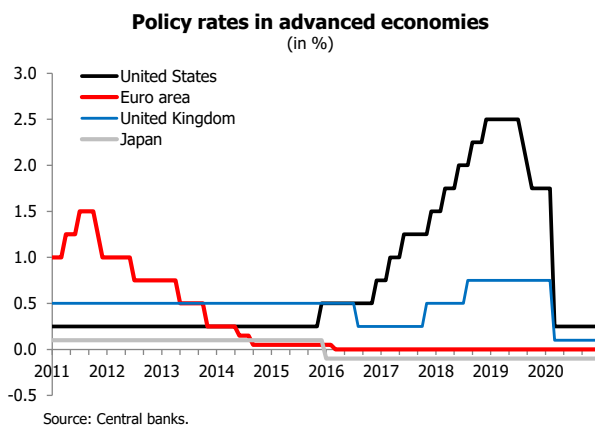
<sup>5</sup> In September, the inflation rate in the euro area was expected to be 0.3% in 2020, 1% in 2021 and 1.3% in 2022.

<sup>6</sup> In December 2020, the FED announced that it would continue to buy government securities worth at least US dollar 80 billion a month, as well as mortgage-backed securities issued by government agencies worth at least US dollar 40 billion a month.

<sup>7</sup> During the fourth quarter, large banks (those with total assets of more than US dollar 100 billion) will also be banned from buying shares, and further dividend payments will be limited and will depend on current profits, as expected to contribute to preserving the strong capital positions of banks.



unchanged during the fourth quarter, but in December the ECB took additional measures to maintain favorable financial conditions during the COVID-19 pandemic. Significant changes in the monetary instrument include increase in the amount of the securities redemption program for immediate economic due to the pandemic of Euro 500 billion (at the level of Euro 1.850 billion), which will be implemented at least till March 2022 (previously, until June 2021), then change in the conditions within the third package of targeted long-term repo operations, extending the duration of favorable conditions for 12 months (until June 2022) and introducing three additional auctions, prolonging also the set of collateral relief measures (until June 2022). In addition, the ECB offered a fourth package of pandemic-related long-term repo operations, which will continue with the purchase of securities in the same amount of Euro 20 billion euro per month for a longer period of time, extending also the effectiveness of the ECB swap and repo lines with central banks outside the ESCB until March 2022. In addition, in order to maintain the stability of the financial system in the pandemic conditions, the ECB kept the recommendations for banks to be extremely cautious in case of dividend payments and repurchase of shares.<sup>8</sup> The Bank of Japan also did not change its interest rate (-0.1%), but announced that it will extend the implementation of additional measures to stimulate economic activity. Thus, the program for monetary easing through increased redemption of corporate securities will be applied for an additional six months, as well as the implementation of the special fund for facilitated financing of the private sector, so these programs would last until September 2021. At the same time, the purchase of government securities and the provision of domestic and foreign exchange liquidity for stabilization of the financial markets continued.



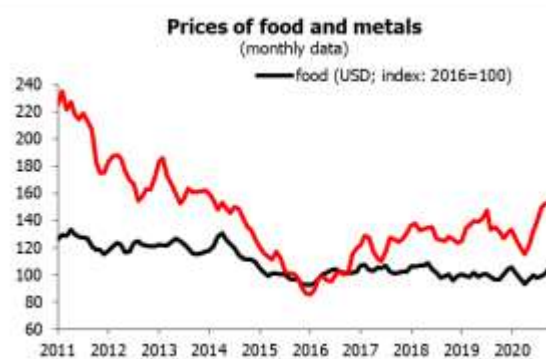
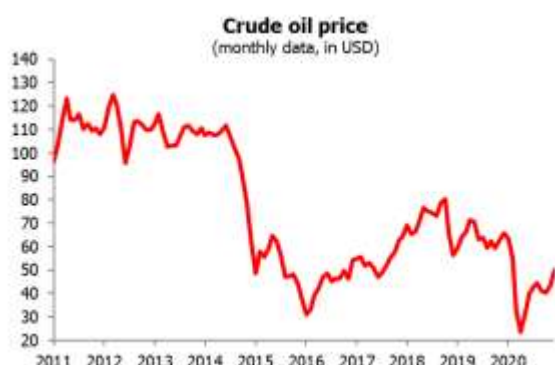
**In the last quarter of 2020, the value of the US dollar against the euro, on average, depreciated by 2% on a quarterly basis** and amounted to Euro 0.84. This change is largely due to the reduced demand for dollars, as a result of the optimism that prevails in the international financial markets after the information on the effectiveness of the COVID-19 vaccine and the start of vaccination in some developed countries, which increased the prospects for global growth. In addition, low US interest rates, as well as the prospect of an additional fiscal stimulus in the US due to the pandemic, had an impact on the downward movement of the US dollar. In such conditions, the value of the US dollar against the euro in December is the lowest since April 2018. On annual basis, in the fourth quarter, the value of the US dollar against the euro depreciated by 7.2%.

**In the fourth quarter of 2020 the oil price** increased slightly by 2% compared to the previous quarter, with the average price being Euro 37.3 per barrel. The increase in oil prices is largely due to the expectations for increased demand, amid intensified market optimism resulting from the announcement for high efficiency of several vaccines and the beginning of the vaccination process in late 2020 in some developed countries, with expectations for gradual normalization of the situation worldwide during 2021, as well as expectations for the resumption of limited production by OPEC + member

<sup>8</sup> The ECB called on banks to refrain from paying dividends or to limit payments until 30 September 2021 (previously until 27 March 2021), and recommended that if banks decide to pay dividends or repurchase shares, the amounts should be below 15% of the total cumulative profit of the banks in the period 2019-2020 and not to be higher than 20 bp. from the level of core capital.



countries. On an annual basis, the oil price continues to record severe drop, which in the fourth quarter of 2020 equaled 34.1%.



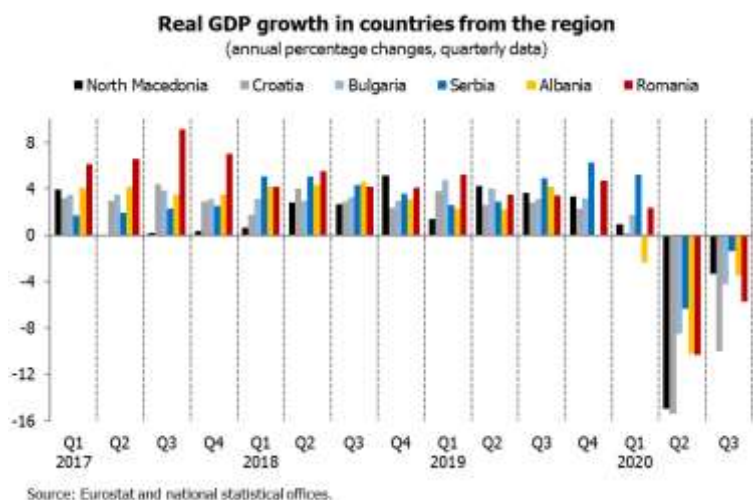
**The prices of non-energy primary products<sup>9</sup> (expressed in euros) in the period October - November 2020 increased by 3.9% compared to the previous quarter.** Analyzed by product groups, the growth is mostly due to the increase in food prices, while the growth of metal prices driven by the growth of basic metal prices, while precious metals registered a slight decline. The food price index<sup>10</sup> increased by 7.4% compared to the previous quarter, given the increase with most of the food products, within which cereals (relatively high growth in prices of corn and wheat), meat and vegetable oils have a significant contribution. The base metal index<sup>11</sup> increased by 4.4% compared to the previous quarter, which is due to the price growth of almost all metals, in conditions of solid industrial output in China, as well as certain deterioration on the supply side in South America due to the pandemic. **Annually, the prices of primary non-energy products denominated in euro, also increased by 6.5%.**

**In the third quarter of the year, a real annual decline in economic activity has been registered in the countries of the region, which is also more moderate compared to the decrease in the second quarter.** The slowdown in the decrease in the third quarter in these countries is largely due to the easing of restrictive measures aimed at preventing further spread of the pandemic, which in most of these countries contributed to the growth of domestic demand (mainly due to investments), but also for a relatively faster recovery of imports relative to the recovery of exports. The highest annual decrease was registered in Croatia (10%, after the fall of 15.4% in the second quarter), and the lowest in Serbia (1.4%, after the fall of 6.3% in the second quarter).

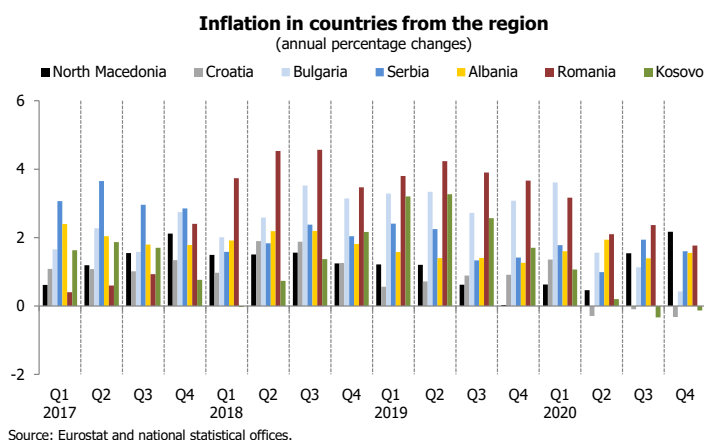
<sup>9</sup> This aggregate index includes the Precious Metals Index, the Food and Beverage Index, the Agricultural Raw Materials Index and the Basic Metals Index.

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

<sup>11</sup> This index includes the following metals: Aluminum, cobalt, copper, iron, steel, molybdenum, nickel, tin, uranium, and zinc.



**In the fourth quarter of 2020, there are different movements in the annual inflation rate in the countries of the region.** Thus, in conditions of slower growth of food prices, in Romania, Bulgaria and Serbia there is a slowdown in the average annual inflation rate, i.e. accelerated decrease in the price level in Croatia, compared to the third quarter. Acceleration of the annual inflation rate has been registered only in Albania, where higher growth is recorded in food prices, while in Kosovo the decline in the price level slowed down, amid accelerated growth of food prices and rising prices in the communications sector.



## 1.2. Domestic supply

***In the third quarter of 2020, the domestic economy registered a real decline of 3.3% on annual basis, which is a significant slowdown compared to the decline in the second quarter (of 14.9%). The temporary stabilization of the pandemic situation, both globally and in the domestic economy, and the gradual easing of the measures to prevent its spread, as well as the undertaken monetary and fiscal measures, contributed to such environment. From the production side, the decline in the third quarter is still widely dispersed, and its impact was the strongest in industry and activities of the group "trade, transport and hospitality", as sectors that were most economically affected in the previous quarter. However, in these sectors and in most***



*of the other activities, there is a significant slowdown in the annual decline in the third quarter. On the other hand, after the decline in the previous quarter, the value added in the construction sector and "information and communications" increased, and further positive contribution was registered in agriculture. Most of the available high-frequency data on the supply side for the fourth quarter of 2020 show an improvement compared to the performance in the third quarter, as well as a further slowdown in their decline on an annual basis. As for the managers' assessments of the enterprises' business conditions in the retail trade, construction, manufacturing industry and the services sector in the fourth quarter, they are more favorable compared to the third quarter. Regarding the expectations for the next period, further optimism and more favorable expectations are observed among the managers of the companies in the construction and manufacturing industry, and there are unfavorable expectations in the retail trade and the services sector.*

In the third quarter of 2020, the domestic economy registered a real decline of 3.3% on annual basis, which is a significantly smaller decline compared to the decrease of 14.9% in the second quarter. Observing the significant slowdown in the annual decline, high quarterly economic growth of 13.4% (seasonally adjusted) was registered. Such a situation was a reflection of the easing of restrictive measures that were taken in order to prevent the spread of the pandemic in conditions of temporary stabilization of the pandemic situation, both globally and in the domestic economy. The continuation of the activity of the export-oriented facilities with foreign capital (after the temporary interruption in the second quarter), the gradual adjustment of the behavior and habits of the entities (both companies and consumers) to the new situation, as well as the effect of the undertaken monetary and fiscal measures (especially measures related to private consumption support, more favorable credit lines for companies, job preservation, as well as deferred repayment of loan installments)<sup>12</sup>. Structurally speaking, in the third quarter, most of the activities registered a real annual decrease. The industry (predominantly manufacturing industry) and the activities from the group "trade, transport and catering" have the largest negative contribution, but the annual decline in these activities is significantly milder compared to the one in the second quarter. On the other hand, in the third quarter, the annual activities of agriculture, construction, as well as "information and communications" have real annual growth and consequently positive contributions to the total economic activity.

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

	annual growth rates, in %										
	2016	2017	2018	2019	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Agriculture	-0.4	-12.5	8.3	-0.3	-4.0	0.6	-1.2	1.9	2.5	4.0	5.2
Industry	-3.0	1.4	5.3	5.2	6.5	4.3	10.6	-0.1	-3.9	-25.1	-10.4
Manufacturing	-1.5	1.6	6.2	2.4	4.7	-0.8	4.1	2.2	-2.1	-30.5	-9.1
Construction	-2.8	1.6	-11.0	3.0	-14.9	4.6	8.9	7.5	1.4	-12.0	3.4
Trade and transport	8.7	7.1	5.0	4.8	-0.2	4.0	4.0	11.2	-1.5	-28.2	-2.3
Information and communication	7.2	7.6	-4.1	6.2	1.7	3.4	7.0	12.5	12.9	-3.5	3.3
Financial and insurance activities	1.5	1.9	2.6	0.1	-0.6	0.8	0.9	-0.7	0.3	-6.5	-1.0
Real estate activities	-3.2	-1.6	0.1	0.5	1.0	0.7	-0.7	1.1	5.0	-1.7	-1.3
Professional, scientific and technical activities	11.5	8.8	7.9	3.4	-0.4	3.5	5.2	5.5	-1.6	-2.8	-3.7
Public administration	3.5	-2.2	2.0	0.8	3.1	1.1	-0.6	-0.3	-1.6	-0.6	-1.3
Other service activities	7.2	3.1	6.6	4.2	-2.2	1.5	7.0	10.8	7.6	4.5	-6.6
<b>Gross Domestic Product</b>	<b>2.8</b>	<b>1.1</b>	<b>2.9</b>	<b>3.2</b>	<b>1.4</b>	<b>4.3</b>	<b>3.6</b>	<b>3.3</b>	<b>0.9</b>	<b>-14.9</b>	<b>-3.3</b>

\* From the release for GDP of 07.09.2020

Source: State Statistical Office and NBRNM calculations.

For more information about the adopted economic measures visit: <https://vlada.mk/ekonomski-merki-covid19> and <http://nbrm.mk/kovid-19-odgovor-na-narodnata-banka.nspx>



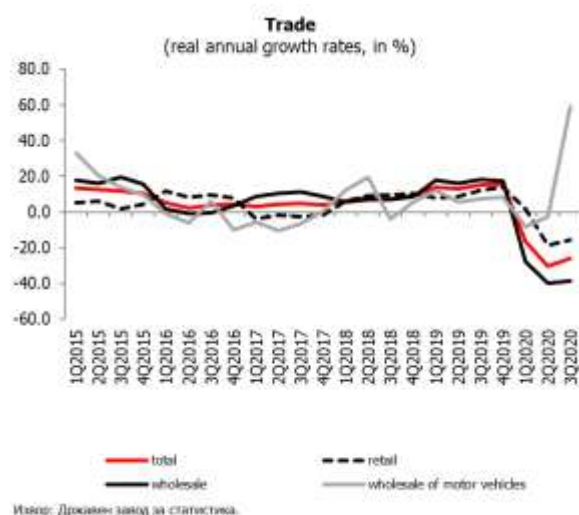
### GDP and components-Contributions to the GDP growth (in percentage points)

	contribution in GDP growth, in p.p.										
	2016	2017	2018	2019	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Agriculture	0.0	-1.1	0.7	0.0	-0.3	0.0	-0.1	0.2	0.2	0.3	0.4
Industry	-0.5	0.2	0.9	1.0	1.2	0.8	1.9	0.0	-0.7	-4.5	-1.9
Manufacturing	-0.2	0.2	0.8	0.3	0.6	-0.1	0.5	0.3	-0.3	-4.2	-1.2
Construction	-0.2	0.1	-0.7	0.2	-0.6	0.2	0.5	0.5	0.0	-0.6	0.2
Trade and transport	1.6	1.3	1.0	0.9	-0.1	0.8	0.8	2.1	-0.3	-5.7	-0.5
Information and communication	0.2	0.2	-0.1	0.2	0.1	0.1	0.2	0.4	0.5	-0.1	0.1
Financial and insurance activities	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0
Real estate activities	-0.4	-0.2	0.0	0.1	0.2	0.1	-0.1	0.0	0.6	-0.2	-0.1
Professional, scientific and technical activities	0.4	0.3	0.3	0.1	0.0	0.1	0.2	0.2	-0.1	-0.1	-0.1
Public administration	0.4	-0.3	0.2	0.1	0.4	0.1	-0.1	0.0	-0.2	-0.1	-0.2
Other service activities	0.2	0.1	0.2	0.1	-0.1	0.0	0.2	0.3	0.2	0.1	-0.2
<b>Gross Domestic Product</b>	<b>2.8</b>	<b>1.1</b>	<b>2.9</b>	<b>3.2</b>	<b>1.4</b>	<b>4.3</b>	<b>3.6</b>	<b>3.3</b>	<b>0.9</b>	<b>-14.9</b>	<b>-3.3</b>

\*From the release for GDP of 07.09.2020

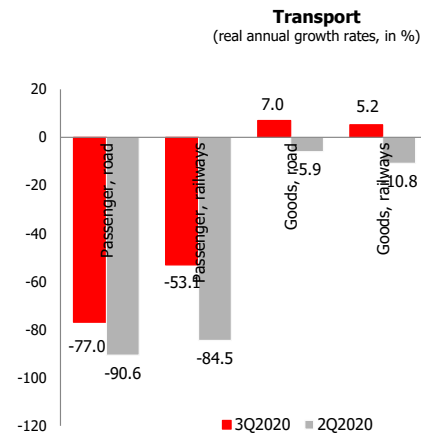
Source: State Statistical Office and NBRNM calculations.

In the third quarter, trade continued recording a high real decrease on an annual basis, but it was smaller compared to the one in the second quarter. The decrease in trade is almost entirely due to pandemic developments and their impact on disposable income. By turnover type, decline in turnover has been registered in wholesale and retail trade, but the decline in both types of trade is slightly lower compared to the one in the second quarter. On the other hand, the trade in motor vehicles registered a high real annual growth in the third quarter, despite the slight decline in the second quarter. In the period October - November, **total trade turnover** registered a real fall of 24.1% on an annual basis, reflecting the still unfavorable performances in the wholesale and retail trade, while the trade in motor vehicles registered a high real growth. However, the fall in the total trade turnover, as well as in the wholesale and retail trade, is milder compared to the fall registered in the third quarter. The assessments of the managers of the enterprises in the "retail trade" sector for their turnover during the fourth quarter are more favorable compared to the assessments from the previous quarter. As for the expectations for the next period, in terms of orders, prices and the number of employees in the "retail" sector, they are lower than in the previous quarter.

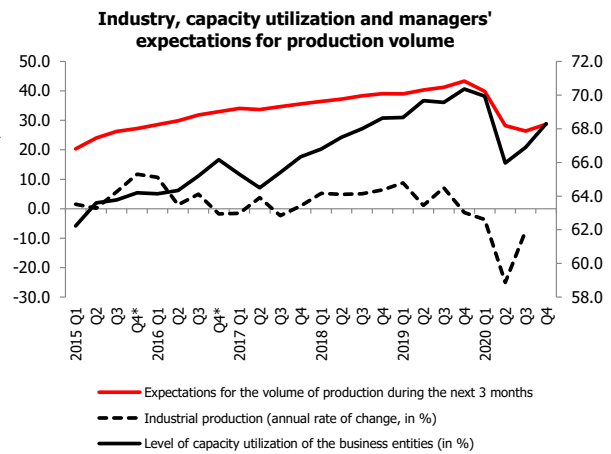




As for the **transport**, unlike the previous quarter when there was an annual fall in the activity in all types of transport, the third quarter registered significant slowdown in the fall in several types of transport and growth in freight transport. Such movements are in accordance with the relaxation of the restrictions in the movement of the population, both locally and internationally related to the pandemic in this period. Observed by types of transport, a more moderate annual fall in the activity in the third quarter compared to the fall in the previous quarter was registered in passenger air, passenger road, passenger rail, and cargo aviation traffic. On the other hand, in the third quarter activity growth was recorded in freight road and rail transport (as opposed to the fall in the second quarter).

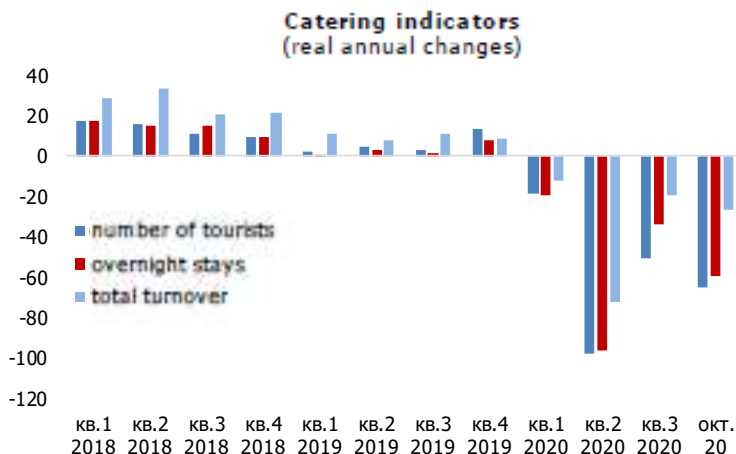


Source: State Statistical Office.



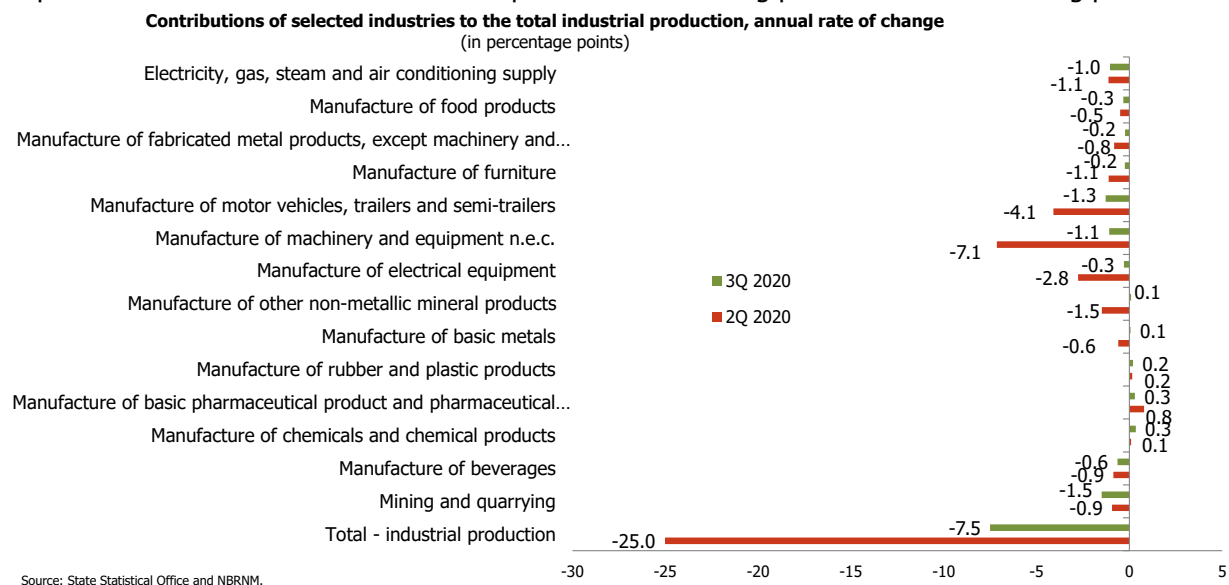
Source: State Statistical Office.

In **catering**, also in the third quarter there is a real annual fall in the number of tourists, overnight stays, as well as total turnover, but the decline in all three categories is significantly milder compared to the fall in the second quarter. Such slowdown is almost entirely due to the favorable movements in the number and overnight stays of domestic tourists, partially as a result of the government measures for support of the domestic tourism, as well as the relaxation of the measures for dealing with the COVID-19 pandemic. In October 2020, catering registered a real annual fall in the number of tourists, overnight stays, as well as total turnover and the decline in all three categories is rougher compared to the third quarter. Such deepening in October is almost entirely due to the fall in the number and overnight stays of domestic tourists (after their growth in the previous quarter) partially as a result of the exhausted effects of the measures for support of the domestic tourism. The perceptions of corporate managers in the services sector for their business situation and demand in the fourth quarter are more favorable compared to the perceptions of the previous quarter. As for the expectations for the coming period in terms of the demand for this sector, they are weaker compared to the previous quarter.





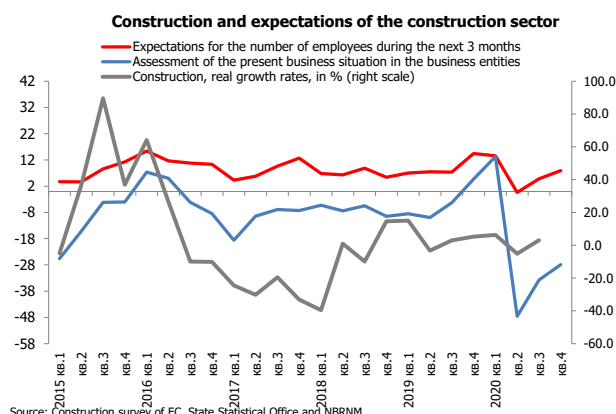
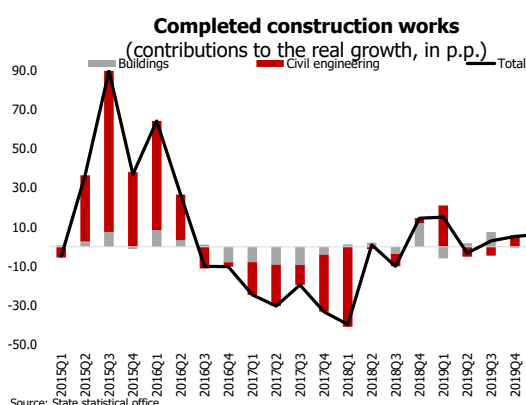
**In the third quarter of the year, industrial output registered a decline in the activity, but it is significantly smaller compared to the decline in the second quarter.** These achievements are predominantly a reflection of the gradual relaxation of the undertaken restrictive measures whose objective was to prevent further spreading of the infection and the gradual normalization of the activity of the most affected industrial facilities. Analyzed by activities, through the industrial output index<sup>13</sup>, the negative contribution of the manufacturing industry is still the most dominant, and a smaller negative contribution is also made by the mining and the energy sectors. The fall in the third quarter within the manufacturing industry is still widely dispersed, and the most pronounced negative contribution is made by the group of activities in which the foreign export facilities related to the automotive industry are active, such as the production of motor vehicles and the production of machines and devices, and a negative contribution is also registered in the production of electrical equipment. In traditional activities, a more significant negative contribution in the third quarter is registered in the production of beverages, the production of clothing and the production of food products. On the other hand, activities within the manufacturing industry that registered the largest positive contribution include "production of chemicals and chemical products", "production of basic pharmaceutical products and pharmaceutical preparations" and "production of rubber and plastic products"<sup>14</sup>. Moreover, the significant slowdown in the annual fall in the industrial output in the third quarter is mainly due to the more moderate fall in the activity in the manufacturing industry, i.e. mainly from the activities related to the automotive industry. Thus, a slowdown in the fall was registered in the production of machines and devices, motor vehicles and electrical equipment, as well as in the production of clothing, textile and furniture, while the production of other non-metal minerals, the production of metals and the production of tobacco products registered growth as opposed to the fall in the second quarter. In the period October-November, industrial output decreased by 4.5% on an annual basis (deceleration compared to the fall of 7.5% in the third quarter). Observed by main industrial activities, the largest drop and consequently the highest negative contribution is still registered in the manufacturing industry, while a minor negative contribution is registered in the energy sector. On the other hand, mining sector made a small positive contribution. The managers of the industrial sector have more favorable perceptions about the trend of production registered in the fourth quarter compared to the previous quarter, as well as better and more optimistic expectations in terms of the movement of production and selling prices for the forthcoming period.



