National Bank of the Republic of North Macedonia

Quarterly Report
November 2023

Contents

Introduction

In the third quarter of the year, the National Bank kept up with the tightening of the monetary policy, which commenced since the end of 2021. **In this period, the policy rate increased on two occasions, cumulatively by 0.30 percentage points, to the level of 6.30%.** In accordance with the increase in the policy rate, interest rates on overnight and the seven-day deposit facilities increased as well to 4.20% and 4.25%, respectively. Thus, the monetary policy remained tightened, amid gradual stabilization of the price growth and favorable exchange market, with existing risks and uncertainties. The monetary setup was further supported by the changes in the reserve requirement. **In order to strengthen the positive effects of these measures so far, in August and September the National Bank Council passed two additional amendments to the reserve requirement instrument (the application of which comes into force in November and December 2023, respectively),** in order to further support the process of denarization of banks' balance sheets. Adequate to the monetary changes are the **adopted macro-prudential measures,** i.e. the increase in the countercyclical capital buffer, as well as the measures related to setting thresholds for monitoring of the quality of credit demand. These measures strengthen the systemic resilience of the banking system, as well as the transmission of the monetary signals. Considering the monetary strategy of a stable exchange rate of the denar against the euro, the changes in the domestic monetary policy also took into account the monetary policy setup of the European Central Bank, which continued with the monetary tightening during the third quarter. **The conditions for conducting monetary policy remain uncertain and most influenced by the future dynamics of inflation and changes in inflation expectations, which will also depend on the conduct of macroeconomic policies that affect demand in the economy.**

Key risks to the baseline macroeconomic scenario are similar to those of the April forecasting round. Risks from the external environment, in both the short and the medium term, remain unfavorable and further pronounced. The geopolitical turmoil, mainly related to the war in Ukraine and most recently in the Middle East, the possible intensification of the geoeconomic fragmentation and the more pronounced climate changes with their possible effects on the supply chains and the volatility of the world market prices, smaller increase in the Chinese economy, the possible further tightening of the global financial conditions and thus, the increased financial stress for the high indebted countries, are the key limiting factors for the global growth. T**he risks from the domestic environment in the short term** are associated with the influence of the geopolitical cycle on the economy in 2024, while the effects of the NATO membership, of the progress in the EU accession negotiations which may accelerate structural reforms, as well as of the possible use of the geographical advantage of our economy within the started process of adjustment of global chains, are again evaluated as positive risks in the medium run.

Analyzed from the aspect of individual quantitative external environment indicators significant for the Macedonian economy, the estimate for the increase in the **foreign effective demand** relative to April has been revised downwards for the second half of 2023 and for the entire year 2024, while the forecast for **foreign effective inflation** has been corrected upwards for the current 2023, with no change in expectations for 2024. **World prices of primary commodities** have been revised mostly downwards, to a deeper decrease. But still, the movements and assessments of the prices of primary commodities are extremely volatile. Geopolitical and climate shocks, as well as the intensification of geo-economic fragmentation, have a significant potential for causing additional instability, especially expressed in world food and energy prices.

The macroeconomic landscape for the period 2023-2026 has not been significantly changed in this forecasting round compared to the April forecasts. Moderate slowdown of the growth is still expected in 2023, with a gradual intensification in the following period. Thus, in accordance with the gradual slowdown of the activity in the first half of the year, as well as with the signals of high-frequency indicators for the third quarter, **the economic growth in 2023 is expected to moderately slow down and reduce to 1.9%.** The improvement of the external environment, coupled with certain specific factors, especially related to the public infrastructure cycle, would support the **acceleration of growth, which would reach 3% in 2024.** The growth of the economy would be slightly slower compared to the previous expectations (2.1% in 2023 and 3.6% in 2024), given the external environment which is less favorable compared to the April forecasts. **The GDP forecast for 2025 is unchanged, i.e. the growth is still expected to accelerate and reach 4%, and it would continue at this pace in 2026.** Observing the growth structure, 2023 expects a positive contribution of both net exports (amid expected faster decline in imports than in exports), and domestic demand (supported by the growth of household consumption and gross investments). In the next two years, the growth would result from the domestic demand, amid negative contribution of net exports. Within the domestic demand, the largest positive contribution is expected from gross investments, with the household consumption being a significant growth factor. In the next two-year period gross investments are expected to significantly recover, due to enhanced implementation of capital infrastructure projects related to the construction of road corridors and private domestic and foreign investments, which makes this component of key importance to the growth. At the same time, a moderately faster growth of private consumption is expected as well, which will mostly arise from the disposable income dynamics, within which the wage bill is the main driver of the growth. Solid growth is expected in the exports of goods and services, due to the recovery of foreign demand which would encourage the traditional, as well as the new export segment. The growth of both exports and domestic demand, and primarily of investments related to the construction of the road infrastructure which is to be implemented by a foreign contractor, will increase the imports in the medium run. Thus, within the current scenario there are no major escalations related to the military activities in Ukraine and the Middle East.

Performances show continuous slowdown of inflation during 2023. According to the latest data, the annual inflation in October decelerated to 3.5%. Additionally, given the higher annual rates from the beginning of the year, the average inflation for the period January-October amounted to 10.7%. In the following period, additional slowdown and a single-digit average inflation rate of 9.5% is expected, which will continue to decrease significantly and reduce to 3.5%-4% in 2024, and further reduce to the historical average of approximately 2%. Inflation for this year exceeds slightly the upper limit of the previously estimated interval (8-9%) and causes a higher transferred effect for the following year, which together with estimates for a smaller drop in energy prices indicate higher inflation for 2024 (slight upward correction compared to April inflation expectations below 3%). Downward price adjustment in the following period is expected in all three components, amid assessments for predominantly further decline in stock prices of food and oil, further slowdown in foreign effective inflation and absence of significant pressures through the domestic demand and channel. The risks to the inflation forecast are still high and are related to the uncertainty in terms of the future movements of the world energy and food prices, due to geopolitical tensions and climate changes, as well as to the policies that affect the aggregate demand in the domestic economy.

The latest assessment of the banking sector lending activity remain unchanged compared to the expectations in the April forecasts, i.e. there are assessments for decelerated loan growth in 2023 and its gradual acceleration in the next three-year period. The lending activity has been slowing down since the beginning of the year, and at the end of the third quarter of 2023, the annual growth of loans equals to 5.8%, at the level of the April forecasts. Additional slight deceleration until the end of 2023 is expected, thus reducing the credit growth to 5.7%, amid tightened financial and credit standards, in accordance with the increase in the policy rate and the introduced macro prudential measures in the past period. With the gradual acceleration in the economic growth and the stabilization of the expectations, growth and lending activity are expected to accelerate in the next period, whereby the credit growth for the period 2024– 2026 would equal 6.9% on average. *From the aspect of funding sources, the credit growth is expected, as before, to be supported by the deposits growth,* for which solid growth rates are expected throughout the entire forecast period, given the more attractive savings conditions, as a reflection of the measures undertaken by the National Bank and the increased confidence in the domestic currency, but also due to the expected growth of the households' funds. According to the data on the third quarter, the annual deposits growth is 9% and it is stronger than the expectations according to the April forecasts. At the end of 2023, a solid growth of total deposits of 8.4% is expected (6.9% according to the April forecasts). The forecasts for the next period show further solid growth which would average to 7.8% in 2024-2026.

The October perceptions about the external position of the domestic economy are more favorable compared to the April assessments, especially in the current account, where the pressures are significantly reduced for the entire forecast round, with the change being most pronounced in 2023 as a result of lower import pressures. According to recent estimates, **for 2023 the deficit on the balance of payments' current account would equal 1.2% of GDP (3.6% of the GDP in the April forecasts).** The significant narrowing of the deficit in relation to the performance in 2022 mostly results from the larger downward correction in import prices, primarily the lower prices of primary stock exchange products, above all energy, but also from the lower quantitative import of raw materials and energy, amid high inventories from the previous year. These movements point to a decrease in the energy imports and corresponding narrowing of the trade deficit annually. On the other hand, a lower annual surplus is expected for services, mainly due to the assessed effects of the new capital project for the construction of road corridors, given the high initial import component for its realization. In addition, some stabilization is expected in private transfers expressed in nominal amounts, thus their share in GDP is projected to decrease on an annual basis. **For 2024, the current forecast foresees a slight increase in the current account deficit to a level of 2.4% of GDP** (still more favorable than the April deficit forecasts of 3.2% of GDP), which would result from a moderate deepening of the trade deficit in accordance with the gradual increase in trade and the normalization of the dynamics of the import of goods, as well as from the further reduction of the surplus in secondary income (as a share in GDP), due to the stabilization of private transfers. On the other hand, solid export achievements in services are expected to continue, thus from 2024 positive effect is also expected from the import of services related to the implementation of the road infrastructure projects, which would lead to higher surplus in this component. **On the medium term basis, the current account deficit is expected to stabilize (2.4% of GDP in 2025, i.e. 2.3% of GDP in 2026). The expected financial net inflows in the forecast period 2023-2026 would fully cover the current account deficit, as well as additional increase in foreign reserves.** Observed structurally, most of the financial inflows on a net basis are expected in the form of foreign direct investments and long-term borrowing of the Government. It is significant to note that foreign reserves are expected to be maintained at a level corresponding to international standards for maintaining exchange rate stability throughout the forecast horizon.

In general, the macroeconomic landscape registered no essential changes regarding the economic growth trajectory and inflation slowdown for the entire forecast round, compared to the April cycle. Regarding the intensity of changes, moderate downward corrections have been made to the economic growth forecasts for this and next year, and moderate upward corrections to the inflation rate. On the other hand, the external position of the domestic economy is seen as significantly favorable compared to the previous forecast, with a slight pressure on the current account, especially this year, and with solid financial inflows, which will consequently maintain the foreign reserves at an appropriate level in the medium run. **The key risks to the baseline macroeconomic scenario are similar to the April forecasts, amid further unfavorable risks of the external environment both in the short and the medium term.** In this context, monitoring policies that affect aggregate demand in the domestic economy is necessary. *The National Bank closely monitors macroeconomic data and risks and, as before, will undertake all necessary measures by using all available instruments, in order to maintain the stability of the exchange rate and stabilize inflation in the medium term.*

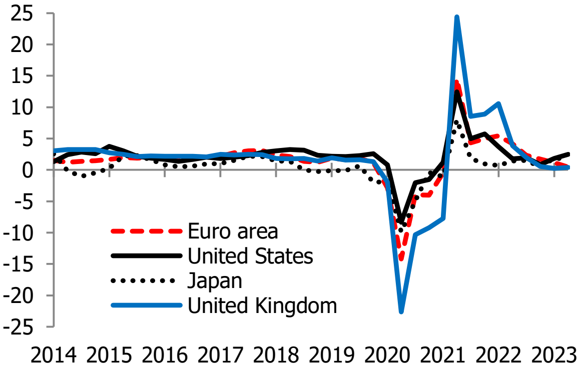
I. Macroeconomic developments

1.1. International economic surrounding

The economic activity worldwide, in the second quarter of 2023 reflects different performances by individual country and region, amid further uncertainty due to the war in Ukraine, still high inflation, further monetary tightening and worsened global financial conditions. In the Euro area, as our major trading partner, the economic growth in the second quarter slowed down again and reduced to 0.5% annually (1.1% in the first quarter), mainly due to the slower growth of both exports and personal consumption. The global inflation further decelerated in the third quarter, amid reduced energy price pressures. However, given the expectations that inflation will remain above the target level for a longer period, central banks in developed countries continued with the monetary policy tightening. According to the IMF forecast from October 2023, the global economic growth is expected to decelerate and reduce to3.0% in 2023 and 2.9% in 2024, which reflects the long-term consequences from the pandemic, the war in Ukraine and increased geo-economic fragmentation, also due to the monetary tightening and withdrawn support from fiscal authorities amid high indebtedness. The expected global economic growth risks are more balanced compared to those in the April forecasting round. However, the downward risks remain pronounced and related to further slowdown of the Chinese economy, increased uncertainty of the primary commodities prices, the inertia of the core inflation, the tightening of financial conditions, increased vulnerability of highly-indebted countries, as well as possible intensification of the geo-economic fragmentation.

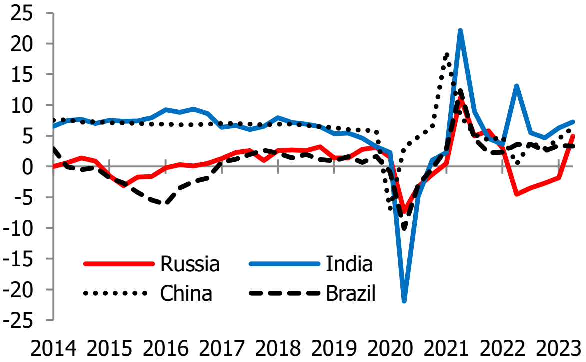
The global economic activity, in the second quarter of 2023, remains different in certain countries and regions, amid further uncertainty due to the war in Ukraine, still high inflation, further monetary tightening and worsened global financial conditions. Within the **developed countries**, the annual economic growth in the USA and The United Kingdom moderately accelerated and reached 2.5% and 0.4% respectively (from 1.8% and 0.2% respectively, in the previous quarter), mainly due to favorable movements in gross investments. On the other hand, the growth in the Euro area further decelerated and reduced to 0.5% (1.1% in the first quarter), mainly due to the slower growth of exports and personal consumption, while the economic growth in Japan registered certain stabilization. In the group of **emerging economies**, the economic activity was most intensified in China and India, reaching an annual growth of 6.3% and 7.3%, respectively (4.5% and 6.3%, respectively in the previous quarter), due to intensive household consumption, while the growth of economic activity was registered in Russia after a period of one year.

Real GDP growth in advanced economies
(year-on-year percentage changes; quarterly data)



Source: OECD.

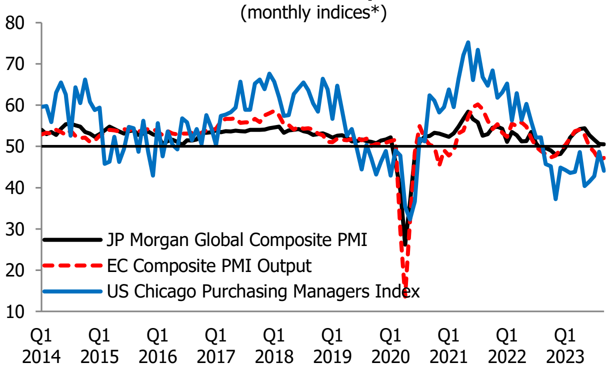
Real GDP growth in emerging economies
(year-on-year percentage changes; quarterly data)



Source: OECD and Russia's statistical office.

As for the estimates for the global growth in the third quarter of 2023, the average value of the global PMI equaled 50.9 (53.8 in the second quarter), indicating less favorable movements in the global economic activity in the following period. Annually, the global PMI index increased by 2.0%.

Global economic activity indicators
(monthly indices*)



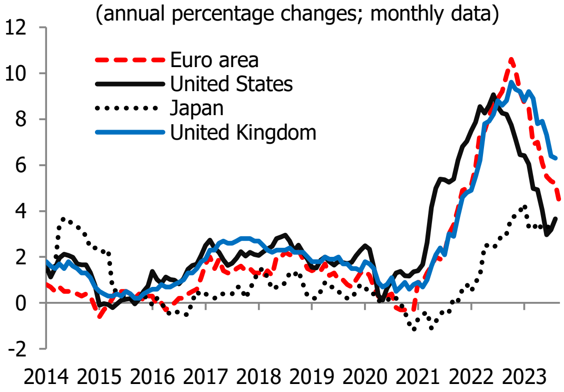
*The PMI index reflects the percentage of respondents that reported better bussiness conditions compared to the previous month and it can take values between 0 and 100. PMI=50 is considered as a reference value, indicating unchanged economic conditions. A PMI value over 50 is taken to indicate that the economy is expanding, while a PMI value below 50 suggests that the economy is contracting.
Source: Markit, ISM-Chicago.

According to the IMF October forecasts, the global economic growth is expected to slow down and reduce to 3.0% in 2023 and of 2.9% in 2024. Such slow, and uneven recovery (with a greater slowdown in developed countries) reflects the long-term consequences of the pandemic, the war in Ukraine and increased ge0-economic fragmentation, as well as the monetary tightening necessary for inflation reduction and withdrawal of the support from fiscal authorities amid high indebtedness. Compared to the July forecasts, the economic growth in 2023 remained at the same level, while the forecast for 2024 is reduced by 0.1 percentage point. The short-term forecasts of the global economic growth of 3.1% reached the historic low in the last decades. The global inflation is expected to gradually slow down and reduce to 6.9% in 2023 and 5.8% in 2024. Risks to the expected global economic growth are more balanced compared to those in the April forecasting round, when risks to the US public debt ceiling and turmoil in the banking sector were pronounced. However, the downward risks still dominate and are related to the crisis of the real estate market in China and the further slowdown of the Chinese economy, increased uncertainty of the primary commodities prices due to climate and geo-political shocks, the inertia of the core inflation, the tightening of financial conditions, increased vulnerability of highly-indebted countries amid less favorable financial conditions, as well as possible intensification of the geo-economic fragmentation. On the other hand, the global economy may prove to be more resilient amid faster-than-expected decline in core inflation and faster recovery of the domestic demand.

The global inflation further decelerated in the third quarter of 2023, amid weaker price pressures, primarily from energy. In the group of developed countries, the inflation mostly decelerated in the Euro area and the United Kingdom, thus the average annual inflation reduced to 4.9% and 6.4%, respectively[1]. The average inflation in the USA reduced to 3.5%, while in Japan in the period July– August it remained at 3.3%.

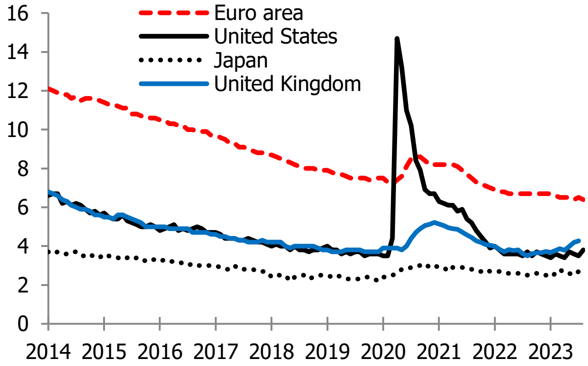
[1] Data on the United Kingdom refers to the period July-August.

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



Source: Eurostat and national statistical offices.

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

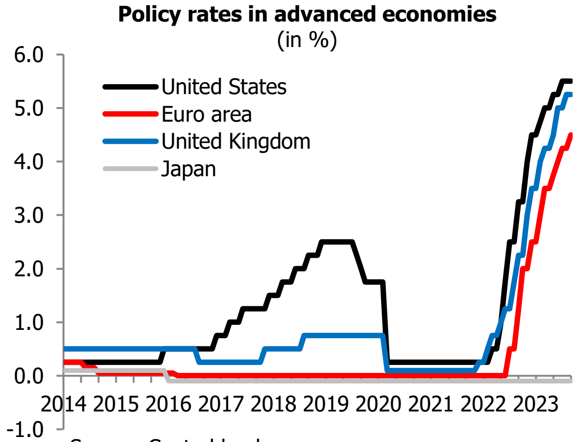


Source: Eurostat and UK's statistical office.

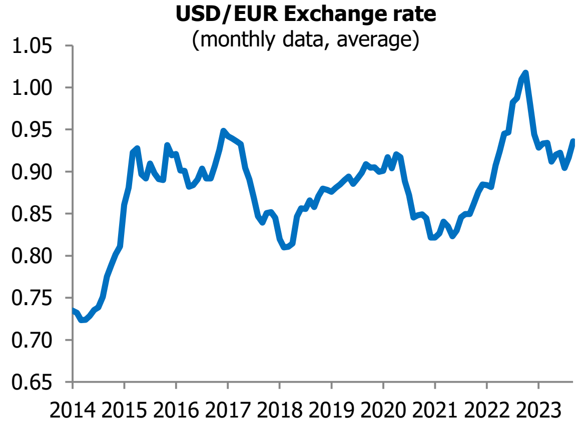
For five quarters in a row, the Euro area, as our major trading partner, registered a slowdown in the annual growth rate of the economic activity, which in the second quarter of 2023 reduced to 0.5%. The slower economic growth mainly arises from the smaller increase in household consumption, as well as net exports, in conditions of intensive slowdown in the exports growth accompanied by a slight decline in imports. In accordance with such movements, the ECB September forecasts showed downward revision of the future growth trajectory. Thus, 2023 expects a growth in economic activity of 0.7%, followed by an acceleration to 1.0% in 2024 and 1.5% in 2025.[2] The movements on the labor market in the Euro area remain favorable, given that the unemployment rate in August dropped again to the record low of 6.4%, registered in June 2023. The inflation in the Euro area additionally decelerated in the third quarter, thus reducing to an average of 4.9% for this period (6.2% in the second quarter of 2023), amid faster decline in energy prices and decelerated growth of food prices and core inflation. The price growth in this period was mainly due to the core component, which contributes to around three-quarters of the inflation. According to the September ECB forecasts, the inflation rate in 2023 would be 5.6%, followed by its slowdown and reduction to 3.2% and 2.1% in 2024 and 2025, respectively, which is an upward revision for 2023 and 2024, and a down revision for 2025 compared to June[3].

In the third quarter of 2023, in accordance with the assessments of keeping inflation above the target level for a longer period, central banks in developed countries continued with the monetary tightening. After the increase in the policy rate of 0.25 percentage points in July, the FED adopted a decision in September to keep it at the same level, ranging from 5.25% to 5.5%. Also, the FED continued reducing the treasury and mortgage-backed securities. The Bank of England was more moderate in the tightening than before, so it increased the policy rate by only 0.25 percentage points in August, while in September it kept it at the same level, amounting to 5.25%. Furthermore, the assets sale programme through reduction of the securities portfolio in the central banks' balance sheets was implemented during the third quarter. During the third quarter, the ECB increased the three policy rates on two occasions, by 0.25 percentage points, thus in September interest rate on deposit facilities, main re-financing operations and overnight loan facilities reached 4.0%, 4.5% and 4.75%, respectively. In accordance with the forecasts, as of July the ECB ceased the reinvestment of the due securities within the Assets Purchase Programme (APP), thus reducing the portfolio within this programme at the determined pace.

[2] In the June 2023 forecasts, the economic growth was projected at 0.9% in 2023 and 1.5% in 2024 and 1.6% in 2025.
[3]In June 2023, the inflation in the Euro area was forecasted at 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025.



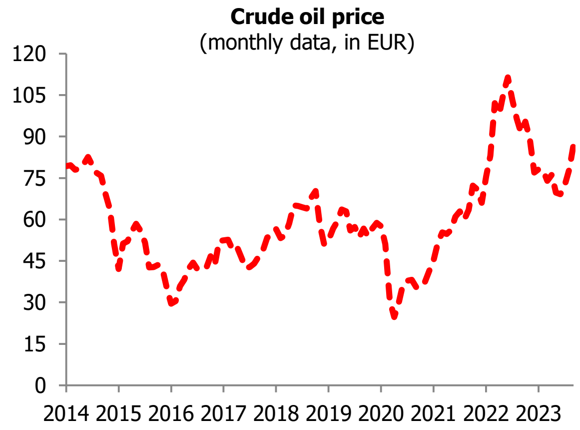
Source: Central banks.



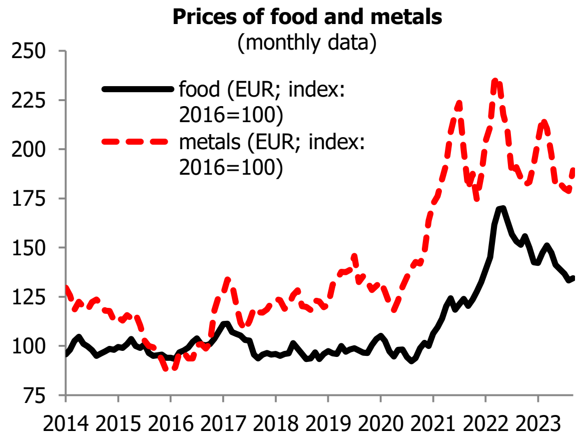
Source: Eurostat.

In the third quarter of 2023, the value of the US dollar against the euro slightly increased by 0.1% compared to the second quarter, following the period of depreciation of the US dollar in the previous three quarters. Thus, observed annually, the U.S. Dollar against the euro decreased by 7.5%, averaging to Euro/US dollar 0.92 in this period.

In the third quarter of 2023, the primary commodities prices on world markets registered divergent movements. Therefore, following a one-year period of constant decline, the average oil price in this quarter increased and is higher by 10.3%, compared to the second quarter, thus reaching 79.1 euro per barrel. Annually, the oil price decreased by 18.6%. The upward movement of the oil price was driven by the decrease in the OPEC+ supply, as well as the decline in the global inventories of oil. The prices of non-energy primary products[4] (in euros), dropped by 3.9% compared to the second quarter. Analyzed by products, the primary metals[5] and food[6] price indices dropped by 2.4% and 5.4%, respectively.



Source: IMF and NBRNM calculations.



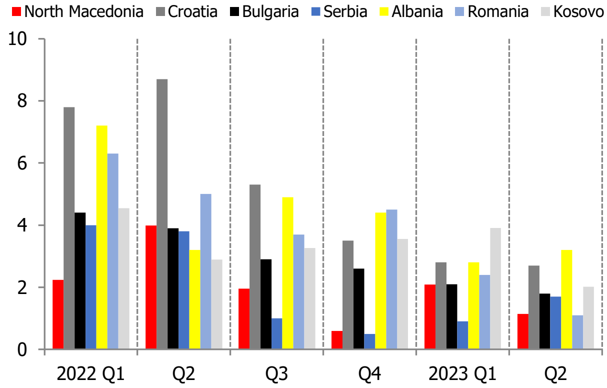
Source: IMF and NBRNM calculations.

In terms of the countries of the region, the economic activity in the second quarter of 2023 continued to grow moderately, excluding Albania and Serbia, which registered certain growth acceleration due to improved performances in domestic demand. **Regarding the inflation, all analyzed countries of the region registered its slowdown in the third quarter of 2023,**

[4]This aggregate index includes the precious metals index, the food and beverages index, the agricultural raw materials index and the index of basic metals.
[5]This index includes the following metals: Aluminum, cobalt, coper, iron, steel, molybdenum, nickel, tin, uranium, and zinc.
[6]This index includes the following food products: Cereals, vegetable oil, meat, sea food, sugar and other food.

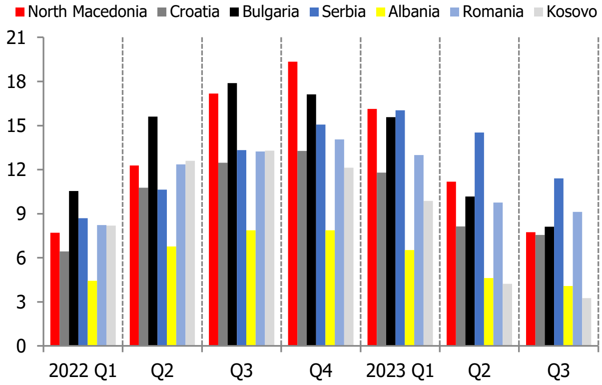
generally conditioned by the slower growth of food prices and core inflation, while in certain countries the energy component contributed to such movements.

Real GDP growth in countries from the region
(annual percentage changes, quarterly data)



Source: Eurostat and Agency of statistics of Kosovo

Inflation in countries from the region
(annual percentage changes)



Source: Eurostat and national statistical offices.