<sup>13</sup> The analysis of trends in industry uses data on the SSO's monthly data for the industrial output indices.

<sup>14</sup> Other activities within the manufacturing industry that registered a positive contribution in the third quarter include "processing of wood, wood and cork products, other than furniture, production of objects of straw and wicker material", "production of computer, electronic and optical products", "production of other non-metal mineral products", "production of tobacco products" and "production of metals".

Following the reduction registered in the second quarter, the construction sector registered a real annual growth in the third quarter, which is one of the sectors (together with agriculture and information and communications), that have registered positive developments. On the basis of the high-frequency data, in the third quarter, completed construction works registered a real annual growth (as opposed to the fall in the second quarter), which was entirely due to the developments in building construction. On the other hand, in the third quarter, civil engineering registered a real annual fall, which, in circumstances of quarterly growth in the activity, was due to the high base effect related to the intensification of the construction activities in the part of the road infrastructure in the third quarter of 2019. In October 2020, the construction sector registered a real annual growth of 7.4%, which is an acceleration in the growth compared to the third quarter (growth of 3%). Moreover, the growth in October is entirely due to the growth of the activity in the part of civil engineering, amid real annual fall in building construction. The perceptions of corporate managers in the construction sector for the movement of their construction activity in the fourth quarter are more favorable, compared to the previous quarter. Also, the expectations for the total number of orders and the number of employees for the period ahead registered a slight improvement and gradual return of the optimism, while prices registered somewhat weaker expectations.

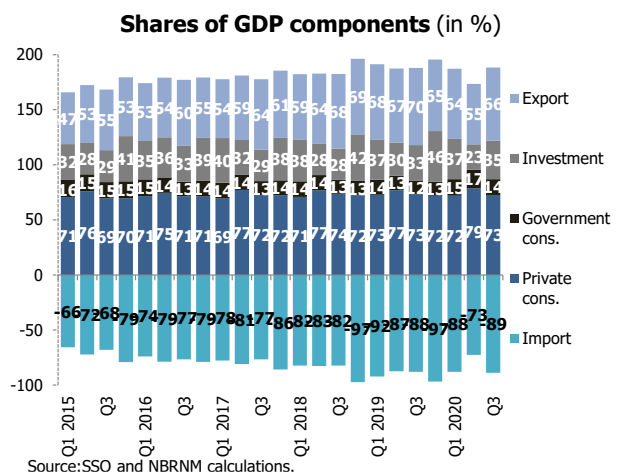
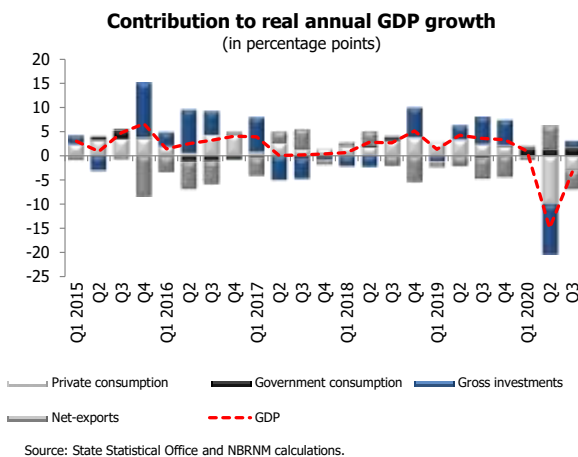


### 1.3. Aggregate demand

*In terms of demand, the significant slowdown in the annual GDP fall of 3.3% in the third quarter of 2020 comes from the growth of domestic demand, which is mostly due to the growth of gross investments (after the sharp decline in the previous quarter), to the accelerated growth in public consumption and to the more moderate fall in private consumption. Such movements of domestic demand components reflect the gradual adjustment of the behavior and habits of the entities to the new situation and the effect of the undertaken monetary and fiscal measures. Also, a slowdown in the fall was registered in the export and import of goods and services, given the gradual normalization of the activity of the export capacities with foreign capital. However, in conditions of a faster recovery of the imports, net exports in the third quarter of 2020 made a negative contribution to GDP.*



Structural analysis of the components of GDP<sup>15</sup> in terms of demand shows that the fall in the third quarter is entirely explained by the negative contribution of net exports, while domestic demand made a small positive contribution. Such performances in the economy in this quarter mainly reflect the reduced restrictive measures, the continuation of the work of the export-oriented facilities with foreign capital, as well as the gradual adjustment of the behavior and habits of the entities to the new situation and the undertaken monetary and fiscal measures. In terms of individual components, public consumption registered rapid growth which is mainly due to the increased support to the health sector from the government due to the COVID-19 pandemic, and after the sharp decline in the previous quarter, solid growth this quarter was also registered in gross investments. Shifts in investments correspond to the changes in the value added in construction, which increased. On the other hand, private consumption also in the third quarter registered a decline, although significantly smaller compared to the previous quarter, which can be associated with the effect of the undertaken measures for support of private consumption and the keeping of the jobs. A slowdown in the fall was registered in both the export and the import of goods and services. However, in conditions of a more moderate fall in the import than the fall in the export of goods and services, net exports made a negative contribution.



	Real annual growth rates (%)												Contributions to real annual growth (in p.p.)**											
	2015	2016	2017	2018	2019	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3	2015	2016	2017	2018	2019	2019-Q1	2019-Q2	2019-Q3	2019-Q4	2020-Q1	2020-Q2	2020-Q3
Private consumption	4.4	3.9	2.1	3.7	3.5	4.0	4.3	3.1	2.7	-0.3	-13.0	-4.1	3.1	2.7	1.4	2.5	2.3	2.6	2.9	2.1	1.8	-0.2	-8.9	-2.7
Government consumption	3.9	-4.9	-2.6	1.5	-0.8	-1.4	-0.4	-3.2	1.7	10.7	9.8	13.5	0.7	-0.8	-0.4	0.2	-0.1	-0.2	-0.1	-0.4	0.3	1.6	1.4	1.8
Exports of goods and services	8.5	9.1	8.3	12.8	7.2	17.1	10.1	6.8	-2.3	-5.9	-30.8	-8.4	4.0	4.4	4.2	7.1	4.4	9.4	6.0	4.3	-1.5	-3.7	-19.1	-5.4
Imports of goods and services	9.9	11.1	5.2	10.7	8.9	13.5	10.2	10.8	2.8	-3.7	-29.4	-2.4	-6.5	-7.2	-3.4	-7.4	-6.4	-9.4	-7.2	-7.5	-2.1	2.9	21.6	1.7
Gross capital formation	8.3	12.5	-2.2	1.7	9.5	-2.7	10.2	20.2	12.0	1.0	-34.4	4.2	2.5	3.8	-0.7	0.5	3.1	-0.9	2.7	5.3	4.9	0.3	-9.8	1.3
Domestic demand	5.4	5.1	0.3	2.9	4.7	1.3	5.2	6.6	5.7	1.3	-15.9	0.0	6.3	5.6	0.3	3.2	5.3	1.4	5.5	6.9	6.9	1.8	-17.4	0.3
Net exports*	14.1	16.7	-2.7	4.9	13.8	4.3	10.7	29.3	15.1	2.6	-24.8	20.9	-2.4	-2.8	0.8	-0.3	-2.1	0.0	-1.2	-3.3	-3.6	-0.9	2.5	-3.7
Statistical discrepancy													0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>GDP</b>	<b>3.9</b>	<b>2.8</b>	<b>1.1</b>	<b>2.9</b>	<b>3.2</b>	<b>1.4</b>	<b>4.3</b>	<b>3.6</b>	<b>3.3</b>	<b>0.9</b>	<b>-14.9</b>	<b>-3.3</b>	<b>3.9</b>	<b>2.8</b>	<b>1.1</b>	<b>2.9</b>	<b>3.2</b>	<b>1.4</b>	<b>4.3</b>	<b>3.6</b>	<b>3.3</b>	<b>0.9</b>	<b>-14.9</b>	<b>-3.3</b>

\*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.

<sup>15</sup> The quarterly changes of the GDP and its components are calculated using seasonally adjusted data.

### 1.3.1. Private consumption

**The relaxation of the restrictive measures for preventing the spread of the coronavirus, the gradual adjustment of the behavior and habits of consumers to the new situation, as well as the effect of the undertaken economic measures for support of private consumption<sup>16</sup> led to a slowdown in its decline in the third quarter. In such conditions, private consumption in the third quarter of 2020 registered a real quarterly growth of 10.5%, and the real annual fall slowed down to 4.1% (fall of 13% in the previous quarter).** However, also during the third quarter, the fall in the disposable income continues to deepen, but at a moderate pace, which similar to the previous quarter is mainly a consequence of the reduced inflows from private transfers, in conditions of still present global uncertainty and reduced movement of the population at the international level due to the pandemic. On the other hand, the growth of the wage bill<sup>17</sup>, pensions, as well as of the bank lending to households, continued. An additional contribution to the slowdown in the fall in private consumption was also made by the undertaken fiscal measures aimed at keeping the jobs and supporting the disposable income, and by the deferred payment of the loan installments.

Indicators of the movements in **private consumption**<sup>18</sup> generally point to a deceleration of the annual fall in the fourth quarter of the year. Thus, a further deceleration in the fall in this period is registered in gross revenues from VAT and retail trade, although minimal. Also, there are favorable funding sources of private consumption, where the solid growth in almost all components of disposable income (growth of the pension and real wage bill) continues, and the growth in household loans continues as well. On the other hand, the results of the Bank Lending Survey from December show a slight net easing of the overall credit conditions and a further net reduction of the demand for total household loans. Domestic production of consumer goods and import of consumer goods registered somewhat more substantial fall compared to the third quarter. As for the consumer confidence indicator<sup>19</sup>, it suggests an increase in the pessimism in the fourth quarter, relative to the third quarter (more negative perceptions and expectations regarding the financial and general economic situation in the country and their spendings in the period ahead), partly as a result of the occurrence of the second wave of the COVID-19 pandemic and the reintroduction of restrictive measures.

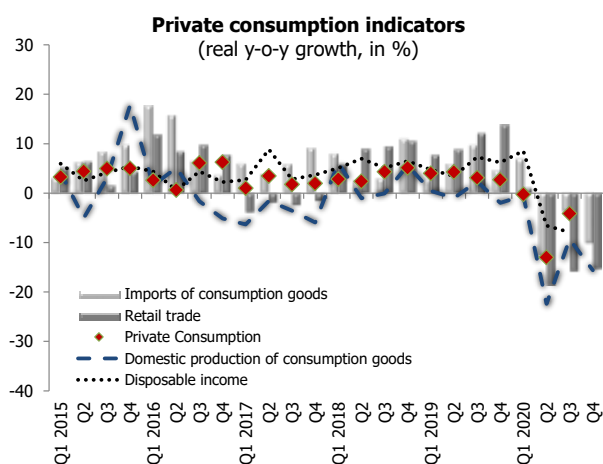
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<sup>16</sup> The third package of economic measures of the Government for revival of the Macedonian economy through direct support to the citizens and the economy in conditions of COVID-19, provided for awarding a domestic payment card to selected categories of citizens, totaling Euro 28 million. The deadline for using these funds was 15 August 2020. For more information please visit: <https://vlada.mk/node/21426> and <https://finance.gov.mk/mk/node/8798>.

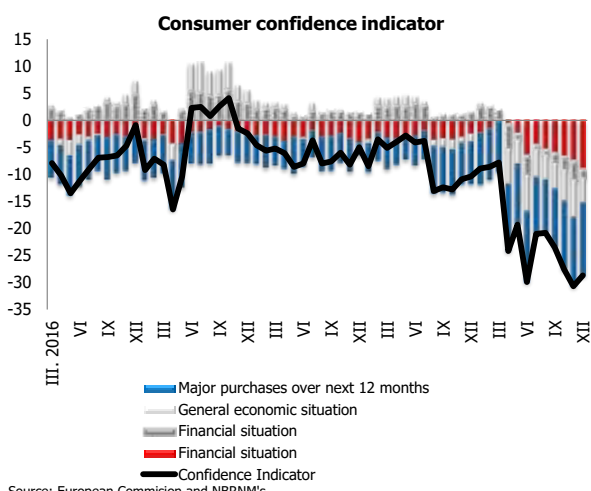
<sup>17</sup> The wage growth during the third quarter is mainly a spillover effect of the increase in the wages in the public sector, the effect of the measure for subsidizing contributions due to wage increase, coupled with the effect of the annual adjustment of the growth of the legally determined minimum wage in July 2020. However, there is still a reduction of the wages in the activities related to "accommodation facilities and catering services" as one of the most affected activities by the covid crisis (for more details, see section 1.3. Employment and wages).

<sup>18</sup> From the indicators for personal consumption, data on turnover in retail trade, pensions, domestic production of consumer goods, imports of consumer goods and household loans refer to the period October - November 2020, while net wages are as of October 2020.

<sup>19</sup> European Commission's Consumer Survey as of December 2020. The chart shows the consumer confidence index as a net percentage of responses. This index is an integral component of the total index of economic confidence. Starting from January 2019, the European Commission revised the structure of consumer confidence indicator, and accordingly, the composite indicator of economic confidence. For more information on the new methodological changes visit: [https://ec.europa.eu/info/files/revised-consumer-confidence-indicator\\_en](https://ec.europa.eu/info/files/revised-consumer-confidence-indicator_en). In its press release from 23 March 2020, the European Commission pointed out that due to the coronavirus, the data collection period in most of the countries stopped earlier than usual. Only about 15% of the consumers' responses were provided after the introduction of the tough restrictive measures by the individual countries.



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

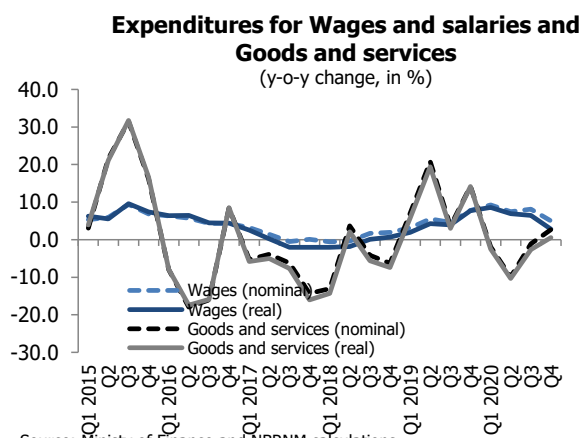


Source: European Commission and NBRNM's

### 1.3.2. Public consumption

During the third quarter of 2020, public consumption continued to grow. Namely, amid quarterly increase of 1.5%, the annual growth of public consumption accelerated to 13.5%, whereby it was the component with the highest individual positive contribution to the changes in GDP in the third quarter. According to the budget data, the annual growth was supported by the growth in almost all categories of public consumption, with the exception of the expenditures on goods and services, which also this quarter declined, but at a more moderate pace. Thus, there are higher health care transfers, given the increased support to the health sector from the government due to the COVID-19 pandemic, and in this period the transfers to the local authorities and the expenditures on salaries also grow, although slower.

Budget performances in the period October-November 2020 point to a more moderate annual growth of **public consumption** in the fourth quarter, amid a slower growth in most of the main categories of public consumption, such as the health care transfers, the transfers to the local authorities, the Employment Service Agency and the expenditures on salaries. Unlike the past three quarters, in the period October-November, small growth was registered in the expenditures on goods and services, while the transfers to the Pension and Disability Insurance Fund of North Macedonia decreased.

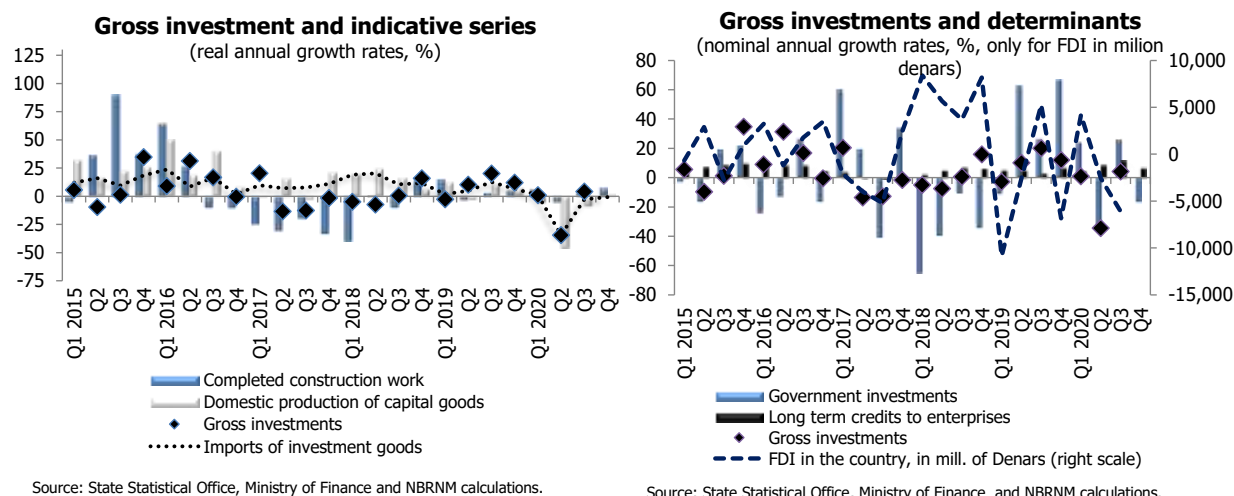


Source: Ministry of Finance and NBRNM calculations.  
The calculations include expenditures of Consolidated Budget of Central Government and Funds, deflated by CPI.

### 1.3.3. Investment consumption

**Following the sharp double-digit decline in the second quarter of 34.4%, in the third quarter of 2020, gross investments registered an annual growth of 4.2% (quarterly growth of 70.4%).** Such movements in gross investments correspond with the growth of value added in the construction sector, amid growth of the value of completed construction works, and growth is registered also in government capital investments. The continuation of the activity primarily of the export-oriented facilities with foreign capital, also contributed to a significant slowdown in the fall in the import of machines and equipment in this period, which is also an important component of the investments in fixed assets. The growth of gross investments was additionally supported by banks through long-term corporate loans, which grew rapidly in the third quarter. However, despite the reduced restrictive measures and the undertaken economic measures for dealing with the virus, the great uncertainty globally decreased foreign direct investments also in the third quarter, and fall was recorded also in corporate tax<sup>20</sup>.

The high-frequency data on the **gross investments**<sup>21</sup> in the period October-November 2020 mainly indicate more favorable movements. Thus, the dynamics of the growth in construction accelerates, and after the fall in the previous quarter, growth is also registered in domestic production of capital goods and corporate tax. At the same time, the growth of long-term lending to enterprises by banks continues, but at a slower pace. The results of the Bank Lending Survey for the fourth quarter point to further net tightening of the overall credit conditions and more moderate net reduction of the demand for corporate loans. At the same time, in this period, the fall in both the import of means of work and in the industrial output slowed down. On the other hand, government capital investments declined, following the growth in the previous quarter.



### 1.3.4. Net external demand

**In the third quarter of 2020, net exports contributed to the GDP fall, in conditions of sharper decline in the export relative to the fall in the import of goods and services.** Namely, the third quarter registered a gradual recovery of foreign trade, after the initial strong shock caused by

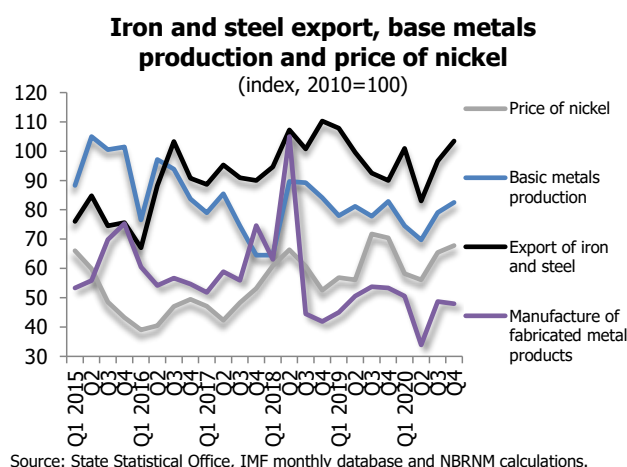
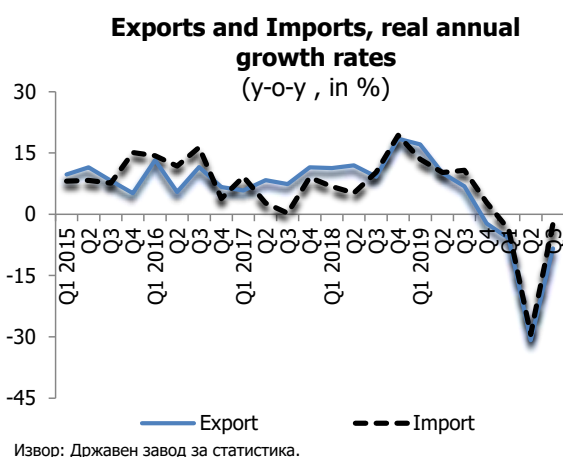
<sup>20</sup> Related to the measure adopted from the beginning of the crisis for release from payment of corporate tax advance for all companies that are affected by the virus and that meet the required conditions (the company not to reduce the number of employees below the number of employees from February 2020, not to have paid dividends in 2020 and not to have paid remunerations and bonuses after the entry into force of the measure). The fourth package of measures provides for an extension of this measure until March 2021, for companies that reported a decline in their income larger than 40%.

<sup>21</sup> Data on completed construction works are as of October 2020, while data on long-term corporate loans, government capital investments, industrial production, imports of investment goods and domestic production of capital goods refer to the period October-November 2020.



the pandemic in the second quarter. Following the sharp annual decline of 30.8% in the export activity in the second quarter of 2020, in the third quarter there was a significant slowdown in the decline, which reduced to 8.4% (amid quarterly growth of 30.5%). Analyzing the high-frequency foreign trade statistics, such performances on the export side are the result of the improved activity of some of the export-oriented facilities with foreign capital which were initially hard hit by the pandemic, as well as of some of the traditional sectors. The improvements on the export side, complemented with the growth of domestic demand, influenced the faster recovery of imports, whereby its annual fall reduced to 2.4% (amid quarterly growth of 41.4%).

**Foreign trade** data in the period October-November 2020 indicate potential deficit narrowing in the fourth quarter of the year compared to the same period last year, in conditions of a nominal annual growth of the export contrary to the fall in the import of goods.



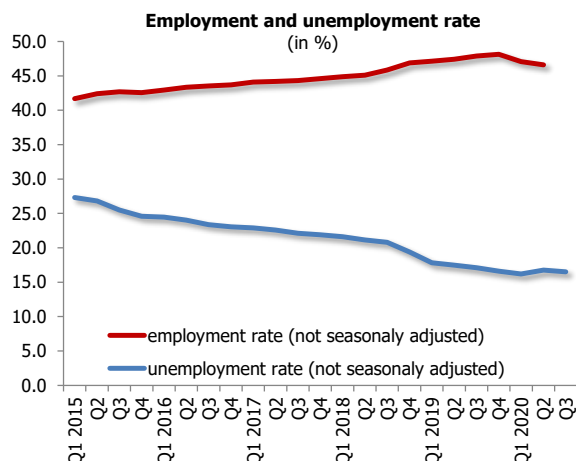
## 1.4. Employment and wages

***Given the movement of the economic activity in the third quarter, there are some improvements also in certain labor market indicators. However, the presence of the COVID-19 pandemic continues to adversely affect the shifts on this market segment. Thus, the number of employees continued to decline, registering an annual fall of 1.7% in the third quarter. On the other hand, the reduction of unemployed persons also continued, at a rate of 5.5%, which reflected on an increase in the inactive population and a decrease in the unemployment rate which reduced to 16.5% (16.7% in the previous quarter). The business tendency surveys point to moderately worsened expectations of corporate managers regarding the new employments for the fourth quarter, compared to the expectations for the previous quarter, while for the next period the expectations in this domain are generally unchanged. In terms of labor supply, the reduction of the active population, which started in the second quarter in times of crisis caused by COVID-19, continued also in the third quarter. Observing the competitiveness indicators, there is a significant slowdown in the fall in labor productivity, and the growth in unit labor costs significantly slows down as well.***

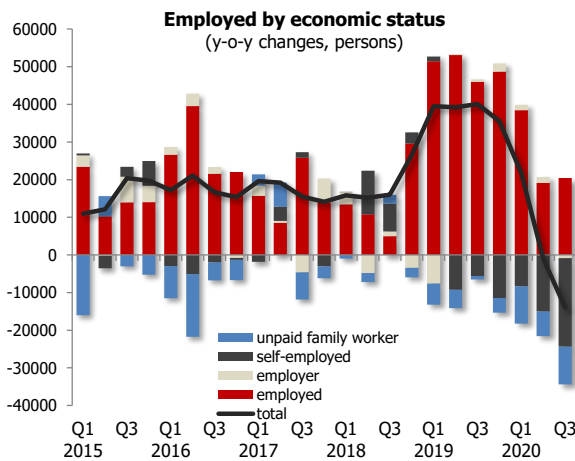
The effect of the health and economic crisis caused by the COVID-19 pandemic reflected on the labor market also in the third quarter of the year, leading to a further, but



**still moderate reduction in the number of employees** (by 1.7%, on an annual basis and by 0.7%<sup>22</sup>, on a quarterly basis). Analyzed by individual activities, the largest contribution to the fall in employment is that of the activities related to "agriculture, forestry and fishing", then "water supply, water waste removal, waste management and environment", "construction", "manufacturing industry", and activities related to "administrative and auxiliary services". In terms of the economic status<sup>23</sup>, the fall in the number of employees is explained by the category "own-account workers" and the category "unpaid family workers". Otherwise, in order to keep the jobs in times of crisis, several measures during March<sup>24</sup> were adopted, as well as during September 2020<sup>25</sup>.