1.2. Domestic supply

The activity in the domestic economy continued to grow in the second quarter of 2023, yet at a slower pace annually. The GDP registered a real annual growth of 1.1%, compared to 2.1% in the previous quarter. The annual growth and dynamics in this quarter are a result of the group of activities trade, transport and catering. This group of activities still makes the most significant contribution to the growth, although dynamically speaking it slows down and decelerates the overall economic activity. Industry and real estate activities made an additional significant positive contribution. On the other hand, after the solid growth in the first quarter, the construction registered significant decline in the second quarter, which additionally slowed down the annual GDP growth. High-frequency data on the supply side available for the period July-August 2023 mainly indicate a further, yet slower growth of the economic activity in the third quarter of the year. The managers' estimations on the business situation in the corporate sector for the third quarter of 2023 are more favorable in all major economic sectors, compared to the same period in the previous year. In the following period, the corporate managers in retail trade and services sector have favorable expectations, while the expectations in construction and industry are less favorable.

In the second quarter of 2023, the real growth of the domestic economy amounted to 1.1% annually, which is a deceleration compared to the increase of 2.1% in the previous quarter (amid quarterly growth of 0.2%, seasonally and calendar adjusted). Structurally observed, the annual growth is mostly due to the positive contribution of the group of activities trade, transport and catering, which registered slower growth compared to the previous quarter. Additional significant positive contribution to the GDP growth in this quarter was made by industry, real estate activities, information and communication, as well as financial activities. On the other hand, after the solid growth in the first quarter, the construction made the largest negative contribution, amid quarterly decline in the activity and high base effect from the last year related to activities in road infrastructure, which caused additional slowdown in the annual growth of the economic activity in this quarter.

GDP and components– annual growth rates (in %)

	annual growth rates, in %														
	2018	**2019**	**2020**	**2021**	**2022**	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Agriculture	**8.3**	**0.1**	**2.5**	**-5.2**	**2.0**	-1.7	-5.7	-3.6	-8.5	1.6	4.3	3.5	-0.9	0.1	0.2
Industry	**5.3**	**1.4**	**-6.7**	**0.9**	**-1.5**	-6.5	10.9	-0.7	1.3	-4.1	0.7	-1.7	-1.1	0.8	2.6
Manufacturing	**6.2**	**2.6**	**-4.8**	**7.9**	**-1.8**	0.3	23.6	5.7	5.5	-2.5	1.9	-2.9	-3.2	-0.1	2.8
Construction	**-11.0**	**5.5**	**-4.0**	**-5.5**	**-8.4**	0.8	-3.6	-3.7	-11.0	-16.7	-1.0	-9.1	-8.1	12.7	-21.8
Trade and transport	**5.0**	**6.7**	**-10.6**	**4.3**	**7.8**	-11.2	31.5	2.7	1.1	7.4	6.4	9.1	8.3	10.6	7.6
Information and communication	**-4.1**	**6.8**	**4.5**	**15.9**	**2.6**	10.7	21.4	13.6	18.0	6.6	7.3	-0.7	-2.0	3.8	3.7
Financial and insurance activities	**2.6**	**0.4**	**-0.1**	**-0.9**	**1.3**	-1.5	2.5	-4.2	-0.1	1.0	-0.7	5.8	-0.9	4.7	5.0
Real estate activities	**0.1**	**0.2**	**1.1**	**8.3**	**4.1**	6.1	9.5	7.8	9.9	4.7	7.2	3.1	1.3	0.4	2.6
Professional, scientific and technical activitiess	**7.9**	**8.0**	**-8.7**	**15.4**	**8.7**	7.6	17.6	19.8	17.2	17.1	12.1	5.6	0.5	0.5	2.8
Public administration	**2.0**	**5.2**	**3.2**	**5.6**	**0.0**	2.5	6.4	6.9	6.4	2.1	0.9	-0.9	-1.9	-0.9	0.8
Art, enetertainment and recreation; Other service activities	**6.6**	**9.6**	**-22.6**	**23.5**	**11.0**	3.1	22.8	39.9	32.2	17.7	14.2	11.8	1.5	-1.6	-0.5
Gross Domestic Product	**2.9**	**3.9**	**-4.7**	**3.9**	**2.1**	**0.1**	**14.5**	**1.4**	**1.2**	**2.2**	**4.0**	**2.0**	**0.6**	**2.1**	**1.1**

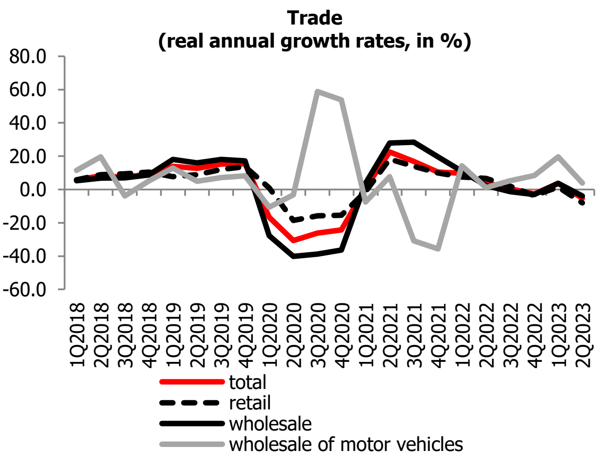
*From the release for GDP of 11.09.2023
Source: State Statistical Office and NBRNM calculations.

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

	contribution in GDP growth, in p.p.														
	2018	**2019**	**2020**	**2021**	**2022**	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Agriculture	**0.7**	**0.0**	**0.2**	**-0.4**	**0.1**	-0.1	-0.5	-0.4	-0.8	0.2	0.3	0.2	-0.1	-0.1	-0.1
Industry	**0.9**	**0.3**	**-1.2**	**0.2**	**-0.3**	-1.1	1.8	-0.1	0.2	-0.7	0.1	-0.3	-0.2	0.1	0.3
Manufacturing	**0.8**	**0.3**	**-0.6**	**1.1**	**-0.2**	0.0	2.8	0.8	0.8	-0.3	0.3	-0.4	-0.5	0.0	0.3
Construction	**-0.7**	**0.3**	**-0.2**	**-0.3**	**-0.5**	0.1	-0.1	-0.3	-0.8	-0.8	-0.1	-0.5	-0.4	0.3	-1.2
Trade and transport	**1.0**	**1.3**	**-2.1**	**0.8**	**1.5**	-2.3	5.3	0.6	0.2	1.4	1.2	1.8	1.6	2.1	1.6
Information and communication	**-0.1**	**0.2**	**0.2**	**0.6**	**0.1**	0.4	0.9	0.5	0.7	0.3	0.3	0.0	-0.1	0.2	0.2
Financial and insurance activities	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	0.0	0.1	-0.1	0.0	0.0	0.0	0.2	0.0	0.1	0.1
Real estate activities	**0.0**	**0.0**	**0.1**	**0.9**	**0.4**	0.7	1.1	0.8	0.9	0.5	0.8	0.3	0.2	0.0	0.3
Professional, scientific and technical activitiess	**0.3**	**0.3**	**-0.3**	**0.6**	**0.3**	0.3	0.7	0.7	0.6	0.7	0.5	0.2	0.0	0.0	0.1
Public administration	**0.2**	**0.6**	**0.4**	**0.7**	**0.0**	0.4	1.0	0.9	0.7	0.3	0.1	-0.1	-0.2	-0.1	0.1
Art, enetertainment and recreation; Other service activities	**0.2**	**0.3**	**-0.7**	**0.6**	**0.3**	0.1	0.7	0.9	0.7	0.5	0.4	0.3	0.0	-0.1	0.0
Gross Domestic Product	**2.9**	**3.9**	**-4.7**	**3.9**	**2.1**	**0.1**	**14.5**	**1.4**	**1.2**	**2.2**	**4.0**	**2.0**	**0.6**	**2.1**	**1.1**

*From the release for GDP of 11.09.2023
Source: State Statistical Office and NBRNM calculations.

Analyzed through high-frequency data, **in the second quarter of the year the total trade turnover recorded a real decline on an annual basis,** in conditions of a decline in retail and wholesale trade, while the trade in motor vehicles recorded an increase. The movements are similar in the period July–August 2023, when the total trade turnover registered a slight deepening of the real annual decline, amid decrease in retail and wholesale trade, while trade in motor vehicles continued to grow. The perceptions of the corporate managers in the sector retail trade on the business situations during third quarter of 2023 are more favorable compared to the same quarter in the previous year, with more favorable expectations for the forthcoming period as well.

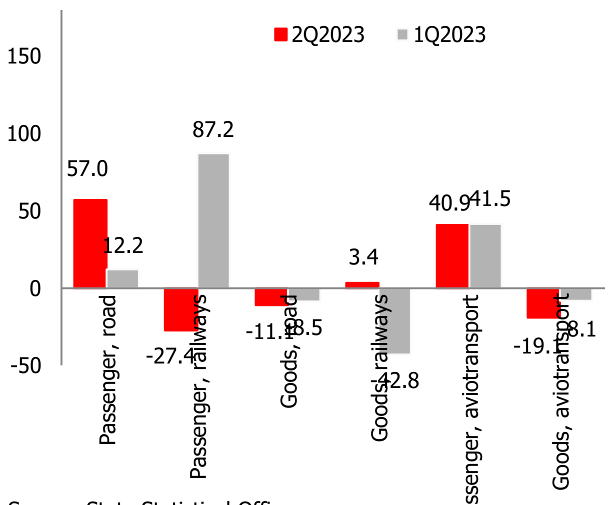


Source: State Statistical Office

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

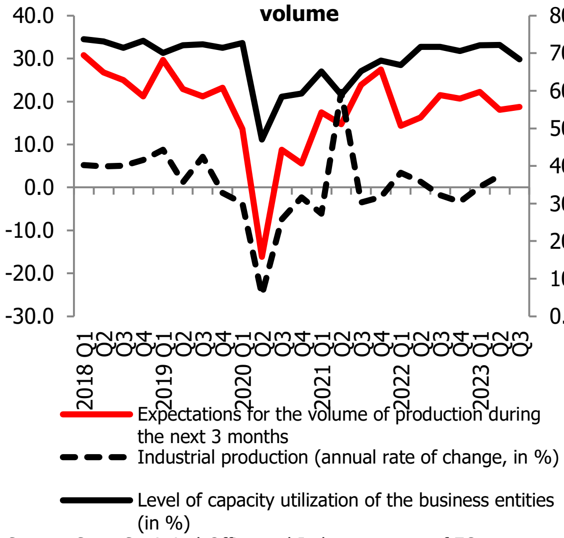
Regarding the high frequency data on **transport**, the second quarter of 2023 registered a growth in the passenger road, passenger air and freight rail traffic, while the performances in other types of traffic are weaker on an annual basis.

Transport
(real annual growth rates, in %)



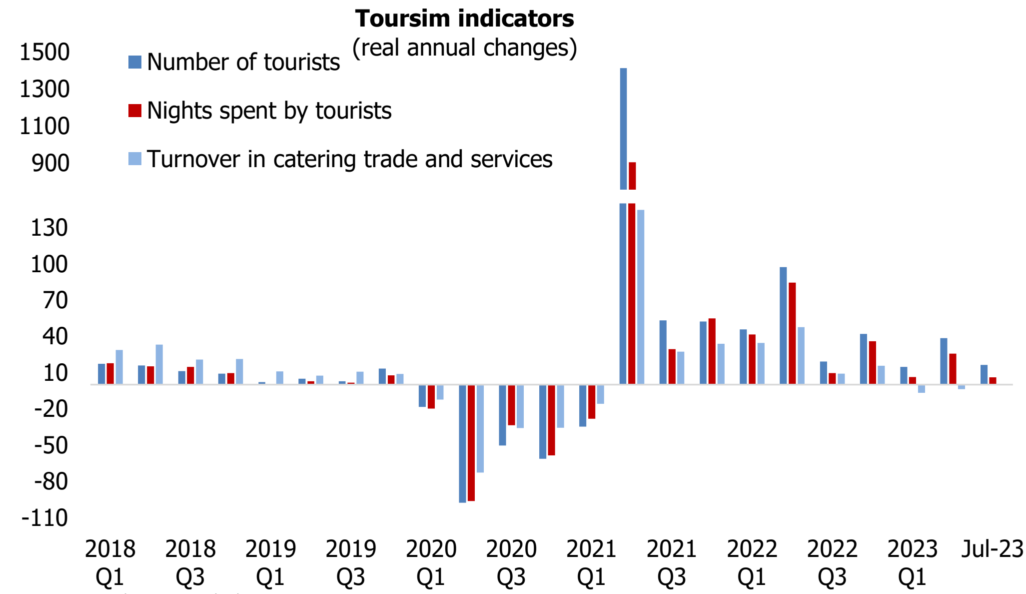
Source: State Statistical Office.

Industry, capacity utilization and managers' expectations for production volume



Source: State Statistical Office and Industry survey of EC.

Within the **catering sector**, and in the second quarter of 2023 there is a real annual growth of number of tourists and overnight stays, at an accelerated pace compared to the previous quarter. This is mainly due to the increased number of overnight stays of foreign tourists, amid more moderate growth in the number of domestic tourists. On the other hand, total real turnover in catering remains lower annually, yet the fall is slowing down. The July 2023 date show further, yet slower growth in the number of tourists and overnight stays, while the total real turnover in catering further declined. The perceptions of the corporate managers in the services sector on their business situations during the third quarter of 2023 are more favorable compared to the same quarter in the previous year, with more favorable expectations for the upcoming period in terms of demand.



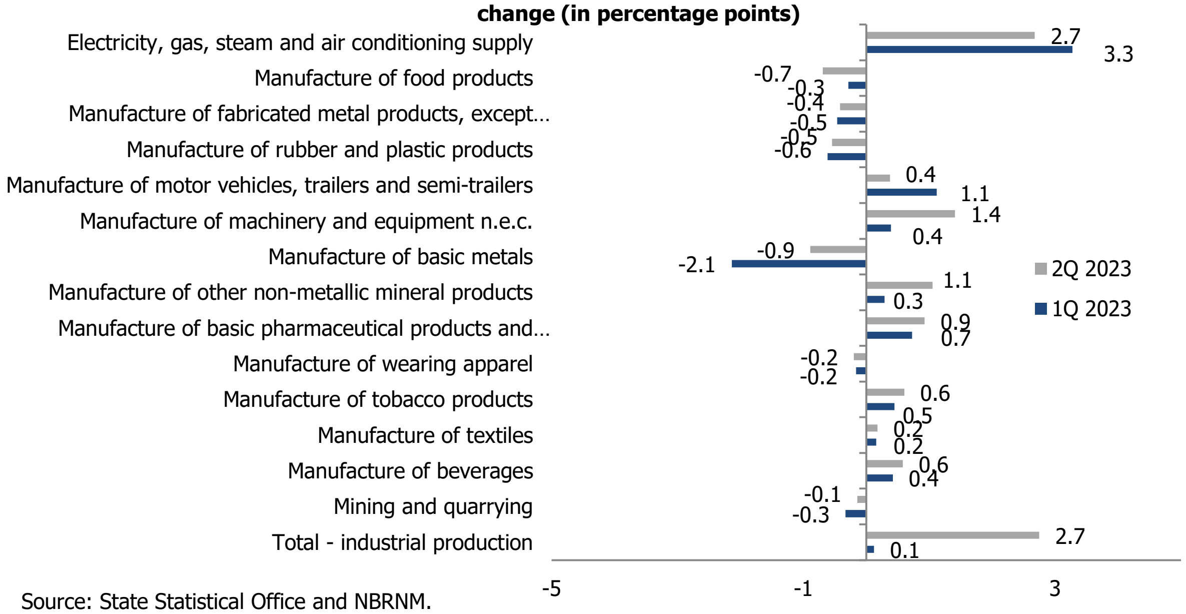
Source: SSO and NBRNM calculations.

In the second quarter of the year the industrial output[7] **registered a real increase of 2.7% annually** (growth of 0.1% in the previous quarter), as a result of the positive contributions of the energy sector and the manufacturing industry, while mining registered a negative contribution. Observed by activity in the manufacturing industry, traditional activities and activities in the automotive industry registered a growth, while the most pronounced positive contribution was made by the production of

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

basic pharmaceutical products and pharmaceutical preparations and production of machinery and devices. Additional significant positive contribution to the growth of industry was made by the production of other nonmetal mineral products, the production of beverages, the production of furniture and the production of motor vehicles. On the other hand, the highest negative contribution was made by the production of metals, as well as the production of fabricated metal products. In the period July– August 2023, industrial output recorded a real annual decline of 3.4%, due to the negative contribution of the manufacturing industry and mining, while the energy sector has a small positive contribution. The industrial sector managers have favorable perceptions of the business situations in the third quarter of 2023, compared to the same quarter last year, with unfavorable expectations in terms of the movement of manufacturing in the upcoming period.

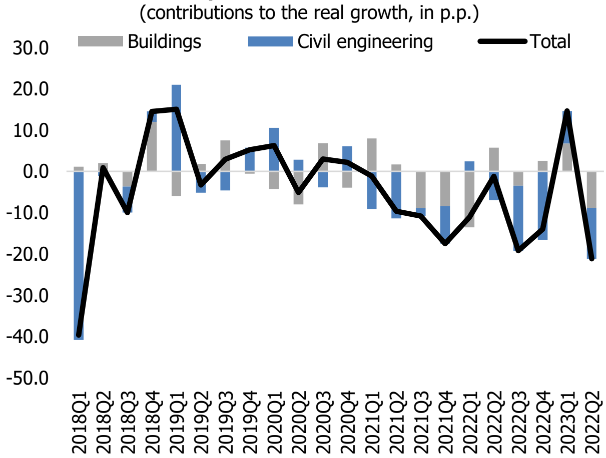
Contributions of selected industries to the total industrial production, annual rate of change (in percentage points)



Source: State Statistical Office and NBRNM.

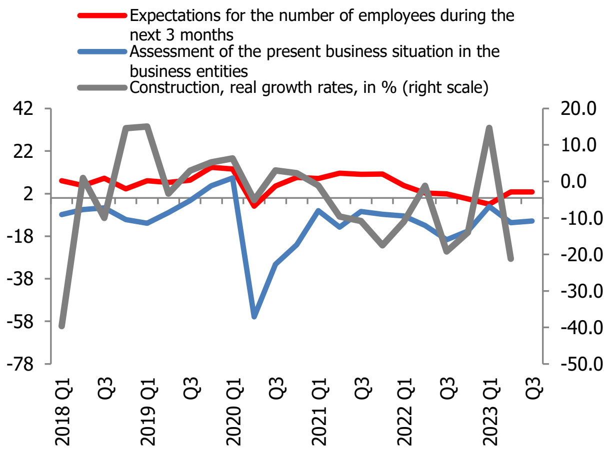
According to the available high frequency data, **in the second quarter of 2023 the activity in the construction sector registered a high real decline on an annual basis, following the growth in the last quarter.** The decline in the value of totally completed construction works was due to the significant drop in both civil engineering (amid high base effect from the last year) and building construction. On the other hand, in July, the value of completed construction works grew moderately on an annual basis, due to civil engineering. Perceptions of the corporate managers in the construction sector for the movement of their activity in the third quarter of 2023 were more favorable compared to the same quarter last year, yet the expectations for the following period are less favorable.

Completed construction works
(contributions to the real growth, in p.p.)



Source: State statistical office

Construction and expectations of the construction sector



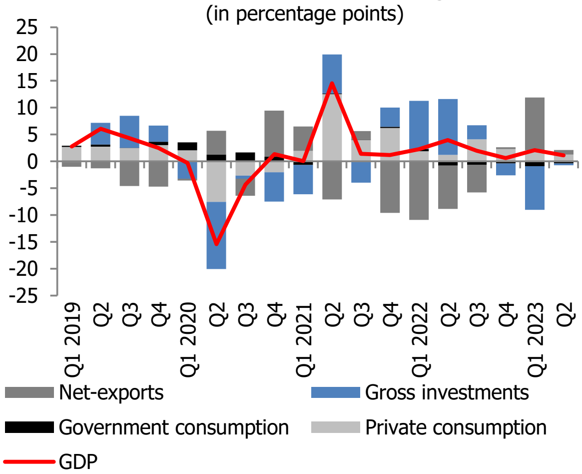
Source: Construction survey of EC, State Statistical Office and NBRNM.

1.3. Aggregate demand

Observed by the aspect of the demand, the real annual GDP growth of 1.1% in the second quarter of 2022 is still mainly due to the net exports, coupled with the contribution of the domestic demand. Furthermore, this quarter registered a turn in domestic demand, from a larger negative impact to a slightly positive contribution, amid decrease in the positive contribution of net exports. For the first time after a longer period, a slight decline in the exports was registered, as a result of the stabilization, following the previously registered high growth, use of capacities, as well as the gradual slowdown in the growth of foreign demand. At the same time, although the positive effect of the further downward adjustment in imports still dominates, it was significantly moderate in this quarter, which also contributed to lower net exports. On the other hand, in conditions of slower growth of private consumption and decline in private consumption, the positive contribution of the domestic demand was due to the significantly more moderate decline in gross investments, as a reflection of the gradual depletion of the base effect from inventories, which significantly grew last year due to raising global risks.

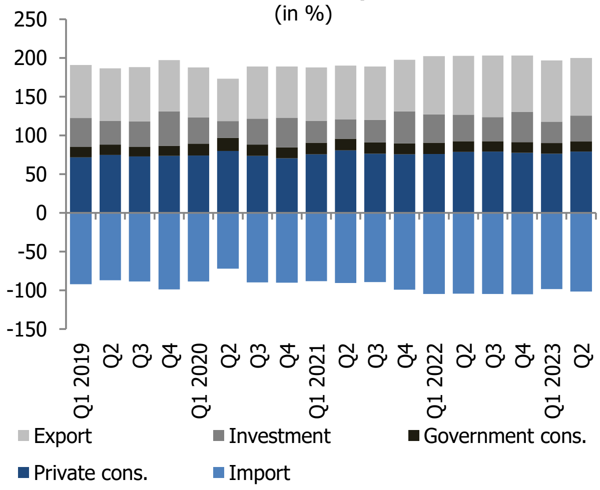
The structural analysis of the GDP[8] in terms of demand, shows that in the second quarter of 2023 the growth mostly results from the net exports, amid smaller decline in exports than the decline in imports. The domestic demand also made a positive contribution in this quarter, amid further, but more moderate growth of private consumption. On the other hand, the decline in public consumption continued, while the negative impact of gross investments was significantly lower, reflecting the gradual depletion of the base effect from inventories.

Contribution to real annual GDP growth
(in percentage points)



Source: State Statistical Office and NBRNM calculations.

Shares of GDP components
(in %)



Source:SSO and NBRNM calculations.

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

Real annual growth rates (%)														
	2019	2020	2021	2022	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2
Private consumption	3.7	-3.6	8.1	3.1	2.6	15.7	5.4	8.8	2.5	1.5	5.4	3.0	2.7	1.6
Government consumption	2.5	9.8	-0.4	-2.6	-4.5	0.6	0.3	1.8	2.7	-5.2	-4.7	-2.8	-5.9	-2.7
Exports of goods and services	8.9	-10.9	11.7	13.4	7.1	44.8	3.7	1.3	11.3	14.2	17.8	10.2	7.1	-1.2
Imports of goods and services	10.1	-10.9	11.9	16.1	0.0	43.8	0.9	11.6	21.2	19.8	19.4	6.5	-4.3	-1.7
Gross capital formation	9.5	-15.1	0.9	15.0	-16.1	34.2	-11.9	9.3	31.8	41.5	9.0	-5.3	-22.3	-1.1
Domestic demand	*5.2*	*-5.5*	*5.1*	*5.4*	*-3.4*	*16.8*	*0.0*	*8.2*	*9.5*	*9.0*	*5.0*	*-0.2*	*-5.5*	*0.4*
*Net exports**	*13.7*	*-10.7*	*12.4*	*23.9*	*-19.2*	*40.8*	*-7.3*	*40.4*	*56.9*	*37.8*	*24.8*	*-1.1*	*-33.4*	*-3.1*
Statistical discrepancy														
GDP	**3.9**	**-4.7**	**3.9**	**2.1**	**0.1**	**14.5**	**1.4**	**1.2**	**2.2**	**4.0**	**2.0**	**0.6**	**2.1**	**1.1**

Contributions to real annual growth (in p.p.)**														
	2019	2020	2021	2022	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2
Private consumption	2.5	-2.3	5.3	2.1	1.7	11.1	3.5	5.5	1.7	1.0	3.6	2.0	1.8	1.1
Government consumption	0.4	1.4	-0.1	-0.4	-0.8	0.2	0.0	0.2	0.4	-0.9	-0.7	-0.4	-1.0	-0.4
Exports of goods and services	5.4	-6.8	6.8	8.9	4.2	22.4	2.2	0.8	7.6	9.6	11.9	6.4	5.3	-0.9
Imports of goods and services	-7.3	8.3	-8.4	-13.2	0.0	-26.2	-0.6	-8.5	-16.5	-15.9	-15.3	-6.2	4.1	1.7
Gross capital formation	3.1	-5.2	0.3	4.9	-5.1	7.0	-3.7	3.2	9.0	10.1	2.5	-1.2	-8.2	-0.3
Domestic demand	*5.9*	*-6.1*	*5.5*	*6.5*	*-4.1*	*18.3*	*-0.1*	*9.0*	*11.1*	*10.3*	*5.3*	*0.4*	*-7.3*	*0.4*
*Net exports**	*-2.0*	*1.5*	*-1.6*	*-4.4*	*4.2*	*-3.8*	*1.6*	*-7.8*	*-8.8*	*-6.3*	*-3.4*	*0.2*	*9.4*	*0.7*
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*	*0.0*	*0.0*
GDP	**3.9**	**-4.7**	**3.9**	**2.1**	**0.1**	**14.5**	**1.4**	**1.2**	**2.2**	**4.0**	**2.0**	**0.6**	**2.1**	**1.1**

**decrease represents lower deficit*
*** Contribution components do not sum to total GDP due to statistical discrepancies in real amounts.*
In order to comply with the official real growth rates, the statistical discrepancy is included in the aggregate GDP.
Source: SSO and NBRNM calculations.

1.3.1. *Private consumption*

In the second quarter of 2023, the annual growth of private consumption further decelerated and equaled 1.6% (quarterly growth of 0.1%). The growth in consumption was supported by the real growth of the average wage paid[9] and pensions[10], which declined in the previous quarters. On the other hand, bank lending to households registered an annual decline in real indicators in this quarter as well, while private transfers, which were previously the major driver of the private consumption growth, registered a real decline. Amid uncertainties from the war in Ukraine and retaining high consumer prices, additional economic measures applied in this quarter as well, to protect the living standard[11] which probably partly contributed to the maintenance of household consumption.

The available private consumption data[12] for the third quarter of 2023 show different signals, which generally indicate its further slowdown. This period registered an annual real decline in retail trade and gross revenues from VAT, as well as in domestic production of consumer goods. Also, the real annual decline in household loans continued, while the import of consumer goods further grew, yet more moderately. On the other hand, in some of the disposable income components, i.e. in wages and pensions, the growth registered in the previous quarter accelerated. The results of the Bank Lending Survey from September show a net tightening of the overall credit conditions, more pronounced compared to previous survey and net reduction of the demand for total household loans. The consumer confidence indicator[13] points to more favorable perceptions for the third quarter of 2023 relative to the previous quarter, and compared to the same period in 2022. At the end of the third quarter, amid protracted uncertainty, additional economic measures were adopted to protect the living standard[14].

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

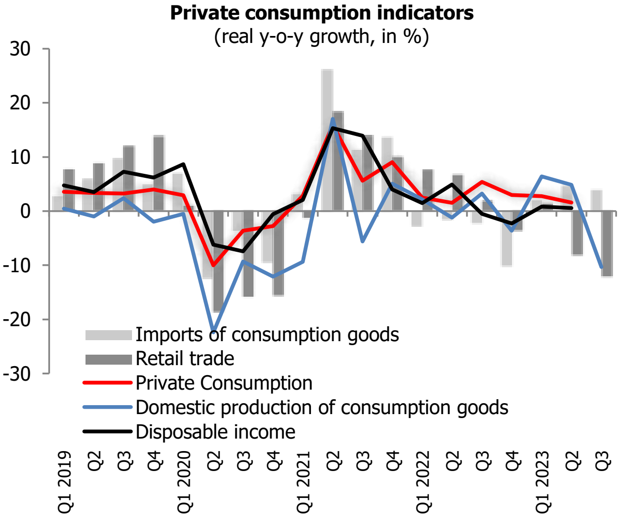
[10] In March 2023, pensions increased by 8.4% nominally according to the regular adjustment with the new methodology which follows two indicators, i.e. 50% of the increase in the average wage and 50% of the increase in the consumer prices, according to the official data of the State Statistical Office. This harmonization happens twice a year, in March and September (for more information see the following link). Moreover, in accordance with the latest set of target measures to help the most vulnerable groups of citizens adopted in October 2022, in the next 4 months (November and December 2022 and January and February 2023) denar 1,500 were paid to pensioners that receive pensions of up to denar 11,525 and denar 750 for pensioners whose pensions range from denar 11,525 to denar 14,000.

[11] On 28 February 2023 the Government adopted a decision on freezing the price of bread to 33 denars as of 31 May 2023. In the beginning of March 2023, the government adopted a Decision to freeze the prices of pasta and dairy. The price of pasta decreased by 15% compared to the price in retail trade as of 1 March 2023, while the prices of dairy decreased by 10%. The Decision is valid as of 16 March 2023 will apply as of 31 May 2023. On 21 March 2023, the Government adopted a decision on freezing the price of eggs, valid as of 1 March to 31 May 2023. On 29 March 2023, the prices of toilet paper, sanitary napkins, wet wipes, diapers froze and reduced by 13%, valid as of 1 April until 31 May 2023. In early April, several decisions froze the prices of certain types of fruit and vegetables, and defined the minimum amount that traders are required to provide. Economic measures to protect the standard of living remained valid in the second quarter of 2023. Thus, as of 1 March 2023 the price of white and semi-white bread was frozen, the prices of pasta and part of dairy were reduced and frozen as of 16 March amid simultaneous abolishing of the customs, while as of 1 April the prices of certain hygiene products were reduced and frozen. These changes applied as of 31 May 2023. For the period 21 March until the end of April 2023, the prices of chicken eggs and rice were also frozen. For more details, please visit the following link: https://vlada.mk/sednici

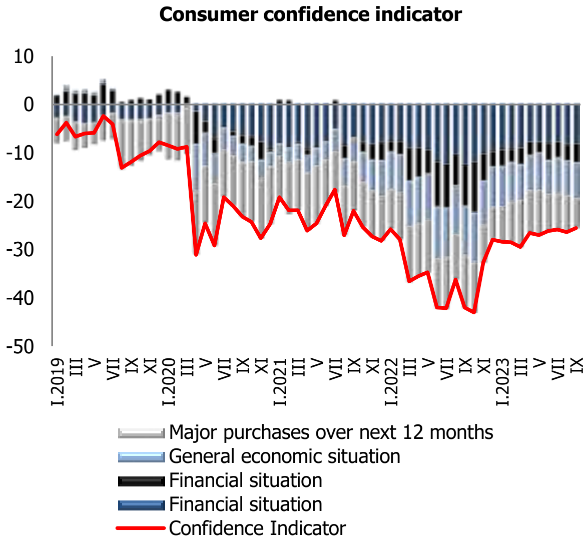
[12] Data on wages are as of July 2023, while data on household loans retail trade, domestic production of consumer goods, import of consumer goods and gross revenues from VAT refer to the period July-August 2023.

[13] European Commission's Consumer Survey as of August 2023. The chart shows consumer confidence index as a net percentage of responses. This index is an integral component of the total index of economic confidence.

[14] On 19 September 2023, the Government adopted a decision on reducing the prices of some food products by at least 10% and freezing the reduced prices. The Decision is valid from 20 September to 30 November 2023 and the highest prices of some of the food products are determined at the level of prices (excluding the promotional pricing) applied as of 1 August 2023 in retail trade, i.e. the prices of these products are reduced by at least 10%. For more details, please visit the following link: https://vlada.mk/node/34532



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

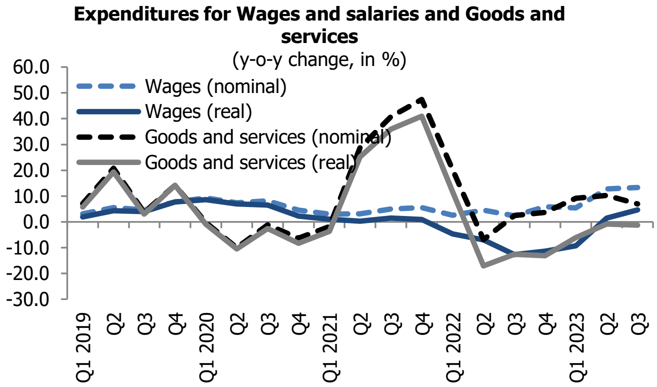


Source: European Commision and NBRNM's calculation.

1.3.2. Public consumption

The real annual decline in public consumption decelerated in the second quarter of 2023 and equaled 2.7% (quarterly increase of 0.2%). According to the budget data, the slower decline in this period is due to the shifts in major categories of public consumption, primarily in wage expenditures and health fund, amid slower decline in costs of goods and services.

According to the fiscal data for the period July - August 2023, the budget performances suggest a real annual increase in **public consumption** in the third quarter of the year, amid increase in all major categories (except in transfers for the Employment Agency).



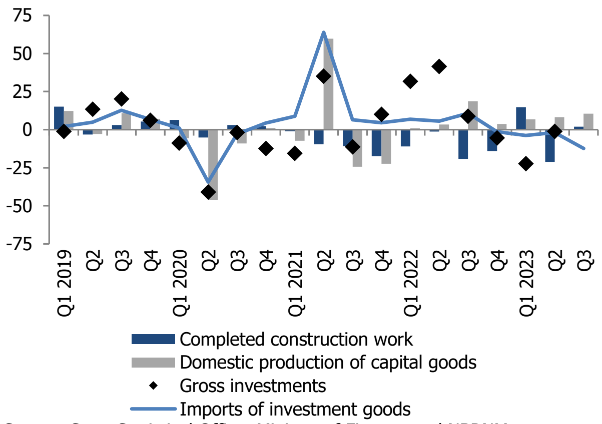
Source: Ministy of Finance and NBRNM calculations.
The calculations include expenditures of Consolidated Budget of Central Government and Funds, deflated by CPI.

1.3.3. Investment consumption

The decline in gross investments significantly decelerated in the second quarter of 2023. Moreover, the investments registered a real annual decline of 1.1% and a quarterly growth of 23.3%. Such movements on an annual basis point to gradual depletion of the base effect from high inventories, which last year increased in response to the unfavorable effects of the war in Ukraine and uncertainty on the markets of energy and raw materials. Observed by indicative categories for investments in fixed assets, this period registered a high real growth in government capital investments, in accordance with the financing for the construction of road infrastructure[15] for corridors 8 and 10d, with an increase in domestic production of capital goods and long-term corporate loans. The other indicative categories registered negative real changes (in completed construction works, revenues from profit tax, import of working capital, and in foreign direct investments).

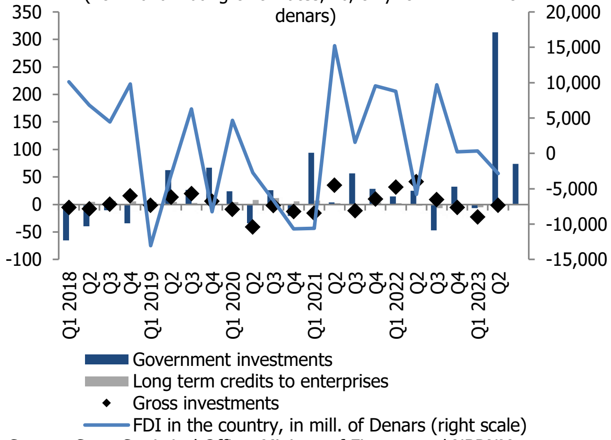
Regarding the high frequency data on the gross investments[16] in July 2023, real annual decline was registered in the import of working capital and revenues from corporate tax. On the other hand, the high growth in government capital investments continued, in accordance with further financing for the construction of road infrastructure of corridors 8 and 10d, with a solid increase in domestic production of capital goods and long-term corporate loans. On the other hand, the results of the Bank Lending Survey for the third quarter point to net tightening of the overall credit conditions and net reduction in the demand for corporate loans.

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



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

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



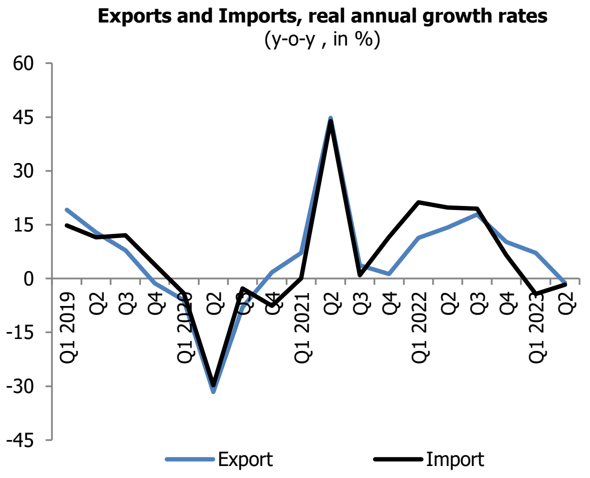
Source: State Statistical Office, Ministry of Finance and NBRNM calculations.

1.3.4. Net external demand

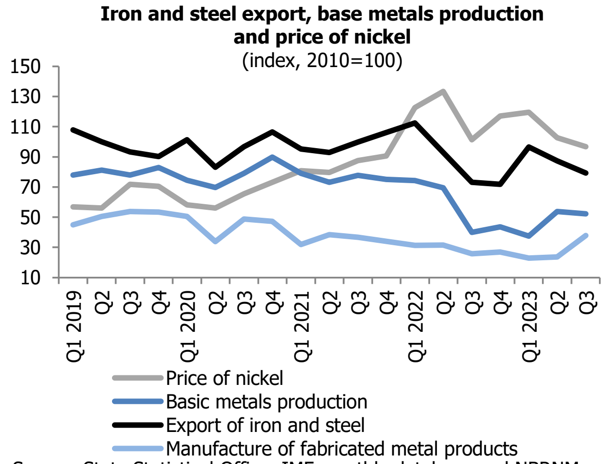
In the second quarter of 2023, the net exports made a positive contribution to the growth of the GDP, amid significant decline in imports relative to the decline in exports. For the first time after a longer period, this quarter registered a slight decline in the exports on an annual basis, by 1.2%, amid quarterly decline of 3.7% (annual growth of 7.1% and a quarterly growth 3.7%, respectively, in the previous quarter), influenced by the stabilization after the previously registered high growth and capacity utilization, amid gradual slowdown of the growth in foreign demand. Analyzed by nominal values of the foreign trade statistics, the largest contribution to this performances was made by companies from the metal industry, while the export of energy and textile registered negative contribution. The absence of need for import of inventories, as well as the moderate growth in private consumption and the decline in exports, led to a decrease in total imports of 1.7% annually in the second quarter (amid quarterly growth of 2.8%). **Foreign trade data in July– August 2023** indicate further potential deficit narrowing compared to the same period last year, amid faster nominal decline in the import than the export of goods.

[15] In accordance with the programme for financing the construction of road infrastructure for corridor 8 and corridor 10d for 2023, adopted by the Government of the Republic of North Macedonia, at the session held on 23 March this year, published in the Official Gazette of the Republic of North Macedonia, the Public Enterprise for State Roads executed the third transfer on the account of the constructor of the highways in the amount of Denar 443.602.000 billion or Euro 7.200.000 million from the government budget through the Ministry of Finance. https://faktor.mk/behtel-i-enka-dobi-ushte-72-milioni-evra-kje-zapochne-li-konechno-gradenjeto-na-avtopatite

[16] Data on completed construction works and inventories of finished products are as of July 2023, while data on long-term corporate loans, government capital investments, industrial production, and imports of investment products and domestic production of capital goods refer to the period July– August 2023.



Source: State Statistical Office.



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

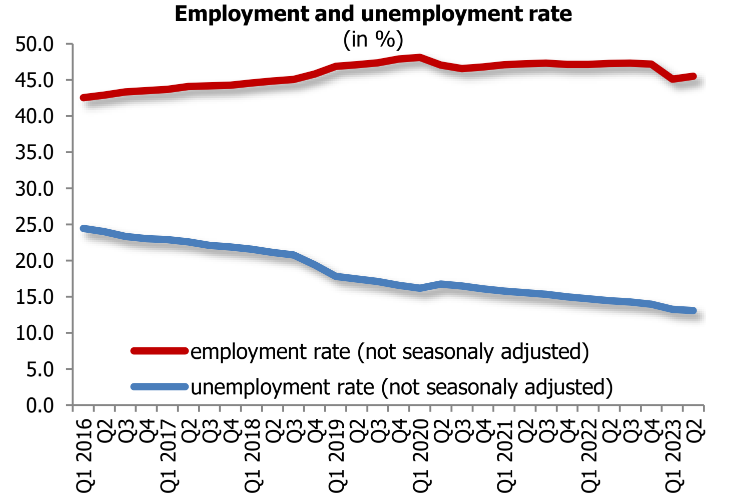
1.4. Employment and wages

In the second quarter of 2023, the labor market registered positive developments on a quarterly basis. Thus, the number of employed persons increased quarterly by 0.9%, amid decreased number of unemployed by 0.5%. Such movements contributed to a slight increase in the employment rate, which reached 45.5%, amid further decrease in the unemployment rate, which reduced to 13.1%. At the same time, the second quarter registered an increase of active population, and thus moderate decrease of inactive population, which indicates favorable movements in labor supply. In accordance with the surveys, the optimism of corporate managers in terms of the new employments in the third quarter of 2023 is weaker compared to the expectations for the previous quarter. In terms of labor cost, wages continued to grow in the second quarter of 2023, at a slightly moderate pace.

In the second quarter of 2023, the labor market[17] registered positive developments on a quarterly basis. Thus, the second quarter of 2023 registered an increase in the number of employees of 0.9% compared to the previous quarter. Analyzed by activity, the largest contribution to the quarterly growth of employment was made by activities related to agriculture, construction, water supply, public administration and defense, compulsory social insurance, as well as education, hotels and restaurants. On the other hand, more pronounced negative contribution was made by retail and wholesale trade, health and social care, information and communication, professional, scientific and technical activities and transport and storage. In terms of the economic status[18], the rise in the number of employed persons is explained with the growth in the categories employers and unpaid family workers, while there are negative movements in employees and own account workers.

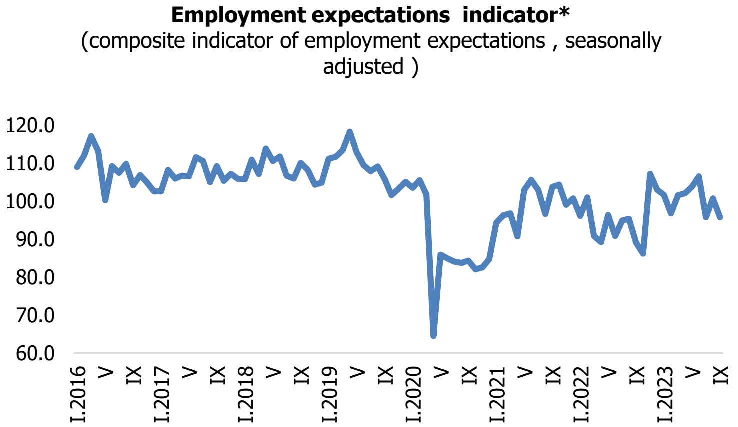
[17] The results of the Labor Force Survey (LFS) for the first and second quarter of 2023 are not comparable with the data from the previous quarters of other years, because in 2023 the new Regulation (EU) no. 2019/1700 of the European Parliament and the Council for Social Statistics and the corresponding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

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



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

In conditions of a quarterly growth in the number of employees, the employment rate reached 45.5%, which is an increase of 0.4 percentage points compared to the previous quarter. The business tendency surveys[19], on the average, are mainly less optimistic in terms of corporate managers' expectations for increased number of employees in the third quarter of 2023 compared to the previous quarter, due to less optimistic expectations among managers in industry and services sector.



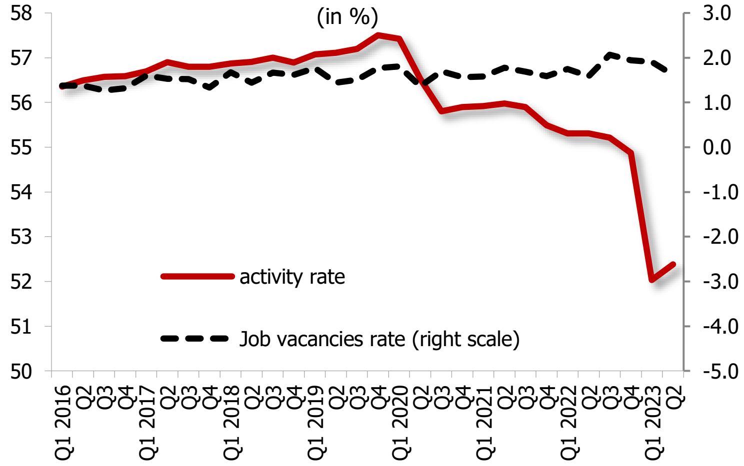
Source: European Commission, Business and consumer surveys.
*Managers employment expectations for the next 3 months in the companies in the four sectors: industry, services, retail trade and construction .

The free vacancies rate[20] remained stable for a longer period of time, which was also a case in the second quarter of 2023. In this period, it amounted to **1.6%** (same as in the related quarter of 2022). Analyzed by activity, the highest rates of vacancies are registered in mining and quarrying (3.3%),

[19] Source: European Commission, business tendency surveys, employment expectations in the next 3 months in industry, services, retail trade and construction (surveys conducted in July, August and September 2023).
[20] The job vacancy rate is defined as the ratio between the number of job vacancies and the total number of jobs. Usually, the job vacancy rate is considered along with the unemployment rate (a relationship known as the Beveridge Curve). The value of these two indicators provides labor market information about any skill mismatch. More precisely, if both indicators are moving simultaneously, the fluctuations are temporary, cyclical, and when the unemployment rate is decreasing, amid stable vacancy rate, these are structural changes, i.e. improved labor market efficiency.

transport (2.8%), administrative and auxiliary services (2.6%), accommodation facilities (2.5%), construction (2.4%) and trade (2.1%).

Labour force, inactive population and participation rate
(in %)



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

Similar to demand, there is an improvement in labor supply in the second quarter of 2023. In the second quarter, total active population registered a quarterly increase of 0.8% which also positively affected the activity rate to 52.4% (52% in the previous quarter).

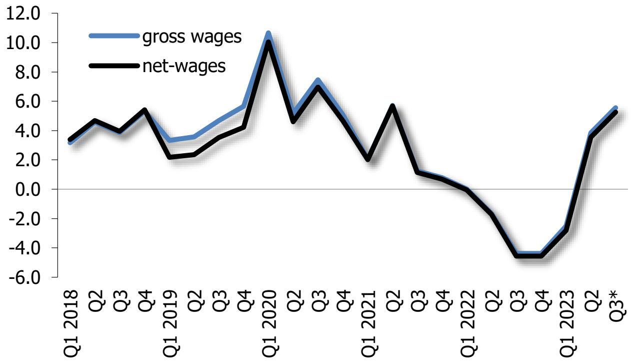
The moderately improved movements in the demand relative to supply of labor force in the second quarter of 2023 resulted in further fall in unemployment. Thus, the number of unemployed in the second quarter decreased by 0.5% quarterly, while the unemployment rate further decreased and reduced to 13.1% (13.3% in the previous quarter). Such movement of the unemployment rate is a result of the further decrease in the number of unemployed, amid simultaneous positive movements in the number of employed and decrease in the inactive population.

The average net and gross wages paid in the second quarter registered an annual growth of 15.1% and 15.4%, respectively, (growth of 12.9% and 13.2%, respectively in the previous quarter). The annual growth in wages reflects the increase in the minimum wage (of 12.6% in March 2023) and consequently the linear growth of Denar 2,175 of the wages in the public administration due to the adjustment of the wages with the minimum, in accordance with regulations[21]. Also, the increase partly results from the increased wages of officials from April 2023 by 78% and the increased wages of health workers[22] from May 2023. The wage growth was affected by the transmission effect of the increase in wages in the public sector[23] in September 2022, as well as the existence of certain structural factors, such as lack of labor force in certain segments of the labor market. Analyzing by activity, an annual wage growth was recorded in all economic activities, especially in: financial and insurance activities, administrative and support service activities, construction, education and public administration and defense. In conditions of significantly decelerated growth in consumer prices from

[21] In accordance with the latest amendments to the growth of the minimum wage (Official Gazette of the Republic of North Macedonia No. 58/23) from March 2023, the minimum net wage increased by Denar 2,175. The minimum gross wage, from March 2023 to February 2024, is Denar 29,739 (previously Denar 26,422), i.e. the minimum net wage is Denar 20,175 (previously Denar 18,000). This increase is calculated in accordance with last year's methodology, which will adjust the minimum wage, and is calculated in accordance with the increase of the average wage paid in the RNM for the previous year and the consumer price index - 50% of the increase of each indicator, respectively. Moreover, it is defined that the minimum wage cannot be lower than 57% of the average net wage paid in the RNM for the previous year.
[22] https://vlada.mk/node/33235
[23] In accordance with the Budget revision, the September wage increased by 15% for the employees in justice department, secondary and primary education and child care, 7% for the employees in higher education, while the wages of the employees in the MOI and health department grew by 5%.

16.1% to 11.2%, **real net and gross wages in the second quarter increased and were annually higher by 3.6% and 3.8%, respectively, after four consecutive quarters of decline.** In July [24] 2023, the annual growth in the nominal average net wage equaled 14.1%, while the real net wage increased by 5.3%.

Average gross and net-wages
(annual real changes in %)



Source: State Statistical Office.
*Data in Q2 is with last available data, July 2023.

1.5. Inflation

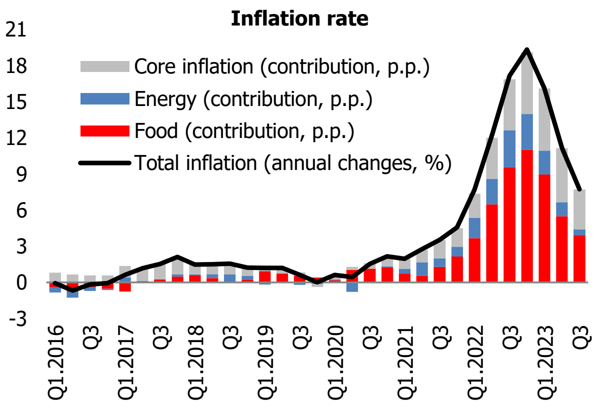
In the third quarter of 2023 the inflation rate further slowed down on an annual basis, thereby reaching a single-digit average of 7.7%. All three major categories –food, energy and core inflation, registered a decelerated growth, with the largest contribution of food prices. During this quarter, the primary commodities prices on the international market moved mainly downward, and in conditions of lower energy pressure on operating costs in the food industry, the food prices also moved downward. In terms of the factors that would affect the future short-term dynamics of consumer prices, the third quarter registered a decline in the prices of domestic producers of industrial products and further slowdown in the foreign import inflation, coupled with government measures to reduce and freeze prices of some food products and beverages, adopted in September. In terms of the inflation expectations in the next period, the National Bank Survey showed that the economic analysts further predict its gradual slowdown, which is mainly in accordance with projected inflation dynamics of the National Bank and international institutions.

1.5.1. Current inflation

In the third quarter of 2023 the inflation rate continued to slow down annually and averaged 7.7% (11.2% in the previous quarter))[25]. The largest contribution to such dynamics was made by the slower growth in food prices, coupled with the downward growth path of energy prices and core inflation.

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

[25] On a quarterly basis, domestic consumer prices increased by 2.6%, and by 1.9% seasonally adjusted.



Source: State statistical office and NBRNM calculations.

The core inflation in the third quarter of 2023 continued to slow down and reduced to 6.9% annually (9.1% in the previous quarter). Such dynamics mainly reflects the lower growth of prices of restaurant and hotel services, amid decelerated growth in food and energy prices. The prices of catering services, together with the prices of household maintenance products remain the major drivers of the core inflation, with significant contribution from the prices of products for personal hygiene, non-alcoholic beverages, tobacco and clothing. Also, the other inflation sub-indices, which exclude the most volatile prices, registered a decelerated growth in this quarter, compared to the previous quarter. Thus, the total index, excluding energy[26], liquid fuels and lubricants (for transport) and unprocessed food, as well as the total index excluding energy, liquid fuels and lubricants (for transport), unprocessed food, tobacco and alcoholic beverages, registered an annual growth of 7.2% (11.2% and 11.4%, respectively in the previous quarter).

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

Source: State Statistical Office and NBRNM calculations.

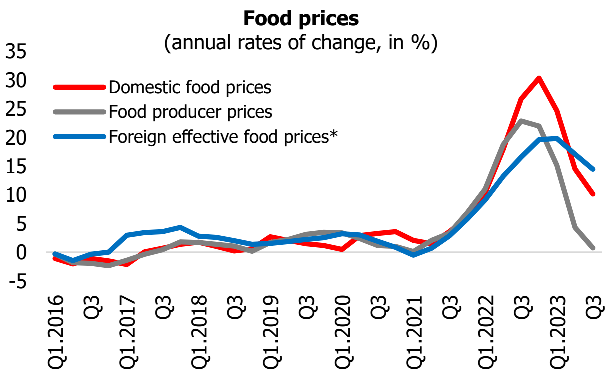
The annual growth of food prices slowed down in the third quarter as well, which started in the first quarter of the year, but it still remains in the double-digit zone. The price growth reduced to 10.2%, amid slowdown in the growth of prices in most food products, mostly due to the prices in the category bread and cereals.[27] Structurally observed, the growth in the food component in this quarter mostly resulted from the higher prices of meat and vegetables, which explain more than one half of the growth in food prices. The prices of other groups of food products also grew, excluding the prices of oil which further decreased. During the third quarter, the primary commodities prices on the international market moved mainly downward, and in conditions of lower energy pressure on operating

[26] The energy category includes electricity, gas, liquid and solid fuels for heating and central heating.

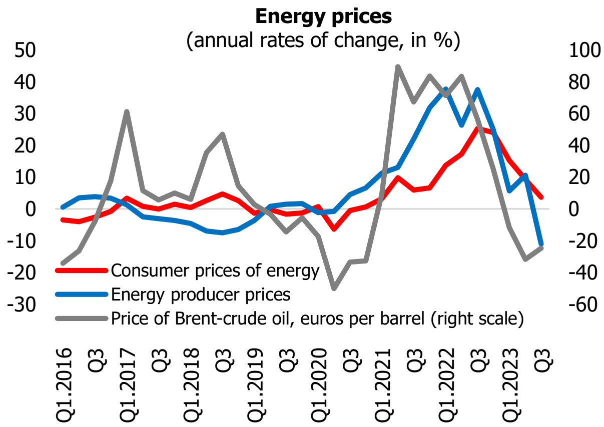
[27] During September, the Government of RNM made decisions that refer to the decrease and freezing of product prices within 24 categories of bakery, dairy, meat industry and agriculture (link), the prices of some of the beverages, reduction of trade margins in fruit and vegetables (link), reduction and lifting import duties of some products (link), but the effect of these measures on inflation will be felt in the fourth quarter. On the other hand, the decision to increase the preferential VAT rate from 5% to 10% for some of the food products, adopted in October, will contribute to certain increase in the prices of these goods (link).

costs in the food industry, there was a room for downward movement of domestic food prices. Thus, the sale prices of domestic food products and foreign effective food prices in third quarter recorded a further slowdown of the annual growth rate.[28].