Source: State Statistical Office, Labour Force Survey.



Source: State Statistical Office, Labour Force Survey.

**The employment rate continued to fall and it amounted to 46.6% in the third quarter of 2020**, which is an annual decrease of 0.8 percentage points. **The aggregated signals from business tendency surveys<sup>26</sup> mainly suggest moderately downward expectations** among managers of the business entities in terms of the employment expectations in the fourth quarter, in conditions of reintroduction of the restrictive measures from the second COVID-19 wave, although less rigorous compared to the previous ones. Also, for the coming period, the expectations for increasing the

<sup>22</sup> Analysis of quarterly dynamics of employment, unemployment and total active population is made by using seasonally adjusted data.

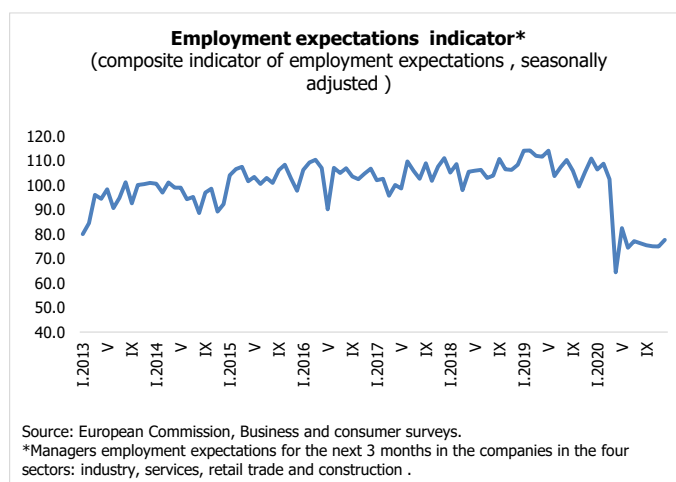
<sup>23</sup> The classification by economic status applies to the following groups: **employers** - persons who operate their own business entity or engages independently in their own shop, or farm owners who hire other employees; **employees** - persons who work in government institutions, business 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>24</sup> At its 32nd meeting from 30 and 31 March 2020, the Government adopted the second package of economic measures for dealing with the crisis in order to save as much as possible the jobs of the citizens and to help the economy (<https://vlada.mk/ekonomski-merki-covid19>). From them, the first three measures: measure 1 - the government saves jobs, Denar 14,500 per month per employee for April and May, for companies hit by the crisis or 50% of the costs for contributions for each employee; measure 2 - assistance for athletes - Denar 14,500 for April and May, direct funds for athletes and sports workers in order to keep their jobs; measure 3 - assistance for artists, provide direct support to the most vulnerable segments in order to minimize the damage from the corona crisis and save as many jobs as possible.

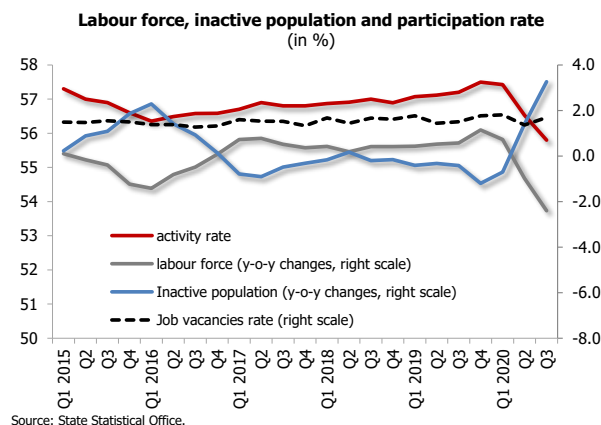
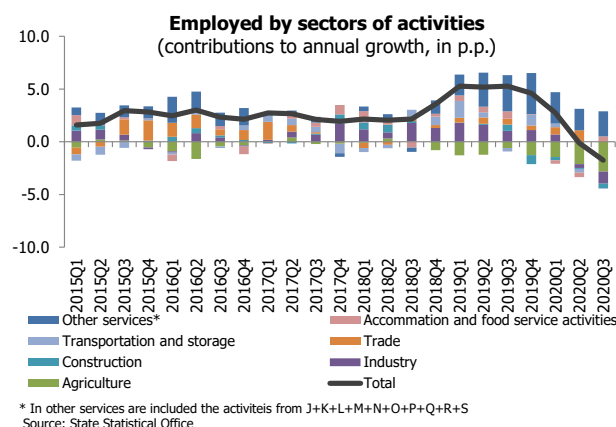
<sup>25</sup> The fourth package of measures adopted on 27 September 2020 extended the support for the payment of wages for October, November and December 2020. Novelty in this measure is that the support will be determined gradually given the fall in the revenues of the companies. The larger the decline in the revenues in the companies covered by this measure, the greater the support from the government for the payment of wages and it will range from the current Denar 14,500 to Denar 21,776. The new methodology for government aid for payment of wages will support 83,000 jobs, on a monthly basis, i.e. a total of 250,000 wages for the last quarter. The value of this measure is Euro 70 million in order to exercise the right to it, the companies that will apply must maintain the number of employees as of 31 July 2020. This measure also applies to self-employed individuals, i.e. sole proprietors, persons performing agricultural activity, craft activity and persons providing other services.

<sup>26</sup> Source: European Commission, Business Tendency Surveys, employment expectations in the next 3 months in industry, services, retail trade and construction (surveys conducted in October, November and December 2020).

number of employees remain generally unchanged, in conditions of spreading of the second COVID-19 wave, both in our country and globally.



In the third quarter of 2020, **the job vacancy rate<sup>27</sup> equals 1.5%** (1.5% in the respective quarter of 2019). The job vacancy rate has been relatively stable for a long time, which indicates a possible improvement of the process of connection of the supply of with the demand for skills in the labor market. Observed by sectors, the highest rates of vacancies were observed in "accommodation facilities and catering services" (4.7%), and similar to the previous quarter high rates were also registered in "mining and quarrying" (4.2%), in the activities "administrative and auxiliary services" (3.2%), "information and communications" (2.4%), "transport and storage" (2.1%), as well as in construction (2%).



**Similarly as in demand, also in labor supply in the third quarter of 2020 the downward adjustment started from the previous quarter when the effects of the crisis caused by COVID-19 were felt, continued.** Namely, in the third quarter, the total labor force decreased by 2.4% annually, while the activity rate equaled 55.8% (56.5% in the previous quarter).

<sup>27</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 placement of these two indicators gives information on labor market performance in terms of potential mismatches between demand profiles and those available on the job market at a given moment (skill mismatches). In particular, if both indicators are moving simultaneously, they are temporary, cyclical fluctuations, while in the case of the unemployment rate decreasing, with a stable vacancy rate, these are structural changes, that is, improving the efficiency of the labor market.



**The sharper annual decline in labor supply relative to the decline in demand in the third quarter of 2020 led to a further decline in unemployment.** Thus, the number of unemployed in the third quarter decreased by 5.5% on an annual basis (decline of 5.1% in the previous quarter), while the unemployment rate was 16.5% (annual reduction of 0.6 percentage points). In circumstances of reduction of the number of employees, this movement of the unemployment rate is entirely a result of the increase in the inactive population (growth of 3.3% on an annual basis).

**The average net and gross wages paid in the third quarter marked a further annual growth.** Thus, net and gross wages in the third quarter registered an annual growth of 8.6% and 9.1%<sup>28</sup>, respectively, (in the previous quarter growth of 5.1% and 5.7%, respectively). The wage growth, as in the previous period, mainly reflects the increase in the legally determined minimum wage<sup>29</sup>, the increase in the wages in the public sector<sup>30</sup>, as well as the effect of the measure for subsidizing contributions due to wage increase<sup>31</sup>. Moreover, wage growth was registered in most of the economic activities, and the growth was highest in the activities related to health and social work, "arts, entertainment and recreation", education and agriculture. Also, a significant growth was registered in trade, manufacturing industry and information and communications. On the other hand, a decrease is registered only in one category, specifically "accommodation facilities and catering services", which is one of the most affected activities by the COVID-19 pandemic. In the third quarter, given the growth of consumer prices of 1.5%, **the real annual growth of net and gross wages was 7% and 7.5%, respectively.** In October 2020, the nominal annual growth of the average net wage was 8.4%, which is a slight slowdown in the growth relative to the annual growth registered in the third quarter.

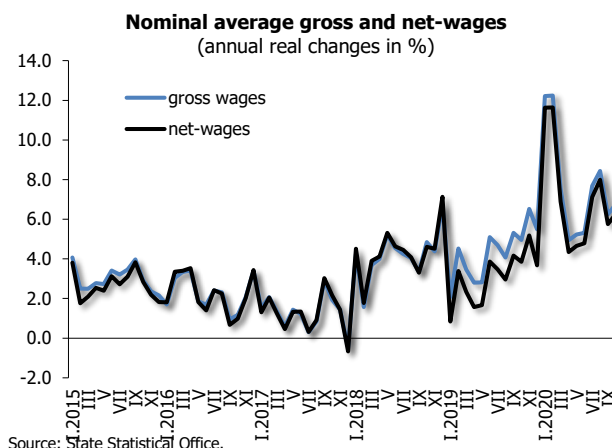
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<sup>28</sup> The faster increase in gross wages compared to net wages is a result of the increase in the rates at which contributions for compulsory pension and disability insurance and compulsory health insurance are paid. The rates at which contributions are paid in 2020 are 18.8% for compulsory pension and disability insurance and 7.5% for compulsory health insurance (previously these rates were 18.4% and 7.4%, respectively).

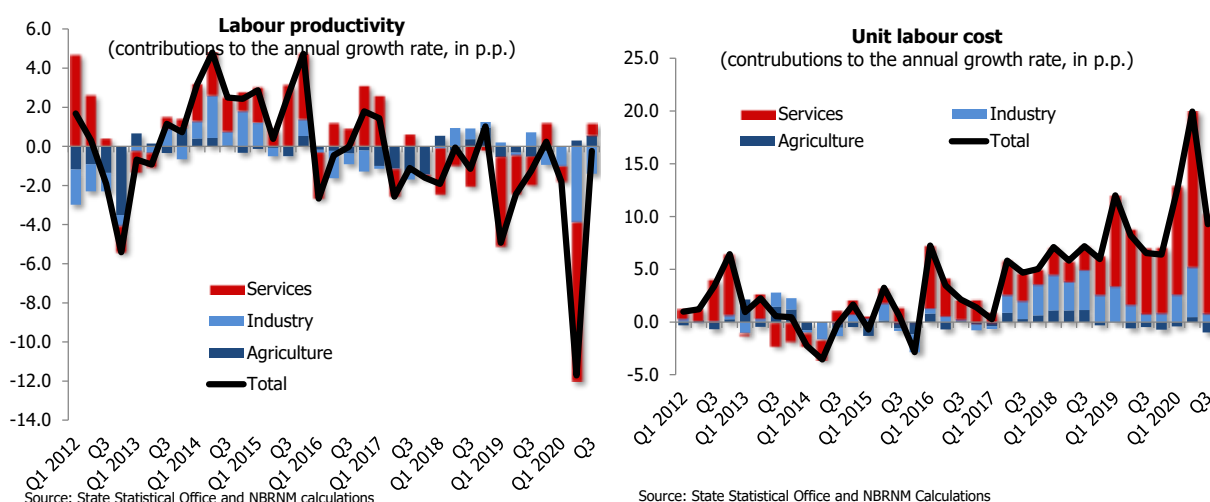
<sup>29</sup> According to the announcement of the Ministry of Labor and Social Policy, issued in the Official Gazette of the Republic of North Macedonia No. 75/20 and the Decree with legal force on the enforcement of the Law on Minimum Wage in the Republic of Macedonia Official Gazette of the Republic of North Macedonia No. 88/20, the minimum net wage in July 2020 increased by 3%, i.e. by Denar 434. The minimum wage in gross amount, starting from July 2020 to March 2021 is Denar 21,776 (previously Denar 21,107), i.e. the minimum wage in net amount is Denar 14,934 (previously Denar 14,500). The regular adjustment for increasing the minimum wage (with the increase for the previous year of the average wage paid in the RNM, the consumer price index and the real GDP growth - one third of the growth of each indicator, respectively) was made even before the crisis caused by the COVID-19 pandemic, but with a Decree, the Government put it under moratorium until the end of the state of emergency (i.e. for the period April-June 2020). Previously, in addition to the regular adjustment in April 2019, the minimum wage was extraordinarily increased in December 2019 (by about Denar 2000, net) and amounted to Denar 14,500, net (Law on Minimum Wage, Official Gazette of the Republic of North Macedonia No. 239/19).

<sup>30</sup> The wages of health workers were increased by 5%, starting with the payment of the September wage in 2019. The wages of social workers were also increased by 5% with the payment of the September wage in 2019. In addition, there was 5% salary increase for employees in education, police, defense and the entire public sector, starting with the September wage in 2019. In January 2020, the wages in education were additionally increased by 10%, and from February 2020, the wages of employees in health were increased (growth of 25% for specialists, 15% for general practitioners, 10% for nurses, and by 5% for health associates and ancillary-technical staff).

<sup>31</sup> According to the Law on subsidizing contributions from compulsory social insurance due to wage increase, which started to be enforced with the payment of the November wage (Official Gazette of the Republic of North Macedonia No. 239/19), whereby the subsidizing of contributions is approved if the increase in the net wage is in the amount of at least Denar 600 up to Denar 6000 per month by insuree (Official Gazette of the Republic of North Macedonia No. 239/19, Articles 2 and 3).



**In terms of labor productivity, in the third quarter of the year there was significant slowdown in the annual fall.** In conditions of significant slowdown in the fall in the economic activity in the third quarter, amid simultaneous reduction in the number of employees, the fall in labor productivity<sup>32</sup> reduced to 0.2% (fall of 11.7% in the previous quarter). Observed by sectors, the slowdown in the productivity fall mostly comes from the services sector which registered growth after the substantial fall in the previous quarter. Positive developments are also registered in the productivity in agriculture, while the productivity in industry is still in the negative zone. **Amid further solid wage growth, unit labor costs increased by 9.3%, but the growth is significantly more moderate (20% in the previous quarter), due to the significant improvement of productivity.** Most of the growth is still explained by the increased costs in the services sector, although with significantly more moderate intensity compared to the growth in the previous quarter. Smaller growth of labor costs was also registered in industry, while in the agriculture sector in the third quarter, their minimal decline was registered.



<sup>32</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.



## 1.5. Inflation

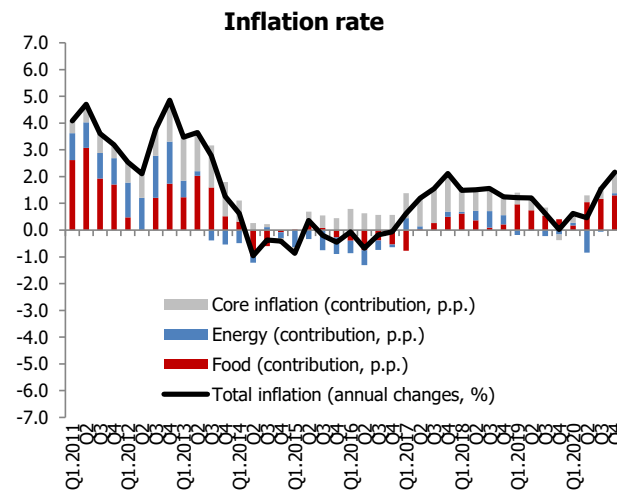
***In the fourth quarter of 2020, the annual inflation rate reached 2.2%, which is a moderate acceleration compared to the rate of 1.5% in the previous quarter. The acceleration in the price growth mostly reflects the changes in the core inflation which in part are of administrative nature. The highest positive contribution to the annual growth is still made by food prices, and a significant contribution is also made by the core component. In addition, this quarter a small positive contribution was also made by the energy component, after the fall in these prices in the previous period, mainly as a result of the effect of the increase in the domestic price of electricity in August, in conditions of further annual fall in the prices of oil derivatives. For the entire 2020, the annual inflation rate is in line with the expectations and equals 1.2%, mainly driven by the growth of the prices of food component, and to a lesser extent by the positive contribution of core inflation. Regarding the future short-term dynamics of consumer prices, the imported inflation registered a minimal decline, and the producer prices of domestic producers registered a slight acceleration in the growth rate, in conditions of significantly more moderate growth in unit labor costs. However, as before, these factors are not expected to cause significant upward pressures on the prices of final products, given the reduced domestic demand and the estimates for a negative output gap in 2020 and its slight upward movement in the period ahead. Regarding the inflation expectations in the period ahead, according to the National Bank Survey, economic analysts expect that the inflation rate in 2021 and 2022 will be 1.5% and 1.8%, respectively. Such expectations are similar to the National Bank forecasts, as well as to the expectations of international institutions.***

### *1.5.1. Current inflation*

**In the last quarter of 2020, the annual inflation rate was 2.2%** (1.5% in the previous quarter)<sup>33</sup>. The largest effect for the moderate acceleration in the growth of consumer prices in this period is that of the increased contribution of the core component of inflation, and additionally, although to a lesser extent, in this quarter there is also a larger positive contribution from the growth of the prices of the food and energy component. The growth in food prices and core inflation partially reflects the developments related to COVID-19, such as the target and less restrictive measures for dealing with the second COVID-19 wave, the more pronounced consumption of certain products and services in this period, in part caused by the undertaken measures for support of the economy, and the limitations on the supply side probably have a certain effect.

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<sup>33</sup> On a quarterly basis, domestic consumer prices increased by 0.2%, and by 0.5% seasonally adjusted.



Source: State statistical office and NBRNM calculations.

**Core inflation continued to grow, whereby in the fourth quarter it stood at 1.6% on an annual basis**, compared to 0.9% in the previous quarter. The acceleration in core inflation is a result of the higher prices of several categories of the index, primarily of the prices of tobacco as a result of legal changes<sup>34</sup>, then of the prices of accommodation services, as well as of non-durable household products. In terms of the structure of the annual growth of core inflation, the highest positive contribution is still that of the prices of tobacco, then of the prices of restaurants and accommodation services, non-durable household products, package tours and electrical appliances for personal hygiene. On the other hand, the highest negative contribution was made by the prices of air traffic, clothing and by the prices of audiovisual and computer equipment. The other inflation sub-indices, which exclude the most volatile prices, also increased in the fourth quarter of 2020, with a moderate acceleration compared to the previous quarter. Thus, the total index, excluding energy<sup>35</sup>, liquid fuels and lubricants (for transport) and unprocessed food registered an annual growth of 2.1% (1.6% in the previous quarter), while the total index excluding energy, liquid fuels and lubricants (for transport), unprocessed food, tobacco and alcoholic beverages registered an annual growth of 1.7% (1.4% in the previous quarter).

	(annual changes, in %)												contributions to annual changes, in p.p.)												
	2018				2019				2020				2018				2019				2020				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Consumer price index - all items	1.5	1.2	1.2	0.6	0.0	0.8	0.6	0.5	1.5	2.2	1.2	1.5	1.2	1.2	0.6	0.0	0.8	0.6	0.5	1.5	2.2	1.2	1.5	1.3	1.2
Food	0.9	2.7	2.1	1.5	1.2	1.9	0.5	2.9	3.3	3.6	2.6	0.3	1.0	0.7	0.5	0.4	0.7	0.2	1.0	1.2	1.3	0.9	1.3	1.3	0.9
Energy	2.6	-1.4	-0.2	-1.7	-1.2	-1.1	0.7	-6.4	-0.5	0.6	-1.4	0.3	-0.2	0.0	-0.2	-0.2	-0.2	0.1	-0.8	-0.1	0.1	-0.2	0.1	0.1	-0.2
Electricity	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.9	7.4	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5	0.2	0.4	0.5	0.2
Heat energy	-2.7	-2.9	-2.9	-5.2	-6.4	-4.3	-6.4	-6.4	-2.2	0.0	-3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fuels and lubricants	10.7	-4.5	0.1	-5.1	-3.3	-3.2	3.4	-22.8	-11.8	-12.9	-11.3	0.4	-0.2	0.0	-0.2	-0.1	-0.1	0.1	-0.8	-0.4	-0.5	-0.4	-0.5	-0.4	-0.4
Food and energy (volatile prices)	1.4	1.6	1.5	0.6	0.5	1.0	0.6	0.4	2.3	2.8	1.5	0.7	0.8	0.7	0.3	0.2	0.5	0.3	0.2	1.1	1.4	0.7	1.4	0.7	0.7
Core inflation calculated by the NBRM (total index - food and energy (categories 01.1, 04.5, 07.2.2))	1.5	0.9	1.0	0.6	-0.4	0.5	0.7	0.5	0.9	1.6	0.9	0.9	0.8	0.4	0.5	0.3	-0.2	0.3	0.4	0.3	0.4	0.8	0.5	0.5	0.5
Overall index excluding energy, liquid fuels and lubricants and unprocessed food (SSO)	1.0	0.6	0.9	1.1	0.6	0.8	1.7	1.7	1.6	2.1	1.8														
Overall index excluding energy, liquid fuels and lubricants, unprocessed food, tobacco and alcoholic beverages (SSO)	0.7	0.3	0.5	0.9	0.3	0.5	1.4	1.5	1.4	1.7	1.5														

Source: State Statistical Office and NBRNM calculations.

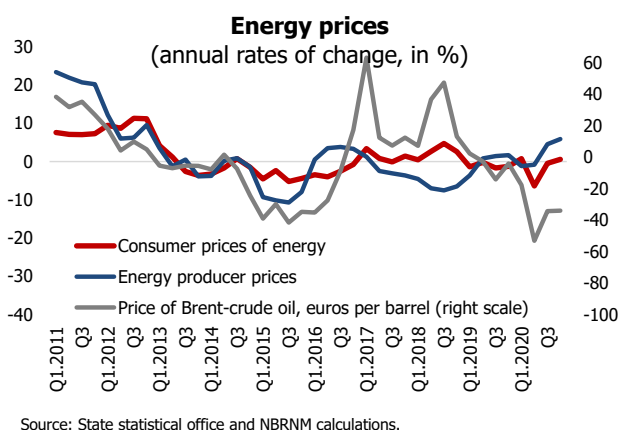
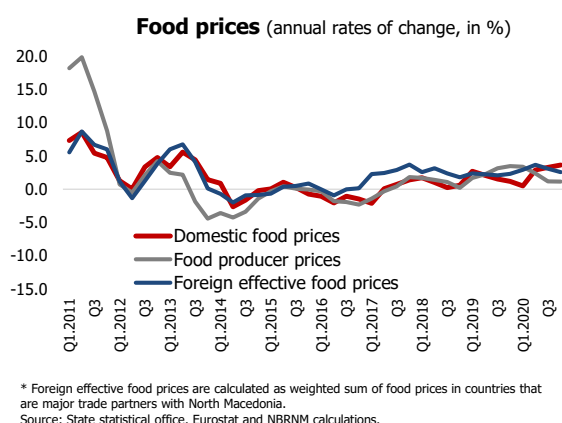
In the fourth quarter of 2020, **food prices** registered an annual growth of 3.6% (3.3% in the previous quarter). The slight acceleration of the price growth is explained with the higher annual growth of the vegetable prices, and to a lesser extent with the accelerated growth of the prices of oil and fat, partly neutralized by the decelerated growth of fruit and meat prices. Analyzing the structure, the annual growth of the food prices mainly arises from the prices of vegetables, fruit, oil and fat, bread and cereals, with a slight positive contribution from milk, cheese, and eggs. The sales prices of domestic food, as well

<sup>34</sup> The annual growth of tobacco price in the fourth quarter reflects the increase in the prices of cigarettes in March and July 2020, in consistence with the annual planned increase in excise duties on cigarettes by Denar 0.20 per piece as of 1 July 2023. In addition, the increase was caused by the amendments to the Law on Tobacco and Tobacco Products which require all packs of cigarettes to have 20 cigarettes by November 2020 (previously there were packs of 19 cigarettes), which together with the increased excise charged per cigarette rose producer costs.

<sup>35</sup> The category "energy" refers to electricity, gas, liquid and solid fuels for heating and central heating.



as foreign effective food prices also registered growth in the fourth quarter<sup>36</sup>, yet at a slower pace compared to the increase in the previous quarter. After the decrease in the previous two quarters, the **energy prices** in the fourth quarter registered a small annual increase, reflecting the regulatory increase of the domestic price of electricity in August 2020<sup>37</sup>, amid further annual decline in prices of oil derivatives. Namely, in line with the movement of the prices of Brent oil on world markets, domestic prices of oil derivatives register a continuous decline on an annual basis, despite the effect of the increased excise of the unleaded gasoline, diesel fuel, and heating fuel (three denars, as of the end of April<sup>38</sup>). In line with the increased domestic price of electricity, the sales prices of energy producers (which refer to electricity only) also registered<sup>39</sup> an annual growth.



The producer prices of industrial products registered a small accelerated growth of 1.3% (0.8% in the previous quarter). Also, **producer prices of energy and consumer goods** as one of the factors that influence the dynamics of consumer prices, registered a cumulative annual growth of 2.4% (1.9% in the previous quarter)<sup>40</sup>. **Foreign effective inflation**<sup>41</sup>, as an indicator of imported inflation, remained low in the fourth quarter, i.e. registered a minimal decrease (-0.3% compared to the annual inflation rate of 0% in the previous quarter). On the other hand, **the unit labor costs** also registered an increase during the third quarter, yet significantly more moderate than in the previous quarter (annual rate of 9.3%, compared to the increase of 20% in the second quarter). However, given the decrease of domestic demand and the negative output gap<sup>42</sup> in the domestic economy, as well as the absence of more significant pressures on the domestic inflation through the foreign prices channel and producer prices, the labor costs are not expected to cause more significant upward pressures on the prices of the final products in the future.

<sup>36</sup> The analysis of sales prices of domestic food producers and foreign effective food prices refers to the first two months of the fourth quarter.

<sup>37</sup> By the decision of the ERC, as of 1 August 2020, the price of electricity is higher by 7.4%, i.e. for a high tariff it is 5.95 den/kWh, for a low tariff it is 2.99 den/kWh, while for one-tariff measurement it is 4.77 den/kWh (<https://www.erc.org.mk/pages.aspx?id=153>).

<sup>38</sup> The Government adopted this measure in order to mitigate the economic consequences from increased costs for dealing with the coronavirus and to provide assets for regular servicing of the budget needs. The suggested mechanism also provides gradual return of the current amounts of excises in conditions of normalizing the market prices.