The slower growth of energy prices was also noted in the third quarter of 2023, thus the annual price growth reduced to 3.6% (9.2% in the previous quarter). Such dynamics, primarily results from the slower growth in the prices of electricity and firewood due to high base effect related to the faster growth of prices in the second half of last year, amid further double-digit decline in the prices of oil derivatives with a similar intensity as in the previous quarter. Despite the reduced contribution, the electricity price for households remains the main driver of the price growth in energy, which resulted from the increase in the prices in July and the transmission effect of the increase in the prices in January this year[29].



* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with North Macedonia in the domain of food import.
Source: State statistical office, Eurostat and NBRNM calculations.

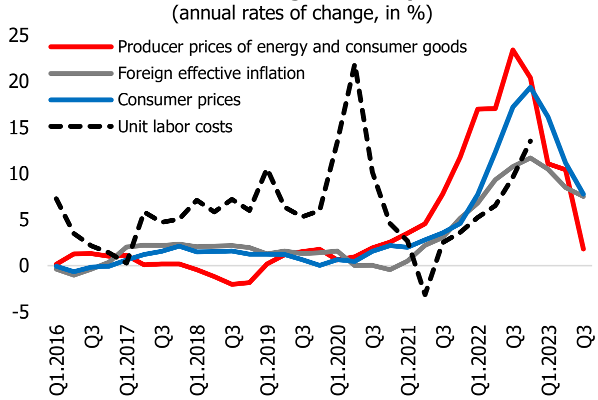


Source: State statistical office and NBRNM

In the third quarter of 2023, **the producer prices of industrial products** registered a decline of 1.2% annually[30], after the gradual slowdown in the growth in the past three quarters. The decline in producer prices in this period results from the reduced prices of intermediate products, including energy, and capital products. Analyzed by activity, besides the lower prices in energy[31], lower prices in mining and metal processing industry also made a significant contribution to the decline in producer prices of industrial goods. **Producer prices of energy and consumer goods**, as an aggregate category and a factor that influences the dynamics of consumer prices, registered a slight increase of 1.3% in this period, which is a significantly slower growth compared to the previous quarter (10.4%). **Foreign effective inflation**[32]**,** as an indicative indicator of imported inflation, also registered a slower growth, which amounted to 7.5% (8.5% in the previous quarter).

[28] Data on sales prices of domestic food producers and foreign effective food prices refer to the first two months of third quarter of 2023.
[29] In accordance with the decision of the Energy Regulatory Commission (ERC), in July 2023 the following changes have been made to the price of electricity for the universal supplier, as follows: the price in the first and second block went down by 7.04% and 4.09% respectively, while the price in the third and fourth block increased by 2.54% and 2.42% respectively (press release), and the price of the low tariff increased to Denar Denar 1,4013/kWh earlier (prices). Moreover, from July 2023 the tax rate for the turnover of electricity to households is 18%, instead of 10% as was in the past six months. In January 2023 the following changes have been made to the price of electricity for the universal supplier, as follows: the price in the first and second block went down by 4.11% and 2.95% respectively, while the price in the third and fourth block increased by 0.85% and 7.65% respectively (press release), and the price of the low tariff increased to Denar 1.3183/kWh from Denar 0.6193/kWh earlier (prices). Also, the tax rate for the turnover of electricity to households increased from 5% to 10% in January.
[30] The analysis of producer prices of industrial products uses data for the first two months of the third quarter of 2023.
[31] In accordance with the ERC announcement (link), from January 2023, the electricity price decreased by 20.15% for over seventy thousand small companies on the regulated market.
[32] The calculation of foreign effective inflation derives from the weighted sum of consumer price indices of the countries that are major partners of the Republic of North Macedonia in the field of import of consumer goods. The weight structure is based on the normalized shares of nominal imports from each country in the total nominal imports in the period 2016-2018. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia, Serbia, Poland and Spain. The data refers to the first two months of the third quarter of 2023.

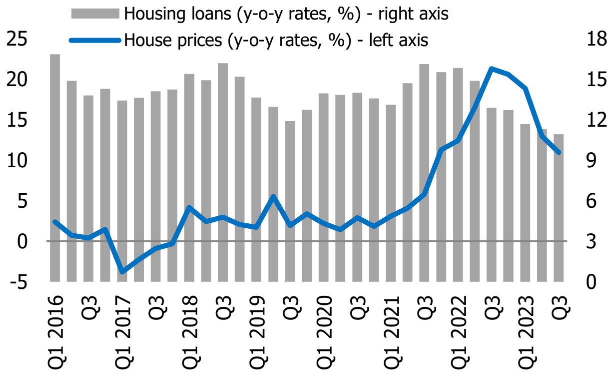
Factors affecting consumer prices
(annual rates of change, in %)



Source: State statistical office and NBRNM calculations.

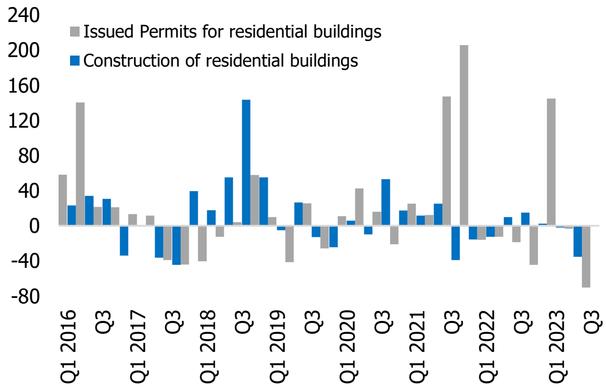
In the third quarter of 2023, there was **further slowdown of the growth of housing prices** measured using the Hedonic index[33], which are higher by 11.0% on an annual basis (13.0% in the previous quarter). Observing supply, a sharp annual decline in the value of constructed residential buildings of 35.2% was registered in the second quarter, after the decline of 2.0% in the previous quarter. The available data on the value of the approvals issued for the construction of residential buildings in the third quarter of 2023[34] currently indicate a stronger deepening of the annual decline. Analyzing housing demand, there is a further deceleration in the annual growth of housing loans[35].

Housing prices and housing loans



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

Indicators of housing supply
(annual rates of change, in %)



Source: SSO and NBRNM calculations.

1.5.2. Inflation expectations

As for the expected trajectory of the inflation rate, domestic and international institutions predict a downward trend in the growth of consumer prices in the coming period, after the high performance in 2022 when it reached an average of 14.2%. There are similar expectations by the surveyed economic analysts presented in the **Survey on Inflation Expectations and Expectations for the Movement of Real GDP** [36] conducted in September 2023, according to which the inflation rate would decelerate and reduce to 9.5% in 2023, 5.0% in 2024 and 3.2% in 2025. Compared to the previous survey, the expected inflation rate for the current year is slightly higher (from 9.3% to 9.5%) in accordance with the

[33] Hedonic index of housing prices, prepared by the National Bank on the basis of notices of sale in the capital city, and published by real estate agencies. The apartment price is a function of the apartment size, location, floor, use of central heating and construction date.
[34] The analysis refers to the first month of the third quarter of 2023.
[35] Available data for the first two months of the third quarter of 2023.
[36] In October 2017, the National Bank modified its Inflation Expectations Survey. The new Inflation and Real GDP Expectations Survey is conducted on a sample of economic analysts, extending the Survey subject in line with the practice of the European Central Bank (ECB).

slight slowdown in consumer prices compared to the producer prices and primary commodities, while the expectations for the next two years are slightly lower (in June the inflation rate was expected to equal 5.1% in 2024 and 3.4% in 2025).

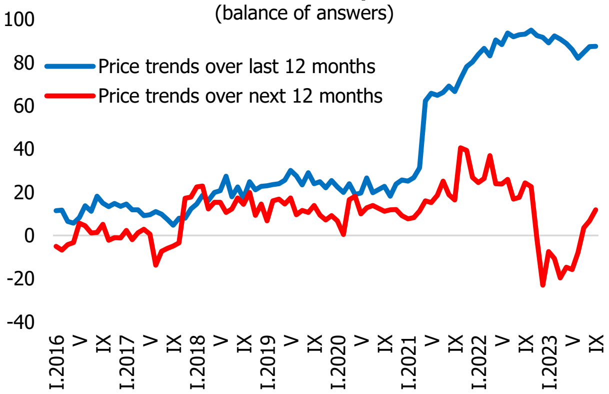
Forecasts and expectations for the inflation rate

	2023	2024	2025
Economic analysts	9.5	5.0	3.2
IMF	10.0	4.3	2.2
Consensus Forecast	9.3	3.8	/
Ministry of Finance	8.9	2.5	2.0
NBRNM	9.5	3,5-4,0	2.0

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

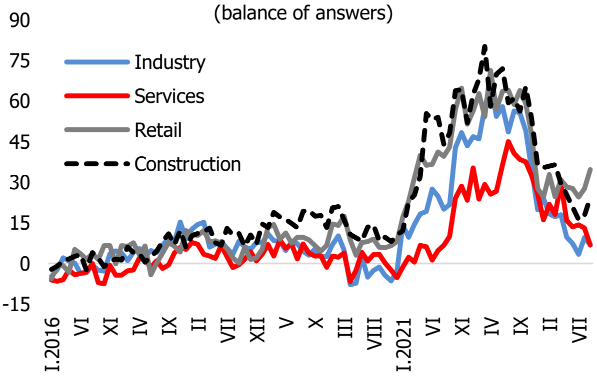
In general, the weaker price pressures of food and energy positively affect the expectations of economic agents for the future short-term price movement, expressed in the surveys of corporate managers in the third quarter of 2023. Thus, **the corporate sector**[37] recorded further decrease in the ratio of the corporate managers in the manufacturing industry, construction and the services sector, which expect a growth in the prices of their products in the next three months, while there are no changes in the retail trade ratio compared to the previous quarter, thus the expectations for the prices in the retail trade remain less favorable compared to the other activities. On the other hand, in the third quarter the consumer expectations for price changes in the next 12 months[38] indicate their slight deterioration, i.e. there is an increase in the number of persons who believe that the prices will grow in the next 12 months against those who expect lower prices.

Consumer inflation expectations
(balance of answers)



Source: European Commission.

Inflation expectations of managers of enterprises over the next 3 months
(balance of answers)



Source: European Commission.

1.6. Balance of payments

In the second quarter of 2023, the current account recorded a deficit of 0.8% of GDP, which is lower by 1.0 percentage points of GDP compared to the same period last year. The decrease in the trade deficit in this quarter remains the key factor for improved performances compared to the previous year, due to significant decrease in import component. The reduced import pressures are still mostly due to the import of energy, oil derivatives and electricity, as a result of the decreased prices and lower energy consumption. The shifts in other components had the opposite effect on the current account balance. The financial account in the second quarter registered net inflows, which mostly result from net inflows in loans and direct

[37] European Commission's business tendency surveys in industry, retail trade, construction and services sector as of September 2023.
[38] European Commission's Consumer Survey as of September 2023.

investments, and to a lesser extent from trade credits. Net inflows in the financial account enabled further growth of foreign reserves, and thus remained in the safe zone.

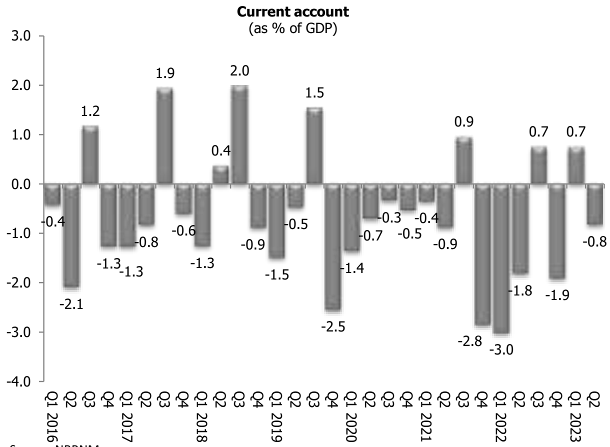
	2022					2023		2022					2023	
	Кв.1	Кв.2	Кв.3	Кв.4	I-XII	Кв.1	Кв.2	Кв.1	Кв.2	Кв.3	Кв.4	I-XII	Кв.1	Кв.2
	In millions of euro							% of GDP						
I. Current account	**-388.8**	**-234.0**	**96.6**	**-246.2**	**-772.4**	**105.0**	**-116.9**	**-3.0**	**-1.8**	**0.7**	**-1.9**	**-6.0**	**0.7**	**-0.8**
Goods and services	**-680.7**	**-737.0**	**-552.6**	**-741.7**	**-2712.0**	**-347.7**	**-577.0**	**-5.3**	**-5.7**	**-4.3**	**-5.8**	**-21.0**	**-2.5**	**-4.1**
Credit	2139.8	2419.4	2550.0	2554.6	**9663.7**	**2432.0**	**2486.3**	16.6	18.8	19.8	19.8	**74.9**	**17.2**	**17.6**
Debit	2820.5	3156.4	3102.5	3296.2	**12375.7**	**2779.6**	**3063.2**	21.9	24.5	24.1	25.6	**95.9**	**19.7**	**21.7**
Goods	-850.3	-899.4	-881.4	-821.7	**-3452.8**	**-601.0**	**-591.0**	-6.6	-7.0	-6.8	-6.4	**-26.8**	**-4.3**	**-4.2**
Services	169.6	162.3	328.9	80.0	**740.8**	**253.4**	**14.1**	1.3	1.3	2.5	0.6	**5.7**	**1.8**	**0.1**
Primary income	**-138.7**	**-136.9**	**-137.2**	**-145.3**	**-558.1**	**-173.0**	**-176.8**	**-1.1**	**-1.1**	**-1.1**	**-1.1**	**-4.3**	**-1.2**	**-1.3**
Secondary income	**430.5**	**639.9**	**786.4**	**640.8**	**2497.6**	**625.7**	**636.9**	**3.3**	**5.0**	**6.1**	**5.0**	**19.4**	**4.4**	**4.5**
II. Capital account	**0.2**	**-0.6**	**-1.1**	**-2.1**	**-3.6**	**0.3**	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net lending (+) / net borrowing (-) (balance from current and capital account)	-388.6	-234.6	95.5	-248.3	**-776.1**	**105.3**	**-117.4**	-3.0	-1.8	0.7	-1.9	**-6.0**	**0.7**	**-0.8**
III. Financial account	**-13.3**	**-74.9**	**-524.6**	**-377.9**	**-990.7**	**-162.1**	**-152.6**	**-0.1**	**-0.6**	**-4.1**	**-2.9**	**-7.7**	**-1.1**	**-1.1**
Direct investment	-111.7	-137.7	-181.8	-239.0	**-670.2**	**-131.4**	**-105.3**	-0.9	-1.1	-1.4	-1.9	**-5.2**	**-0.9**	**-0.7**
Portfolio investment	26.4	69.1	-221.7	74.1	**-52.1**	**-438.5**	**20.2**	0.2	0.5	-1.7	0.6	**-0.4**	**-3.1**	**0.1**
Currency and deposits	24.3	118.5	133.7	107.5	**383.9**	**124.0**	**120.6**	0.2	0.9	1.0	0.8	**3.0**	**0.9**	**0.9**
Loans	53.5	-34.9	-175.1	-210.0	**-366.4**	**163.8**	**-174.9**	0.4	-0.3	-1.4	-1.6	**-2.8**	**1.2**	**-1.2**
Trade credit and advances	-5.1	-86.1	-79.6	-110.2	**-281.0**	**115.7**	**-12.5**	0.0	-0.7	-0.6	-0.9	**-2.2**	**0.8**	**-0.1**
Other accounts receivable/payable	-0.3	0.0	0.0	-0.3	**-0.7**	**5.0**	**0.1**	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
IV. Special drawing rights (Net incurrence of liabilities)	0.0	0.2	0.4	0.1	**0.7**	**0.2**	**0.2**	0.0	0.0	0.0	0.0	**0.0**	**0.0**	**0.0**
V. Net errors and omissions	**1.8**	**27.0**	**33.9**	**-5.8**	**57.0**	**-0.7**	**17.0**	**0.0**	**0.2**	**0.3**	**0.0**	**0.4**	**0.0**	**0.1**
VI.Reserve assets	**-373.5**	**-132.7**	**654.0**	**123.8**	**271.6**	**266.7**	**52.3**	**-2.9**	**-1.0**	**5.1**	**1.0**	**2.1**	**1.9**	**0.4**

Source: NBRNM.

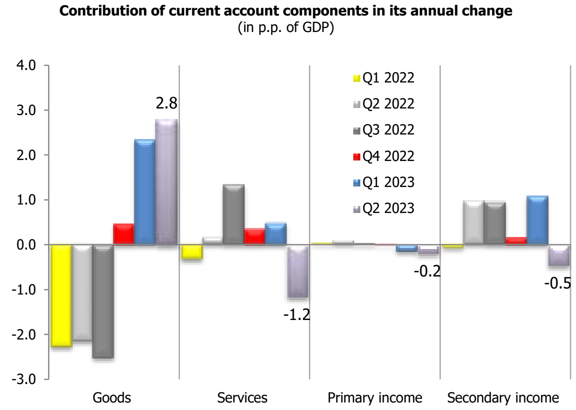
1.6.1. Current account

In the second quarter of 2023, the balance of payments current account registered a deficit in the amount of Euro 116.9 million, or 0.8% of GDP[39]. Compared to the same period last year, there is an improvement of 0.1 percentage point of GDP, due to the narrowing of the negative trade balance. The trade deficit in the second quarter of the year decreased by 2.8 percentage points of GDP annually, due to the decline in import of goods by 4.2 percentage points of GDP, amid decline, albeit more moderate, of 0.1 percentage points of GDP in exports of goods. Observing the trade balance components, the improved performance in trade is a result of the energy and non-energy balance, with a significantly higher contribution of the energy balance. The lower prices and lower energy consumption are the main factors for lower import of oil and oil derivatives and lower energy import. Also, the lower raw material imports for industry, primarily of iron, steel, as well non-ferrous metals had the similar effect. The performances in the other current account components were weaker on an annual basis. Thus, the surplus in services decreased by 1.2 percentage points of GDP, due to higher deficit in construction services[40]. The reduced net inflows in the secondary income had the similar effect, while the balance of primary income registered a slightly higher deficit entirely due to the higher deficit in investment income.

[39] The calculations use the nominal GDP forecast (from October 2023).
[40]Related to public infrastructure projects for corridor 8 and corridor 10d for 2023.



Source: NBRNM.

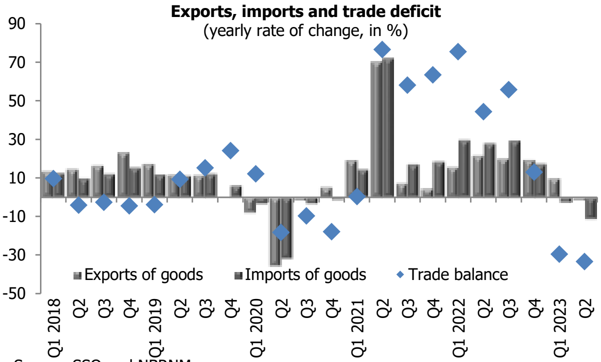


Source: NBRNM.

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

Foreign trade amounted to Euro 4,903.7 million in the second quarter of 2023, i.e.34.7% of GDP, which compared to the same quarter of the previous year is a decrease of 7.4% (or 6.4 percentage points of GDP). The annual decline in total trade mostly stems from the import of goods, which continued to decline rapidly. At the same time, a slight annual decline was registered in the import of goods.

Source: SSO and NBRNM.



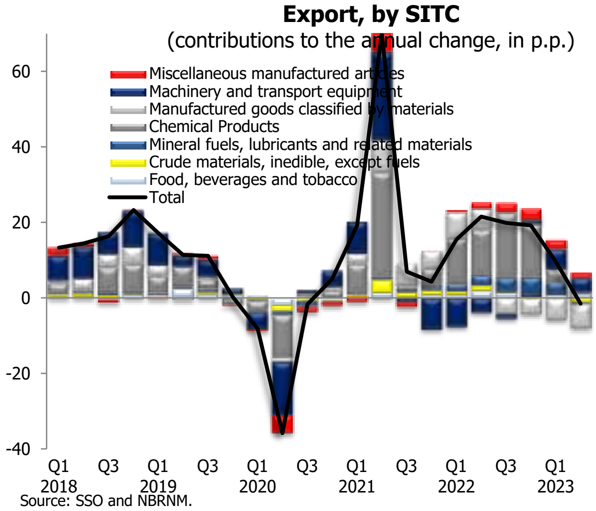
Source: SSO and NBRNM.
* Negative change in the trade balance indicates contraction of the deficit.

In the second quarter of 2023, the export of goods registered a decline of 1.5% annually, mainly due to lower import of iron and steel, oil derivatives and ore. The weaker performances in metal processing industry and mining, registered in the several consecutive quarters, are the main factors for weaker export performances, expressed through the lower export quantity and lower prices, in accordance with the unfavorable conditions in the world metal market.[42]. A significant part of this effect was neutralized by improved export performances of foreign automotive companies, which contributed to growth in the export of vehicles, the export of equipment and machinery, as well as the export of furniture. The increased export of electricity and tobacco also positively affected the annual change in the export component in the second quarter of 2023. **Imports of goods in the second quarter of 2023 decreased by 11.5% on an annual basis.** Furthermore, the lower import of oil derivatives, together with the lower import of electricity, account for almost 60% of the annual change in the overall import component. The lower import prices due to downward changes in the prices of energy on the world markets made the largest contribution to the decline in imports of the two energy sources in this quarter, amid downward revision in quantity, more pronounced in the import of electricity due to reduced domestic consumption. The rest of the decline in the import component resulted from the

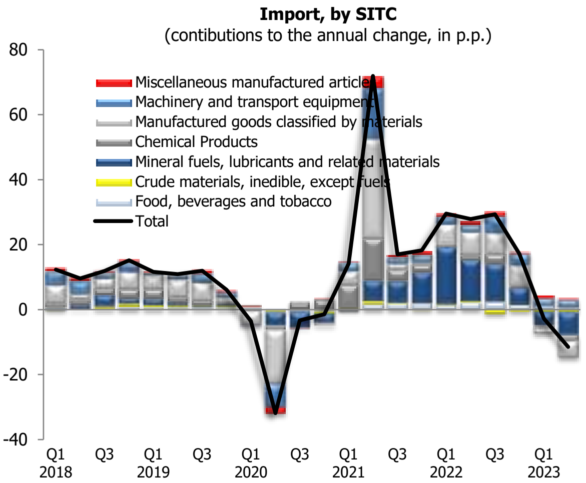
[41] According to the Foreign Trade Methodology, data on export of goods are published on an f.o.b. basis, and on import of goods, on a c.i.f. basis.
[42]The index of basic metals registered an annual decline of 13.6% in the second quarter of 2023.

import of iron and steel, which as a result of the export performances, registered a downward revision, as well as from lower import of non-ferrous metal and inorganic chemical products. On the other hand, this quarter registered a higher import of vehicles, as well as electrical machines, annually. **Both foreign trade components in the second quarter of 2023 resulted in trade deficit narrowing by 33.4% on an annual basis,** amid larger deficit reduction in energy balance than the deficit reduction in non-energy balance.

The latest available data for the period July– August 2023 indicate a further decline of both the export and the import component of foreign trade compared to the same period last year. The export component registered an annual decline of 3.7%, mainly due to the lower export of chemical substances, with a slightly lower export of ore and oil derivatives. The annual decline in the export component was mitigated by the export of electricity, the export of equipment and machinery, as well as the higher export of furniture. The decline on the import side equaled 8.2% compared to the same period in the previous year, mostly as a result of the lower import of raw materials of part of the foreign-owned facilities, observed through the lower import of chemical inorganic products, including non-ferrous metals, as well as the lower import of energy, amid lower import of oil derivatives and electricity. On the other hand, higher import was registered in some of the products in the category machinery and transport equipment, vehicles, as well as specialized industrial machines.



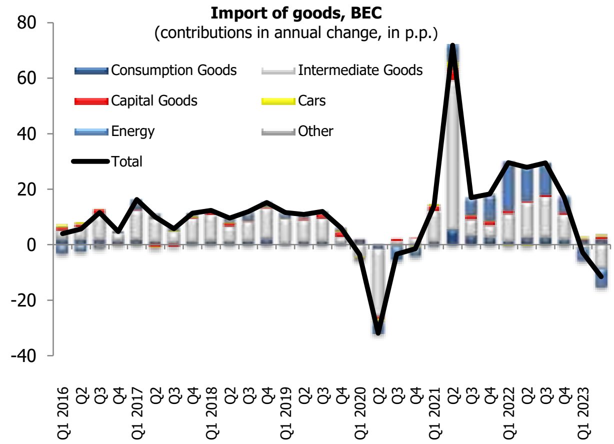
Source: SSO and NBRNM.



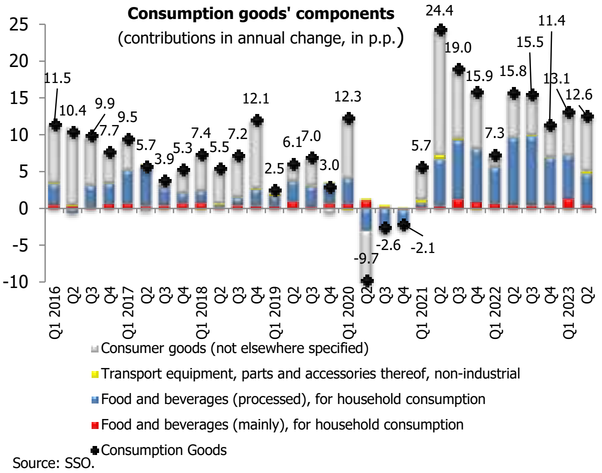
Source: SSO and NBRNM.

According to the analysis of the import of goods under the System of National Accounts (SNA), the import decline in the second quarter of 2023 results from the imports of intermediate products and from the energy imports. The import of private consumption goods[43] increased, mostly due to the import of consumer goods not elsewhere mentioned, as well as the import of food and beverages (processed) mainly for households. Analyzed dynamically, the growth of imports of private consumption decelerated in the second quarter and currently does not point to significant pressures on the total imports.

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

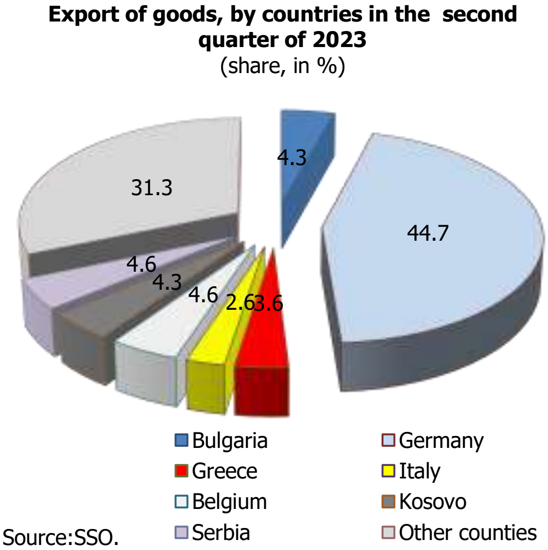


Source: SSO.