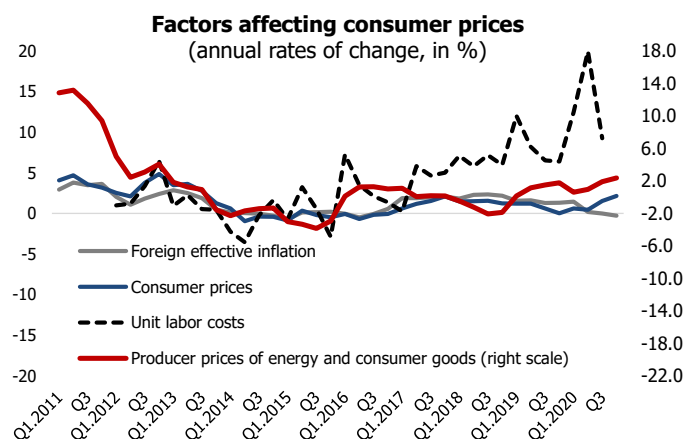
<sup>39</sup> The analysis of the prices of oil and sales prices of energy producers refers to the first two months of the fourth quarter.

<sup>40</sup> The analysis on producer prices of industrial products and producer prices of energy and consumer goods refers to the first two months of the fourth quarter of 2020.

<sup>41</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 2010-2012. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia, and Serbia. The analysis refers to the first two months of the quarter.

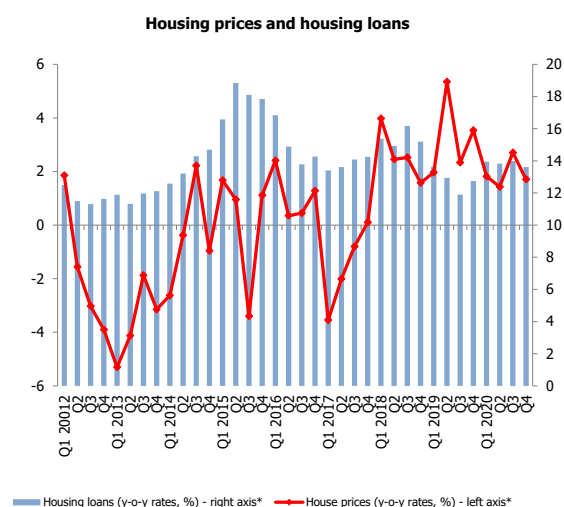
<sup>42</sup> The National Bank assessments show that domestic production is below the potential level (negative output gap) in 2020 and the first half of 2021.





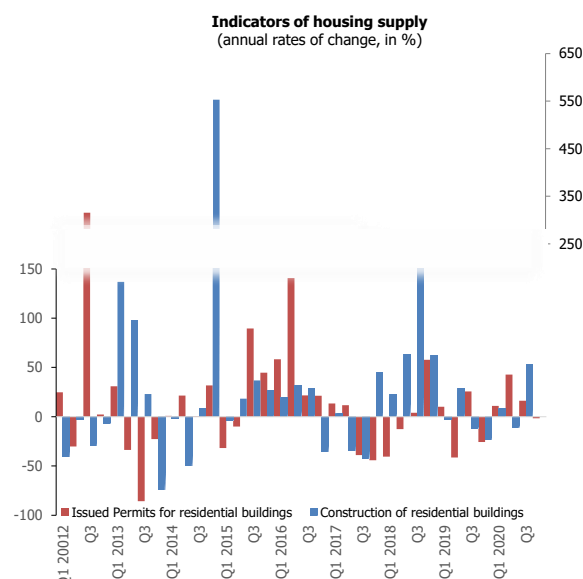
Source: State statistical office and NBRNM calculations.

**In the fourth quarter of 2020, apartment prices, as measured by the Hedonic index<sup>43</sup> increase annually by 1.7% which is a small deceleration compared to the previous quarter.** Observing the supply, the value of residential buildings registered a high increase in the third quarter of 2020, while the issued building permits registered a slight decrease of value<sup>44</sup> in the fourth quarter of the year. Analyzing housing demand, in the fourth quarter of 2020, it was also supported by the two-digit rise in housing loans<sup>45</sup>.



Source: NBRNM. Index of housing prices is calculated by the employees of the NBRNM based on the data from the daily newspapers.

\*Annual changes for 2009 are not calculated due to changes in methodology.



Source: SSO and NBRNM calculations.

### 1.5.2. Inflation expectations

Regarding the future price movement, most of the domestic and international institutions expect gradual and moderate acceleration of the inflation rate in the next two years. These expectations largely reflect the expectations for gradual recovery of the economic activity, both globally and in the domestic economy, following the severe adverse effects of the health crisis caused by the COVID-19 pandemic and

<sup>43</sup> Hedonic index of housing prices, prepared by the National Bank on the basis of the notices of sale in the capital city, and published by the agencies dealing with trade in real estate. The apartment price is a function arising from the size of the apartment, the location, the floor, whether the apartment has central heating, and whether the apartment is new.

<sup>44</sup> The analysis refers to the first month of the fourth quarter of 2020.

<sup>45</sup> Available data for the first two months of the quarter.

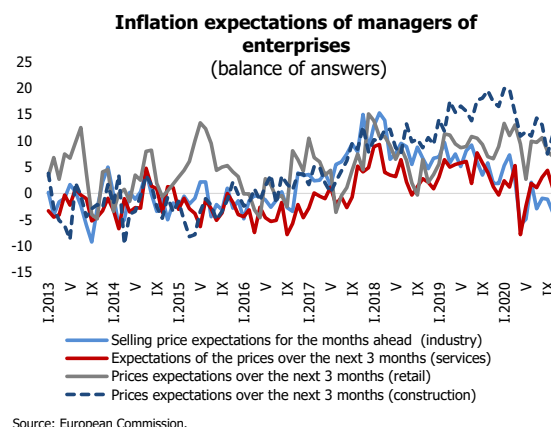
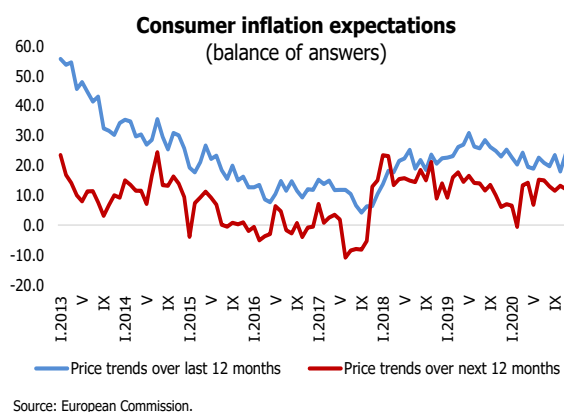
the measures to deal with it. The economic analysts have similar expectations on the movement of the inflation rate in the following period. Thus, according to the **Inflation and Real GDP Expectations Survey**<sup>46</sup> conducted in December, the economic analysts expect moderate inflation acceleration to 1.5% and 1.8% in 2021 and 2022, respectively.

#### Forecasts and expectations for the inflation rate

	2020	2021	2022
Economic analysts	1.1	1.5	1.8
IMF	0.9	1.3	1.6
Consensus Forecast	1.1	1.8	/
Ministry of Finance	1.0	1.5	/
NBRNM	1.1	1.5	2.0

Source: Inflation and real GDP growth expectations survey, December 2020; IMF World Economic Outlook, October 2020; Consensus Forecast, September 2020; Ministry of Finance, Indicators and Projections, November 2020; and NBRNM, October 2020.

The short-term expectations of consumers and corporate executives for the price movements expressed in surveys in the fourth quarter are similar, i.e. as of December 2020, amid second wave of COVID-19 pandemic. Thus, according to the **consumer expectations for price changes in the next 12 months**<sup>47</sup>, those who expect an increase in prices in the next 12 months exceed the number of those who expect them to reduce or remain unchanged. However, the expectations for the price growth are more moderate compared to the expectations in the previous quarter. Analyzing the expectations in the **corporate sector**<sup>48</sup>, the executives of retail trade and construction companies expect an increase in prices in the next three months, more moderate though compared to the previous quarter. On the other hand, the corporate executives in industry expect continuous and more pronounced decrease in prices in the following period, and the executives in service businesses also expect a decline in prices for the forthcoming period, despite their expectations for a price growth in the previous quarter.



<sup>46</sup> Starting from October 2017, the National Bank changed the current Inflation Expectations Survey. The new Inflation and Real GDP Expectations Survey is conducted on a sample of economic analysts, extending the Survey subject in line with the practice of the European Central Bank (ECB).

<sup>47</sup> European Commission's Consumer Survey as of December 2020.

<sup>48</sup> European Commission's business tendency surveys in industry, retail trade, construction and services sector as of December 2020.



## 1.6. Balance of payments

*In the third quarter of 2020, the current account of the balance of payments recorded a moderate deficit, which is untypical for this time of year. Less favorable shifts in this period stem from the decrease in the secondary income surplus and deteriorated balance in the exchange of services. Namely, despite the gradual relaxation of the restrictive containment measures, the international traveling of the population was still relatively low, which led to further decrease in inflows of cash remittances and consequently reduced supply of foreign currency in exchange operations. Such movements were partially neutralized by the lower deficit in the primary income and slight tightening of the trade deficit. The financial account in the third quarter registered net-outflows, mostly arising from the outflows on the basis of currencies and deposits and portfolio investments, and to a lesser extent from net outflows based on direct investments. At the same time, net-outflows are registered in loans and trade credits.*

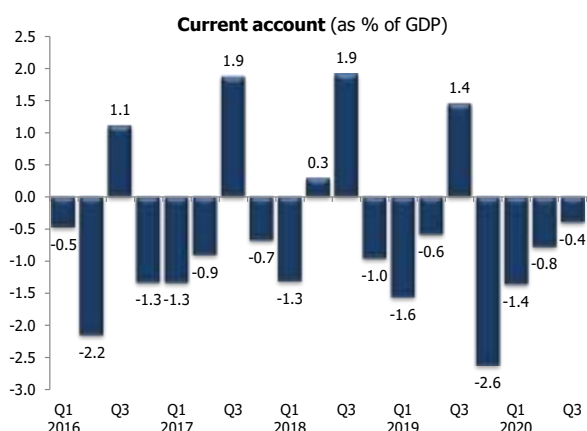
	2019						2020				2019						2020			
	Q1	Q2	Q3	Q4	I-IX	I-XII	Q1	Q2	Q3	I-IX	Q1	Q2	Q3	Q4	I-IX	I-XII	Q1	Q2	Q3	I-IX
	in EUR millions										in % of GDP									
<b>I. Current account</b>	<b>-175.0</b>	<b>-65.6</b>	<b>162.2</b>	<b>-293.9</b>	<b>-78.4</b>	<b>-372.3</b>	<b>-148.3</b>	<b>-85.0</b>	<b>-43.3</b>	<b>-276.6</b>	<b>-1.6</b>	<b>-0.6</b>	<b>1.4</b>	<b>-2.6</b>	<b>-0.7</b>	<b>-3.3</b>	<b>-1.4</b>	<b>-0.8</b>	<b>-0.4</b>	<b>-2.5</b>
<b>Goods and services</b>	<b>-373.1</b>	<b>-346.7</b>	<b>-261.8</b>	<b>-638.2</b>	<b>-981.6</b>	<b>-1619.8</b>	<b>-381.2</b>	<b>-247.4</b>	<b>-317.8</b>	<b>-946.3</b>	<b>-3.3</b>	<b>-3.1</b>	<b>-2.3</b>	<b>-5.7</b>	<b>-8.8</b>	<b>-14.5</b>	<b>-3.5</b>	<b>-2.3</b>	<b>-2.9</b>	<b>-8.7</b>
Credit	1623.5	1698.3	1848.0	1788.0	5169.8	6957.8	1514.1	1172.7	1716.7	4403.5	14.5	15.2	16.5	16.0	46.1	62.1	13.9	10.8	15.8	40.4
Debit	1996.5	2045.0	2109.8	2426.2	6151.4	8577.6	1895.4	1420.1	2034.4	5349.9	17.8	18.2	18.8	21.6	54.9	76.5	17.4	13.0	18.7	49.1
Goods	-475.1	-443.5	-436.3	-614.7	-1354.9	-1969.6	-548.2	-354.0	-402.5	-1304.7	-4.2	-4.0	-3.9	-5.5	-12.1	-17.6	-5.0	-3.2	-3.7	-12.0
Services	102.0	96.8	174.5	-23.5	373.3	349.8	167.0	106.6	84.7	358.3	0.9	0.9	1.6	-0.2	3.3	3.1	1.5	1.0	0.8	3.3
<b>Primary income</b>	<b>-129.9</b>	<b>-127.7</b>	<b>-130.2</b>	<b>-131.9</b>	<b>-387.7</b>	<b>-519.6</b>	<b>-92.9</b>	<b>-91.7</b>	<b>-98.7</b>	<b>-283.3</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-1.2</b>	<b>-1.2</b>	<b>-3.5</b>	<b>-4.6</b>	<b>-0.9</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-2.6</b>
<b>Secondary income</b>	<b>328.0</b>	<b>408.8</b>	<b>554.1</b>	<b>476.2</b>	<b>1290.9</b>	<b>1767.1</b>	<b>325.8</b>	<b>254.0</b>	<b>373.2</b>	<b>953.0</b>	<b>2.9</b>	<b>3.6</b>	<b>4.9</b>	<b>4.2</b>	<b>11.5</b>	<b>15.8</b>	<b>3.0</b>	<b>2.3</b>	<b>3.4</b>	<b>8.7</b>
<b>II. Capital account</b>	<b>0.6</b>	<b>0.1</b>	<b>5.9</b>	<b>1.6</b>	<b>6.6</b>	<b>8.2</b>	<b>0.3</b>	<b>1.4</b>	<b>0.9</b>	<b>2.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</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>
Net lending (+) / net borrowing (-) (balance from current and capital account)	-174.4	-65.5	168.1	-292.3	-71.8	-364.1	-148.1	-83.6	-42.3	-274.0	-1.6	-0.6	1.5	-2.6	-0.6	-3.2	-1.4	-0.8	-0.4	-2.5
<b>III. Financial account</b>	<b>-170.5</b>	<b>-101.2</b>	<b>13.9</b>	<b>-422.0</b>	<b>-257.8</b>	<b>-679.8</b>	<b>87.4</b>	<b>-666.5</b>	<b>129.8</b>	<b>-449.3</b>	<b>-1.5</b>	<b>-0.9</b>	<b>0.1</b>	<b>-3.8</b>	<b>-2.3</b>	<b>-6.1</b>	<b>0.8</b>	<b>-6.1</b>	<b>1.2</b>	<b>-4.1</b>
Direct investment	-59.3	-29.2	-82.3	-192.5	-170.8	-363.3	-128.1	13.7	17.8	-96.6	-0.5	-0.3	-0.7	-1.7	-1.5	-3.2	-1.2	0.1	0.2	-0.9
Portfolio investment	22.3	19.9	72.7	36.3	114.9	151.2	31.6	-632.5	77.5	-523.3	0.2	0.2	0.6	0.3	1.0	1.3	0.3	-5.8	0.7	-4.8
Currency and deposits	35.0	-30.6	98.5	-29.3	102.9	73.6	71.8	130.9	176.1	378.8	0.3	-0.3	0.9	-0.3	0.9	0.7	0.7	1.2	1.6	3.5
Loans	-16.9	-25.2	-54.9	-128.1	-97.1	-225.2	113.0	-167.9	-83.4	-138.3	-0.2	-0.2	-0.5	-1.1	-0.9	-2.0	1.0	-1.5	-0.8	-1.3
Trade credit and advances	-153.2	-35.7	32.3	-160.8	-156.5	-317.3	-0.9	-10.9	-57.4	-69.2	-1.4	-0.3	0.3	-1.4	-1.4	-2.8	0.0	-0.1	-0.5	-0.6
Other accounts receivable/payable	0.0	-0.3	-52.4	52.5	-52.7	-0.2	0.0	0.1	-0.2	0.0	0.0	0.0	-0.5	0.5	-0.5	0.0	0.0	0.0	0.0	0.0
Special drawing rights (Net incurrence of liabilities)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>IV. Net errors and omissions</b>	<b>-1.7</b>	<b>13.8</b>	<b>20.2</b>	<b>26.7</b>	<b>32.2</b>	<b>59.0</b>	<b>-13.8</b>	<b>21.1</b>	<b>18.4</b>	<b>25.6</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>V. Reserve assets</b>	<b>-5.6</b>	<b>49.4</b>	<b>174.4</b>	<b>156.4</b>	<b>218.2</b>	<b>374.6</b>	<b>-249.3</b>	<b>604.0</b>	<b>-153.8</b>	<b>200.9</b>	<b>0.0</b>	<b>0.4</b>	<b>1.6</b>	<b>1.4</b>	<b>1.9</b>	<b>3.3</b>	<b>-2.3</b>	<b>5.5</b>	<b>-1.4</b>	<b>1.8</b>

Source: NBRNM.

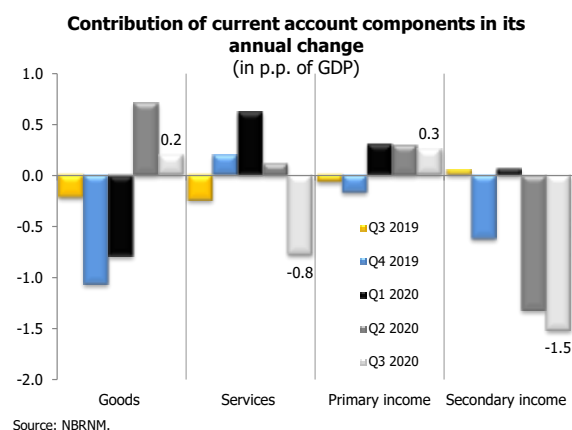
### 1.6.1. Current account

**In the third quarter of 2020, the current account deficit was euro 43.3 million, or 0.4% of GDP<sup>49</sup>, compared to the positive balance from the same period last year (surplus of 1.4% of the GDP) which is common for this period of the year. Such shift largely stems from deteriorated surplus in secondary income, as well as from weaker performances in services. Namely, in conditions of further limited movement due to COVID-19 crisis, a significant decrease of net inflows from exchange operations is registered, due to lower inflows from cash remittances. In the third quarter, there is a simultaneous reduction in supply and demand for foreign currency. The lower surplus in services in this period mostly stems from the higher deficit in intellectual property fees and lower surplus in travels, amid slightly improved performances in construction services. On the other hand, the primary income balance is slightly improved on an annual basis, due to lower deficit in investment income, and slightly positive movement in balance of trade, entirely driven by the lower deficit in energy component due to significant decline in import of oil derivatives, in conditions of lower imported quantities and lower price of crude oil on world stock markets.**

<sup>49</sup> The calculations use the nominal GDP forecast (from October 2020).



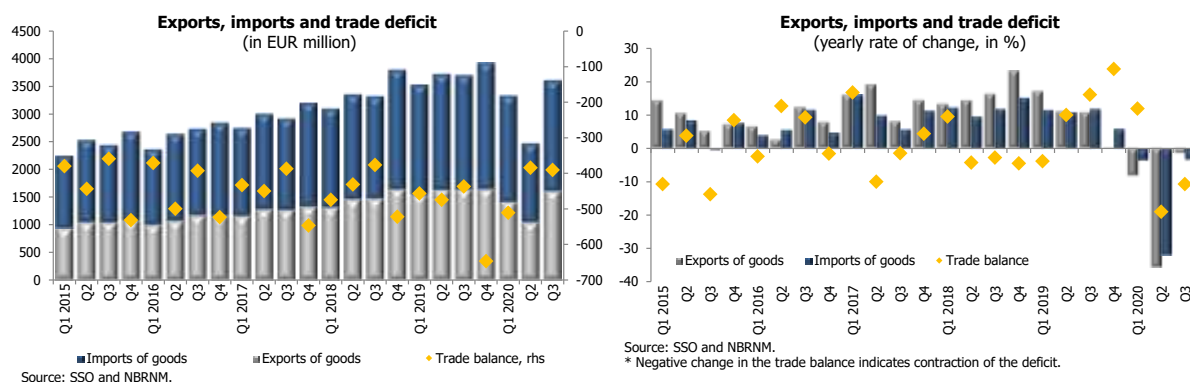
Source: NBRNM.



Source: NBRNM.

### Box: Foreign trade in goods and movement of the Nominal and the Real Effective Exchange Rate (NEER and REER)<sup>50</sup>

In the third quarter of 2020, foreign trade amounted to euro 3.602,9 million or 33.1% of GDP, which is a decrease of euro 92.1 million or 0.1 pp of GDP, compared to the same quarter of the previous year. The decline of foreign trade of the domestic economy is a result of the continuous downward adjustment of both constituent components, which mostly reflects the adverse effects of the COVID-19 pandemic. However, it is important to emphasize that performances in the third quarter led to significantly decelerated decline in total trade, compared to the previous quarter (annual decline of 2.5% compared to 33.6% in the previous quarter). It is mainly due to overcoming some of the temporary restrictions in trade, arising from the restrictive measures to prevent the spread of the virus, by providing continuity in the production of industrial capacities in the domestic economy, especially in the export-oriented capacities from the automotive industry.

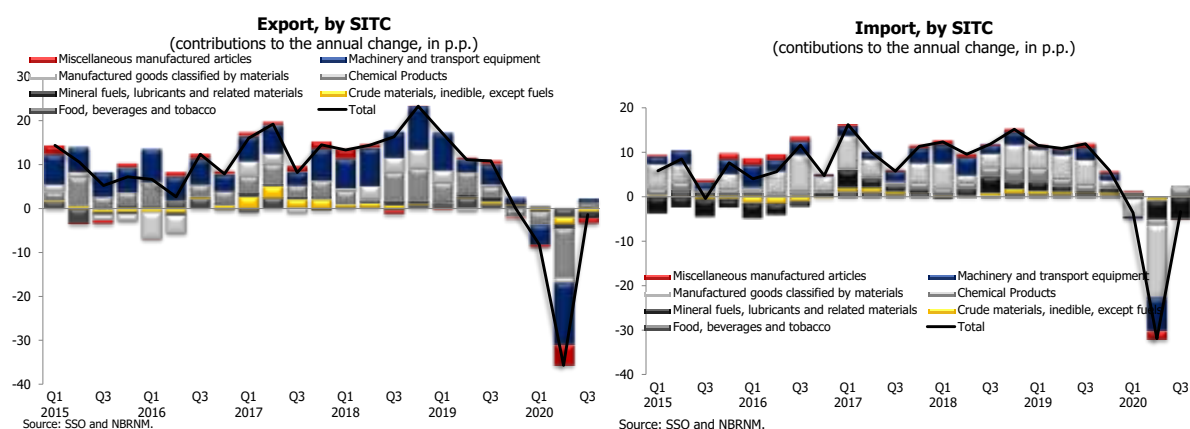


In the third quarter of 2020, the export of goods decreased by 1.4% on an annual basis, which indicates stabilization of the export activity and slowdown of the sharp decline which was registered in the previous quarter (of 35.7%). In this period, part of the traditional export sectors had a moderate negative contribution to the export, whereby an annual decline is registered in export of energy, textile, iron and steel and ore. On the other hand, part of the industrial facilities in the economy,

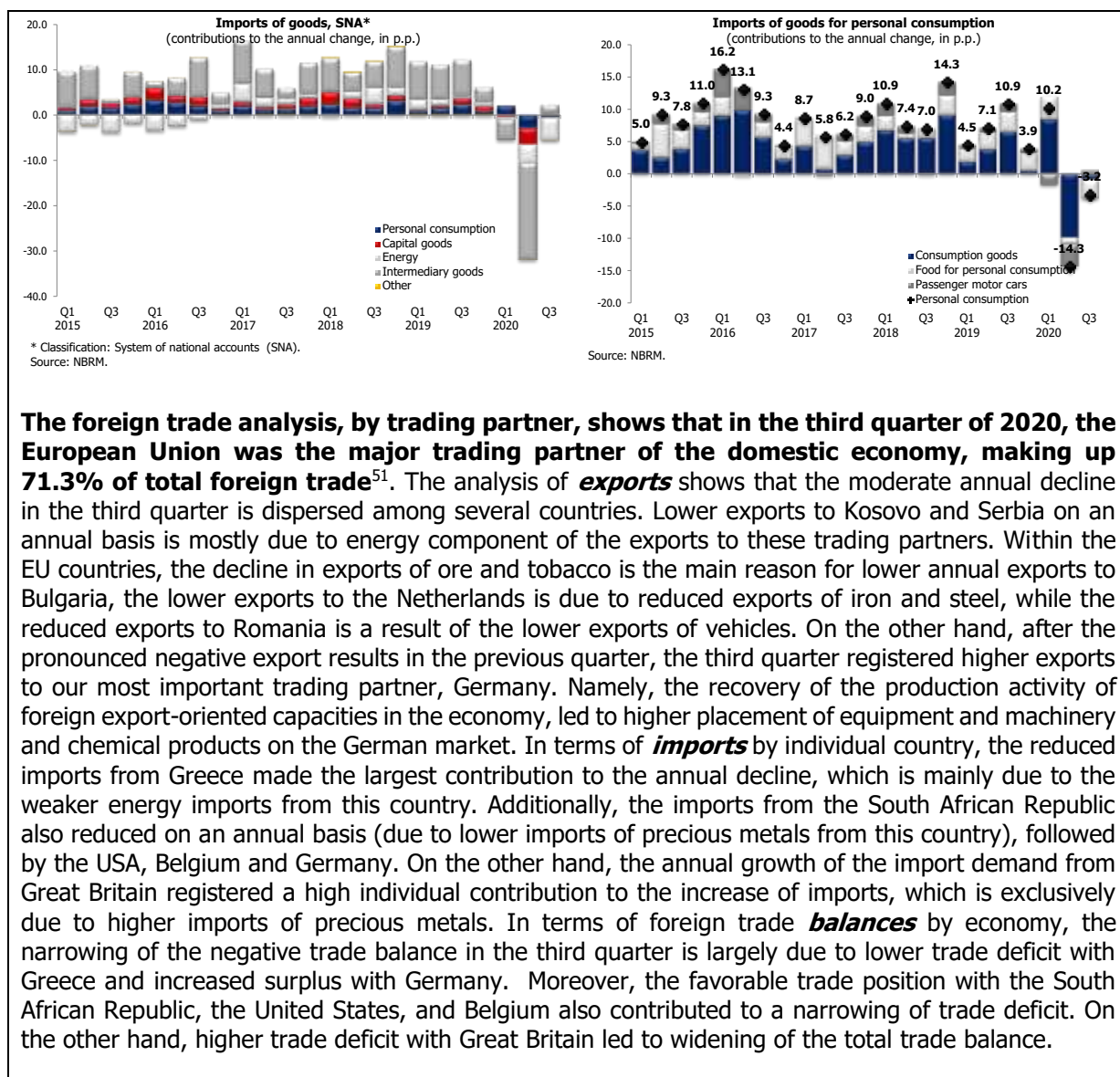
<sup>50</sup> According to the Foreign Trade Methodology, data on export of goods are published on an f.o.b. basis, and on import of goods, on a c.i.f. basis.

as basic drivers of the annual decline in exports, had solid export results in the previous quarter. In conditions of re-establishment of temporarily disrupted supply chains, most of these companies recovered their export in the third quarter, which is seen through the higher placement in the categories of equipment and machinery and chemical products. **Import of goods decreased by 3.4% on an annual basis**, which is significantly more moderate compared to the previous quarter (of 31.9%). The annual decline is mainly driven by the energy imports, i.e. mostly by the imports of oil derivatives. Namely, the price of the crude oil continued to register high annual decline rates during the third quarter, which complemented with lower imported quantities (amid lower economic activity) led to significant decrease in imports of oil derivatives, and thus total energy imports. Dynamically observed, the annual decline in imports of investment products-equipment and machinery and vehicles, significantly decelerated during the third quarter. On the other hand, the import of raw materials for their production registered an annual growth, in line with export achievements of part of the foreign companies in the economy. **Both foreign trade components in the third quarter of 2020 narrowed the trade deficit by 10.7% on an annual basis.** In terms of individual balances, the annual change is driven by the energy component, amid further widening of the non-energy deficit.