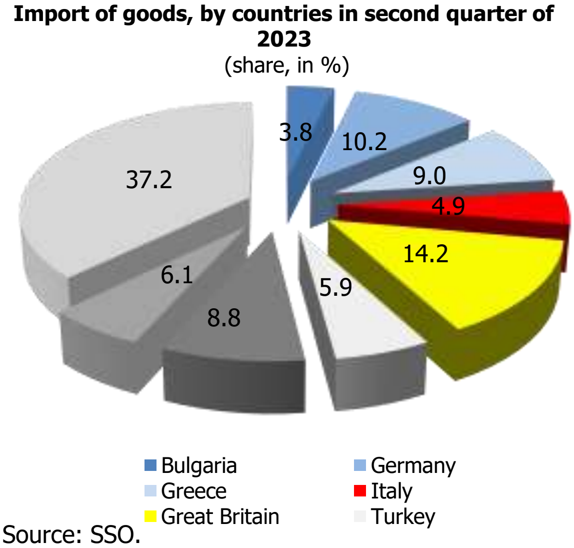


Source: SSO.

The foreign trade analysis, by trading partner, shows that in the second quarter of 2023, the European Union was the major trading partner of the domestic economy, making up 61.9% of total foreign trade. On the export side, the annual decrease mainly arises from the export to Italy, amid decline in the export of iron and steel to this economy, as well as from the lower exports of ores to Bulgaria. The reduced activity of the metal processing industry in this period led to lower exports to Spain and the Netherlands. Such performances were mitigated by the increased exports of vehicles to Belgium. According to the data on trading partners on the ***imports*** side, the analysis shows that the largest contribution to the annual decline was made by the imports from Greece, due to the reduced import of oil derivatives, as well as the import of inorganic chemical products and precious metals from Great Britain. The import of iron and steel from Turkey also decreased. The lower energy import is the main factor for the decline of exports from Bulgaria and Serbia. Regarding the foreign trade ***balances*** by partner, the lower annual trade deficit was mostly due to the lower negative trade balance with Greece and Great Britain, as well as to the higher surplus with Belgium.

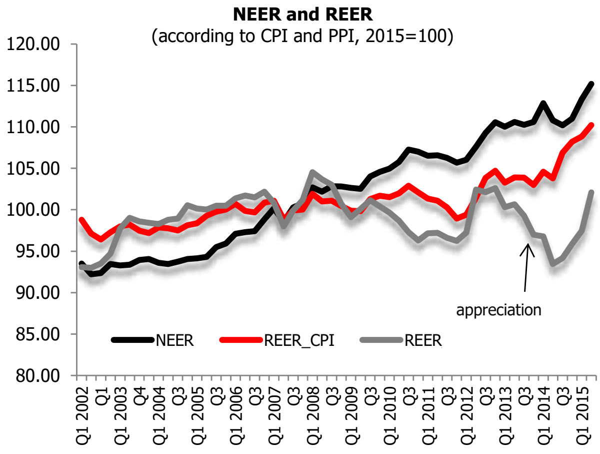


Source:SSO.

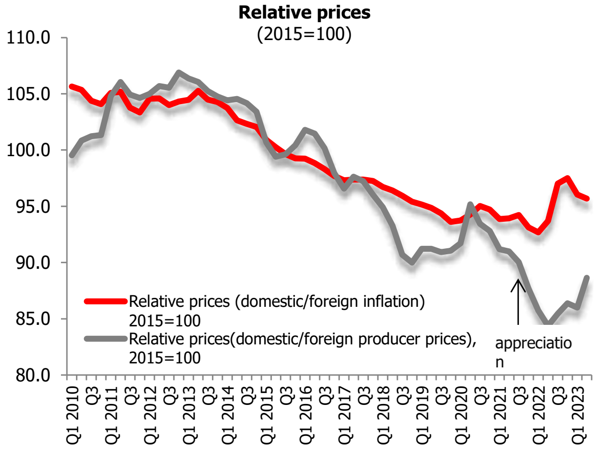


Source: SSO.

In terms of the price competitiveness indicators, in the second quarter of 2023, the REER deflated by consumer prices appreciated by 6.2% annually, while the REER deflated by producer prices appreciated by 9.2%. Such performances reflect the appreciation of the nominal effective exchange rate of the denar, which registered an annual increase of 4% (due to the Russian ruble and Turkish lira), as well as the changes in relative prices, i.e. increase in relative consumer prices by 2.1% and increase in relative producer prices of industrial products by 5.1%, annually.



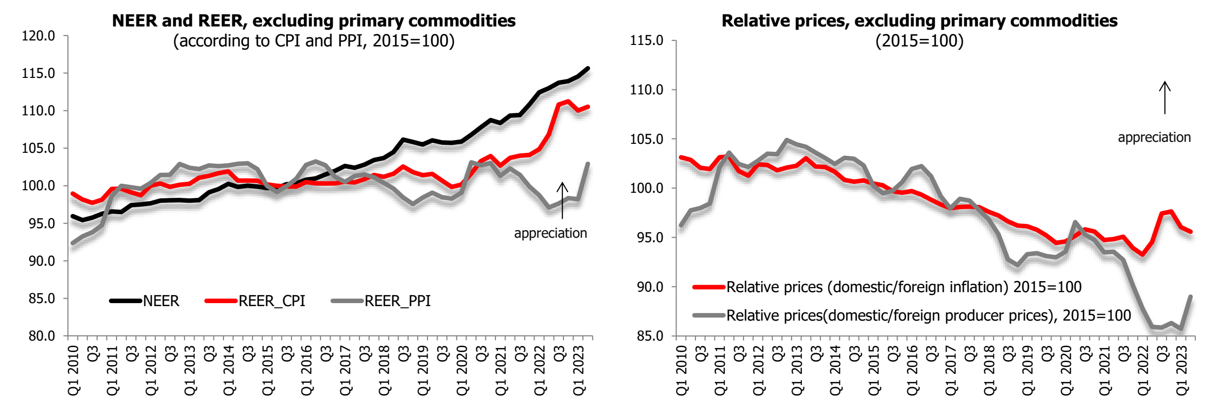
Source:NBRNM.



Source:NBRNM.

The analysis of the REER indices, measured using weights based on the foreign trade without primary products, shows that the REER deflated by consumer prices appreciated by 3.4% annually, while REER deflated by producers prices appreciated by 6%, amid increased relative consumer prices and producers prices by 1.1% and 3.6%, respectively. The nominal effective exchange rate appreciated by 2.3%, due to the appreciation of the denar relative to the Turkish lira.

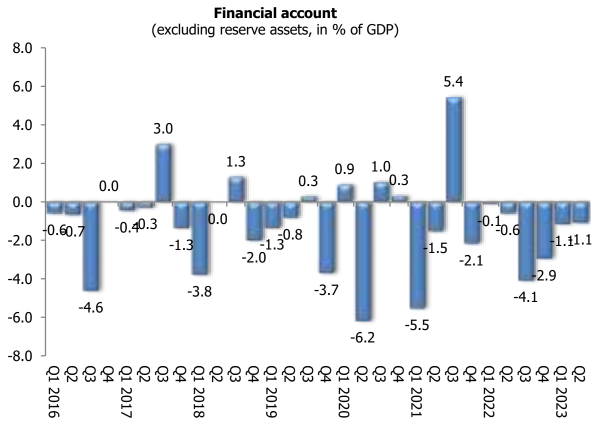
Regarding the price competitiveness for the period July– August 2023, the REER deflated by consumer prices and producers prices appreciated annually by 7% and 8.7%, respectively. These is mostly due to the NEER appreciation of 7.1% on an annual basis, as a result of the depreciation of the Russian ruble and the Turkish lira against the Denar. Based on the calculation using weights based on the foreign trade without primary commodities, the REER index deflated by consumer prices appreciated by 2.5%, while the REER index deflated by producer prices appreciated by 5.2%. The nominal effective exchange rate appreciated by 3.6%, due to the appreciation of the denar relative to the Turkish lira.



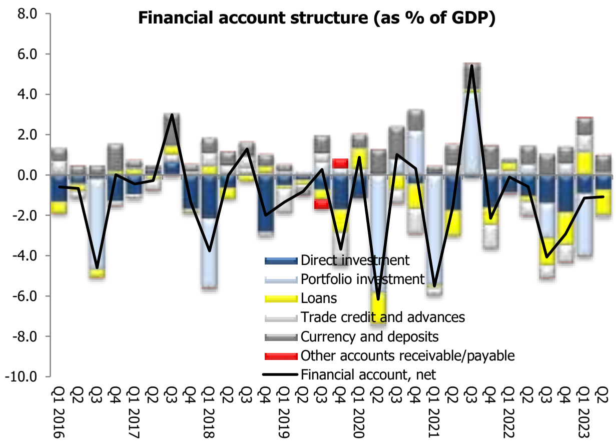
Source:NBRNM.

1.6.2. Financial account

In the second quarter of 2023, the financial account in the balance of payments registered net inflows of Euro 152.6 million, or 1.1% of GDP. Therefore, the financial account performances are due to net inflows in loans[44]. The foreign direct investments also registered solid net inflows, namely in the non-debt component, i.e. reinvested profit and equity, amid slight net outflows in intercompany borrowing. At the same time, this period registered slight net inflows in the category trade loans and advances. On the other hand, other categories in the financial account registered net outflows. The highest net outflows in this period were registered in currencies and deposits, mostly due to high net outflows in other sectors. Net outflows were also registered in portfolio investments in the second quarter of the year, due to increased investments of residents in foreign securities, as well as due to interest repayment on the bases of previously issued Eurobonds.



Source: NBRNM.

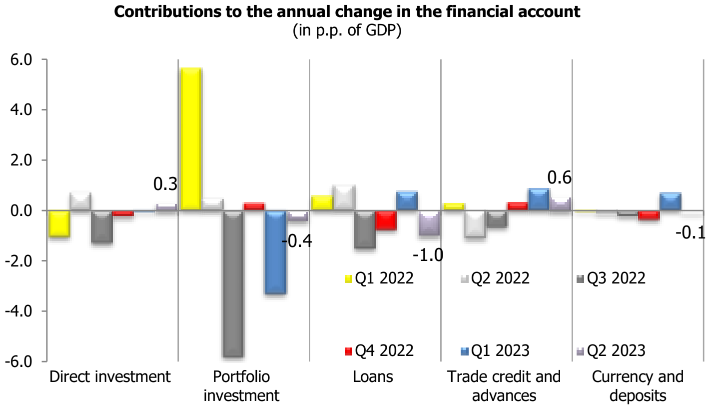


Source: NBRNM.

The annual analysis points to improved performances in financial flows in the second quarter of 2023, thus the net inflows increased by 0.5 percentage points of GDP compared to the same period of the previous year. Therefore, the largest contribution to higher net inflows were made by net inflows in loans, entirely due to higher short-term loans[45]. At the same time, portfolio investments registered lower net outflows on net basis compared to the same period in the previous year[46]. On the other hand, trade loans and advances, as well as foreign direct investments registered lower net inflows annually. The net

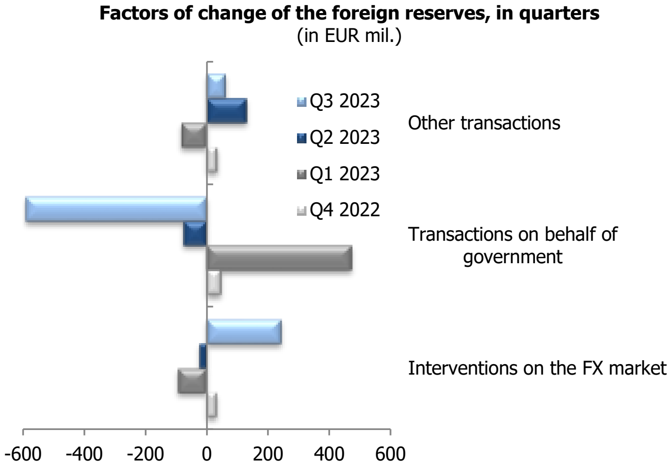
[44]Mostly due to the short-term loans related to central bank's foreign reserves management activities.
[45]Related to central bank's foreign reserves management activities.
[46]The change is due to lower investments of other financial institutions in securities abroad.

outflows in currencies and deposits are close to the performances in the same period of the previous year.



Source: NBRNM.

At the end of the second quarter of 2023, the gross foreign reserves were valued at Euro 4189.7 million, which is an increase of Euro 30.6 million, compared to the previous quarter. Analyzing the growth factors, the increase in foreign reserves entirely arises from the National Bank's foreign reserves management operations.



Source: NBRNM

At the end of the third quarter of 2023, the gross foreign reserves were valued at Euro 3901.7 million, which is a decrease of Euro 288 million compared to the previous quarter. Analyzing growth factors, the decrease in foreign reserves entirely arises from transactions on behalf of the government.

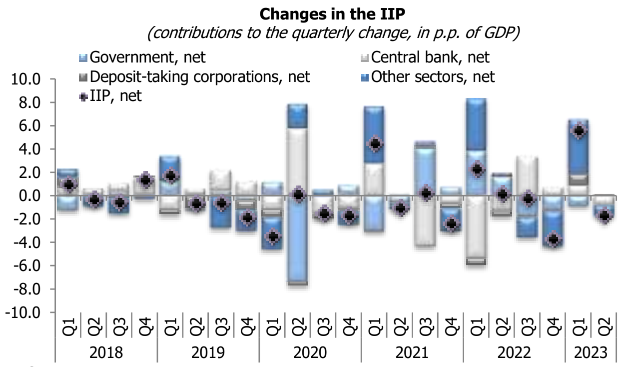
1.6.3. International investment position and gross external debt

At the end of the second quarter of 2023, the international investment position of the Macedonian economy was negative and amounted to Euro 8,356.8 million, or 59.1% of GDP[47]. Compared to the end of the previous quarter, the net debt position widened by 1.6 percentage points of GDP, amid higher growth of international liabilities relative to the growth of international assets. The sectoral analysis shows that the widened net debt position stems from increased net liabilities in other sectors (mainly based on direct investments), as well as from the decrease in the central bank's net asset. On the other hand, a minimal decline in net liabilities of depository institutions was registered (mainly based on currencies and deposits).

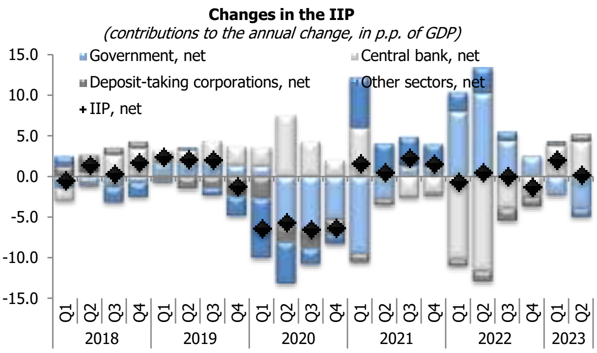
[47] The calculations use the nominal GDP forecast (from October 2023).

Source: NBRNM.

Annually, the negative international investment position narrowed by 0.3 percentage points of GDP[48], due to faster growth of international assets, than the growth of international liabilities (by 0.6 and 0.3 percentage points of GDP, respectively). Such change in the international investment position mostly results from the increased central bank's net assets, mainly due to higher foreign reserves. In addition, lower net liabilities in depository institutions had the similar effect (mainly due to lower net liabilities in long-term loans and direct investments). On the other hand, the increase in government net liabilities (based on the Eurobond issue[49]), as well as in other sectors (mainly based on direct investments) contributed to the widening of the net debt position.



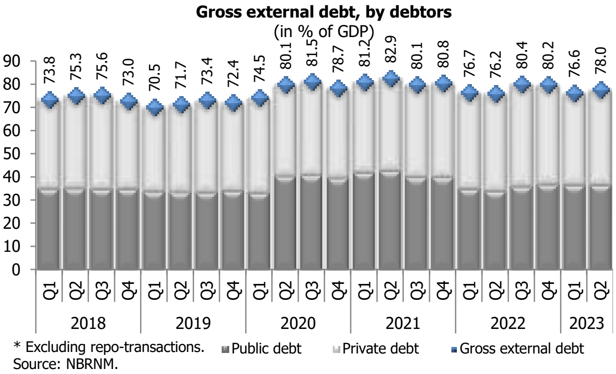
Source: NBRNM.

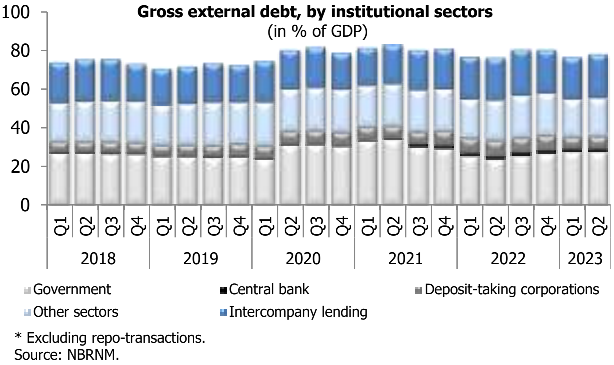


Source: NBRNM.

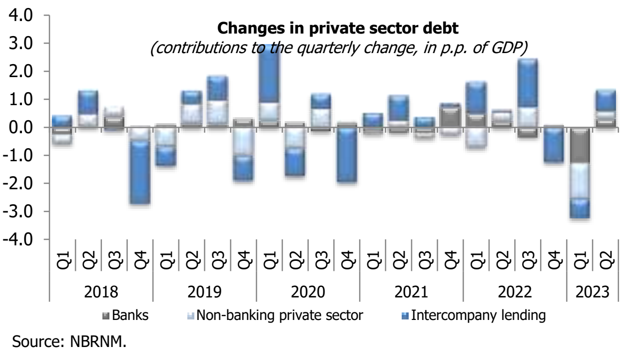
At the end of the second quarter of 2023, the gross external debt was Euro 11,397.3 million, or 80.6% of GDP, which is an increase of 2.4 percentage points of GDP, compared to the previous quarter. *Excluding the effect of the specific foreign reserves management activities of the National Bank*[50]*, the gross external debt amounted to 78% of GDP and registered a quarterly increase of 1.4 percentage points of GDP*, amid increase in both private and public debt (by 1.3 and 0.1 percentage points of GDP, respectively). The higher debt position of the private sector results from the increased liabilities in interrelated entities based on direct investments, as well as increased liabilities based on long-term loans in the non-banking sector and the growth in liabilities based on currencies and deposits with banks. The relative indicators point to slightly higher public debt, influenced by a minor increase in long-term loans to public enterprises.

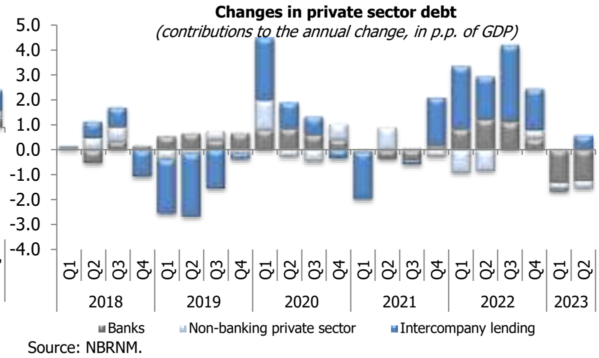
[48] In absolute amounts, the negative international investment position in the second quarter grew by Euro 695.8 million annually.
[49] In March 2023, the Ministry of Finance issued the eight Eurobond in the amount of Euro 500 million, at an interest rate of 6.96% and a maturity of 4 years.
[50] The specific foreign reserves management activities of the central bank include repo agreements and other foreign reserves management operations.



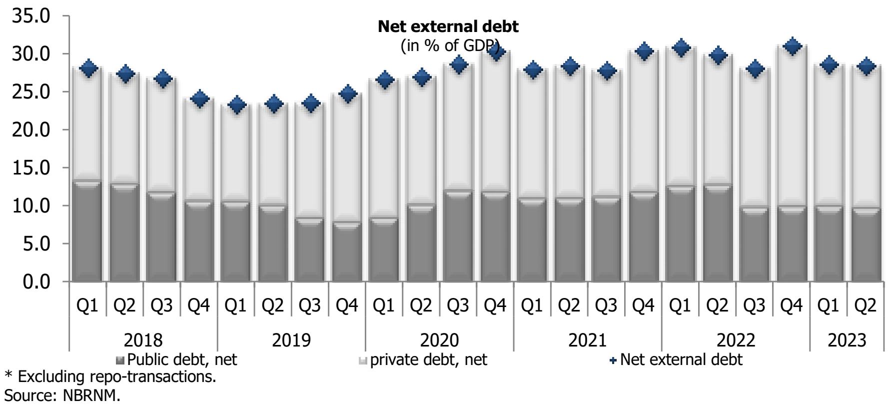


The gross external debt increased by 1.7 percentage points of GDP, amid growth in public debt and fall in private debt (of 2.7 and 1 percentage points of GDP, respectively). The higher central government debt is the main factor for the annual rise of the public debt in the second quarter of 2023, while the change in the private debt is mostly due to lower debt of banks based on currencies and deposits, as well as long-term loans.





As of 30.6.2023, net external debt equaled Euro 4,026.5 million, or 28.5% of GDP, which is a minor quarterly fall of 0.1 percentage points of GDP, driven by the decline in public net debt, amid minor increase in private net debt.



External debt ratios of the national economy remain in the safe zone. Gross external debt to GDP ratio still classifies our economy in the group of highly indebted countries, while all other solvency and liquidity ratios point to low indebtedness. However, the high structural share of liabilities on direct investments in gross external debt, as a form of financing companies with foreign capital, as well as liabilities on trade credits as an instrument for international trade financing, mitigates the risk profile in terms of the debt position of the economy. The level of gross external debt excluding trade credits and intercompany debt is lower and equals 47.8% of GDP[51], which is an indicator of moderate indebtedness.

[51]Refers to debt without repo agreements.

Indicators for external indebtness	Solvency				Liquidity		
	Interest payments/ Export of goods and services and other inflows	Gross debt/ Export of goods and services and other inflows	Gross debt/ GDP	Debt servicing/ Export of goods and services and other inflows	Foreign reserves/ Short-term debt	Foreign reserves/ Short-term debt, with residual maturity**	Short-term debt/ Overall debt
	in %				ratio	ratio	in %
31.12.2010	3.2	140.4	59.7	13.9	1.5	1.0	27.9
31.12.2011	3.1	148.4	64.6	16.8	1.8	1.2	25.2
31.12.2012	2.9	142.1	67.6	13.1	1.6	1.0	26.7
31.12.2013	2.5	137.3	67.3	15.8	1.6	1.1	23.3
31.12.2014	3.0	149.1	74.0	17.2	1.8	1.1	22.3
31.12.2015	2.7	143.9	73.2	20.0	1.7	1.1	21.3
31.12.2016	2.4	149.4	79.3	14.9	1.7	1.2	21.9
31.03.2017	2.7	138.7	76.6	12.7	1.5	1.0	23.5
30.06.2017	2.7	140.7	77.7	12.7	1.3	0.9	24.2
30.09.2017	2.7	138.2	76.4	12.7	1.3	0.9	24.6
31.12.2017	2.7	139.2	76.9	12.7	1.3	0.9	23.9
31.03.2018	2.2	132.8	78.3	15.8	1.3	0.9	25.1
30.06.2018	2.2	135.5	79.9	15.8	1.3	1.0	25.6
30.09.2018	2.2	136.0	80.1	15.8	1.3	1.0	25.6
31.12.2018	2.2	131.4	77.4	15.8	1.4	1.0	25.8
31.03.2019	2.1	119.5	74.4	8.9	1.4	1.0	25.8
30.06.2019	2.1	121.5	75.6	8.9	1.4	1.0	26.4
30.09.2019	2.1	124.4	77.4	8.9	1.4	1.0	27.6
31.12.2019	2.1	123.2	76.6	8.9	1.6	1.0	25.5
31.03.2020	2.5	121.8	73.9	16.8	1.4	1.0	26.6
30.06.2020	2.5	121.8	73.9	16.8	1.4	1.0	26.6
30.09.2020	1.9	129.9	80.7	13.6	1.7	1.0	22.9
31.12.2020	1.9	122.3	77.9	13.6	1.9	1.1	20.4
31.03.2021	2.2	127.3	84.3	16.3	1.9	1.2	21.5
30.06.2021	2.2	130.0	86.0	16.3	1.9	1.2	22.0
30.09.2021	2.2	125.6	83.1	16.3	1.8	1.3	22.2
31.12.2021	2.2	126.6	83.8	16.3	1.8	1.3	21.5
31.03.2022	1.8	118.0	83.8	9.4	1.3	1.0	26.0
30.06.2022	1.8	117.3	83.2	9.4	1.2	0.9	26.3
30.09.2022	1.8	123.6	87.8	9.4	1.3	0.9	26.9
31.12.2022	1.8	123.4	87.6	9.4	1.5	1.0	24.7
31.03.2023	2.6	111.6	83.9	15.0	1.6	1.0	23.6
30.06.2023	2.6	113.6	85.4	15.0	1.6	1.0	23.9
*Moderate indebtedness criterion**	*12 - 20%*	*165 - 275%*	*30 - 50%*	*18 - 30%*		*1.00*	

*The moderate indebtedness criterion is accordng to the World bank's methodology of calculationg indebtedness indicators, which implies 3-year moving averages of GDP and exports of goods and services in the calculation of the indicators.
In compliance with "External debt statistics: Guide for compilers and users," published by the IMF.
*According to the "Greenspan-Guidotti rule", a country should maintain full coverage of short-term debt at remaining maturity with gross foreign reserves. Short-term debt at remaining maturity is calculated by addition of the long-term external debt (original maturity), with final contractually scheduled payment of less than a year, to the short-term debt (original maturity).
Source: NBRNM.

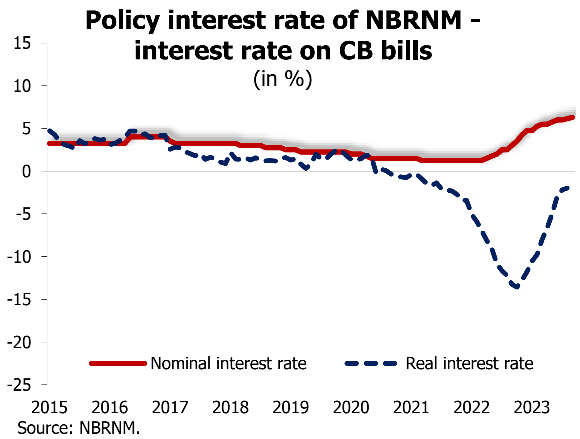
II. Monetary policy[52]

During the third quarter of 2023, the National Bank continued with monetary tightening, whereby the interest rate on CB bills increased on two occasions, by a total of 0.3 percentage points to the level of 6.30%. This monetary setup was supported by changes in the reserve requirement, in order to enhance the current positive effects on savings in domestic currency and intensify the monetary transmission. When making decisions, the latest data and information on domestic and global economy and the latest developments on the international and domestic financial markets in the context of the monetary policy setup were discussed, yet the price movements remained in the focus. The annual inflation rate continued to decelerate during the third quarter, yet it still remained at a relatively higher level,

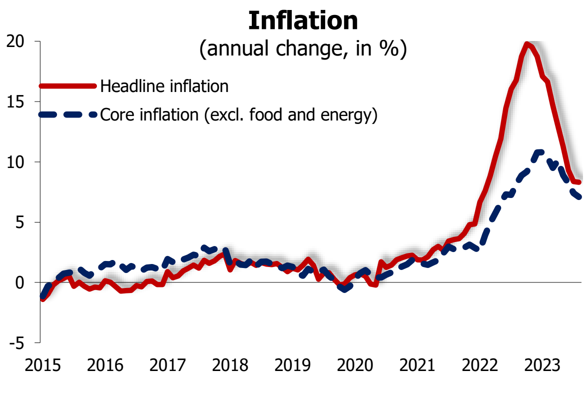
[52] For more information on the new monetary measures, see the National Bank website: https://www.nbrm.mk/content/MPI%20publikacii/Hronologija_na_promenite_vo_postavenosta_na_monetarnite_instrumenti_na_Narodnata%20banka.pdf

which makes it a risk to inflation expectations. Also, given the monetary strategy of a stable exchange rate of the denar against the euro, the changes in the domestic monetary policy are in line with the changes in the monetary policy of the European Central Bank, which also referred to further tightening. Foreign reserves in the third quarter of 2023 are at an appropriate level and in the safe zone, while banks' deposit base registered a solid annual growth rate. During this period, a macro-prudential measure was adopted to increase the rate of the countercyclical capital buffer for the exposures of domestic banks by 0.25 percentage points, from the previously determined 0.75% to 1%, applicable as of 1 July 2024, which additionally strengthens the protective mechanisms in the banking system. Risks to global and domestic economy remain pronounced, and the National Bank will continue to closely monitor them and if necessary will act, using its available instruments, in order to maintain the exchange rate stability and the short-term price stability.

The National Bank increased the policy rate-the interest rate on CB bills, in the third quarter of 2023, on two occasions by a total of 0.3 percentage points, thus reaching 6.3%. The changes in the interest rates are made in conditions of gradual stabilization, but the risks are still present, so it is estimated that there is a need for further precaution in the monetary policy conduct. The increase in the policy rate was also followed by the growth of interest rates on overnight and seven-day deposit facilities, by 0.3 percentage points i.e. to the level of 4.2% and 4.25% respectively. The offered amount of CB bills remained unchanged at Denar 10,000 million, while changes in the reserve requirement that encourage lending to projects related to domestic production of electricity from renewable sources continued. In order enhance the current positive effects on the currency structure of savings, as well as to support the process of monetary transmission, during the third quarter the National Bank further increased the reserve requirement rate of the banks' foreign currency liabilities on two occasions, first from 19% to 20% and then to 21%, while the part of the reserve requirement from foreign currency liabilities that is met in euros also increased from 77% to 80%, and then additionally to 81%, applicable as of 20 December 2023. The reserve requirement rate on liabilities in denars with FX clause was also increased from 50% to 100%, thus in accordance with the change, banks will fulfill the reserve requirement liability, calculated from these liabilities, in euros. In the beginning of the third quarter, the National Bank Council adopted a macro-prudential measure to increase the rate of the countercyclical capital buffer for the exposures of domestic banks by 0.25 percentage points, from the previously determined 0.75% to 1%, applicable as of 1 July 2024. The enhanced measure will act preventively and will additionally strengthen the capital position of banks and it is in accordance with the measures taken in many European Union Member States, which require higher capital adequacy of banks as a safeguard against heightened environmental risks.

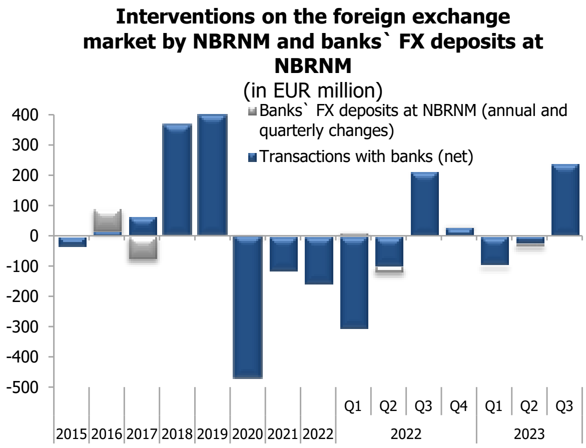


Source: NBRNM.

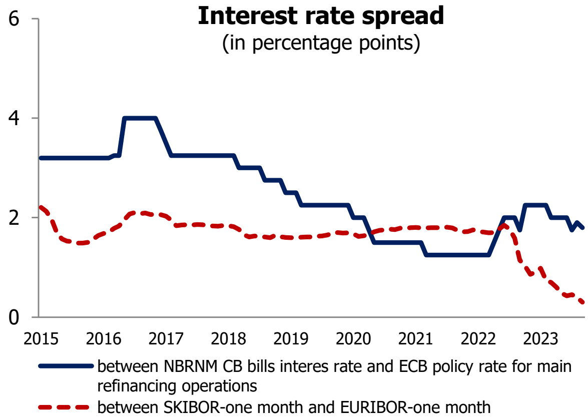


Source: SSO and NBRNM.

The performances[53] of the main macroeconomic indicators in the domestic economy suggest the need for further caution in conducting policies, especially pronounced as a result of the domestic inflation. The real GDP growth in the second quarter of 2023 slowed down and reduced to 1.1% annually, from 2, 1% in the previous quarter. The performances in the first half of the year are slightly better compared to the National Bank forecasts, yet the external environment risks to the economic developments remain unfavorable. In accordance with the monetary measures taken since late 2021 onwards, as well as the reduced pressures from import prices, the domestic inflation further decelerated and in August 2023 reduced to 8.3% annually. The core inflation rate decelerates as well, indicating significantly lower price pressures from less volatile price categories, given the steady deceleration of the growth in private consumption. However, the inflation is still relatively high and poses a risk to inflation expectations. The level of foreign reserves at the end of August is in the safe zone, at a level that meets the adequacy requirements according to international standards and that is appropriate for maintaining the domestic currency exchange rate. Foreign reserves registered an increase since the beginning of the year, amid favorable developments on the foreign exchange market. Cumulatively, from January onwards, the National Bank purchased foreign currency, amid further favorable developments on the currency exchange market. The monetary sector data as of August 2023 still indicate a faster growth of deposits compared to the April expectations, while the activity growth on the credit market decelerates in line with the expectations.



Source: NBRNM.



Source: NBRNM and ECB.

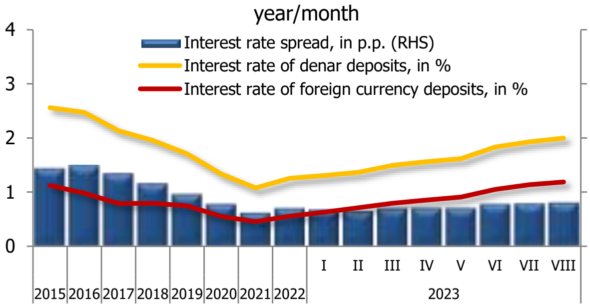
Given the applied monetary strategy, when making monetary decisions one takes into account the setup of the European Central Bank (ECB) policy as well, which during the third quarter of 2023 increased the interest rates again to further stabilize the inflation in the Euro area. The ECB increased its policy rate by 0.5 percentage points and reached 4.5%. Thus, the spread between the policy rates of the National Bank and the ECB in September 2023 increased and equaled 1.8 percentage points. (2.0 percentage points at the end of the second quarter). Regarding the indicative market interest rates on one-month EURIBOR and one-month SKIBOR, the spread between them decreased by 0.13 percentage points at the end September 2023, compared to the previous quarter.

As for the deposit interest rates in domestic economy, in August 2023, interest rates on denar and foreign currency deposits increased by 0.2 percentage points compared to the end of June 2023, i.e. they amounted to 2.0% and 1.2%, respectively. Moreover, interest rate spread remained unchanged compared to the end of the previous quarter and equaled 0.8 percentage points. In August, the interest

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

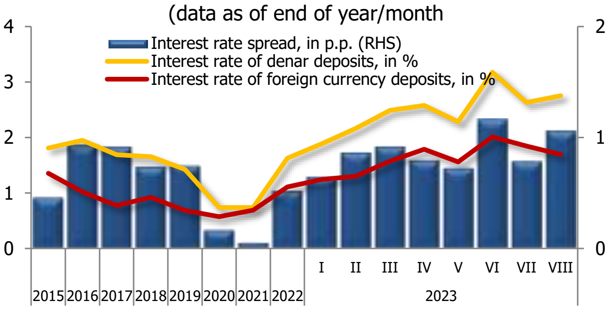
rate spread in newly received[54] total deposits reduced compared to the end of the previous quarter and equaled 1.1 percentage points. (1.2 percentage points at the end of June), driven by the larger decrease in denar interest rates (from 3.2% in June to 2.8% in August), with a slight decrease in foreign exchange interest rates (from 2.0% in June to 1.7% in August), compared to June 2023.

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



Source: NBRNM.

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

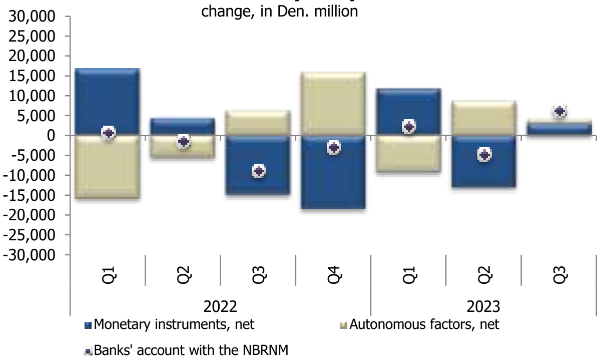


Source: NBRNM.

2.1. Banks' liquidity

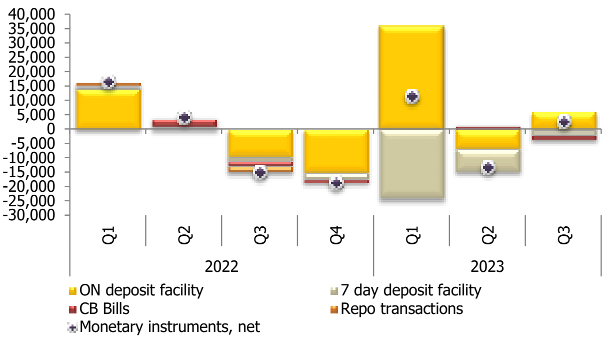
In the third quarter[55] of 2023, denar liquidity of banks increased, influenced by the change in both monetary instruments and autonomous factors.

Banks' liquidity
change, in Den. million



Source: NBRNM.
* positive change: liquidity creation, negative change: liquidity withdrawal

Monetary instruments
change, in Den. millions

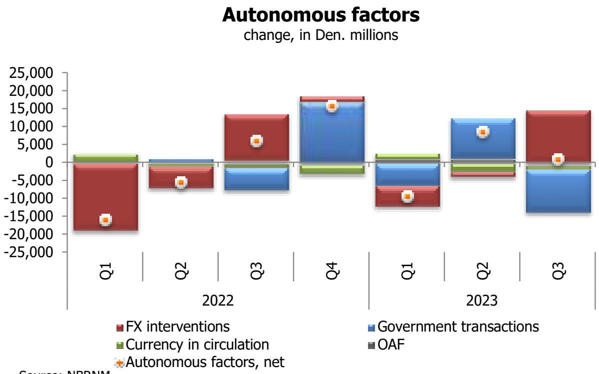


Source: NBRNM.
* positive change: liquidity creation, negative change: liquidity withdrawal

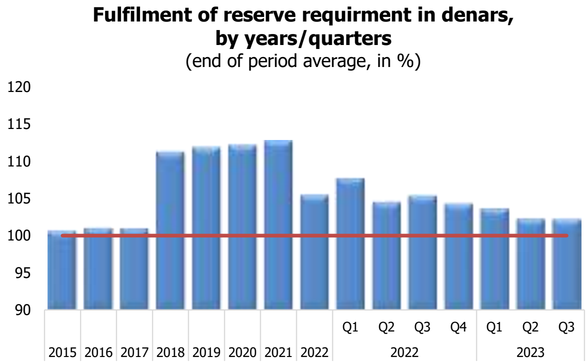
The autonomous factors, net, in the third quarter of 2023 increased the banking system liquidity by Denar 1,098 million. This change is entirely due to the foreign currency interventions when the National Bank purchased foreign currency on the foreign exchange market, while government transactions and currency in circulation contributed to liquidity withdrawal.

In terms of change in monetary instruments, banks' investments in deposit facilities (overnight and seven-day) decreased by a total of Denar 4,562 million. In the third quarter, seven-day deposits increased by Denar 1,728 million, while overnight deposits decreased by Denar 6,290 million. At the end of the third quarter, the stock of the main instrument - the CB bills of the NBRNM was Denar 10,000 million and was higher by Denar 1,023 million, compared to the end of the previous quarter.

[54] Regarding the interest rates on newly approved loans, one should have in mind that they are characterized with variable movements. Volatility of interest rate on newly approved loans results from the fact that they are determined by the volume of newly approved loans (which can vary from month to month) and their interest rate.
[55] Data on the third quarter of 2023 refer to July and August.



Source: NBRNM.
* positive change: liquidity creation, negative change: liquidity withdrawal



Source: NBRNM

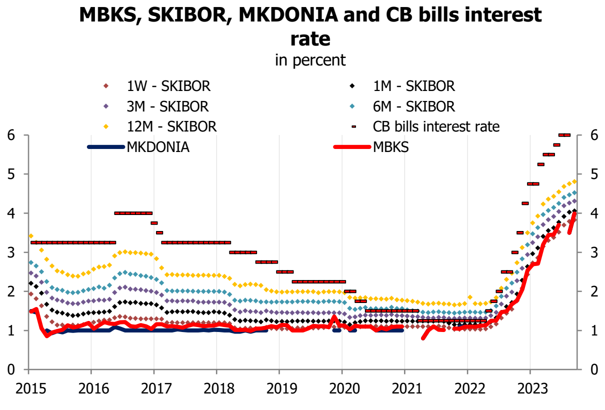
In the third quarter of 2023, the banks continued to have more allocated funds on the accounts with the National Bank than the determined amount of the reserve requirement in denars, by about 2.2% on average.

III. Financial market developments

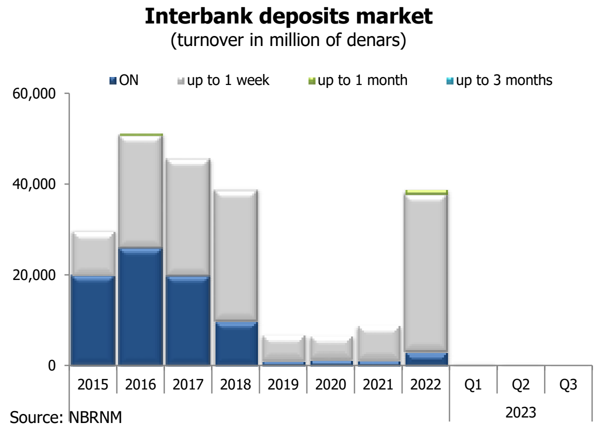
In the third quarter of 2023, the interest rate on interbank deposit market registered a quarterly growth of 0.2 percentage points and averaged 3.7%, given the increased policy rate of the National Bank. Additionally, all average SKIBOR quotations went up. In the primary government securities market, the new issues were mainly with longer maturities and at higher interest rates, while the secondary securities market reported trade only in government bonds, in a small amount. The stock exchange turnover on the Macedonian stock market decreased by 29.3% compared to the previous quarter, while the MBI -10 registered a quarterly increase of 1.6%. The indices on the regional stock exchanges moderately increased, on average by 4.7% quarterly. In the international financial markets, volatility indices on the bond and stock markets, i.e. MOVE and VIX indices registered a downward change again, indicating reduced uncertainty and market volatility. The spreads between the yields of Macedonian and German Eurobonds narrowed compared to the previous quarter, amid moderate increase in the yields of German government bonds and decrease in the yields of Macedonian Eurobonds.

3.1. Unsecured interbank deposit market

In the third quarter of 2023, the average interest rate on the interbank deposit market (MBKS) increased by 0.2 percentage points compared to the previous quarter and equaled 3.7%, amid increased policy rate of the National Bank by 0.3 percentage points. The trading on the interbank deposit market decreased to Denar 153 million in the third quarter (Denar 600 million in the previous quarter), mainly reflecting the reduced transactions with maturity up to seven days and up to one month, while overnight transactions slightly increased. On a quarterly basis, all average SKIBOR quotations increased up to 0.4 percentage points.



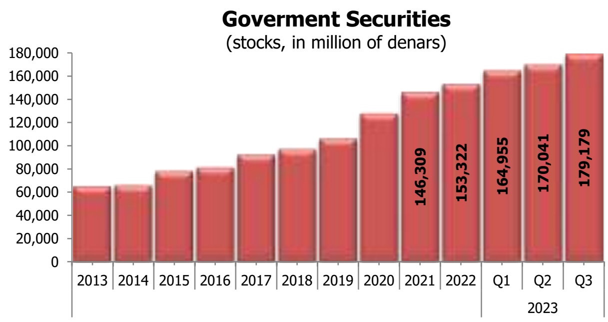
Source: NBRNM



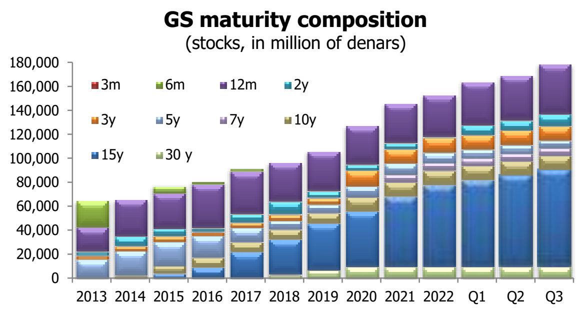
Source: NBRNM

3.2. Government securities market

The stock of government securities issued on the primary market in the third quarter of 2023 increased by Denar 9,138 million or 5.4% on a quarterly basis and reached Denar 179,179 million. Analyzing the structure of government securities, government bonds remain dominant category, with a share of 76.5%. Thus, the fifteen-year government bonds still make up most of the maturity structure of government securities of 45.1% (44.9% in the previous quarter), which is in line with the guidelines from the Fiscal Strategy of the Ministry of Finance for issuing government bonds with longer maturities, in order to optimize debt payment and reduce refinancing risk.[56] Also, in this quarter, the twelve-month government bills and two-year bonds[57] raised their share in the maturity structure of government securities to 23.5% and 5.3%, respectively (22.1% and 4.7%, respectively, in the previous month). Analyzing maturity, the rest of the government securities registered a decrease in their share, compared to the previous quarter. Analyzing the currency structure, denar government securities without currency clause still dominate, making up 68.4% of total government securities (66.9% in the previous quarter). Observing the ownership structure, the share of banks in this quarter was slightly reduced from 34.3% to 33.6%, at the expense of the increased share of other investors (66.4%). Within other investors, the pension funds remain dominant (with a share of 46.5%).

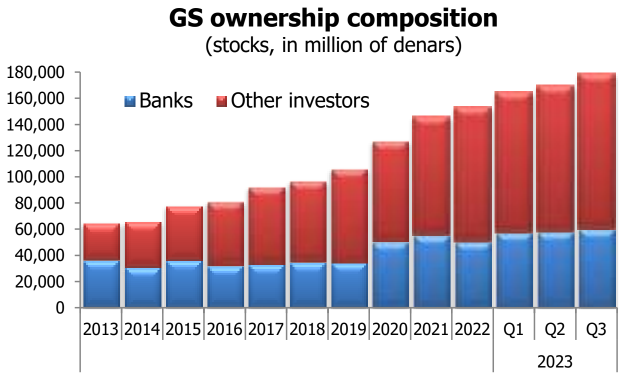


Source: MoF

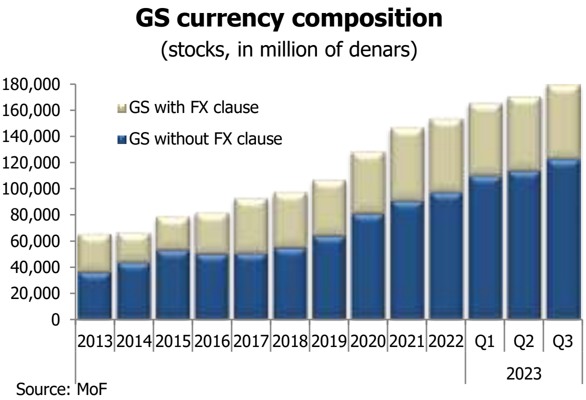


Source: MoF

[56] Revised Fiscal Strategy for 2024– 2028, Ministry of Finance, May 2023.
[57] Civil bond in the amount of Denar 1,448 million was issued in July, with an interest rate of 5% annually.

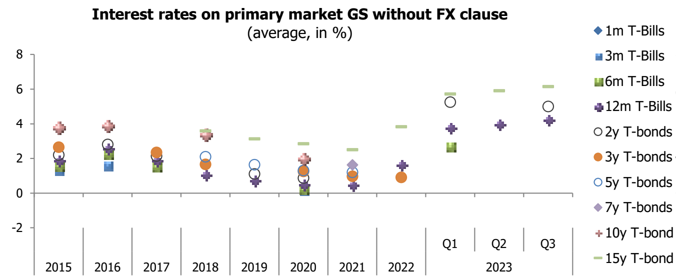


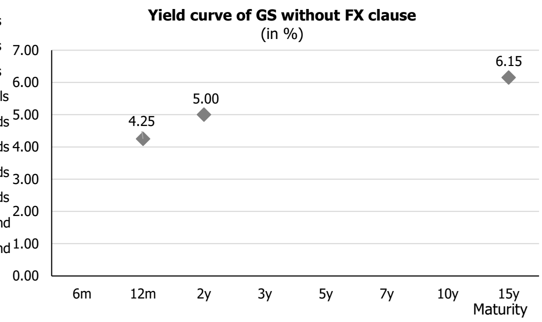
Source: MoF

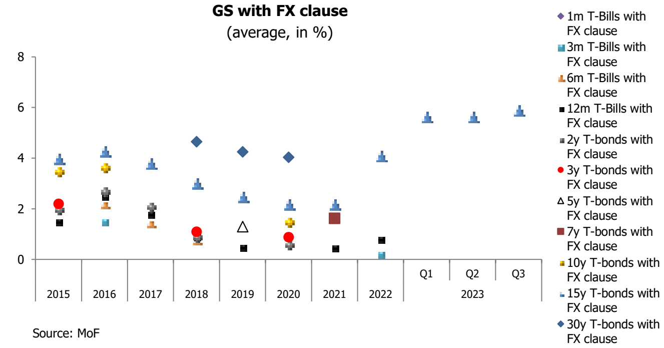


Source: MoF

In the third quarter of 2023, interest rates on government securities, set by the Ministry of Finance, increased. Thus, twelve-month treasury bills without a currency clause were issued on the primary market at an average weighted interest rate of 4.25% (4.0% in the previous quarter). During the quarter, a two-year government bond was issued without currency clause with an interest rate of 5%, as well as fifteen-year government bonds with and without currency clause with average weighted interest rates of 6.15% and 5.90%, respectively (5.9% and 5.65% in the previous quarter, respectively).







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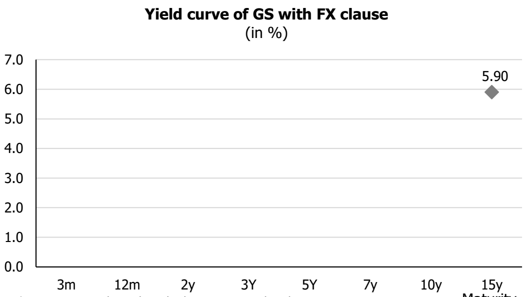
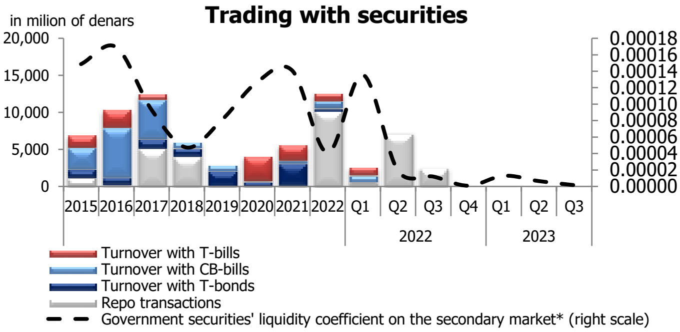


*Interest rate achieved on the last auction within the quarter.

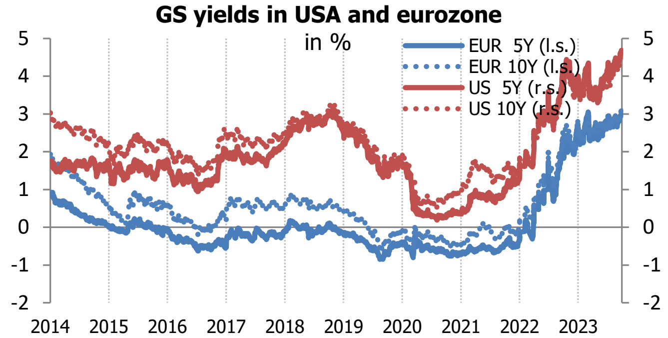
In the third quarter of 2023, trading in securities was low and amounted to Denar 17.5 million (Denar 69 million in the previous quarter) on the secondary market, whereby only government bonds with residual maturity from ten to fifteen years were traded in this market segment (with an average yield of 6.05%). Such changes point to decreased trading on the secondary securities market, also seen through the liquidity ratio[58].

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



Source: NBRNM
* Government securities liquidity coefficient on the secondary market is a ratio between average daily turnover of the government securities on the secondary market and the

On the financial markets in the Euro area and the USA in the third quarter of 2023, the yields on 10-year government securities[59] increased and averaged around 2.9% and 4.1%, respectively (2.6% and 3.6% in the previous quarter), amid further but more moderate increase in FED and ECB policy rates.

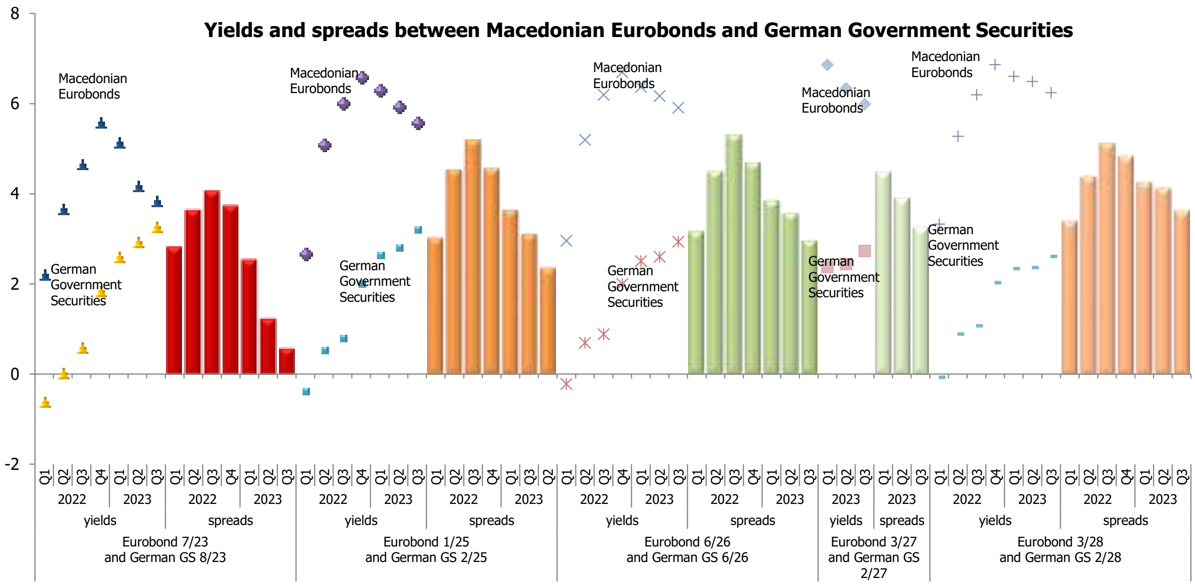


Source: Bloomberg.

The yields of the Macedonian Eurobonds[60] in the third quarter of 2023 registered a decrease on the average, amid moderate upward shift of the yields in German government bonds. This further narrowed the spreads, which averaged 0.6, 2.4, 3.0, 3.3 and 3.6 percentage points.