Foreign trade data for October and November 2020 point to further recovery of the export activity, which increased by 3.8%. Such exports movements are entirely due to favorable performances in export-oriented companies in the automotive industry, amid more pronounced negative contribution to the export of tobacco and clothing and textile. According to the latest available data, the imports of goods in October and November fell by 2.9%, which is mostly due to lower energy imports compared to the same period of the previous year. Lower imported quantities as a result of the reduced domestic consumption and traveling due to the pandemics, as well as downward adjustment of stock market prices of crude oil, also caused lower import pressures from energy imports. On the other hand, in these two months, the chemical products registered higher imports on an annual basis.



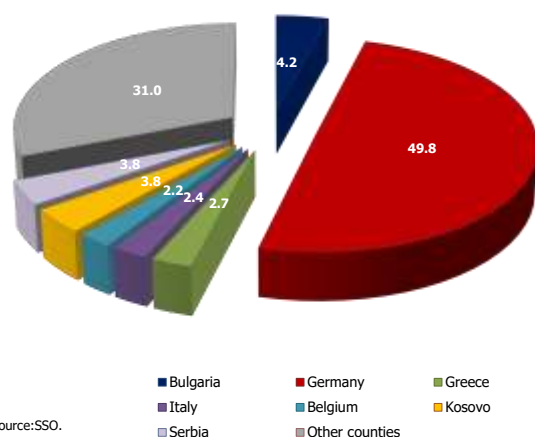
*Analyzing imports of goods in the System of National Accounts*, in the first quarter of 2020, imports reduced mainly due to energy imports, with significantly moderate negative contribution of the import of private consumption. The annual decline of imports is partly neutralized through recovery of the imports of intermediate goods, in conditions of almost unchanged imports of capital goods. In terms of imports of private consumption goods, the annual decline mostly reflects the lower imports of private consumption food, and to a lesser extent the imports of public consumption goods, despite the small growth of imported passenger vehicles. Analyzed dynamically, the import of private consumption registered an annual decline for a second consecutive quarter, reflecting the decrease in demand and current uncertainty.



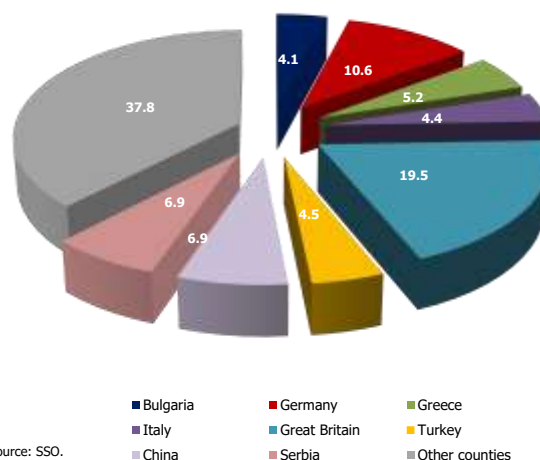
<sup>51</sup> Great Britain is also included within the EU countries. Despite the Brexit as of 1 January 2020, they remain a part of the European Trade Union in this transition period, thus keeping the same trading rules between our economy and this country. For analytical reasons in this transition period, we are respectively analyzing Great Britain within the EU.



**Export of goods, by countries in the third quarter of 2020**  
(share, in %)

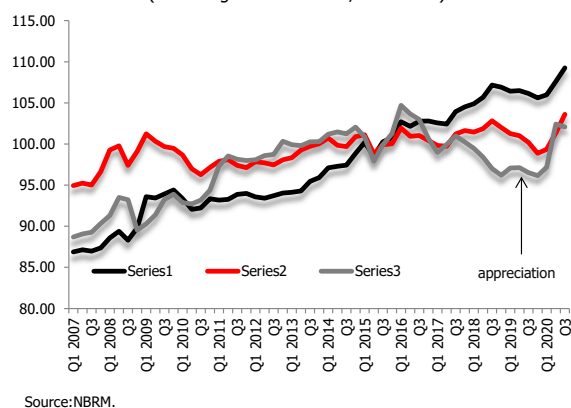


**Import of goods, by countries in the third quarter of 2020**  
(share, in %)

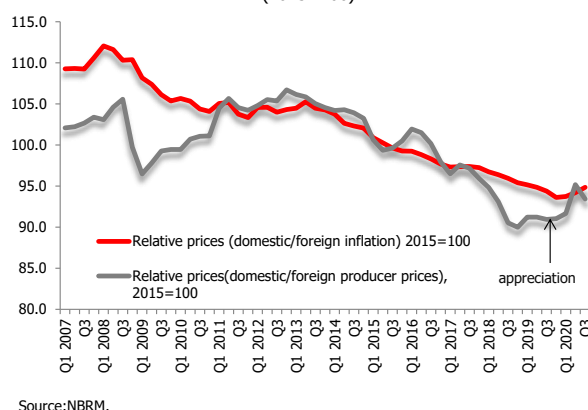


**Regarding the price competitiveness indicators of the Macedonian economy**, in the third quarter of 2020, the index of the real effective exchange rate calculated by consumer prices registered appreciation of 3.4%, compared to the same period of the previous year, while the index deflated by producer prices was more pronounced and appreciated to 5.8%. The NEER index appreciated annually by 2.9%, due to the depreciation of the Russian ruble and the Turkish lira against the denar. Moreover, the relative prices increased on an annual basis, amid slight increase of the relative consumer prices (for the first time since 2013), amid higher producer prices (which increased from the second half of 2019) by 0.5% and 2.8%, respectively.

**NEER and REER**  
(according to CPI and PPI, 2015=100)



**Relative prices**  
(2015=100)



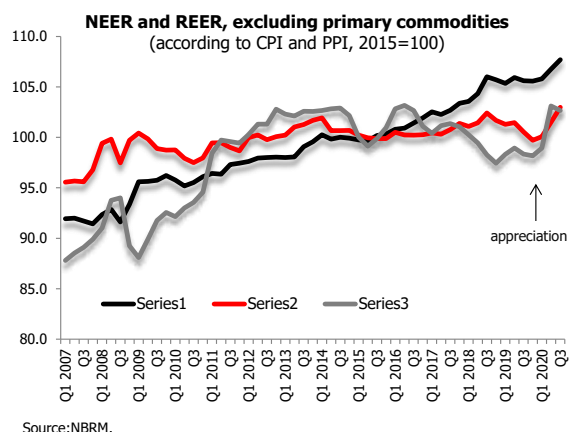
**The movements of REER indices, as measured using foreign trade weights without primary commodities, are similar<sup>52</sup>.** REER deflated by consumer prices appreciated by 2.4% on an annual basis, while REER deflated by producer prices appreciated by 4.4% compared to the same period last year. The nominal effective exchange rate appreciated annually by 2%, amid growth of the relative consumer prices and relative producer prices on an annual basis (of 0.4% and 2.4%, respectively). The change in NEER is largely due to the depreciation of the Turkish lira against the denar.

<sup>52</sup> Primary products not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the foreign capital facilities. For more detailed information on the methodology for calculating the real effective exchange rate visit: [http://nbrm.mk/WBStorage/Files/Statistika\\_REDK\\_Informacija\\_za\\_promenite\\_na\\_metodologijata\\_za\\_presmetuvanje\\_na\\_realno\\_t\\_efektiven\\_devizen\\_kurs\\_na\\_denarot\\_mak.pdf](http://nbrm.mk/WBStorage/Files/Statistika_REDK_Informacija_za_promenite_na_metodologijata_za_presmetuvanje_na_realno_t_efektiven_devizen_kurs_na_denarot_mak.pdf)

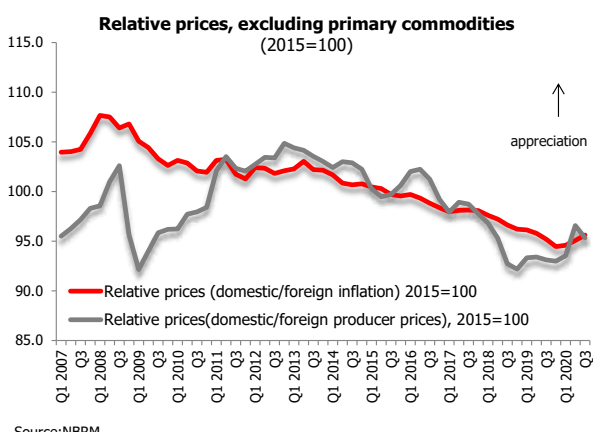




Latest price competitiveness data for the period October-November 2020 point to further appreciation of the REER. Thus, the index deflated by consumer prices appreciated by 5.6%, while the REER deflated by producer prices by 6.8%. Similar movements were observed in the index with weights based on foreign trade statistics without primary commodities, where the REER deflated by consumer prices appreciated by 4%, and the REER deflated by producer prices appreciated by 5%.

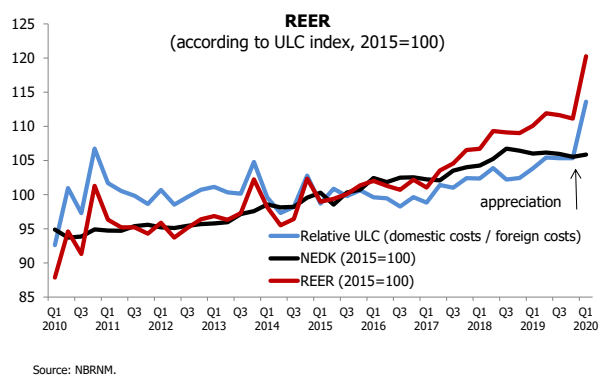


Source: NBRM.

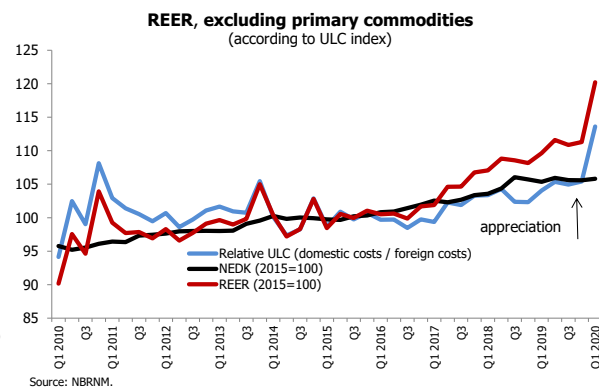


Source: NBRM.

**The REER indices deflated by unit labor costs also appreciated.** Thus, in the third quarter of 2020, the REER index deflated by weights based on total foreign trade appreciated on an annual basis by 7.8%, amid growth in relative prices (by 5%) and simultaneous appreciation of NEER (of 2.7%). The REER index calculated by using weights based on the foreign trade without primary commodities appreciated by 8%, largely reflecting the growth of the relative labor costs (of 5.9%) and the NEER appreciation (of 2%).



Source: NBRNM.



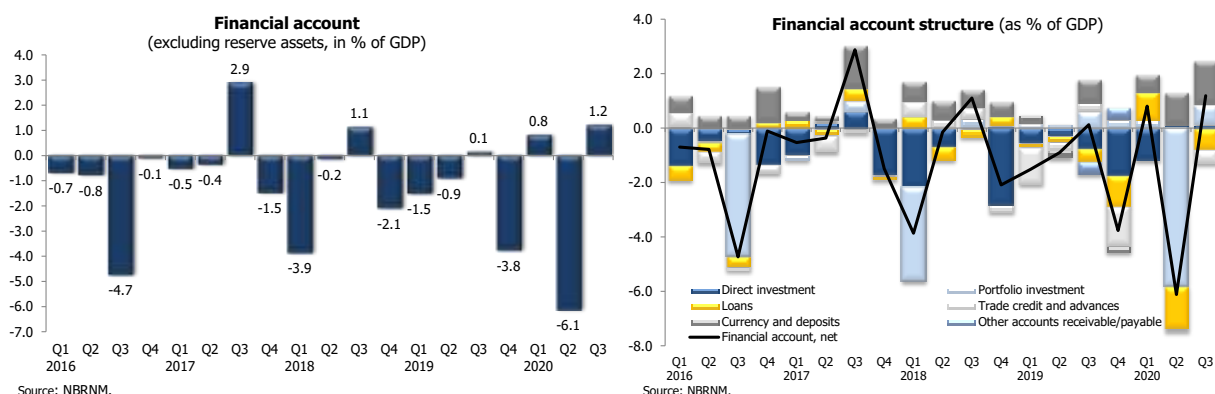
Source: NBRNM.

### 1.6.2. Financial account

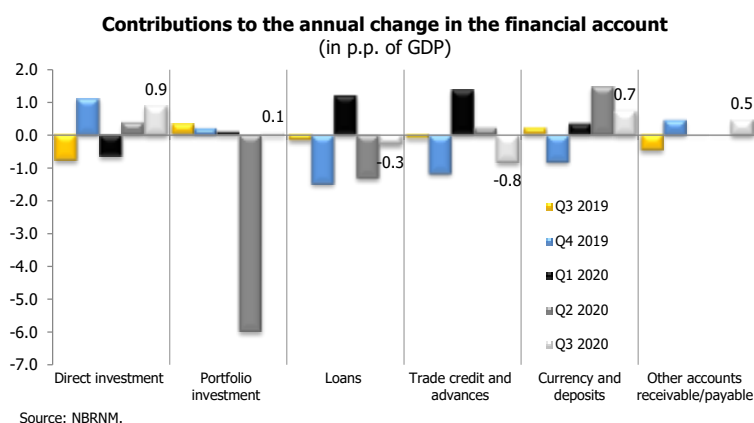
**In the third quarter of 2020, the financial account of the balance of payments registered net outflows of Euro 129.8 million, or 1.2% of GDP.** Moreover, net outflows are registered in the categories of currencies and deposits, portfolio investments and direct investments, which were partly neutralized by net inflows on the basis of loans and trade credits. The movements in currencies and deposits mostly refer to high net outflows in other sectors of the economy, and to a lesser extent in depository institutions. In portfolio investments, the net outflows mostly arise from the decrease in net-liabilities of the government abroad, based on the issued debt securities, i.e. the investment of the banking sector in domestic Eurobonds, while the small net outflows registered in direct investments are a result of the estimated reinvested profit. On the other hand, the net inflows of loans mostly reflect the



borrowing of the depository institutions and other sectors in the form of long-term loans, while the net inflows of trade credits are a result of the higher short-term private sector borrowing.

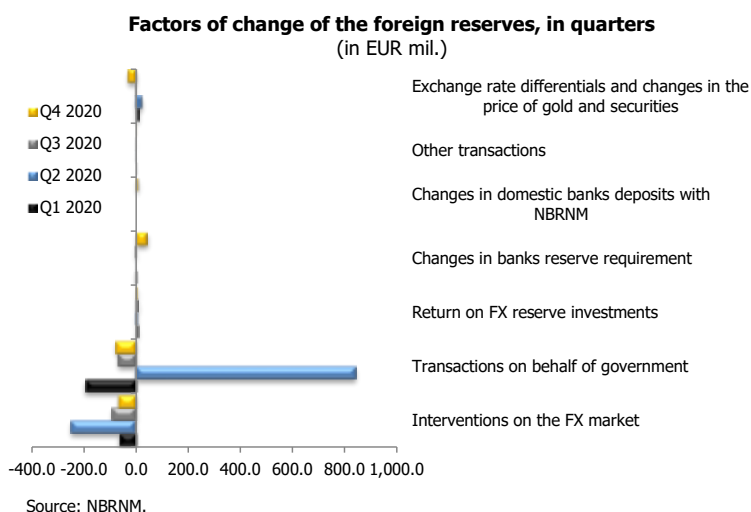


The annual analysis indicates higher net outflows in the financial account, amid net outflows registered in direct investments, compared to the net inflows in the third quarter of 2019 and higher net outflows in currency and deposits. The absence of flows in other accounts as opposed to the net inflows registered in the same period of the previous year<sup>53</sup> had an additional contribution. On the other hand, more favorable annual movements are registered in trade credits (net inflows, as opposed to the net outflows registered in the third quarter of 2019), and to a lesser extent in financial loans.

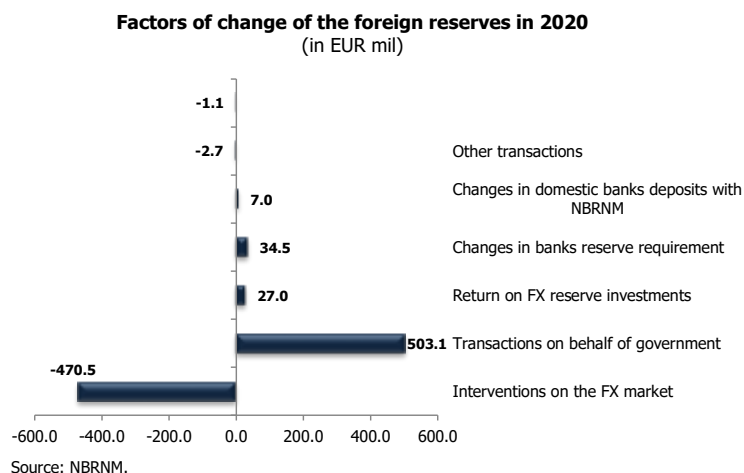


**At the end of the third quarter of 2020, the gross foreign reserves equaled Euro 3,480.2 million (Euro 3,639.7 million at the end of the previous quarter).** The quarterly change in the foreign reserves stems from the National Bank's interventions on the foreign exchange market and the regular payment of public sector liabilities abroad. The remaining categories had a moderate impact on the change in the foreign reserves in this period.

<sup>53</sup> Inflows related to change of the ownership structure in the banking system.



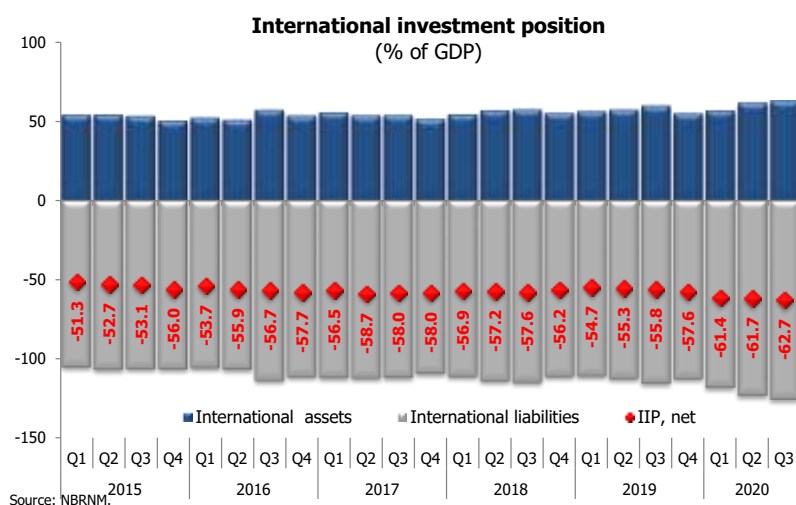
**As of 31.12.2020, the gross foreign reserves stood at Euro 3,359.9 million (Euro 3,262.6 million compared to the end of 2019).** Transactions on behalf of the government significantly increased the foreign reserves, while the National Bank interventions on the foreign exchange market reduced the foreign reserves. The other flows registered no major changes.



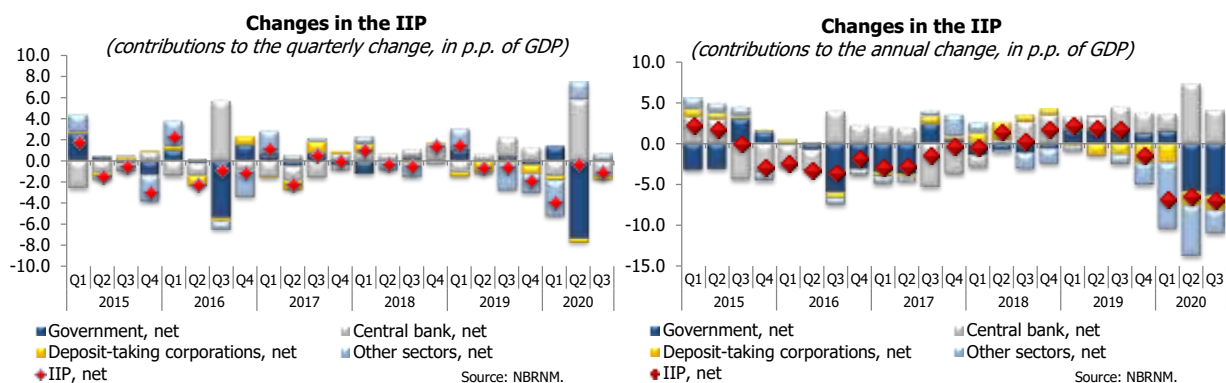
### 1.6.3. International investment position and gross external debt

**At the end of the third quarter of 2020, the negative net debt position of the Macedonian economy equaled Euro 6,831.9 million, or 62.7% of GDP<sup>54</sup>.** The international investment position increased by 1 pp of GDP, compared to the previous quarter, given the higher growth of international liabilities relative to the growth of international assets. Observed by sector, the quarterly change mostly results from the lower net assets of the central bank, with an additional smaller contribution to the quarterly growth from the higher net liabilities of depository institutions. On the other hand, the net liabilities of other sectors in the economy are reduced, as a result of the increase in net assets in portfolio investments and trade credits, in conditions of decline in net liabilities on the basis of direct investments and long-term loans. At the same time, there are no changes in terms of the government net liabilities compared to the previous quarter.

<sup>54</sup> The calculations use the nominal GDP forecast (from October 2020).



Annually, the international investment position also increased (by 6.9 pp of GDP), as a result of the higher growth of international liabilities relative to the growth of international assets (by 10.1 and 3.2 pp of GDP, respectively). Observed by sector, the annual growth mostly stems from the higher net liabilities of the government, i.e. external government borrowings during the year in the form of debt securities and long-term loans from international institutions. Increased net liabilities of the other sectors of the economy additionally contribute to the annual growth of the IIP, mainly due to increased net liabilities to direct investors and lower net liabilities to the banking sector, mainly due to lower net-assets in currency and deposits and long-term loans. At the same time, net assets of the central bank grew as a result of the increase in the foreign reserves, which partly neutralized the shifts in other sectors of the international investment position.

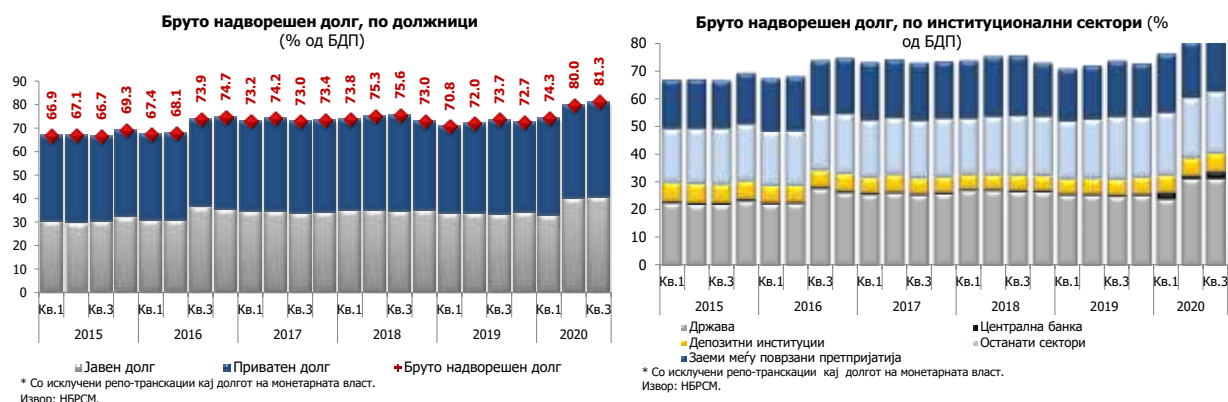


**At the end of the third quarter of 2020, the level of the gross external debt was Euro 9,086.6 million, or 83.4% of GDP, which is an increase of 2.7 pp of GDP, compared to the previous quarter. By excluding the effect of the specific activities for managing the foreign reserves of the National Bank<sup>55</sup>, the gross external debt registers a quarterly growth of 1.4 pp of GDP. This shift in the level of the gross external debt largely results from the growth of the private external debt, in conditions of a slight increase in the public sector debt. The quarterly increase of the private debt is mostly due to increase in liabilities to non-banking sector based on trade credits and the increase in the intercompany**

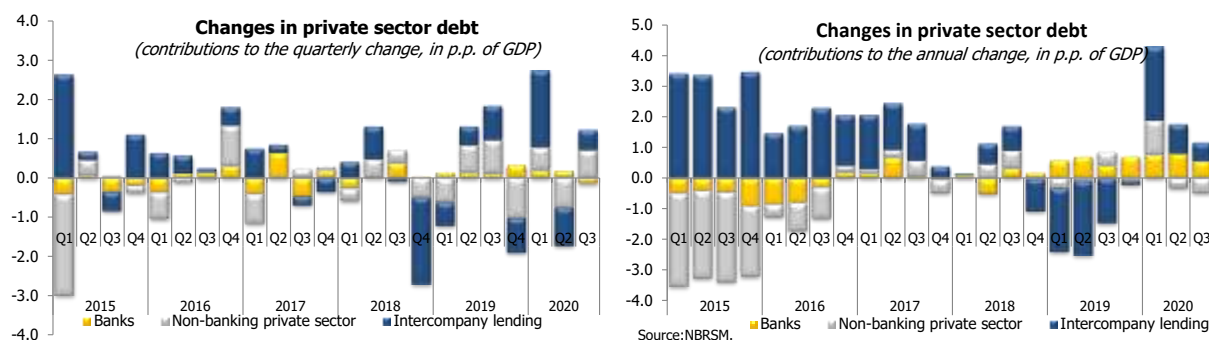
<sup>55</sup> The specific foreign reserves management activities of the central bank include repo agreements and other foreign reserves management operations.



debt, in conditions of a slight decline of the debt with private banks. At the same time, a slight quarterly growth is registered in the public debt<sup>56</sup>.