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

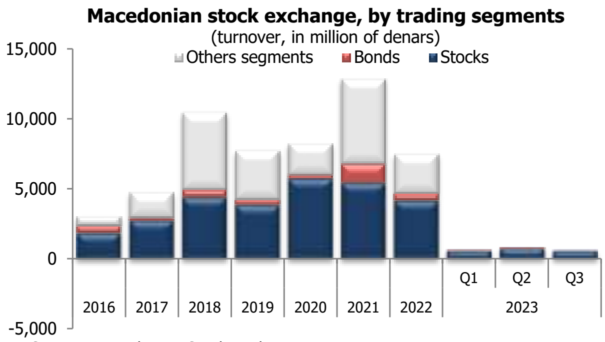
[60] These include the Macedonian Eurobonds issued in July 2016, in January 2018, in June 2020 and March 2021. Eurobonds are issued in the nominal amount of Euro 450 million, Euro 500 million, Euro 700 million, and Euro 700 million, respectively, with a maturity of 7, 7, 6 and 7 years, respectively, and annual interest rates of 5.625%, 2.75%, 3.675% and 1.625%, respectively. In July, the Eurobond issued in July 2016, in the amount of Euro 450 million, with a 7-year maturity and an interest rate of 5.625%, was fully paid.



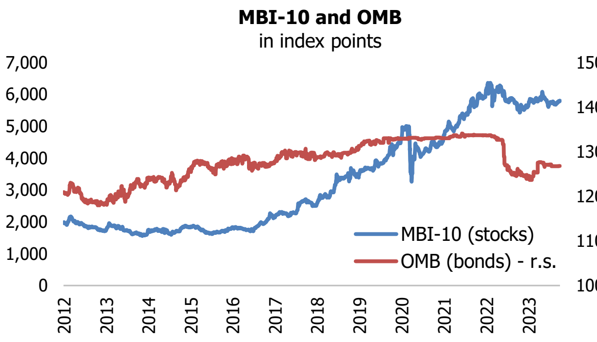
Source: Bloomberg.

3.3. Stock markets

At the end of the third quarter of 2023, the value of Macedonian stock exchange index MBI-10 increased by 1.6% (decrease of 2.2% of previous quarter) and equaled 5,803 index points. The total stock exchange turnover registered a quarterly reduction of 29.3% (after the increase of 27.5% in the previous quarter), due to the decreased turnover in shares and bonds. The value of the bond index (OMB) during the quarter remained unchanged and equaled 127 index points.



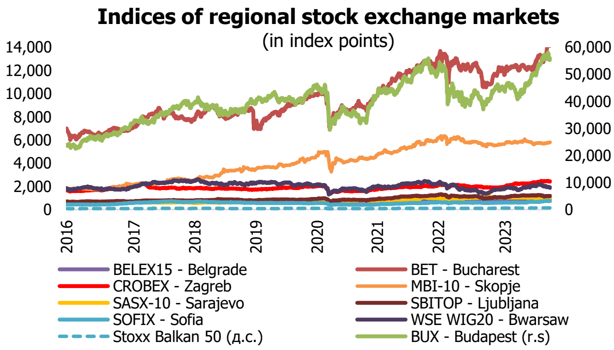
Source: Macedonian Stock Exchange



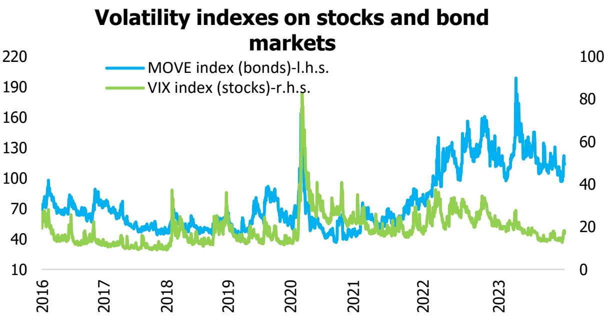
Source: Macedonian Stock Exchange

In the third quarter of 2023, stock exchange indices of the region registered a moderate quarterly growth which averaged 4.7% (increase of 5.1% in the previous quarter). The growth was mostly due to the increase in the Romanian, Bulgarian and Hungarian indices. Furthermore, volatility indices of the bond and stock markets, i.e. MOVE and VIX[61] indices recorded a daily growth, i.e. the MOVE index moderately decreased by 10.4% on average (after the decrease of 0.5% in the previous quarter), while VIX decreased by 11.9% on average (after the decrease of 19.6% in the previous quarter). The movements of both indices, observed jointly, indicate a moderately reduced uncertainty and volatility in the global capital markets.

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



Source: Macedonian stock exchange, national stock exchange markets.



Source: Chicago Board Options Exchange (CBOE)

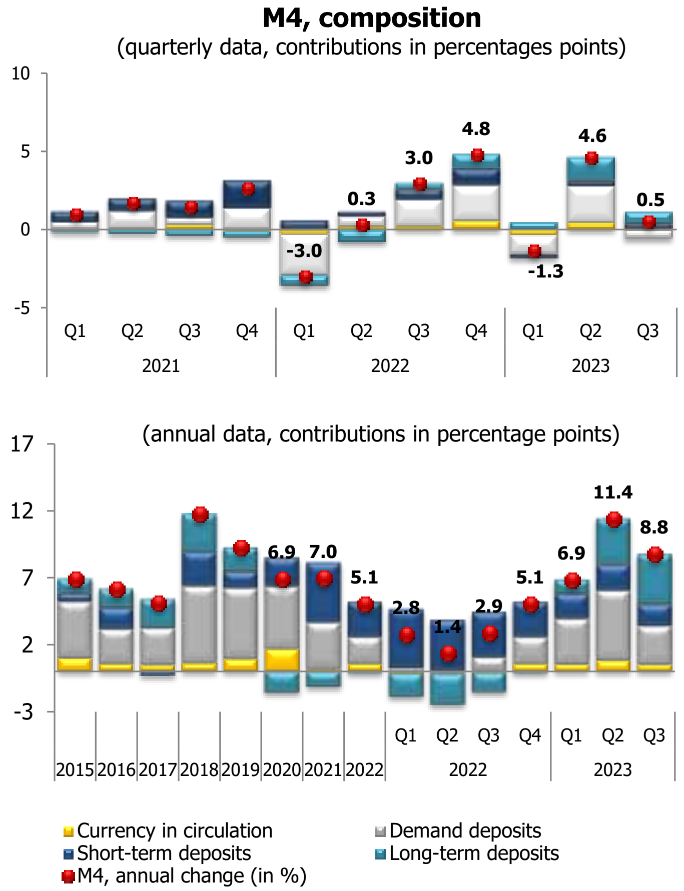
IV. Monetary and credit aggregates

In the third quarter the broadest monetary aggregate M4 slightly increased. Structurally observed, the growth resulted from further positive movements in savings, amid reduced demand deposit, influenced by a one-off factor (change in the dynamics of pension payment by banks). The credit activity of banks further grew in the third quarter, yet at a slower pace, and resulted from lending to households. The results of the Bank Lending Survey in the third quarter of 2023, point to further net tightening in total credit standards, with a similar intensity in enterprises, while significantly stronger in households compared to the Survey in the previous quarter. Analyzing credit demand, the corporate sector registered net decrease in demand for loans, as opposed to the slight net increase in demand in the previous survey, while banks still point to net decrease in demand in the household sector, but more moderate compared to the Survey in the previous quarter.

4.1. Monetary aggregates

During the third quarter of 2023, broad money M4 registered a quarterly growth of 0.5%, as opposed to 4.6% in the previous quarter. Structurally observed, growth was registered in both long-term and short-term deposits (with a positive contribution of 0.7 and 0.4 percentage points, respectively). On the other hand, demand deposits dropped in this quarter (negative contribution of 0.5 percentage points.) due to changes in the period of payment of pensions[62], which made them a key factor for slower increase in the broad money M4, and a slight decline in currency in circulation. Regarding the currency structure, moderate growth was registered in foreign currency deposits (contribution of 0.7 percentage points), while denar deposits decreased (also influenced by the decrease in demand deposits) The share of foreign deposits in M4 was 40.1% at the end of the third quarter, which is by 0.5 percentage points higher compared to the end of the second quarter. Annually, the growth of M4 reduced to 8.8% at the end of the third quarter (11.4% at the end of the previous quarter).

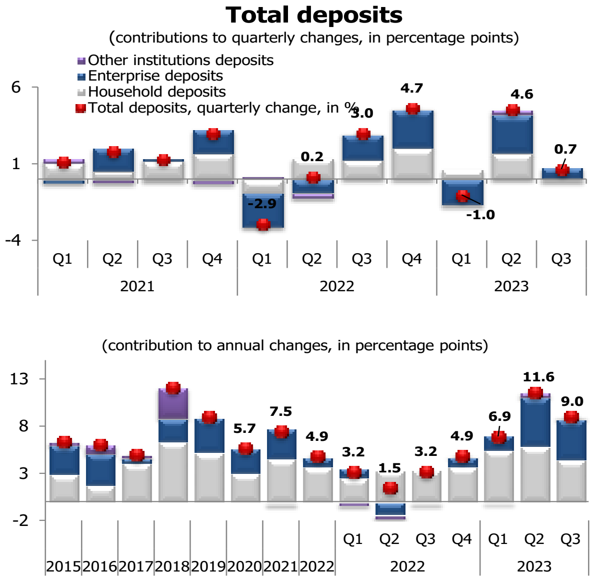
[62] Instead of the premature and phased payment of pensions by banks at the end of each month, which was introduced due to the pandemics in the country and the containment measures, the regular manner of pension payment was reintroduced from August 2023, i.e. in the beginning of the month for the previous month. Such change reduces the balance of demand deposit at the end of the third quarter of 2023 and makes a negative contribution to the quarterly growth rate of broad money.



Source: NBRNM.

Total financial system deposits[63] in the third quarter of 2023 registered a slight quarterly increase, of 0.7 %(a quarterly growth of 4.6% in the previous quarter). Observed **by sector**, the growth of deposits entirely results from the growth of corporate deposits (contribution of 0.8 percentage points), amid stagnation in the growth of household deposits (which include the changes in demand deposits) and a decrease in other sectors (negative contribution of 0.1 percentage points). The **currency** analysis shows a moderate increase in demand deposits (contribution of 0.8 percentage points), while denar deposits decreased (again due to demand deposits). The analysis of **the savings maturity** shows favorable movements, i.e. both long-term and short-term deposits registered further growth (with a positive contribution of 0.8 and 0.4 percentage points, respectively). On an **annual basis**, the growth of total deposits equaled 9.0% (increase of 11.6% at the end of the previous quarter).

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



Source: NBRNM.

Total deposits

	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
quarterly change, in %											
Total deposits	1.1	1.8	1.3	3.0	-2.9	0.2	3.0	4.7	-1.0	4.6	0.7
contributions to quarterly growth, p.p.											
Deposit money	0.5	1.2	0.5	1.5	-2.8	0.7	1.9	2.5	-1.3	2.5	-0.5
Denar deposits	-0.2	-0.7	-0.6	-1.2	-1.0	-0.9	0.3	0.7	0.3	1.0	0.4
FX deposits	0.8	1.3	1.4	2.8	0.9	0.3	0.9	1.5	0.0	1.0	0.8
Short-term deposits	0.7	0.9	1.2	1.9	0.6	0.3	0.7	1.2	-0.2	0.4	0.4
Long-term deposits	-0.1	-0.3	-0.4	-0.4	-0.7	-0.9	0.4	1.0	0.5	1.7	0.8
Households	1.1	0.5	1.2	1.7	-0.9	1.4	1.2	2.0	0.7	1.7	0.0
Enterprises	-0.3	1.5	0.2	1.6	-2.2	-0.9	1.7	2.5	-1.7	2.5	0.8
Other institutions deposits	0.3	-0.2	-0.1	-0.3	0.2	-0.3	0.1	0.1	-0.1	0.4	-0.1

Source: NBRNM.

Household deposits registered a quarterly stagnation in the third quarter of the year (after the growth of 2.6% in the second quarter). Analyzing currency, the increase in demand deposits was offset by the decrease in denar deposits (including the effect of lower demand deposits). Analyzing the **maturity structure**, long-term deposits continue to grow, amid slight decrease in short-term deposits. **Annually**, the increase in total household deposits equaled 6.8% in the third quarter of 2023 (8.8% at the end of the previous quarter).

Corporate deposits registered a moderate increase of 2.8% in the third quarter of 2023 (increase of 9.4% in the previous quarter)[64]. Observing **the currency,** growth was registered in both, foreign currency and denar deposits (demand deposits included). Analyzing **maturity**, there is a faster growth in short-term deposits (a positive contribution of 2.2 percentage points), relative to long-term deposits (with a contribution of 0.4 percentage points). **Annually**, corporate deposits increased by 15.7% at the end of the third quarter of 2023 (increase of 19.7% at the end of the second quarter).

Household deposits

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

Source: NBRNM.

Enterprise deposits

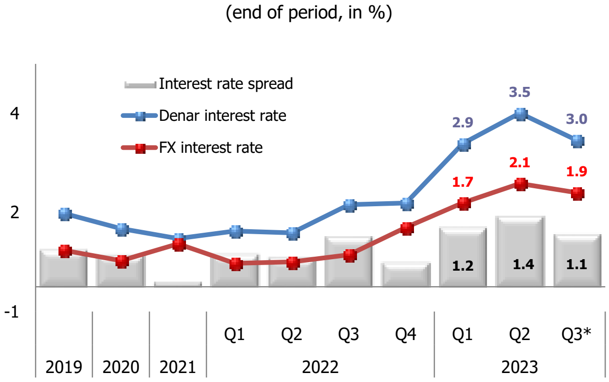
	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
quarterly change, in %											
Total household deposits	-0.9	5.6	0.8	5.8	-7.8	-3.2	6.3	9.3	-5.8	9.4	2.8
contribution to quarterly change of total deposits. in p.p.											
Deposit money	-0.3	3.1	-0.4	5.1	-6.0	-0.4	4.7	3.2	-4.5	5.5	0.2
Denar deposits	-0.3	-0.4	-0.8	-1.4	-0.4	-0.2	1.1	0.5	0.6	1.4	0.8
FX deposits	-0.3	2.9	2.1	2.1	-1.4	-2.6	0.4	5.7	-1.9	2.5	1.8
Short-term deposits	-0.7	1.3	1.6	1.7	-0.6	-0.8	0.9	5.4	-1.1	2.2	2.2
Long-term deposits	0.1	1.2	-0.4	-0.9	-1.1	-2.0	0.7	0.7	-0.2	1.7	0.4

Source: NBRNM.

[64] The slower growth of corporate deposits in the third quarter was partly due to higher base from the previous quarter when the government paid transfers to ESM for energy needs.

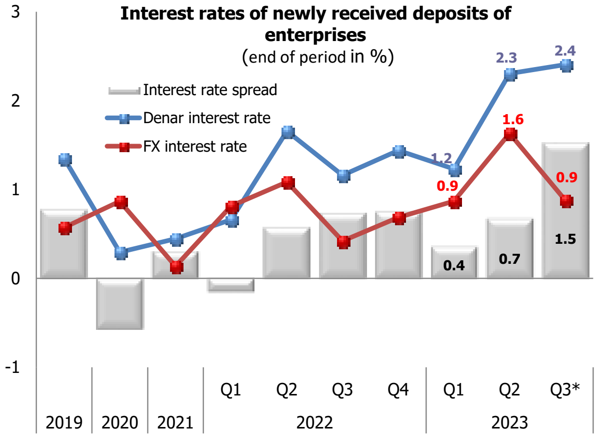
The analysis of the returns[65] on new savings shows that in August, interest rates on the newly accepted[66] denar and foreign currency deposits of **households** equaled 3.0% and 1.9%, respectively (3.5% and 2.1%, respectively in June). In such circumstances, the interest rate spread between the new denar and foreign currency savings of households in August narrowed to 1.1 percentage points. (1.4 percentage points in the second quarter). Interest rates on newly accepted denar and foreign currency **corporate** deposits equaled 2.4% and 0.9% respectively in August (2.3% and 1.6%, respectively in June). With such shifts, the interest rate spread between the newly accepted denar and foreign currency corporate deposits at the end of August widened to 1.5 percentage points. Regarding the total accepted deposits (denar and foreign currency), the interest rates on corporate and household deposits in August amounted to 2.1% and 1.5%, respectively, which is higher compared to June 2023 (2.0% and 1.3%, respectively).

Interest rates of newly received deposits of households
(end of period, in %)



*end of August
Source: NBRNM.

Interest rates of newly received deposits of enterprises
(end of period in %)



*end of August
Source: NBRNM.

4.2. Lending activity

Banks' lending activity in the third quarter of the year registered a moderate quarterly growth of 0.5% (2.6% in the previous quarter), which is in line with the monetary policy direction. Regarding **credit standards**, the **Bank Lending Survey** in the third quarter of 2023 shows net tightening of total credit standards, which was similar to the previous quarter in companies, while significantly intense in households. The banks point to reduced **demand** in both sectors. The banks expect a slight net tightening of the credit standards in the fourth quarter of 2023, amid moderate net decrease in demand for corporate loans, while the households expect a moderate net tightening of the credit standards, amid slight net increase in in demand.

[65] 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.nspx.

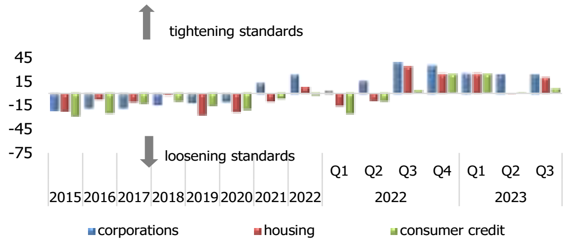
[66] Note that the interest rates on newly accepted deposits typically vary. Volatility of interest rate on newly accepted deposits results from the fact that they result from the volume of newly accepted deposits (which varies from month to month) and their interest rate.

Total credits of private sector

	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
quarterly change, in %											
Total credits of private sector	1.2	2.6	1.1	3.1	2.6	2.7	1.1	2.6	0.0	2.6	0.5
Contribution in quarterly change of total credits (in p.p.)											
Denar credits	0.7	1.8	0.7	2.4	1.3	1.1	-0.2	1.2	-0.3	1.3	0.7
Foreign currency credits	0.5	0.8	0.4	0.7	1.3	1.6	1.4	1.4	0.4	1.3	-0.3
Short-term credits	0.5	0.6	-0.4	0.8	1.4	0.5	-0.1	0.5	-0.4	0.1	-0.5
Long-term credits	0.5	1.9	1.5	2.6	1.3	2.0	1.2	2.5	0.6	2.5	1.0
Households	0.8	1.4	0.9	0.8	0.8	1.3	0.8	0.7	0.6	1.1	0.7
Corporations	0.4	1.1	0.3	2.3	1.8	1.3	0.3	1.9	-0.6	1.5	-0.3

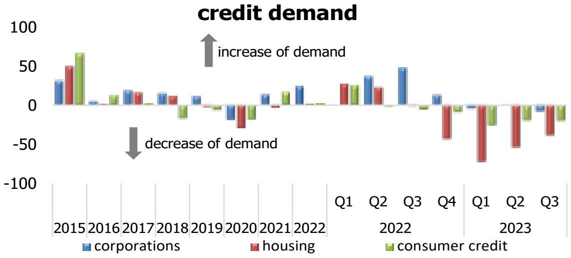
Source: NBRNM.

credit conditions



Source: Bank lending Survey, NBRNM.

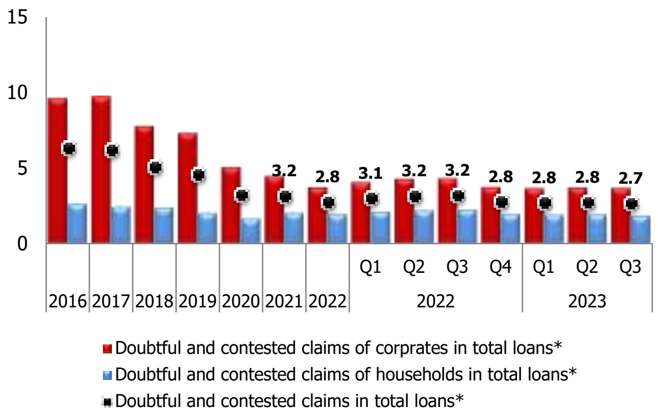
credit demand



Source: Bank lending Survey, NBRNM.

The analysis of sectoral structure of private sector loans in the third quarter points to moderate quarterly growth of household loans (contribution of 0.7 percentage points), while corporate loans decreased (negative contribution of 0.3 percentage points). Observing **currency,** increase was registered in denar loans (contribution of 0.7 percentage points), amid decrease in foreign currency loans (negative contribution of 0.3 percentage points). Regarding **maturity,** moderate increase was registered in long-term loans (contribution of 1.0 percentage points), amid decrease in foreign currency loans (negative contribution of 0.5 percentage points). The share **of doubtful and contested claims** in total loans further decreased and reduced to 2.7% (2.8% in the second quarter of 2023).

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



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

Annually, in accordance with the gradual monetary tightening, the growth rate of total loans in the third quarter of 2023 decelerated and equaled 5.8%, (6.5% at the end of the previous quarter). Amid faster deposit growth, loan/deposit ratio in the third quarter moderately decreased to 83.8% (84.0% at the end second quarter).

In the third quarter of 2023, **lending to households** registered a slight quarterly increase of 1.5% (increase of 2.2% in the previous quarter), amid moderate increase in housing and consumer loans, but lower compared to the previous quarter, as well as credit cards and overdrafts, while other loans remained at the same level as in the previous quarter. The results of the **Lending Survey** for third quarter of this year, still point to significant net decrease in demand for total loans in the **household**

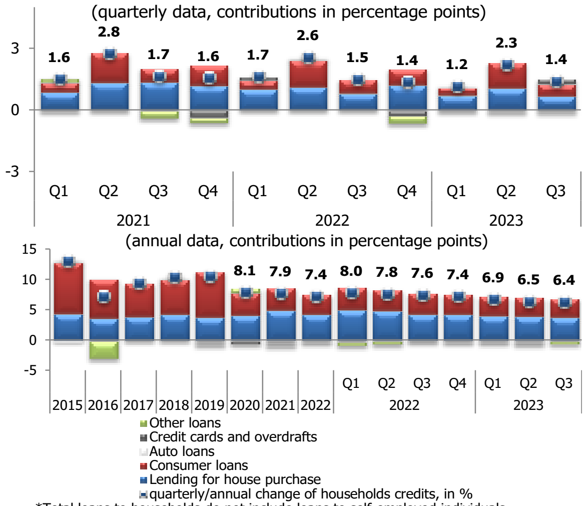
sector, but more moderate compared to the previous quarter. **From a currency viewpoint,** both denar and foreign currency loans contributed to the growth. Observing **maturity,** larger contribution to the growth of household loans in this quarter was made by long-term loans. **Annually,** at the end third quarter of 2023, total loans to households increased by 6.4%, which is similar to the growth in the previous quarter.

Total credits of households

	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	quarterly change, in %										
Total credits of households	1.6	2.8	1.7	1.6	1.6	2.6	1.5	1.4	1.2	2.2	1.5
Contribution in quarterly change of household credits (in p.p.)											
Denar credits	1.0	1.3	1.0	0.9	1.0	1.3	0.5	0.1	0.3	0.8	0.9
Foreign currency credits	0.5	1.4	0.6	0.6	0.6	1.3	1.0	1.3	0.8	1.4	0.5
Short-term credits	0.2	0.1	0.0	-0.2	0.2	0.1	0.0	-0.2	0.2	0.0	0.3
Long-term credits	1.1	2.7	1.6	2.0	1.3	2.4	1.5	1.9	1.0	2.2	1.2

Source: NBRNM.

Household credits*



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

In the third quarter of 2023, the amount of **total loans extended to the corporate sector** decreased by of 0.6% (after the growth of 3.1% in the previous quarter). The results of the **Lending Survey** for the third quarter of 2023 indicate a net reduction of the total corporate loan demand, against the slight net increase in the previous survey. According to the **maturity structure**, there was a decline in short-term loans, amid slower growth of long-term loans. **By currency**, the decline is driven by foreign currency loans, amid moderate growth of denar loans. Compared **annually,** the growth of total corporate loans decelerated and reduced to 5.1% at the end of the third quarter (6.5% at the end and of the previous quarter).

Total credits of corporations

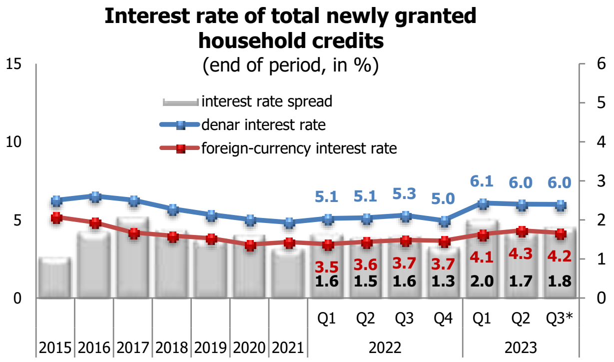
	2020	2021				2022				2023		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	quarterly change, in %											
Total credits of corporations	1.0	0.8	2.3	0.6	4.9	3.7	2.8	0.7	3.9	-1.3	3.1	-0.6
Contribution in quarterly change of corporation credits (in p.p.)												
Denar credits	0.5	0.2	2.3	0.3	4.1	1.7	0.9	-1.0	2.4	-1.1	2.0	0.5
Foreign currency credits	0.6	0.6	0.1	0.2	0.8	2.0	1.8	1.8	1.5	-0.2	1.1	-1.1
Short-term credits	0.9	0.9	1.1	-0.7	1.9	2.7	0.9	-0.3	1.3	-1.4	0.3	-1.3
Long-term credits	0.4	-0.1	1.1	1.5	3.3	1.3	1.5	1.0	3.1	0.2	2.6	0.7

Source: NBRNM.

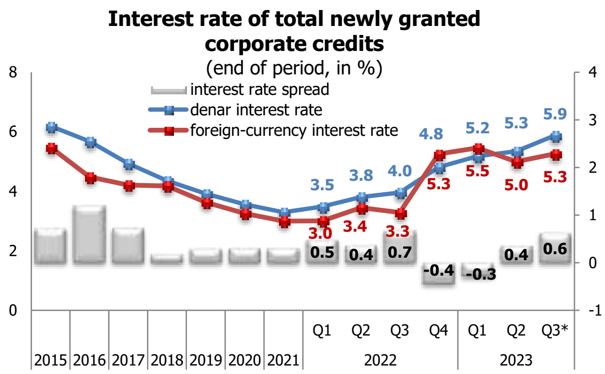
According to the data on the interest rates[67] on newly approved loans[68] in August, interest rates on denar and foreign currency loans to households equaled 6.0% and 4.2%, respectively (6.0% and 4.3%, respectively in June), while the interest rate spread between the new denar and foreign currency lending to households amounted to 1.8 percentage points. (1.7 percentage points in the previous quarter). **Regarding corporations,** the interest rates on newly approved denar and foreign currency loans equaled 5.9% and 5.3%, respectively (5.3% and 5.0%, respectively in June), with a positive trend in interest rate spread between the new denar and foreign currency corporate lending which amounted to 0.6 percentage points. Regarding **total loans** granted to the private sector, at the end of August

[67] Data on interest rates are in accordance with the methodological changes of the National Bank from June 2018. For more information on the methodological changes visit: http://www.nbrm.mk/monetarna_statistika_i_statistika_na_kamatni_stapki.nspx.
[68] Note that the interest rates on newly approved loans are volatile. Volatility of interest rate on newly approved loans depends on the volume of newly approved loans (which can change from month to month) and their interest rate.

interest rates on household and corporate loans amounted to 5.6% and 5.4%, respectively (5.3% and 4.9%, respectively in June 2023).



*End of August.
Source: NBRNM.