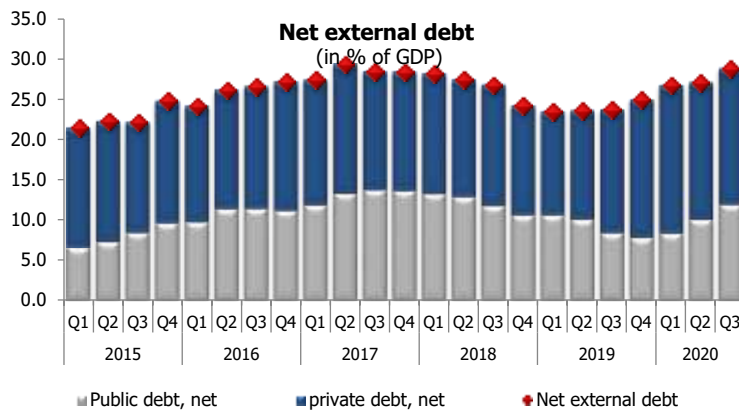


The annual change in the gross external debt indicates an increase of 7.6 pp of GDP amid higher growth in the public compared to the private debt (of 6.9 and 0.7 pp of GDP, respectively). The annual growth of the public debt is mostly due to the higher debt of the central government (due to the issuance of the new Eurobond and the loan from the IMF). The increase of the private sector indebtedness mainly stems from the banking sector (higher liabilities of long-term loans and currency and deposits), as well as increased liabilities based on intercompany debt, amid decline in liabilities of the non-banking sector.



At the end of September 2020, the net external debt stood at Euro 3,141.1 million, or 28.8% of GDP, which is a quarterly increase of 1.7 pp of GDP. The higher net external debt is mainly due to higher net debt of the public sector (by 1.8 pp of the GDP), amid small decline of the net debt of the private sector (by 0.1 pp of the GDP).

<sup>56</sup> This quarterly change is due to the increase in liabilities of the Development Bank of North Macedonia (DBNM) based on the withdrawals from the fifth phase of the EIB loan to small and medium enterprises.



\* Excluding repo-transactions.  
Source: NBRSM.

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

Indicators for external indebtedness	Solvency				Liquidity		
	Interest payments/ Export of goods and services and other inflows	Gross debt/ Export of goods and services and other inflows	Gross debt/ GDP	Debt servicing/ Export of goods and services and other inflows	Foreign reserves/ Short- term debt	Foreign reserves/ Short-term debt, with residual maturity**	Short-term debt/ Overall debt
	in %				ratio	ratio	in %
31.12.2010	3.22	140.4	59.7	13.9	1.49	0.99	27.9
31.12.2011	3.12	148.4	64.6	16.8	1.78	1.18	25.2
31.12.2012	2.92	142.1	67.6	13.1	1.64	1.03	26.7
31.12.2013	2.51	137.3	67.3	15.8	1.64	1.08	23.3
31.12.2014	3.01	149.1	74.0	17.2	1.82	1.13	22.3
31.12.2015	2.69	143.9	73.2	20.0	1.69	1.13	21.3
31.12.2016	2.37	149.39	79.33	14.89	1.65	1.16	21.93
31.03.2017	2.69	138.68	76.61	12.72	1.47	1.00	23.53
30.06.2017	2.69	140.69	77.72	12.72	1.33	0.88	24.19
30.09.2017	2.69	138.24	76.37	12.72	1.26	0.86	24.57
31.12.2017	2.69	139.17	76.88	12.72	1.32	0.89	23.94
31.03.2018	2.22	132.80	78.27	15.77	1.30	0.93	25.06
30.06.2018	2.22	135.55	79.89	15.77	1.27	0.96	25.61
30.09.2018	2.22	135.98	80.14	15.77	1.30	0.98	25.59
31.12.2018	2.22	131.37	77.42	15.77	1.42	1.04	25.75
31.03.2019	2.05	119.55	74.37	8.89	1.40	0.98	25.81
30.06.2019	2.05	121.51	75.59	8.89	1.37	0.97	26.39
30.09.2019	2.05	124.39	77.38	8.89	1.37	0.97	27.62
31.12.2019	2.05	123.15	76.61	8.89	1.56	1.02	25.52
31.03.2020	2.45	121.76	73.94	16.79	1.39	0.95	26.63
30.06.2020	2.45	121.76	73.94	16.79	1.39	0.95	26.63
30.09.2020	2.33	129.02	80.93	15.26	1.71	0.98	22.95
Moderate indebtedness criterion*	12 - 20%	165 - 275%	30 - 50%	18 - 30%	1.00		

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

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

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

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

\*According

Source: NBRNM.



## II. Monetary policy<sup>57</sup>

***In the fourth quarter of 2020, the National Bank did not change the monetary policy stance, maintaining the policy rate at 1.5% after the three-time reduction since early this year. The monetary easing supported credit flows in the economy and increased liquidity in the banking system. The solid annual growth rates of total deposits and total loans were maintained also in the fourth quarter of the year. Foreign reserves are still at an appropriate level and are maintained in a safe zone. The National Bank will continue to carefully monitor the indicators and potential risks of the domestic and external environment, in order to adequately adjust the monetary policy setup.***

In the fourth quarter of the year, the National Bank did not change the monetary policy stance, and the policy rate remained at a record low of 1.5%. Given the already performed monetary easing in the first half of 2020, amid continued risks, the monetary stance was assessed as appropriate to the current economic and financial conditions. The decline in the key interest rate to the current level, as well as the current significant reduction of the offered amount of CB bills, contributed to increasing liquidity of the banking system and supporting credit flows in the economy. Moreover, in the fourth quarter, the banks showed growing interest for foreign deposits auctions, which were reactivated by the National Bank in the middle of the third quarter. Amid uncertainty on the international markets, this instrument gives the banks in the country a chance to place portion of their foreign assets in short-term and safe instruments of the central bank.

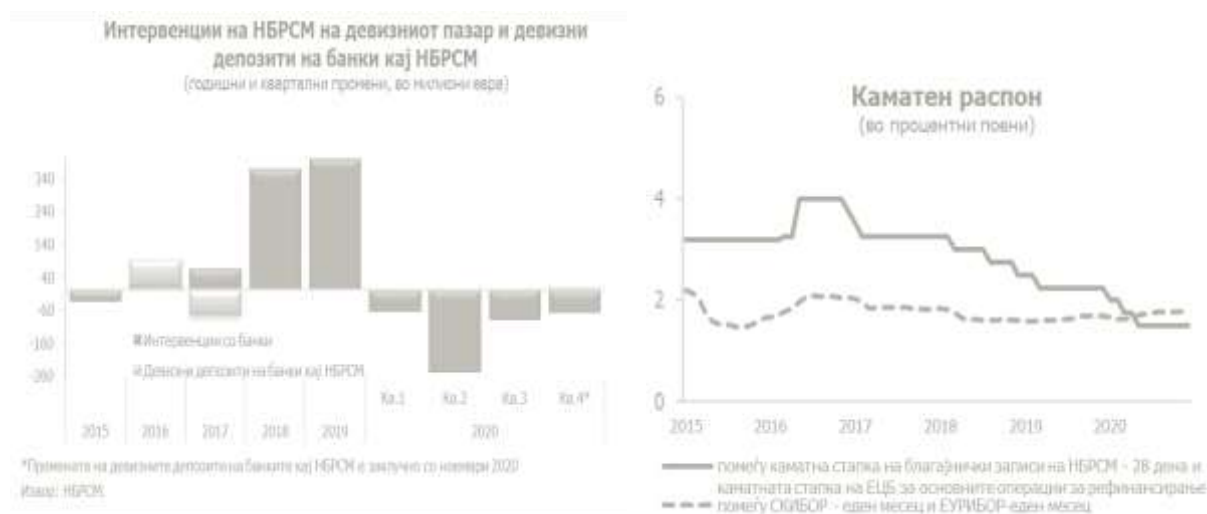


The performances<sup>58</sup> of the main macroeconomic indicators in the domestic economy are mainly as expected with the forecasts. Regarding the inflationary movements, the average annual growth rate of consumer prices in October and November was 2.1%, whereas the risks in relation to the inflation forecast in 2020 were assessed as balanced. Analyzing the economic activity, as shown with the disclosed estimated GDP data, the third quarter of 2020 registered significant slowdown in the annual decline of GDP to 3.3%, in line with the temporary stabilization of the situation with the pandemic at this time of year and the relaxation of the measures for prevention of its spreading, coupled with the effect of the

<sup>57</sup> For more information on the new monetary measures, see the National Bank website: [http://www.nbrm.mk/content/Hronologija\\_na\\_promenite\\_vo\\_postavenosta\\_na\\_monetarnite\\_instrumenti\\_na\\_NB\\_1-13\\_9-20.pdf](http://www.nbrm.mk/content/Hronologija_na_promenite_vo_postavenosta_na_monetarnite_instrumenti_na_NB_1-13_9-20.pdf)

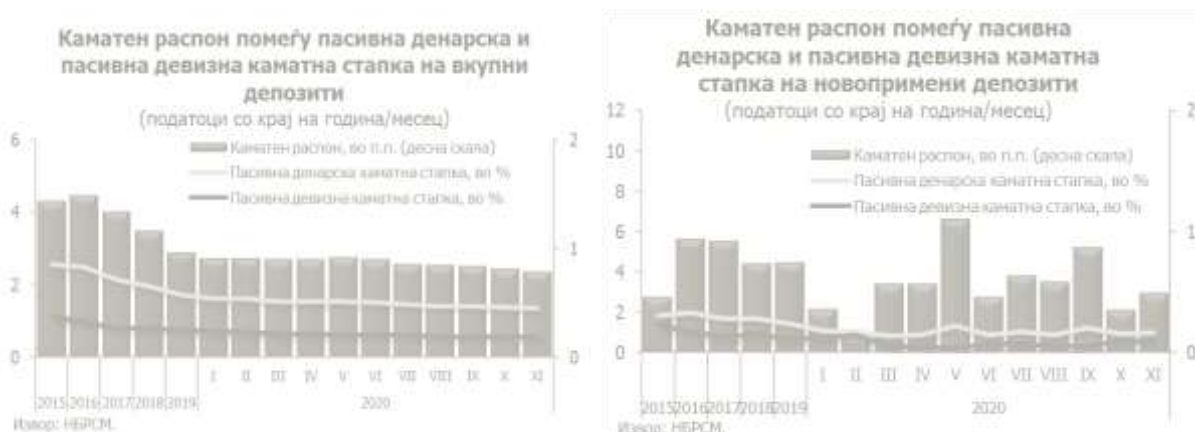
<sup>58</sup> It refers to the available information during the fourth quarter that was taken into account when making the decisions on the monetary stance in that period.

undertaken monetary and fiscal measures. Although in a limited scope, available high frequency data for the fourth quarter of 2020 point to more moderate negative effects from the health crisis on the economic activity, which is evident from the slowdown of the annual rates of decline in industry and trade, amid reintroduction of the restrictive measures, yet in a significantly milder form, compared to the beginning of the pandemic. Regarding the foreign reserves, they were kept at an appropriate level and within the safe zone, while the change in foreign reserves in the fourth quarter was mostly affected by the regular repayment of the public sector liabilities abroad, the National Bank's interventions on the exchange market, as well as by currency changes and the changes in the price of gold. The performances of foreign reserves were better compared to the expectations. **Analyzing total deposits and total loans, the November data show further and solid annual growth**, within the expectations according to the October forecast.



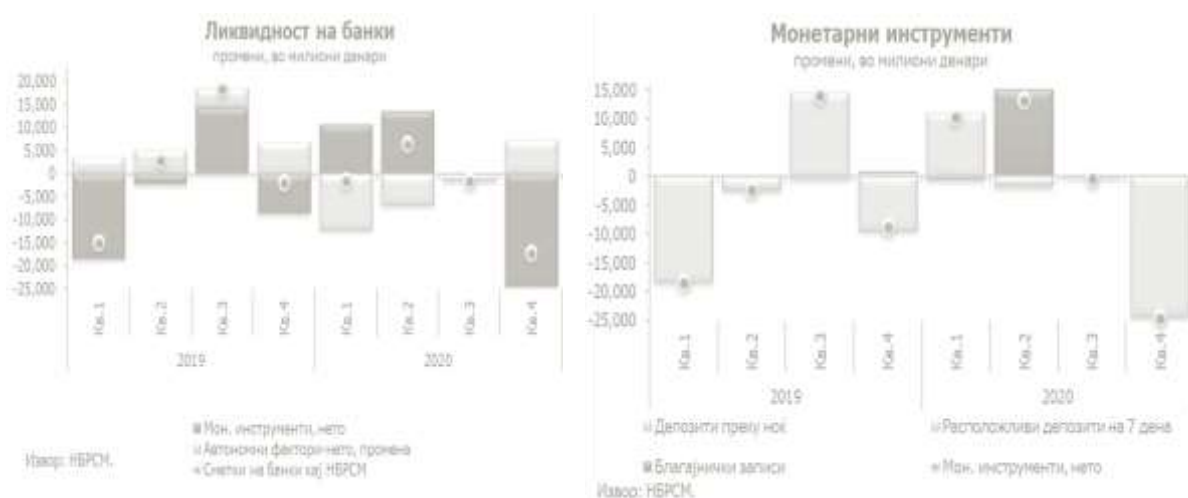
In the last quarter of the year, the ECB continued to relax the monetary policy. Amid still present uncertainty on the global markets, the ECB decided to increase and continue with the emergency plan designed for support of the economies in the euro area in dealing with the crisis. The ECB policy rate remained unchanged. Amid unchanged policy rates of the National Bank and of the ECB during the fourth quarter, the spread between these interest rates remained at the level from the previous quarter. Regarding the indicative market interest rates, 1m EURIBOR and 1m SKIBOR, the spread between them moderately widened at the end of the fourth quarter. The spread during the fourth quarter stems from the decrease of 1m EURIBOR, while 1m SKIBOR remained at the same level as at the end of the previous quarter.

In the domestic economy, the spread of interest rates on total deposits (in denars and in foreign currency) in November remained as at the end of September (0.8 pp), amid unchanged interest rate on denar and foreign currency deposits. In newly accepted deposits, the interest rate spread narrowed (from 0.9 pp in September) to 0.5 pp in November, given the decrease in the interest rate on denar deposits of 0.2 pp and increase in the interest rate on foreign currency deposits of 0.2 pp.



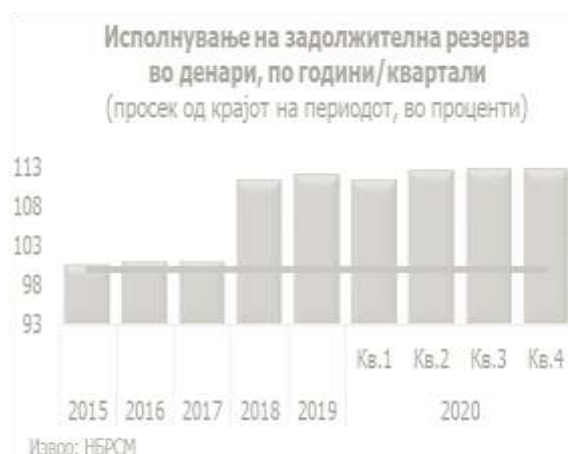
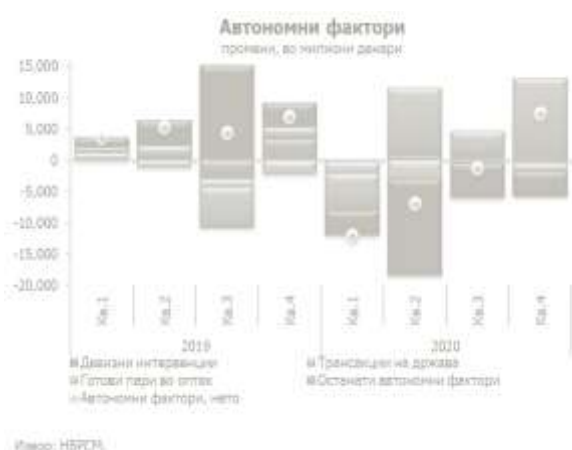
## 2.1. Bank liquidity

In the fourth quarter of 2020, the banks' denar liquidity decreased, which entirely results from the change in the monetary instruments, i.e. from the higher amount of banks' funds placed in overnight deposit facilities. The autonomous factors, net, created liquidity in the banking system, as a result of the change in government transactions.



The banks' deposit facilities with the National Bank contributed to withdrawing liquidity (by Denar 24,442 million) almost entirely reflecting the increase in overnight deposit facilities (by Denar 24,270 million) amid small growth in the 7-day deposit facilities (of Denar 172 million). At the end of the fourth quarter, the stock of the main instrument - the CB bills of the NBRNM was Denar 10,000 million and registered no changes compared to the end of the previous quarter.

The autonomous factors, net, in the fourth quarter created liquidity in the amount 7,346 million. Such change is a result of the government transactions, while the National Bank's interventions in the net sales on the foreign market as well as the increase of the cash in circulation, acted in the direction of withdrawing the liquidity from the banking system.



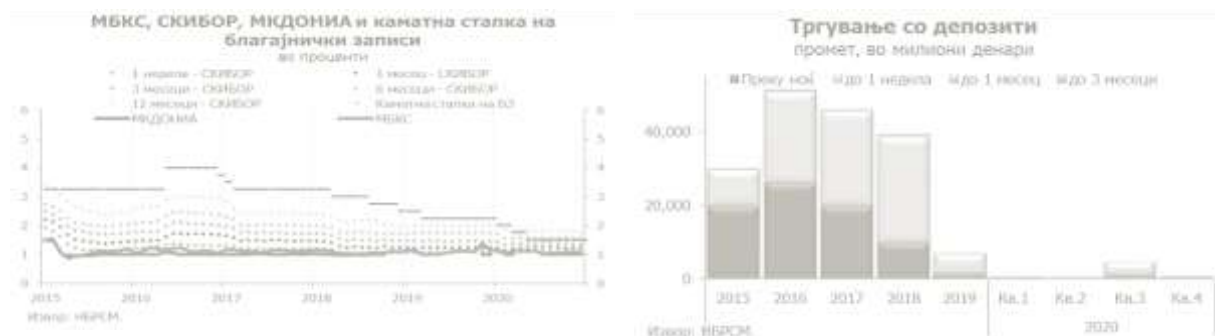
Analyzing reserve requirement, in the fourth quarter of the year, the banks had more allocated funds on the accounts with the National Bank than the determined amount of the reserve requirement in denars, by about 12% on average.

### III. Financial market developments

*The interest rate on the interbank deposit market in the last quarter of the year slightly increased and averaged 1.1%. In conditions of unchanged key interest rate of the National Bank, no significant changes were noted in SKIBOR quotations, with the exception of the six-month and twelve-month quotations, which registered a slight upward, i.e. downward shift of the interest rates. In the primary government securities market, the new issues were mainly in longer maturities and in domestic currency, while the secondary market registered trade in government bonds. On the Macedonian Stock exchange, despite the still present uncertainty due to the COVID-19 pandemic, the stock exchange turnover increased by 10.7%. Moreover, the value of the MBI-10 registered a growth of 4.9%, in line with the upward shifts of the regional stock exchange indices. The volatility indices in the international financial markets increased, on average, which indicates still present uncertainty on the global markets. The yields on Macedonian Eurobonds registered faster reduction compared to the reduction in the German government bonds which narrowed the spreads between these two bonds.*

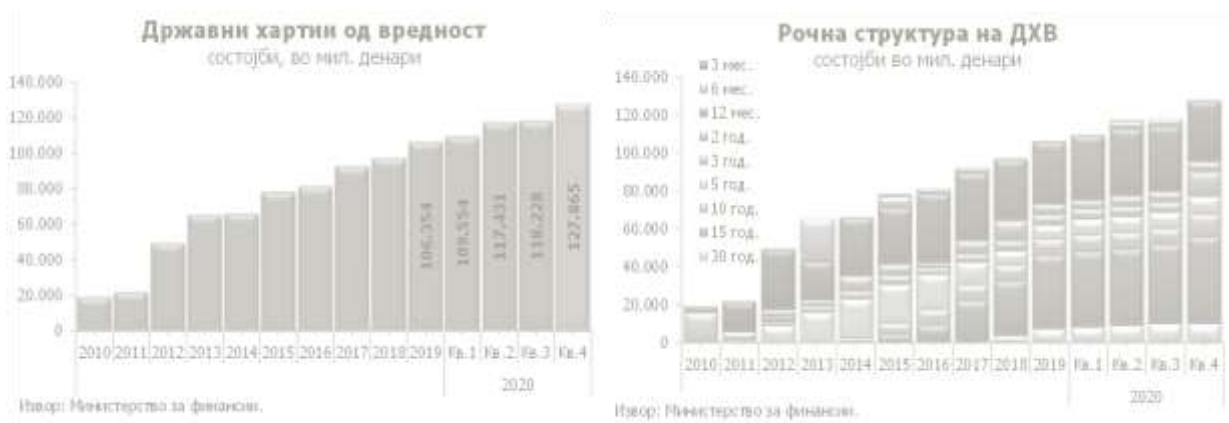
#### 3.1. Interbank market for uncollateralized deposits

In the last quarter of the year, the interest rate of the interbank deposit market, on average, registered a minimal increase compared to the previous quarter, of 1.03%, amid unchanged key interest rate of the National Bank. The trading on the interbank deposit market was moderate and amounted to Denar 906 million (Denar 4,624 million in the previous quarter), primarily as a result of transactions with maturity up to 7 days and less of overnight transactions. Interest rates in SKIBOR quotations, on average, registered no change, with the exception of the slight upward adjustment of the interest rates in quotations with a maturity of six months, i.e. downward adjustment of the interest rates in quotations with maturity of twelve-months.

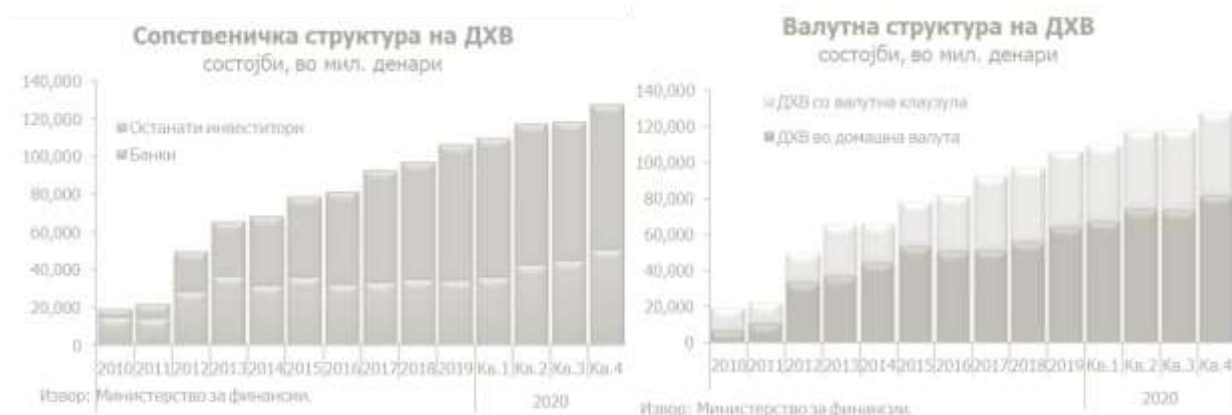


## 3.2. Government securities market

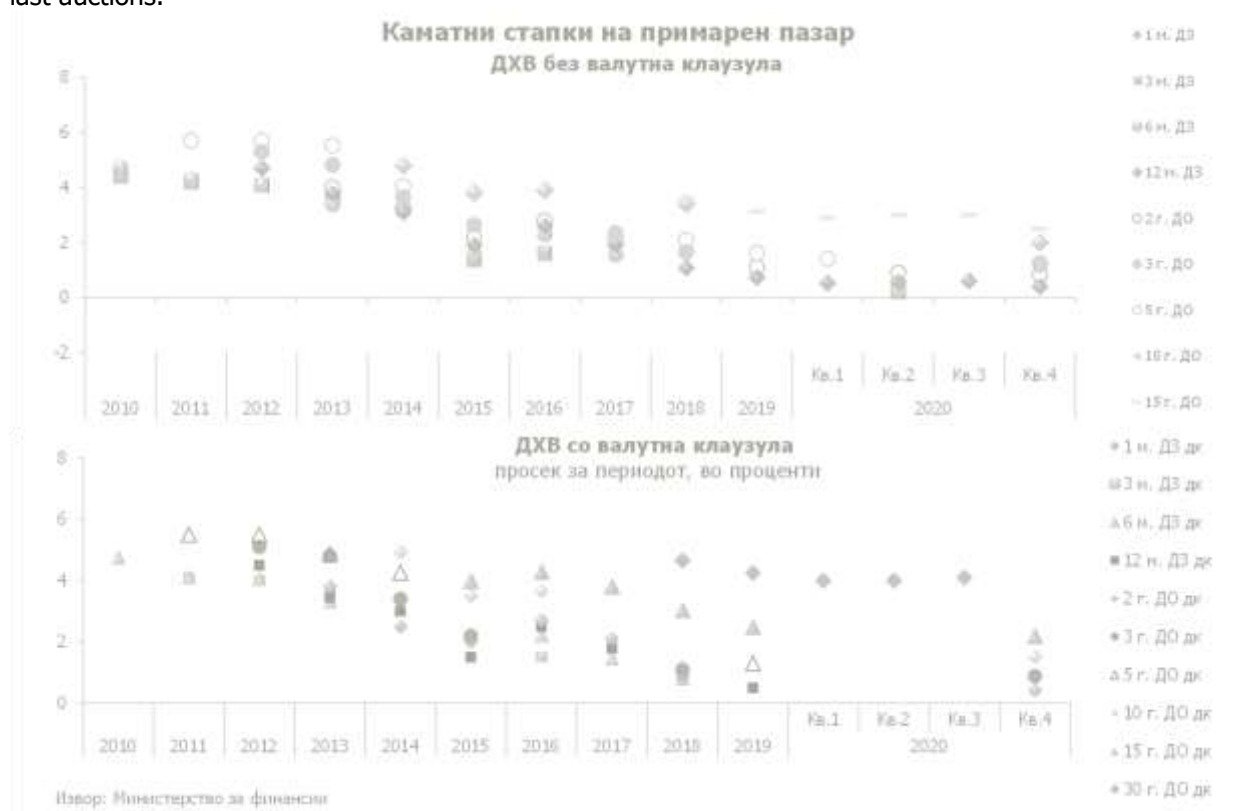
On the primary market of government securities, the stock of issued securities in the fourth quarter of the year continued its upward trend at a faster pace compared to the previous period<sup>59</sup>. Structurally speaking, the growth is entirely due to the increase in government bonds, amid further decline in treasury bills. Government bonds dominate (with a share of 74.8%) in total government securities issued on the primary market. In terms of maturity, the most common are 15-year government bonds and 12-month treasury bills, with a share of 36.1% and 25.2%, respectively in total government securities. Thus, in the fourth quarter, there was a more pronounced growth of the share of 3-year government bonds, from 4.8% to 10.3%, due to the changes in the government financing. Analyzing the currency structure, government securities without currency clause maintained their dominant share, making up 63.3% of total government securities (62% in the previous quarter). Banks in this quarter also mainly invested in the newly issued government securities, thus their share in the ownership structure of the government securities increased from 38% to 39.7%. However, most of the total issued government securities are still owned by other investors (60.3%), mostly pension funds.



<sup>59</sup> Most of the growth of the stock of government securities accounts for the change in the form of government financing by banks in December, i.e. an investment in government securities at the expense of the due loan (around Denar 8.173 million) which was approved at the beginning of the year.



Interest rates on government securities slightly decreased in the fourth quarter, compared to the previous quarter. On the primary market, 12-month treasury bills were issued without currency clause with interest rate of 0.4% (0.6% in the third quarter). Also, the primary market witnessed the issuance of 2-, 3-, 5-, 10- and 15-year government bonds without currency clause and 2-, 3-, 10- and 15-year government bonds with currency clause, with interest rates ranging from 0.4% to 2.5%, which were lower than the last auctions.

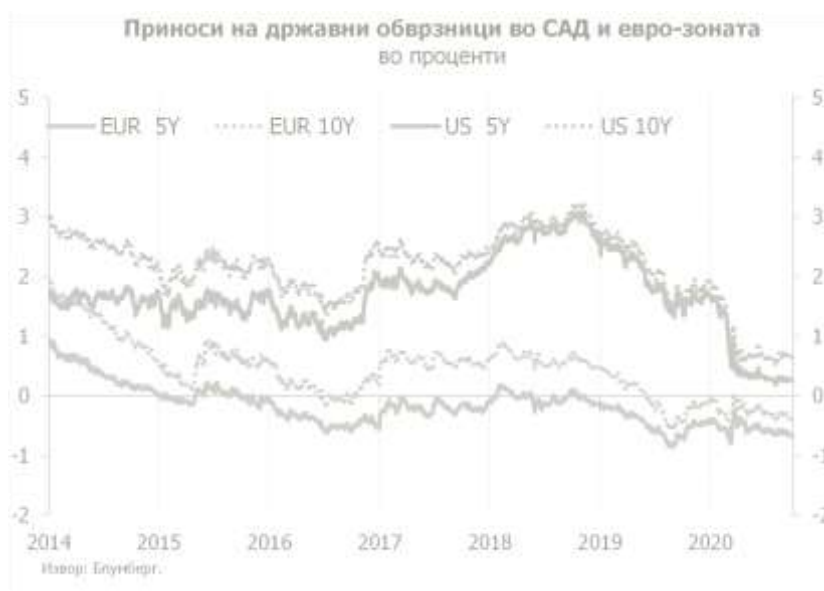


Trading in securities on the secondary market in the last quarter of the year was small (Denar 196 million), with this market segment being dominated exclusively by government bond transactions. Observing maturity, there were transactions with residual maturity from 10 to 15 years and from 15 to 30 years (with an average yield to maturity of 3.2% and 4.1%, respectively).





Globally, amid resurgence of COVID-19 rates, policymakers continued taking measures to support economies, by creating liquidity and lending support. In such circumstances, in the fourth quarter, on the financial markets in the euro area, the yields on 10-year government securities<sup>60</sup> remained relatively stable and averaged around -0.4% (-0.3% in the previous quarter), while the yields on 10-year US government bonds<sup>61</sup> amounted to 0.9% (0.6% in the third quarter of the year).



The yields on Macedonian Eurobonds in the fourth quarter of the year on average registered a faster decline compared to the decline in the German government bonds, which narrowed the spreads between these two bonds, which averaged 1.3 pp, 2.1 pp, 2.4 pp and 2.5 pp, respectively.

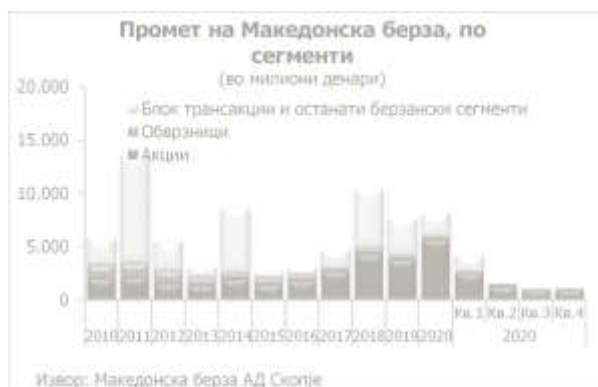
<sup>60</sup> Those are generic government bonds derived from the yield curves of government bonds of Germany and France.

<sup>61</sup> Those are generic yields derived from the yield curve of government bonds of the United States.



### 3.3. Stock markets

On the Macedonian Stock Exchange, the value of the stock exchange index MBI-10, driven by the value of shares of several joint stock companies, increased by 4.9% in the last quarter of the year (9% in the third quarter) to 4,705 index points. The stock exchange turnover registered a moderate quarterly growth of 10.7%, primarily due to the growth of block trades and other stock exchange segments (contribution of 66% to the stock exchange turnover), amid a slight increase in the trade in shares and bonds. The value of the bond index (OMB) during the quarter remained stable at 133 (as at the end of the previous quarter).



In the fourth quarter of 2020, the stock exchange indices in the region moved upwards, by an average of 10%, despite the 0.5% fall in the previous quarter. Significant upward movement was registered in the Hungarian and Polish indices that registered a quarterly growth of 27.9% and 15.8%, respectively. The indices of other stock exchanges in the region registered more moderate growth ranging from 4.7% to 8.9%, while only the Bosnian index registered a quarterly decline of 4.4%. Volatility indices

on the bond and stock markets i.e. the VIX<sup>62</sup> and MOVE indices registered an average daily increase of 4.3%, which indicates continuation of the global market uncertainty.



## IV. Monetary and credit aggregates<sup>63</sup>

***In the fourth quarter of 2020, the growth of broad money M4 significantly accelerated. Structurally, money growth was driven by demand deposits, with positive yet lower contribution of deposits. The analysis of deposit maturity indicates positive contribution of both short-term and long-term deposits in the growth of the money supply. Such shifts partly reflect the seasonal effects and are typical for this period of the year, with additional effect of the payment of funds to households and companies as part of the fourth package of economic measures to deal with COVID-19 crisis. Similar developments were registered in lending. In the fourth quarter of the year, lending activity accelerated given the loans granted to both sectors. On the other hand, the results of the Lending Survey for the fourth quarter indicate a net decline in demand for loans, with most banks pointing to unchanged credit standards for both sectors.***

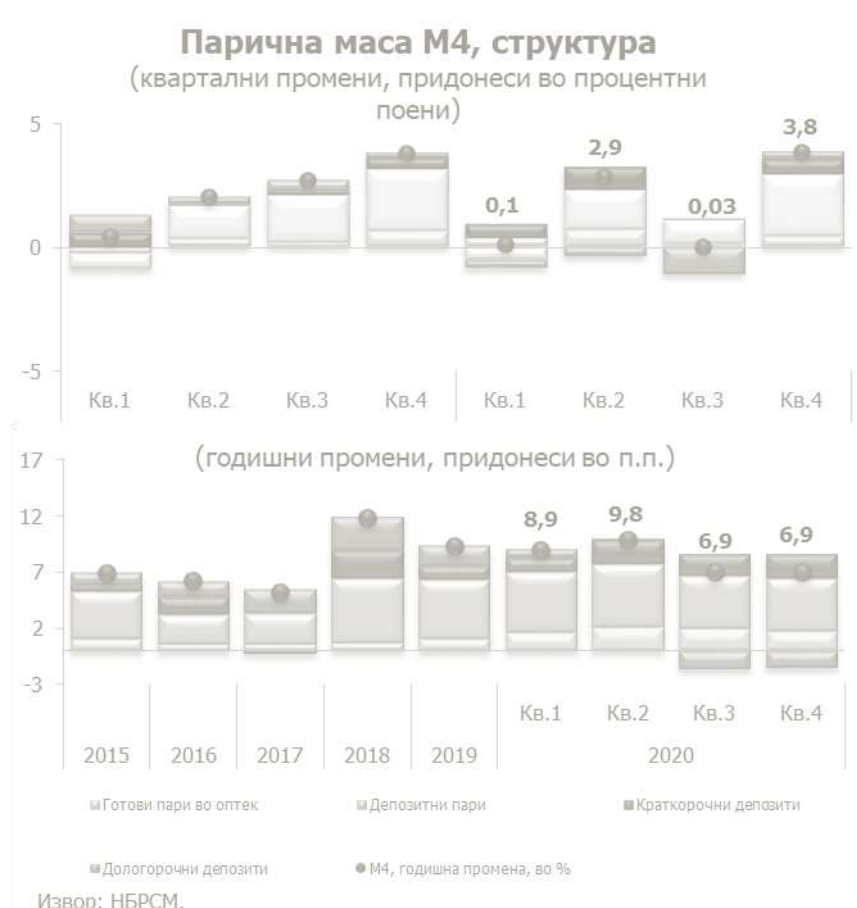
### 4.1. Monetary aggregates

After the stagnation in the previous quarter, in the fourth quarter of 2020, the broad money declined M4 registered a quarterly growth of 3.8%. The accelerated growth of money supply is a normal seasonal movement for the last quarter of the year, partly supplemented by the payments from the government package of measures to support economy and to deal with the COVID-19 crisis, aimed to financially support households and companies affected by the crisis. Observing the money supply structure, the growth accelerated primarily due to the most liquid component, i.e. demand deposits (contribution of 2.5 pp to the growth), which is usual for the last quarter of the year. The other

<sup>62</sup> The MOVE index (Merrill Lynch Option Volatility Estimate) shows the volatility of the US government bond markets. The VIX index (Volatility Index) is constructed based on the implied volatility of S&P500 index options. Investors use both indices as indicators of the conditions and expectations for the financial markets volatility. Downward path in indices indicates a decrease in volatility.

<sup>63</sup> Monetary aggregates, and total deposits and loans data as of August 2020 do not include data on a small bank whose founding and operating license was revoked and which went into bankruptcy in August 2020. For more realistic understanding of the flows in the banking system at the end of the year without the effect of such a change, adjustments were made in the data for the respective bank. The adjustment in total deposits was made by including the amount of deposits which is not subject to indemnification through the Deposit Insurance Fund in the current balance of total deposits (assuming that the indemnified deposits will be kept in another bank in the system), while the adjustment of total loans was made by including the July data on the balance of bank's loans in the current balance of total loans.

components of the broad money i.e. cash in circulation, also registered moderate growth, with positive contribution of savings. The analysis of deposit maturity indicates simultaneous increase in short-term and long-term deposits, with a contribution of 0.6 pp and 0.3 pp, respectively. Regarding the currency structure, denar deposits made a negative contribution of 0.3 pp to the quarterly growth of the broad money M4, with a positive contribution of foreign currency deposits (of 1.2 pp). The share of foreign currency deposits in M4 at the end of the fourth quarter of the year was 35.6%, which is slightly lower compared to the end of the previous quarter (35.7%). Annually, the growth of M4 was 6.9% at the end of the last quarter (unchanged relative to the end of the previous quarter).



After the minor change in the previous quarter, total deposits in the financial system<sup>64</sup> in the fourth quarter of 2020 registered a quarterly growth of 3.7%. Analyzing by sector, the deposit increase was primarily driven by the growth of corporate deposits, amid solid growth of household deposits, with negative contribution of the deposits of other sectors. From currency point of view, total denar deposits made a positive contribution of 2.4 pp to the quarterly growth of total deposits (given the growth of demand deposit and decrease in denar deposits), amid lower positive contribution by foreign currency deposits (of 1.4 pp). Analyzing the maturity structure, the growth was mostly driven by short-term deposits, amid growth of long-term deposits. On an annual basis, the growth of total deposits at the end of December equaled 5.7% (5.4% at the end of the previous quarter), i.e. 6.3% with adjustment for the effects of the bank that went into bankruptcy in August.

<sup>64</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. For more information on the methodological changes visit: [http://www.nbrm.mk/monetarna\\_statistika\\_i\\_statistika\\_na\\_kamatni\\_stapki.nspk](http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspk).



Household deposits in the fourth quarter of the year registered a moderate growth of 2.4% compared to the previous quarter. The solid quarterly growth was mostly associated with certain seasonal factors typical for the end of the year, such as early payment of pensions and part of the private sector wages. An additional contribution this year was made by the payment of financial support to citizens from the fourth package of economic measures to deal with the consequences of the coronavirus. Analyzing the currency, the growth mostly reflects the higher denar deposits (including demand deposits) amid simultaneous growth of foreign currency deposits. Analyzing the maturity structure, short-term deposits increased, amid moderate decline in long-term deposits. The annual increase in total household deposits was 4.6% at the end of December (6.1% in September). Including the effect of the bank that went bankrupt in August, the annual growth of household deposits in December was 5.2%.

Corporate deposits in the fourth quarter registered stronger quarterly growth of 9.5% (1.8% in the third quarter), which according to the currency structure, mostly arises from denar deposits, i.e. demand deposits, with moderate growth of foreign currency deposits. In addition to credit support from banks for this sector that contributed to increasing the multiplier effect of lending on deposits, an additional factor for the strengthened corporate deposit growth are the paid funds from the fourth package of measures to deal with the effects of the coronavirus on the real economy. Analyzing the maturity, growth was recorded in both short-term and long-term deposits. Annually, at the end of December, corporate deposits increased by 10.1% (8% at the end of the previous quarter). Including the effect of the bank that went bankrupt in August, the annual growth of corporate deposits in December was 10.8%.

Депозити на домаќинствата								
	2019				2020			
	Кв.1	Кв.2	Кв.3	Кв.4	Кв.1	Кв.2	Кв.3	Кв.4
	квартални промени во %							
Вкупни депозити на домаќинствата	0,5	1,7	1,7	3,9	1,1	1,8	-0,7	2,4
придонес во квартална промена на вкупните депозити во п.п.								
Депозитни пари	-0,8	1,2	0,5	3,1	0,7	1,5	0,5	2,0
Денарски депозити	0,6	0,2	0,2	0,3	-0,2	-0,9	-1,7	-0,1
Девизни депозити	0,7	0,3	1,0	0,5	0,6	1,2	0,5	0,6
Краткорочни депозити	0,5	0,1	0,8	0,5	0,5	0,8	0,7	0,5
Долгорочни депозити	0,8	0,3	0,4	0,2	-0,1	-0,4	-1,9	-0,1
Извор: НБРСМ								

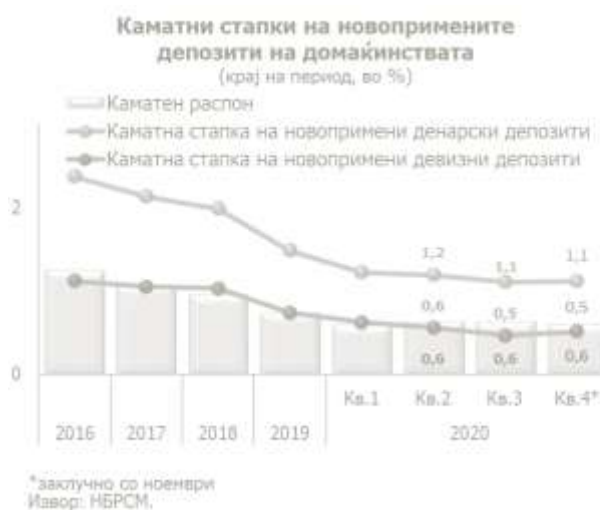
Извор: НБРСМ.

Депозити на претпријатијата								
	2019				2020			
	Кв.1	Кв.2	Кв.3	Кв.4	Кв.1	Кв.2	Кв.3	Кв.4
квартални промени, во %								
Вкупни депозити на претпријатијата	-1,6	3,4	4,7	7,5	-3,4	2,2	1,8	9,5
придонес во квартална промена на вкупните								
Депозитни пари	-2,1	3,6	4,9	6,1	-3,9	2,0	2,8	6,7
Денарски депозити	-0,8	0,9	-0,3	0,0	-1,4	-0,4	-1,0	-0,7
Девизни депозити	1,3	-1,1	0,2	1,4	2,0	0,6	-0,1	3,6
Краткорочни депозити	-0,1	-0,5	-0,2	0,6	1,5	0,2	-1,1	1,8
Долгорочни депозити	0,6	0,3	0,1	0,7	-1,0	0,1	0,1	1,0

Извор: БРБСМ

Извор: НБРСМ.

The analysis of yield<sup>65</sup> on new savings indicates that in November the interest rates on new<sup>66</sup> denar and foreign currency deposits of households did not change compared to the previous quarter and amounted to 1.1% and 0.5%, respectively. In such circumstances, the interest rate spread between the new denar and foreign exchange household savings in November amounted to 0.6 pp, same as in the previous quarter. Interest rates on newly accepted denar and foreign currency corporate deposits in November equaled 0.9% and 0.4%, respectively (1.3% and 0.1%, respectively in September). With such shifts, the interest rate spread between the newly accepted denar and foreign currency corporate deposits at the end of November narrowed to 0.4 pp. Analyzing the total accepted deposits (denar and foreign currency), the interest rate on household deposits in November was 0.9% and dropped slightly by 0.03 pp. compared to September, while the interest rate on corporate deposits in November was 1.2% and registered a minor upward movement of 0.1 pp.



## 4.2. Lending activity

Banks' lending accelerated in the last quarter of the year. In the fourth quarter of 2020, total loans to the private sector increased by 1.3% on a quarterly basis. To encourage lending, since the onset of the crisis, the National Bank has adopted a set of measures to reduce the cost of financing through

<sup>65</sup> Data on interest rates are in line 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>66</sup>One should have in mind that the interest rates on the newly accepted deposits are volatile. Volatility of interest rate on newly accepted deposits results from the fact that they are driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.



loans from banks, and to inject additional liquidity into the banking system. Analyzing credit standards, according to the results of the Lending Survey, the fourth quarter witnessed slight net tightening of credit standards for the corporate sector, amid net easing of the conditions for approving housing and consumer loans. However, the largest percentage of banks still indicates unchanged credit standards for both sectors. Also, further downward adjustment of credit demand was registered, both by companies and households. For the first quarter of 2021, banks expected a net decrease in total demand for loans by both sectors and easing of the credit standards.

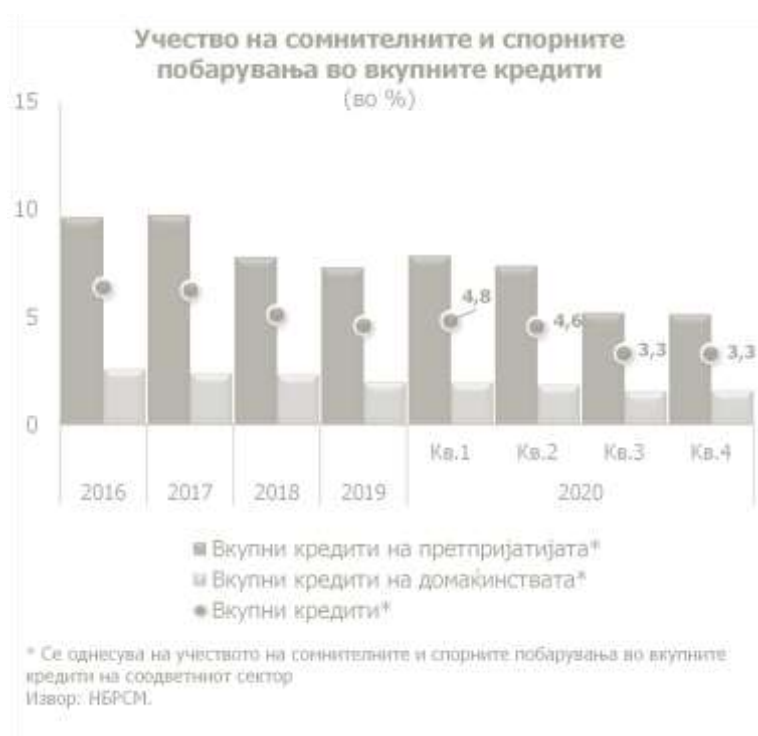
Вкупни кредити на приватен сектор								
	2019				2020			
	Кв.1	Кв.2	Кв.3	Кв.4	Кв.1	Кв.2	Кв.3	Кв.4
квартални промени, во %								
Вкупни кредити на приватен	0,8	1,8	-0,5	3,8	0,7	2,6	0,03	1,3
придонос во квартална промена на вкупните кредити, во п.п.								
Денарски кредити	0,4	0,8	-0,8	2,0	0,5	1,7	-0,1	0,6
Девизни кредити	0,5	1,0	0,3	1,8	0,2	0,9	0,1	0,6
Краткорочни кредити	-0,1	-0,3	-0,9	0,6	0,1	-0,4	-1,2	0,4
Долгорочни кредити	0,8	1,8	1,2	3,2	0,3	2,7	2,2	1,0
Домаќинства	0,9	1,7	1,1	1,4	0,8	1,1	1,4	0,7
Претпријатија	0,0	0,2	-1,7	2,5	-0,1	1,5	-1,4	0,5

Извор: НБРСМ.



The structural analysis of loans to the private sector indicates that the quarterly growth primarily stems from the increase in household loans, amid growth in corporate loans. From a currency point of view, the growth equally results from both denar and foreign currency loans<sup>67</sup>. Analyzing the maturity structure, the quarterly growth of total loans was largely due to long-term loans, amid slower growth of short-term loans. Also, the share of doubtful and contested claims in total loans at the end of December remained unchanged compared to September (3.3%).

<sup>67</sup> Foreign currency loan data also include denar loans with currency clause.

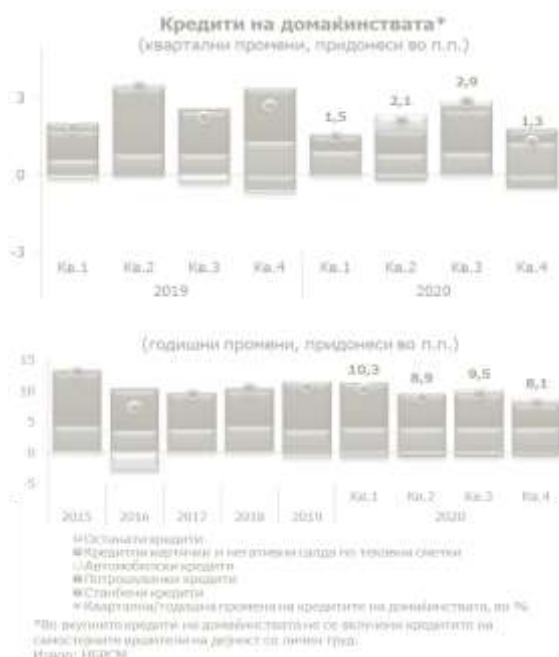


Annually, total loans at the end of the fourth quarter increased by 4.7%, which is a moderate slowdown compared to the previous quarter (7.3%), which is visible in both sectors, but significantly more pronounced in corporate loans. Adjusting for the effect of the bank that went bankrupt in August, the growth of total loans at the end of December was 6.4% on annual basis. The annual growth of total loans is still primarily due to the growth of household loans, amid slight contribution of corporate loans. At the end of December, loan/deposit ratio registered a slight decrease to 80.6% (82.6% at the end of September).

In the fourth quarter of 2020, the growth of household lending accelerated compared to the previous quarter. The quarterly growth of 1.3% (2.8% in the third quarter) largely stems from the increase in housing and consumer loans, with a smaller positive contribution of other loans, amid slight decline in credit cards and overdrafts. The results of the Lending Survey for the fourth quarter in the household sector indicate a net decrease in the demand for housing and consumer loans, amid further net easing of the credit standards. Analyzing by currency, the growth of household loans results almost equally from the increase in denar and in foreign currency loans (including loans with foreign currency clause). Analyzing the maturity structure, the quarterly growth was due to long-term loans, amid fall of short-term loans. Annually, at the end of December, total household loans increased by 8% (9.5% at the end of September).

Кредити на домаќинствата	2019				2020			
	Кв.1	Кв.2	Кв.3	Кв.4	Кв.1	Кв.2	Кв.3	Кв.4
квартални промени, во %								
Вкупни кредити на домаќинствата	1,8	-3,4	2,2	2,7	1,5	2,1	2,8	1,3
придонес во квартална промена на вкупните кредити, во п.п.								
Денарски кредити	1,6	1,7	0,8	1,3	0,9	1,6	2,5	0,6
Девизни кредити	0,2	1,7	1,4	1,3	0,6	0,5	0,3	0,7
Краткорочни кредити	0,4	0,05	0,01	-0,3	0,01	-0,4	0,03	-0,1
Долгорочни кредити	1,4	3,2	2,5	3,1	1,5	1,9	2,6	1,3

Извор: НБРСМ



In the fourth quarter of 2020, total loans extended to the corporate sector registered a quarterly increase of 2.8%, after the fall of 2.8% in the previous quarter. The results of the Lending Survey for the fourth quarter indicate a net decrease in the corporate loan demand, amid net tightening of credit standards. Analyzing the currency, the growth of denar and foreign currency loans contributes almost equally (including loans with foreign currency clause). The maturity structure shows that the quarterly growth is due to short-term loans, with a smaller growth in long-term loans. Annually, at the end of December, total corporate loans increased by 1.1% (5.2% at the end of September).

Кредити на претпријатијата	2019				2020			
	Кв.1	Кв.2	Кв.3	Кв.4	Кв.1	Кв.2	Кв.3	Кв.4
квартални промени, во %								
Вкупни кредити на претпријатијата	-0,02	0,3	-3,4	5,1	-0,2	3,2	-2,8	1,0
придонес во квартална промена на вкупните кредити, во п.п.								
Денарски кредити	-0,8	0,1	-2,5	2,7	0,0	1,8	-2,8	0,5
Девизни кредити	0,7	0,2	-0,9	2,4	-0,2	1,3	-0,1	0,6
Краткорочни кредити	-0,5	-0,7	-2,0	1,8	0,1	-0,4	-2,2	0,9
Долгорочни кредити	0,4	0,4	-0,1	3,5	-0,9	3,7	1,9	0,4

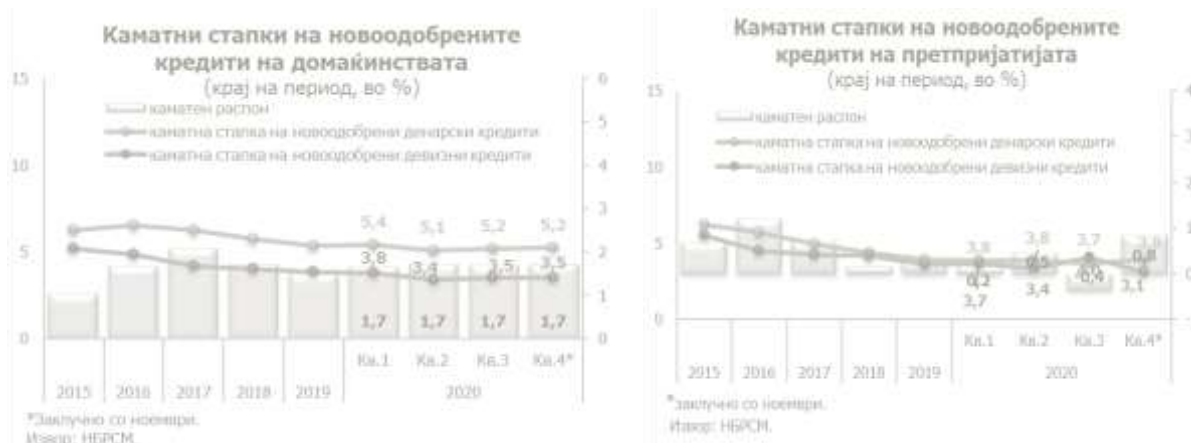
Извор: НБРСМ

According to the data on the interest rates<sup>68</sup> on newly approved loans<sup>69</sup> in November, the interest rates on denar and foreign currency loans to households equaled 5.2% and 3.5%, respectively and remained at the same level as in the previous quarter. In such conditions, the interest rate spread between the new denar and foreign currency lending to households remained 1.7 pp. The interest rates

<sup>68</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>69</sup>One should have in mind that the interest rates on newly approved loans are volatile. Volatility of interest rate on newly approved loans results from the fact that they are driven by the volume of newly approved loans (which can vary from month to month) and their interest rate.

on newly approved denar and foreign currency corporate loans in November equaled 3.9% and 3.1%, respectively (3.7% and 4.0%, respectively, in the previous quarter), thus widening the interest rate spread to 0.8 pp. Regarding total loans granted to the private sector, at the end of November, the interest rates on household and corporate loans remained at the level of September (5.5% and 3.8%, respectively).



## V. Public finance

***In conditions of gradual recovery of economic activity and significant slowdown of GDP fall, in the third quarter of 2020 the decline in total budget revenues was also significantly more moderate and amounted to 4.7% on an annual basis. On the other hand, as a result of the countercyclical fiscal policy, budget expenditures continued to grow and they were higher by 12.4% on annual basis. In such circumstances, the budget deficit was more moderate (1.5% of GDP) compared to the previous quarter, but still significantly higher compared to the same quarter of the previous year. For the period January-November 2020, the budget deficit reached 6.0% of GDP, which is 70.9% of the planned budget deficit with the second 2020 Budget revision. In the period January-November, the budget deficit was mostly financed through foreign borrowing, and in part through domestic borrowing, with part of the inflows kept as government deposits in the National Bank. At the end of the third quarter of 2020, total public debt equaled 60.3% of GDP, which is by 0.4 pp more compared to the previous quarter.***

In the third quarter of 2020, total revenues in the Budget of the Republic of North Macedonia<sup>70</sup> decreased by 4.7%, on an annual basis, which is a significant slowdown compared to the fall of 18.2% in the second quarter of 2020. This shift in part reflects the temporary stabilization of the pandemic at this time of year and the gradual easing of the containment measures, which had a favorable impact on overall economy. Namely, amid economic downturn in the third quarter, tax revenues<sup>71</sup> and non-tax revenues registered a moderate annual decrease of 8.1% and 30.8%, respectively (negative contribution of 4.8 pp and 2.2 pp, respectively). On the other hand, the contributions are still maintained in the positive zone, with a growth rate of 6.8% (contribution of 2.1 pp) due to the increased rates for mandatory pension and disability insurance and compulsory health insurance, which entered into force

<sup>70</sup> Central budget and budgets of funds.

<sup>71</sup> Includes own revenue accounts.



**Бюджетски приходи**  
придоноси во годишна промена, во п.п.

Година	Доплати*	МТ придоноси	Налогови приходи	Остаточни приходи**	Вкупни приходи, годишна промена (во %)
2014	Ка.1	Ка.2	Ка.3	Ка.4	Ка.5
2020					-18,2
Ка.6					-4,7

**годишни податоци, придоноси во п.п.**

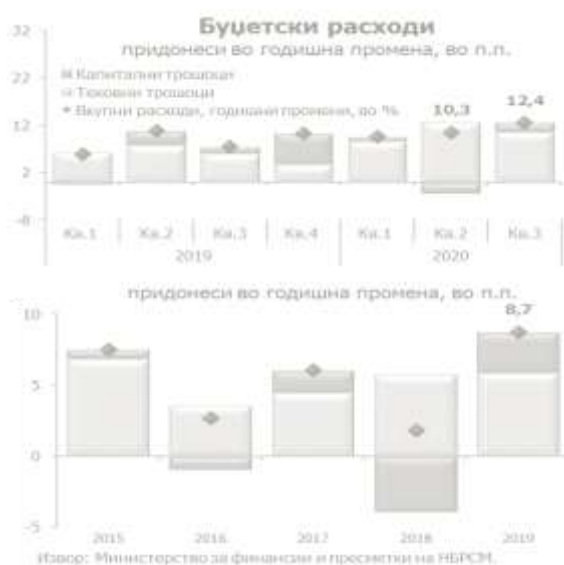
Година	Годишни податоци, придоноси во п.п.
2013	31,1
2016	10,1
2017	11,1
2018	10,1
2019	8,1

\*Вклучува донации (CCT).  
\*\*Остаточни приходи вклучуваат капитални приходи, сурови донации и приходи од капитални дејствија.  
Извор: Министерство за финансии и пресметки на НРПМ.

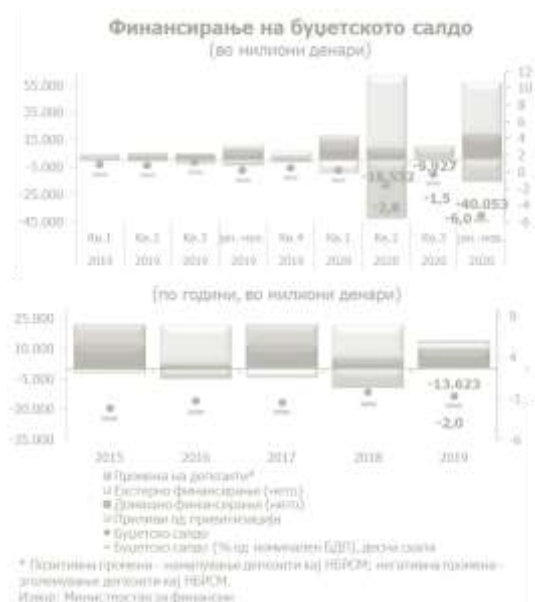


<sup>72</sup>The rates on compulsory pension and disability insurance increased from 18.4% in 2019 to 18.8% in 2020, and from 7.4% in 2019 to 7.5% in 2020 for compulsory health insurance. Also, the increase in contributions is also associated with the increased base as a result of the increased minimum net wage to Denar 14,500 in December 2019, the increase in the wages in the public sector, as well as the effect of the measure for subsidizing contributions due to wage increase.

<sup>74</sup> The negative contribution of net VAT revenues in the third quarter of 2020 results from the decrease of gross VAT revenues of 9.4% annually, despite the sharper reduction of VAT refunds of 15.2% annually.



Total budget expenditures in the third quarter of 2020 were by 12.4% higher on an annual basis (10.3% in the previous quarter). The growth mostly results from the higher current expenditures (contribution of 10.6 pp) amid growth of capital expenditures (of 1.7 pp). Annually, current expenditures increased by 11.3%, with the largest contribution to the growth of the category of transfers<sup>75</sup> (10.4 pp), mainly due to the payment of funds to support companies and households hit by the COVID-19 crisis.



With the budget expenditures exceeding the budget revenues, in the third quarter of 2020, the Budget deficit was Denar 9,927 million or 1.5% of GDP<sup>76</sup>, which is higher compared to the same period

<sup>75</sup> The increase in transfers is largely associated with wage subsidies for companies affected by the corona crisis, pension costs, social care costs and health care costs.

<sup>76</sup> The analysis uses the National Bank's October forecasts for the nominal GDP for 2020.





last year (deficit of 0.2% of GDP). The deficit was mainly financed by funds from the government deposit account with the National Bank.

БЮДЖЕТ НА РЕПУБЛИКА СЕВЕРНА МАКЕДОНИЈА (Централен буџет и буџети на фондации)

	2020							2019							
	Буџет на РМ	Реализација 2020	Реализација на Буџет на 2020 (1)	Реализација на Буџет на 2019 (2)	Ка.1	Ка.2	Ка.3	104000 - износ	Ка.1		Ка.2		Ка.3		Износ - износ
									Годишна промена, во %	Промена во периодот, во %	Годишна промена, во %	Промена во периодот, во %	Годишна промена, во %	Промена во периодот, во %	
<b>ВКУПНИ ПРИХОДИ</b>	331.899	323.399	396.749	396.397	96.699	99.973	99.699	179.318	3,8	1,0	-38,9	-38,9	-4,7	-4,7	-7,1
Даночни приходи (кредити)	197.187	187.182	252.857	252.271	42.375	37.382	44.000	125.444	3,8	2,5	-14,8	-14,8	-5,7	-5,8	-3,4
Данок	127.819	127.333	169.659	169.210	26.422	21.294	22.745	55.699	4,7	4,8	-23,1	-23,1	-8,1	-8,8	-5,6
Приходи	67.368	57.849	83.197	83.061	15.773	15.688	16.694	35.799	32,2	3,7	4,1	3,3	6,6	3,1	3,3
Неданочни приходи	17.301	17.301	17.301	17.301	3.337	3.389	3.496	16.399	-32,9	-3,1	-32,9	-32,9	-38,9	-3,2	-3,3
Материјални приходи	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Транспортни приходи	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>ВКУПНИ РАСХОДИ</b>	336.487	336.487	345.949	331.899	33.999	33.999	33.999	219.167	4,4	4,4	38,9	38,9	12,4	12,4	16,5
Текущи трошоци	215.822	214.182	221.482	211.779	10.983	10.983	10.983	199.341	8,8	8,8	23,9	23,9	11,9	11,9	10,4
Вложливи приходи	20.771	20.771	20.771	20.771	2.211	2.211	2.211	19.399	24,7	0,0	-24,7	-24,7	-2,7	-2,7	-6,2
<b>ВКУПЕН ДЕФИЦИТ / СУБИЦИТ</b>	5.588	3.088	-49.200	-35.502	-7.400	-7.400	-7.400	-40.849							
Износ	17.301	17.301	17.301	17.301	3.337	3.389	3.496	16.399							
Приходи	67.368	57.849	83.197	83.061	15.773	15.688	16.694	35.799							
Приходи од трансферима	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000							
Приходи од трансферима	14.319	14.319	14.319	14.319	1.432	1.432	1.432	12.887							
Приходи	1.188	1.188	1.188	1.188	1.188	1.188	1.188	1.188							
Приходи од трансферима	17.301	17.301	17.301	17.301	3.337	3.389	3.496	16.399							
Приходи од трансферима	17.301	17.301	17.301	17.301	3.337	3.389	3.496	16.399							
Приходи	48.267	48.267	48.267	48.267	11.000	11.000	11.000	37.267							
Приходи од трансферима	48.267	48.267	48.267	48.267	11.000	11.000	11.000	37.267							
Приходи од трансферима	48.267	48.267	48.267	48.267	11.000	11.000	11.000	37.267							
Приходи од трансферима	48.267	48.267	48.267	48.267	11.000	11.000	11.000	37.267							

In the period January - November 2020, total budget revenues decreased by 7.1% compared to the same period last year. The decrease was mostly due to the 9.6% lower tax revenues (negative contribution of 5.6 pp), amid economic contraction caused by the COVID-19 pandemic. Non-tax revenues<sup>77</sup> also decreased by 36.7% (negative contribution of 3.3 pp), while income from contributions<sup>78</sup> increased by 7.3% (positive contribution of 2.2 pp). In the period January-November, budget expenditures increased by 10.3% on an annual basis, entirely due to the growth of current expenditures of 11.1% (positive contribution of 10.4 pp), amid a slight decline in capital expenditures of 2.9% (insignificant negative contribution of 0.2 pp). Within the current costs, there was a decrease in the costs of goods and services, amid higher transfer costs associated with the wage subsidies for companies affected by the crisis, health care costs, and pension costs. To mitigate the pandemic effects on the economy, the government continued to provide targeted support to households and businesses through subsidized wages and contributions, domestic payment card, tourism support vouchers and unemployment benefits.

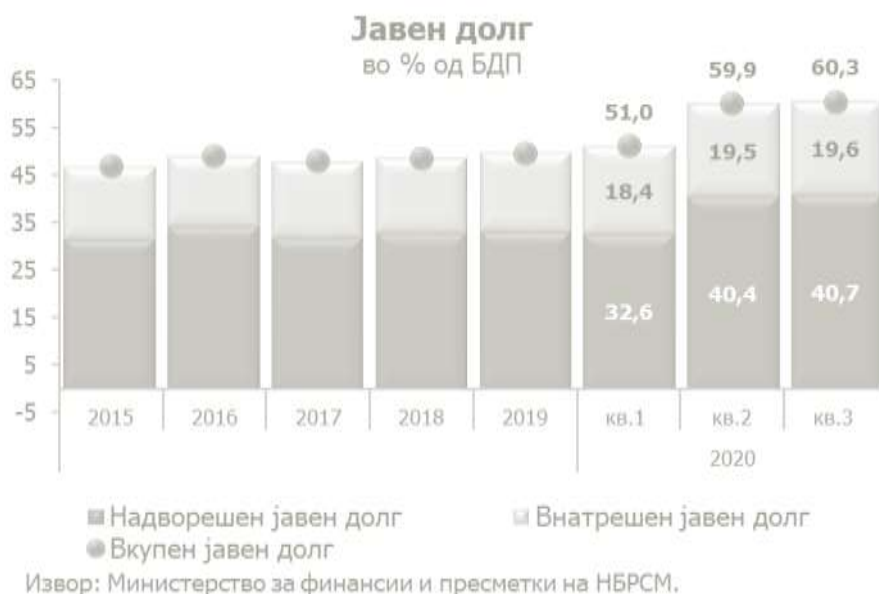
The unfavorable conditions in the economy as a result of the health crisis caused the second budget revision<sup>79</sup> in November, namely, the 2020 deficit was upwardly corrected from Denar 46,180 million (or 6.9% of GDP) with the first revision in May 2020 to Denar 56,495 million (or 8.4% of GDP). In the period January-November 2020, the budget deficit amounted to Denar 40,053 million or 6.0% of GDP<sup>80</sup>, constituting 70.9% of the plan with the second revision of the 2020 Budget. The budget deficit in this period was mostly financed through foreign and domestic borrowing, with part of the inflows kept as government deposits in the National Bank.

<sup>77</sup>In January, May, and October 2019, non-tax revenues increased due to the higher inflows to the Pension and Disability Insurance Fund's account from private pension funds. These inflows resulted from the transfer of funds of the private pension funds in accordance with the Law Amending the Law on Mandatory Fully Funded Pension Insurance and the Law Amending the Law on Pension and Disability Insurance (Official Gazette of RM No. 245 of 28.12.2018).

<sup>78</sup>There was an increase from 18.4% in 2019 to 18.8% in 2020 in the rates on mandatory pension and disability insurance and from 7.4% in 2019 to 7.5% in 2020 on compulsory health insurance. Besides, the increase in contributions is also associated with the increased base as a result of the increased minimum net wage to Denar 14,500 in December 2019, the increase in the wages in the public sector, as well as the effect of the measure for subsidizing contributions due to wage increase.

<sup>79</sup> On 4 November 2020, the second revision of the 2020 Budget (Official Gazette of the Republic of North Macedonia No. 262 of 4 November 2020) was adopted.

<sup>80</sup> The analysis uses the National Bank's October forecasts for the nominal GDP for 2020.



**At the end of the third quarter of 2020, total public debt<sup>81</sup> equaled 60.3% of GDP<sup>82</sup>,** which is an increase of 0.4 pp of GDP compared to the previous quarter. This growth was mainly driven by the external public debt, which increased by 0.3 pp of GDP to 40.7% of GDP at the end of the quarter, amid small growth in the internal public debt of 0.1 pp of GDP (to 19.6% of GDP). Observing the debt structure, total government debt<sup>83</sup> equaled 51.1% of GDP, which is higher by 0.1 pp, compared to the previous quarter, while the debt of public enterprises (guaranteed and non-guaranteed)<sup>84</sup> was 9.2% of GDP, or by 0.3 pp higher. Total public debt increased by 12.1 pp of GDP at the end of the third quarter of 2020, compared to the same period of 2019.

## VI. Analytical appendices

### Box 1: Economic effects of the coronavirus - findings from the output structure of a selected group of economies

The outbreak of the coronavirus late last year and the containment measures had a strong negative impact on the global economic activity. In general, the negative effects were mostly pronounced in the second quarter of the year when the containment measures were introduced (restrictions on movement, social distancing, ban on public events, closure of catering facilities and restriction of numerous other activities). During the summer period, with the stabilization of the situation and the gradual withdrawal of some of the measures, there was a certain recovery of the economies. With the coronavirus resurgence rates, some countries reintroduced the containment measures that created new

<sup>81</sup> The public debt is defined under the Law on Public Debt (Official Gazette of the RM No. 62/05, 88/08, 35/11, 139/14 and 98/19) as the sum of government debt and debt of public enterprises established by the state or municipalities, municipalities within the City of Skopje and the City of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the City of Skopje and the City of Skopje.

<sup>82</sup> The analysis of nominal GDP for 2020 uses the National Bank's October forecasts. At the end of the third quarter of 2020, the total public debt equaled Euro 6,572 million.

<sup>83</sup> Government debt is defined as a sum of debts of the central government, the public funds, and the municipalities.

<sup>84</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 state or municipalities, municipalities within the City of Skopje and the City of Skopje is calculated in the public debt (Official Gazette of the RM No. 62/05, 88/08, 35/11, 139/14 and 98/19).

uncertainty and downside risks arising from the potential effects on economic activity by the end of this year and next.

Although the adverse economic effects are relatively synchronized globally, differences are observed among economies in terms of both size and duration of primary adverse effects during the acute phase of the infection. **The article aims to simply connect these differences in GDP decline in a selected group of countries (countries in the region and selected developed economies) with the differences in the output structure and specifics of individual economies,** given the specific nature of the current crisis and its stronger reflection on certain economic sectors, i.e. on the sectors with pronounced social interaction.

**According to the data shown in Table 1, the selected group of countries reported a significant GDP drop in the second quarter, when the first wave of the pandemic hit the hardest.** Observing the economies in the region, the decline ranges from 20.2% in Montenegro to 6.3% in Serbia. Of the selected European economies, a higher decline in the second quarter was observed in Spain (-21.6%), the United Kingdom (-21.7%) and Italy (-18.4%), which were particularly affected by the coronavirus during the first wave, with Germany at the lower end of the interval, (down 11.3%). Compared to the developed economies of the rest of the world, the decline in the second quarter recorded in the United States (-9.0%) and Japan (-10.3%) is more moderate than the decline in the most affected European economies. In China, according to the path of virus spread, the economic contraction was most pronounced in the first quarter of the year (-6.8%), followed by a growth in the second quarter.

**Table 1. Real GDP growth rate in selected countries**

	2019	2020Q1	2020Q2	2020Q3	2020 Q1-Q3	2020 - forecast
<b>Region</b>	<b>3.5</b>	<b>1.5</b>	<b>-11.6</b>	<b>-7.7</b>	<b>-6.1</b>	<b>-6.6</b>
Montenegro	3.5	2.7	-20.2	-26.9	-14.8	-12.0
North Macedonia	3.2	0.9	-14.9	-3.3	-5.9	-5.4
Albania	2.2	-2.3	-10.2	-3.5	-5.5	-7.5
Serbia	4.2	5.2	-6.3	-1.4	-0.9	-2.5
Bosnia and Herzegovina	2.7	1.7	-9.3	-6.3	-4.6	-6.5
Bulgaria	3.7	1.8	-8.5	-4.2	-3.9	-4.0
Croatia	2.9	0.2	-15.4	-10.0	-8.8	-9.0
Romania	4.2	2.4	-10.3	-6.0	-5.1	-4.8
Kosovo	4.9	1.3	-9.3	-7.3	-5.1	-7.5
<b>Advanced economies</b>						
Germany	0.6	-1.7	-11.3	-3.9	-5.6	-6.0
Greece	1.9	-1.5	-15.8	-9.6	-9.2	-9.5
Spain	2.0	-3.8	-21.6	-9.1	-11.6	-12.8
Italy	0.3	-5.6	-18.4	-5.2	-9.8	-10.6
United Kingdom	1.4	-2.5	-21.7	-9.6	-11.2	-9.8
France	1.5	-5.3	-18.9	-4.5	-9.6	-9.8
United States	2.2	0.6	-9.0	-2.6	-3.7	-4.3
China	6.1	-6.8	3.2	4.9	0.4	1.9
Japan	0.7	-2.0	-10.3	-5.7	-6.0	-5.3

Source: Eurostat, IMF and national bureaus of statistics.

**Output structure of the selected group of countries is shown in Table 2.** Several general conclusions could be drawn from the data. Within the region, countries with relatively higher share of the service sector in creating value added also saw a steeper economic contraction. Thus, Montenegro and Croatia are countries with the most dramatic GDP decline in the second quarter of the year, but also countries where the share of the service sector exceeds 70% of GDP. These two economies are particularly distinguished by their high share of tourism and catering in the value added - in Montenegro this sector participated with 9.6% in 2019, while in Croatia its share was 6.6%. North Macedonia reported a fall of -14.9% in the second quarter. In terms of structure, North Macedonia is not primarily a tourist country, so this sector does not have a significant share in value added or decline in the second quarter, but the share of trade is significant - a sector where there was a significant contraction, with an adverse



shock in industry in the second quarter due to temporary production chains disruptions and introduction of containment measures to fight against the pandemic. The general findings for the countries in the region are similar for some of the developed economies. Namely, countries such as Greece, Spain and Italy with higher share of the service sector, especially tourism, compared to other economies in the group, saw a larger GDP fall in the second quarter (in 2019, the share of tourism and catering in value added in these countries was 7.8%, 6.2% and 4%, respectively). On the other hand, Germany reported a much smaller economic contraction, as economy with a higher share of industry versus the service sector as a whole (including the tourism sector), similar as Japan. The Chinese economy has the highest share of industry in GDP and given the fact that it is primary industrial country, its decline is significantly more moderate, and so far is the only economy with a positive outlook for the entire 2020. However, it should be borne in mind that China has adopted the most rigid strategy for dealing with the health crisis, so that the lower economic contraction may in part be due to this factor.

Such findings are also confirmed by the data on the economic activity of the countries in the third quarter, which indicate different pace of recovery depending on the output structure. Within the region, Montenegro reported a steeper economic contraction in the third quarter, which reached -26.9%, and the Croatian economy continued to record a double-digit contraction rate, although the slowdown in the decline is less pronounced compared to the recovery in other countries. Such movements are mainly due to the high share of the tourism sector in these two economies, which remains strongly affected by travel restrictions and social interaction due to the pandemic. The strongest recovery among the countries in the region was observed in North Macedonia, where the decline reduced to -3.3% in the third quarter, mainly due to the relatively rapid normalization of the situation in the industry which is the driver of the relatively moderate decline in 2020. The trends are similar in some of the developed economies of the world that reported slower recovery in economies where most of the newly created value comes from tourism, as is the case with Greece and Spain. On the other hand, the German economy proved to be the most resilient compared to other major European economies, whose decline in the third quarter was the lowest (-3.9%), which is related to the high share of industry in its structure. Also, if we consider the expected trends until the end of the year, economies that reported faster decline are expected to register a steeper decline in 2020, given the protraction of the health crisis over the rest of the year.

**Table 2. Share of economic sectors in total value added in selected countries in 2019 (in %)**

	Agriculture	Industry	Construction	Services	Service sector			
					Trade	Transport and storage	Tourism and catering services	Other service activities
<b>Region</b>	<b>8.2</b>	<b>20.0</b>	<b>7.1</b>	<b>64.6</b>	<b>15.2</b>	<b>4.9</b>	<b>3.7</b>	<b>41.8</b>
Montenegro	7.9	11.9	7.9	72.3	15.4	5.0	9.6	42.3
North Macedonia	9.8	21.5	6.2	62.6	16.8	4.4	1.8	39.6
Albania	21.1	14.1	10.3	54.6	12.3	3.7	2.7	35.8
Serbia	7.2	24.0	6.9	61.9	13.8	4.5	1.7	41.9
Bosnia and Herzegovina	6.6	23.1	5.0	65.4	17.1	4.2	2.4	41.6
Kosovo	9.5	22.1	10.6	57.8		22.5		35.3
Bulgaria	3.7	20.6	4.5	71.2	15.4	5.6	2.6	47.6
Croatia	3.6	19.1	5.7	71.7	12.5	4.8	6.6	47.8
Romania	4.5	24.1	7.1	64.3	11.0	6.8	2.3	44.2
<b>Selected economies from Europe and the world</b>								
Germany	0.8	24.3	5.4	69.5	10.0	4.4	1.7	53.4
Greece	4.4	13.5	1.4	80.8	12.2	7.5	7.8	53.2
Spain	2.9	16.1	6.4	74.5	12.6	4.7	6.2	51.0
Italy	2.1	19.6	4.3	74.0	11.8	5.7	4.0	52.5
United Kingdom	0.6	13.9	6.4	79.0	10.4	4.0	2.9	61.6
France	1.8	13.5	5.8	78.9	10.2	4.6	2.9	61.2
USA	0.8	14.0	4.2	81.1	11.3	3.3	3.1	63.4
China	7.9	33.9	6.7	51.5	9.5	4.5	1.8	35.7
Japan	1.2	23.4	5.7	69.7	13.7	5.2	2.5	48.3

Source: Eurostat.

**In summary,** the COVID-19 pandemic has led to economic contraction globally. However, some economies are more and some less affected, due to the differences in the output structure of each economy, considering the specific nature of the current crisis and its stronger and longer-term impact on economic sectors related to greater social interaction, such as the service sector, and above all tourism and catering. Amid slower health crisis management and resurgence rates, the economic outlook is more



unfavorable for countries with significantly higher share of tourism and catering in their output structure. Of course, the uncertainty about the duration of this pandemic is still present, despite the introduction of a vaccine, and thus its possible long-term effects on future economic activity globally.