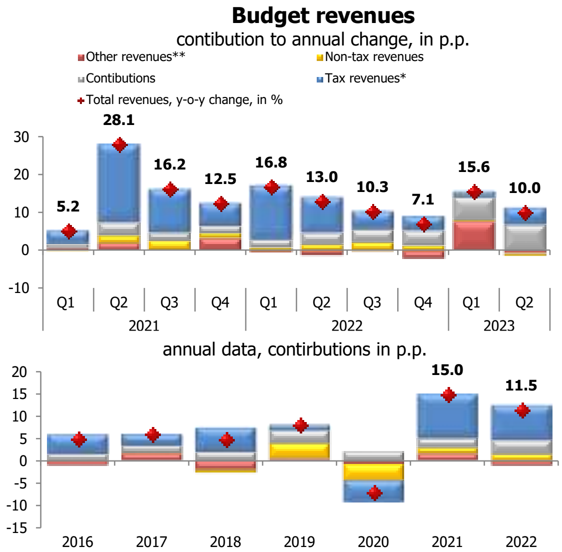
*End of August.
Source:NBRNM.

V. Public finance

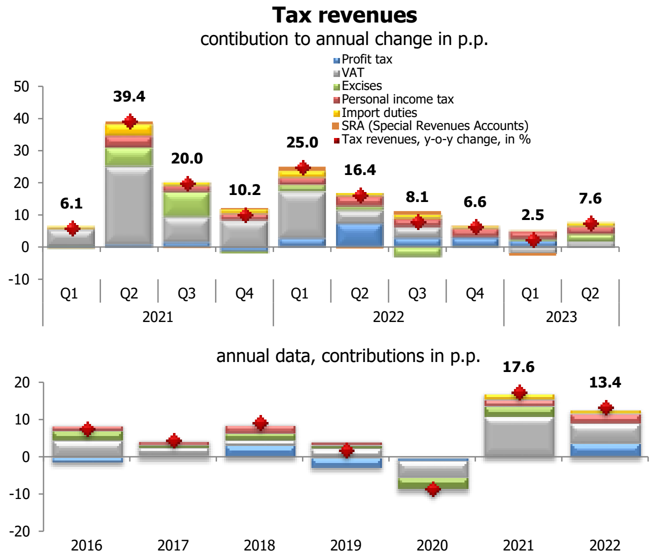
Solid annual growth of budget revenues continued in the second quarter of 2023, followed by significant acceleration in the growth of budget expenditures, due to increased capital costs for the start of project activities for the corridors 8 and 10d. Consequently, the budget deficit reached2.3% of GDP and is higher compared to the same quarter last year (0.5% of GDP). In the period January–August 2023, the budget deficit was 3.1% of GDP, which is around 63.3% of that planned for 2023, entirely financed by government borrowing on the domestic and foreign market, as well as by government deposits with the National Bank. At the end of the second quarter of 2023, the total public debt equaled 59.0% of GDP.

In the second quarter of 2023, total revenues in the Budget of the Republic of North Macedonia[69] grew by 10.0%, on an annual basis (15.6% in the first quarter of 2023). The increase in budget revenues on an annual basis reflects the increased inflows in contributions and taxes[70] (with a positive contribution of 6.9 and 4.5 percentage points, in the growth of total revenues). Other categories of budget revenues registered a negative contribution in other revenues (with a negative contribution of 0.8 percentage points) and non-tax revenues (with a negative contribution of 0.5 percentage points).

[69] Central budget and budgets of funds.
[70] It also includes own revenue accounts (SSP).

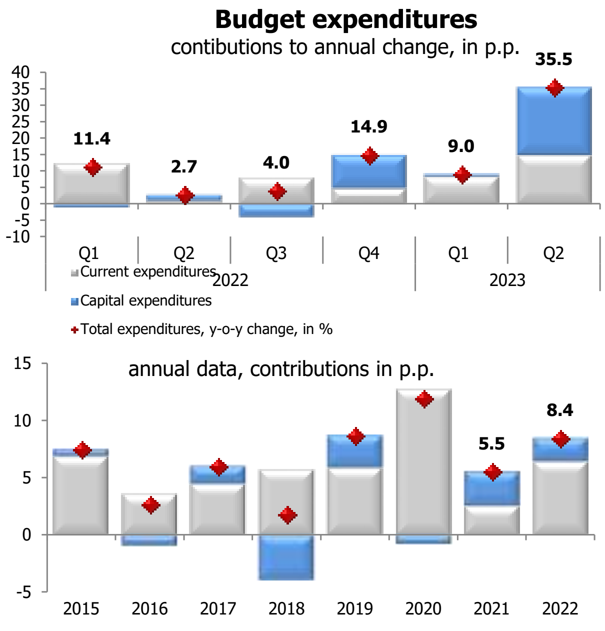


* It includes Tax Revenues (SRA).
**Other revenues includes capital revenues, foreign donations and revenues from due loans.
Sources: Ministry of finance and NBRNM`s calcualtions.

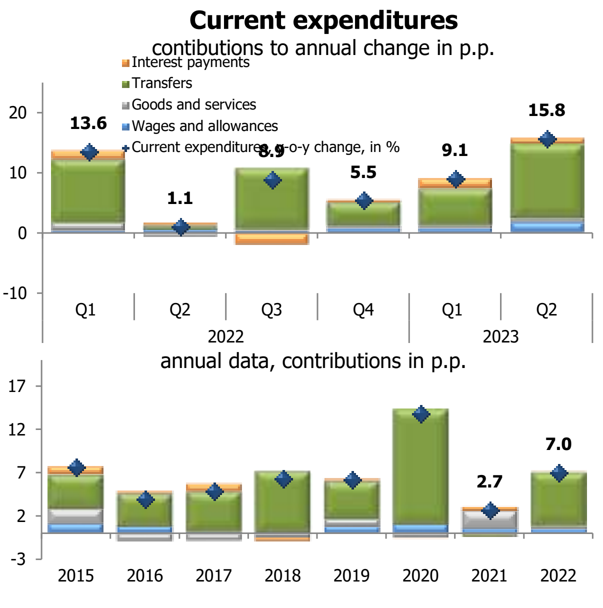


Source: Ministry of finance and NBRNM`s calculations

The faster growth of total tax revenues of 7.6% in the second quarter of 2023 stems primarily from the higher revenues from indirect taxes (positive contribution of 5.4 percentage points), while direct taxes moderately increased (positive contribution of 2.2 percentage points). Analyzing indirect taxes, the growth reflects the higher revenues from excise (positive contribution of 2.3 percentage points), amid lower positive contribution of VAT revenues[71] and import duties.



Source: Ministry of finance.

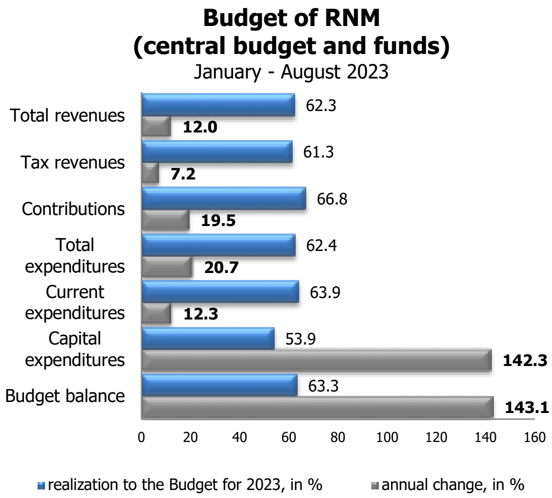


Source: Ministry of finance and NBRNM`s calcualtions.

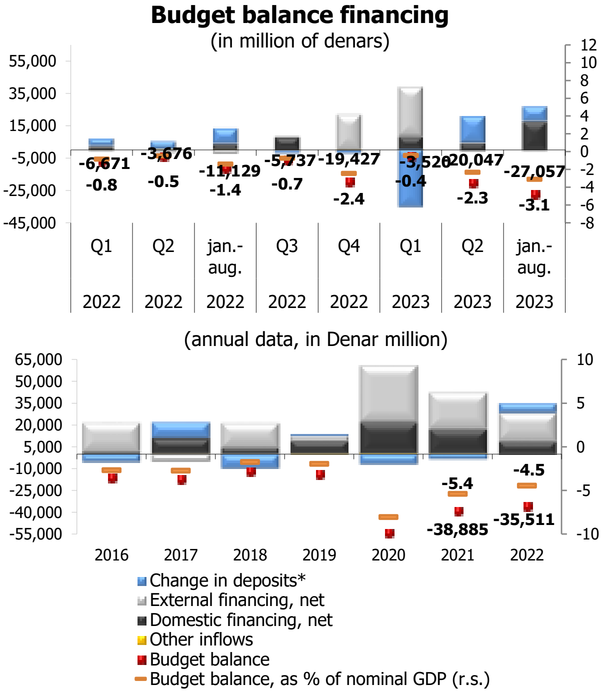
In the second quarter of 2022 budget expenditures were higher by 35.5% on an annual basis. Structurally observed, the growth of total expenditures mostly stems from the higher capital expenditures[72] (contribution of 20.6 percentage points), amid positive contribution of current expenditures (of 14.8 percentage points). The annual growth of current expenditures of 15.8% mostly

[71] The slight positive contribution of revenues from VAT is partly due to reduced collection for the second quarter than previously planned, with a reduced collection amid imports of electricity and gas due to legal amendments to the Law on Value Added Tax which included natural gas and electricity through a transfer system as goods exempt from VAT on imports.
[72] Capital costs increased due to payment to the Public Enterprise for State Roads for the highway construction of corridors 8 and 10d.

derives from the category of transfers [73] (positive contribution of 12.3 percentage points, mostly related to payment of funds in energy sector), with an additional positive contribution from the categories wages and benefits, interest payments and goods and services (positive contribution of 1.7, 0.9 and 0.8 percentage points).



Source: Ministry of Finance and NBRNM's calculations



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

In the second quarter of 2023, the Budget deficit was Denar 20,047 million or 2.3% of GDP[74], which is a slightly higher performance compared to the same period last year (deficit of 0.5% of GDP). The deficit in the second quarter was mainly financed through net borrowing on the domestic market and government deposits.

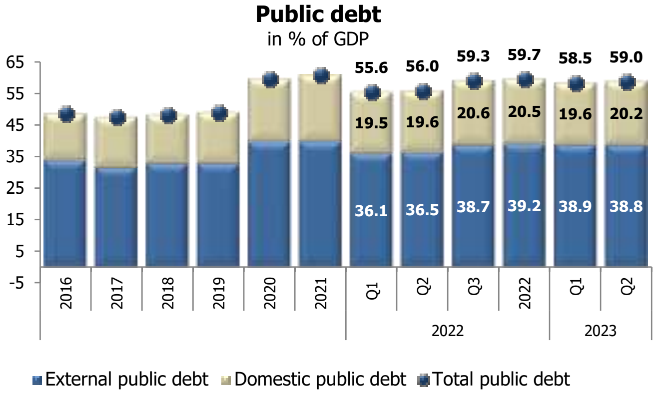
BUDGET OF REPUBLIC OF NORTH MACEDONIA (Central budget and budgets of funds)

	2022						2023				2023					
	Budget for 2022	Revised Budget for 2022	I realocation	II realocation	Q4	Total	Budget 2023	Q1	Q2	Jan.-Aug. 2022	Q1		Q2		Jan.-Aug. 2023	
											Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.	Annual changes, in %	Contributions in annual changes, in p.p.
TOTAL REVENUES	**238,899**	**245,758**	**245,758**	**245,758**	**64,500**	**243,085**	**282,052**	**66,009**	**65,153**	**175,738**	**15.6**	**15.6**	**10.0**	**10.0**	**12.0**	**12.0**
Tax revenues and contributions	210,829	221,770	221,770	221,770	58,456	220,186	250,689	56,651	60,485	158,234	8.3	7.6	12.5	11.3	11.2	10.2
Taxes*	136,458	143,173	143,173	143,173	36,839	142,567	162,600	35,896	37,352	99,372	2.5	1.5	7.6	4.5	5.9	3.5
Contributions	74,371	78,597	78,597	78,597	21,617	77,619	88,089	20,755	23,133	58,862	20.0	6.0	21.3	6.9	19.5	6.1
Non-tax revenues	19,171	17,043	17,043	17,043	4,548	17,189	19,894	3,905	3,788	10,543	6.1	0.4	-6.9	-0.5	-3.7	-0.3
Capital revenues	3,330	2,180	2,180	2,180	514	2,273	2,800	193	190	650	-31.3	-0.2	-62.5	-0.5	-61.2	-0.7
Foreign donations	5,570	4,765	4,765	4,765	982	3,437	8,669	5,260	690	6,311	533.7	7.8	-18.4	-0.3	224.5	2.8
TOTAL EXPENDITURES	**272,428**	**288,493**	**288,493**	**288,493**	**83,927**	**278,596**	**324,810**	**69,529**	**85,200**	**202,795**	**9.0**	**9.0**	**35.5**	**35.5**	**20.7**	**20.7**
Current expenditures	234,192	256,384	255,808	255,906	68,013	249,959	276,059	64,205	68,605	176,505	9.1	8.4	15.8	14.8	12.3	11.5
Capital expenditures	38,236	32,109	32,685	32,587	15,914	28,637	48,751	5,324	16,595	26,290	8.3	0.6	359.1	20.6	142.3	9.2
BUDGET DEFICIT/SURPLUS	**-33,529**	**-42,736**	**-42,736**	**-42,736**	**-19,427**	**-35,511**	**-42,759**	**-3,520**	**-20,047**	**-27,057**						
Financing	33,529	42,736	42,736	42,736	19,427	35,511	42,759	3,520	20,047	27,057						
Inflow	**45,103**	**54,513**	**54,513**	**54,513**	**25,084**	**46,869**	**94,876**	**9,555**	**21,865**	**65,581**						
Other inflows	500	500	500	500	320	906	0	287	344	792						
Foreign loans	21,269	65,524	65,524	65,524	23,276	24,895	66,876	31,142	530	31,786						
Deposits	-3,296	-38,141	-38,141	-38,141	-1,566	6,387	-5,626	-35,061	16,129	9,076						
Treasury bills	26,620	26,620	26,620	26,620	3,054	14,681	33,616	13,187	4,862	23,927						
Sale of shares	10	10	10	10	0	0	10	0	0	0						
Outflow	**11,574**	**11,777**	**11,777**	**11,777**	**5,657**	**11,358**	**52,117**	**6,035**	**1,818**	**38,524**						
Repayment of principal	11,574	11,777	11,777	11,777	5,657	11,358	52,117	6,035	1,818	38,524						
External debt	6,045	6,235	6,235	6,235	1,896	5,787	36,506	1,055	1,382	32,103						
Domestic debt	5,529	5,542	5,542	5,542	3,761	5,571	15,611	4,980	436	6,421						
Other outflows																

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

[73] Category of transfers include pension expenses, social security costs, health care costs and other transfers (mainly subsidies).
[74] The analysis uses the National Bank's October forecasts for the nominal GDP for 2023.

In the period January - August 2023, total budget revenues grew by 12.0% on an annual basis. Most of the growth resulted from improved performances in contributions, tax revenues and foreign donations, while capital revenues and non-tax revenues made negative contribution. At the same time, budget expenditures increased by 20.7% annually. Analyzed by category, the growth of budget expenditures is mostly derived from the higher current expenditures[75] and capital expenditures[76]. Budget deficit amounted to Denar 27,057 million or 3.1% of GDP in the first eight months of 2023, constituting 63.3% of the forecast budget deficit for 2023. The budget deficit in this period was mostly financed by government borrowing on the domestic and of foreign market, as well as by government deposits with the National Bank.[77]



Source: MoF and NBRNM calculations.

At the end of the second quarter of 2023, total public debt[78] equaled 59.0% of GDP, which is an increase of 0.4 pp of GDP compared to the end of the previous quarter. The increase in the public debt was entirely due to higher domestic borrowing, amid reduces external borrowing. Observing the debt structure, the total public debt[79] and the debt of public enterprises (guaranteed and non-guaranteed)[80]were 51.3% and 7.7% of GDP, which is an increase of 0.4 percentage points and 0.1 percentage points of GDP, respectively. At the end of the second quarter of 2023, compared to the same period of 2023, total public debt increased by 2.9 percentage points of GDP, as a result of the increased external borrowing due to the new Eurobond.

VI. Macroeconomic forecasts and risks

The macroeconomic landscape for the period 2023-2026 has not been significantly changed in this forecasting round compared to the April forecasts. Regarding the growth, a moderate slowdown is still expected in 2023, with a gradual intensification in the upcoming period. However, in conditions of slightly unfavorable external environment, in

[75] The growth mostly stems from the item transfers, which is increased due to the transfers to the energy sector to deal with the energy crisis, payment of the subsidies in agriculture, as well as the March increase in pensions.
[76] The increase in capital expenditures is due to several payments of financial assets, until August, to the Public Enterprise for State Roads, to start the construction and modernization of the road infrastructure for corridor 8 and corridor 10d.
[77] In March, the ninth Eurobond in the amount of Euro 500 million was issued, at a coupon rate of 6.96% and with a maturity of four years. In contrast, also in July, the Eurobond issued in July 2016 was fully paid, in the amount of Euro 450 million, with a 7-year maturity and an interest rate of 5.625%.
[78] 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.
[79] Government debt is defined as a sum of debts of the central government, the public funds and the municipalities.
[80] According to the amendments to the Law on Public Debt from May 2019, the non-guaranteed debt of public companies and joint stock companies established by the government or municipalities, municipalities within the City of Skopje and the City of Skopje is included in public debt (Official Gazette of the RM No. 62/05, 88/08, 35/11, 139/14 and 98/19).

the short term, the recovery of the economy is slightly weaker relative to previous expectations. Thus, according to the gradual slowdown of activity dynamics in the first half of the year, as well as the signals from the high frequency indicators for the third quarter, the economic growth in 2023 is expected to moderately slow down and reduce to 1.9% (2.1% in the previous forecast). The improvement in the external environment, combined with certain domestic specific factors, especially related to the public infrastructure cycle, is expected to support growth acceleration to 3% in 2024 (3.6% in the previous forecast). In the medium run, for the period 2025 – 2026, the expectations for economic growth of 4% remain. According to this cycle, the inflation would maintain the path of downward adjustment until the end of the forecast round. In 2023, the forecasts show a slowdown in price growth and a single-digit average inflation rate of 9.5%, which will continue to decrease significantly to 3.5%-4% in 2024, and further reduce to the historical average of approximately 2%. This year's inflation slightly exceeds the upper limit of the previously estimated interval and causes a higher transferred effect, which together with estimates for a smaller drop in energy prices would also cause higher inflation for 2024. **In relation to the external position of the economy, the ratings during this forecast round are more favorable for the entire forecast round. Thus, current expectations for the external sector indicate a more pronounced narrowing of the current account deficit in 2023, to 1.2% of GDP, with significantly reduced import pressures.** The reduced import ratings are the result of the exhaustion of the effects of last year's exceptionally strong import price shocks and the build-up of inventories due to high unpredictability. **In accordance with the gradual increase in trade and normalization in the dynamics of the import of goods, as well as with expectations for the stabilization of the amount of private transfers, and thus a lower expected surplus in the secondary income, in 2024 a moderate increase in the current account deficit of 2.4% of GDP is expected (yet lower than April expectations), and it would remain at this level in the medium term. During the entire forecast period, solid flows in the financial account are also expected, which will contribute towards further increase in the foreign reserves and their maintenance on adequate level.**

6.1. Underlying assumptions in the external environment forecast[81]

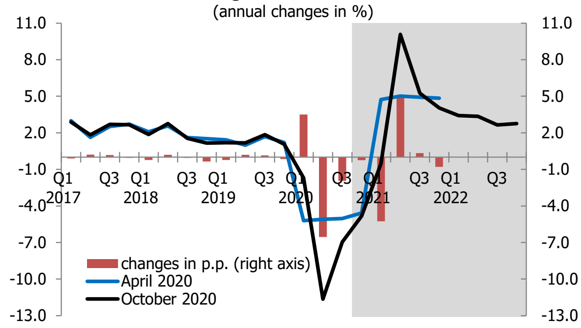
According to the latest estimates, the increase in the **foreign effective demand**[82] in 2023 will equal 0.4% (0.3% in April), while for 2024 it is expected to accelerate more moderately by 1% (compared to 1.7% in April). The downward correction for 2024 is mostly due to the expectations for substantial decrease in the expected economic activity of Germany.[83]. For 2025, there are expectations for economic recovery of our major export partners and estimations for additionally accelerated foreign demand to 1.7%.

On the other hand, regarding **the foreign effective inflation**[84], moderate upward revision to the 2018 forecast was made, while the estimate for the following year remained unchanged. Thus,

[81] Historical data on foreign demand, foreign inflation, exchange rate of the US dollar/euro and EURIBOR are sourced from Eurostat, while the World Bank statistics is a source of the data on prices of oil, food and metals. The forecasts of foreign demand, foreign inflation, foreign exchange rate of the US dollar and EURIBOR are based on the Consensus Forecast, while the forecasts of the prices of oil, food and metals are based on the forecasts of market analysts. The analysis uses various reports of the IMF, the World Bank, ECB, FAO, OPEC and specialized economic portals.
[82] Foreign effective demand is calculated as the weighted sum of GDP indices of the major trading partners of the Republic of North Macedonia. The calculation of this index includes Germany, Greece, Italy, the Netherlands, Belgium, Spain, Serbia, Croatia, Slovenia and Bulgaria.
[83] Forecasted decrease 0.3% in Germany in 2023 year and increase of 0.6% in 2024, despite the April forecasts of -0.1% and 1.4% in 2023 and 2024.
[84] The foreign effective inflation is calculated as the weighted sum of consumer price indices of the countries that are major partners of the Republic of North Macedonia in the field of import of consumer goods. The calculation of this indicator includes Bulgaria,

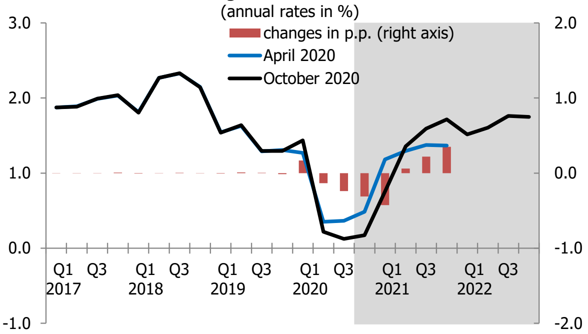
currently a growth of 7.5% in 2023 is expected (6.9% in April) and 3.3%, in 2024. The upward revision of growth for the current year is due to expectations for higher inflation among most of our import partners, with Serbia and Poland making the biggest contribution. For 2025, a further decrease in price pressures is expected, with foreign effective inflation continuing to slow down and amounting to 2.5%.

Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

Foreign effective inflation
(annual rates in %)

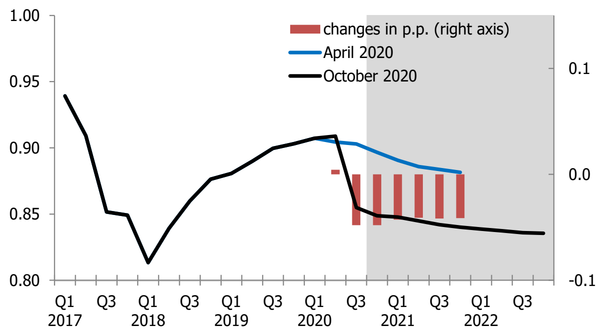


Source: Consensus forecasts and NBRNM calculations.

The latest forecasts for the euro/US dollar exchange rate point to depreciation of the US dollar against the euro for the entire forecast period of 2.9%, 2.0% and 2.1% in 2023, 2024, and 2025, respectively. Compared to the April forecasts, for 2023, and in line with the weaker performances, a slightly greater depreciation of the US dollar is expected against the euro (2.7% in April), while smaller in 2024 (2.6% in April), amid investors' expectations for worsened economic performances in the Euro area compared to the USA in the following year.

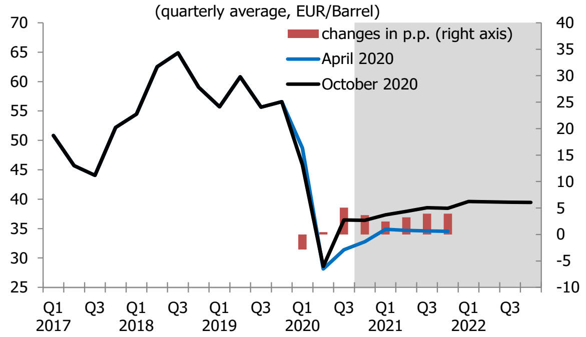
The new estimates for the oil price have been revised upward, compared to the April forecast, primarily for 2024, but the price is still expected to decline throughout the forecast period. Namely, current estimates indicate that oil prices will register a decline of 17.1% in 2023 and 1.4% in 2024 (17.9% and 8.2% in 2023 and 2024 in April, respectively). The upward revisions are mainly a result of the measures of the OPEK+ countries[85] for reducing the oil production, as well as the increased geopolitical risks on the Middle East. For 2025, further downward movement of 8% is expected in oil price.

EUR/USD exchange rate



Source: Consensus forecasts and NBRNM calculations.

Brent oil
(quarterly average, EUR/Barrel)



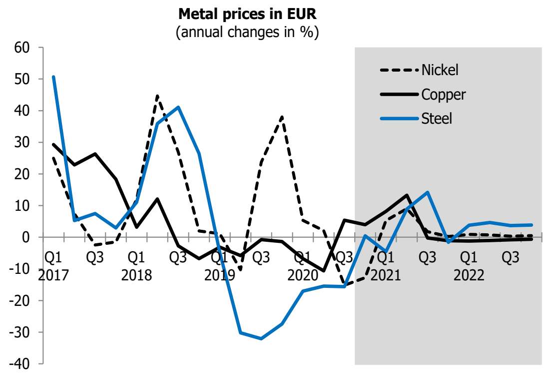
Source: IMF and NBRNM calculations.

Germany, Greece, Spain, France, Italy, Austria, Slovenia, Poland, Croatia and Serbia. Inflation in Poland and Serbia has been adjusted for the changes in the exchange rate.

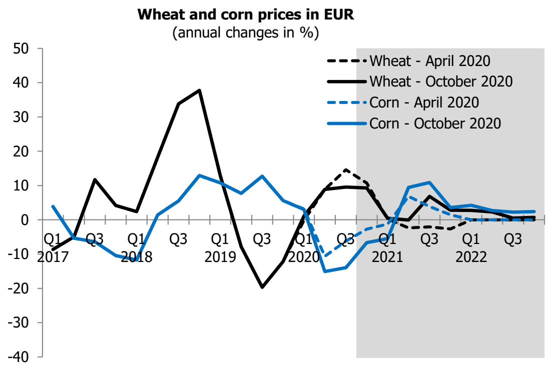
[85] At the meeting held on 4 October 2023, OPEC+ member countries, Saudi Arabia and the Russian Federation decided to extend the measure to voluntarily reduce oil production by an additional 1.3 million barrels per day until the end of 2023, instead of September (Saudi Arabia will reduce oil production by 1 million barrels per day, while the Russian Federation by 300 thousand barrels per day). This measure is an additional adjustment of oil production, after the previous measure from April (3.4.2023), when the total voluntary reduction of production by all members was 1.66 million barrels per day. Additionally, at the meeting in June (4.6.2023), it was decided that the adjusted oil production would amount to 40.46 million barrels per day for the period 1.1. - 31.12. 2024.

Regarding the metal prices, the price correction for the period 2023 – 2024 is downward, expecting a larger drop in prices of copper, and especially nickel, in comparison with April forecasts. Downward movements in the copper price are the result of prospects for reduced demand, due to the slowdown in global economic activity, while in case if the price of nickel it is the result of increased global production of nickel, mainly in Indonesia. In line with the outlook for reduced demand, steel prices are currently expected to fall rather than rise in 2023, and to decrease less in 2024 than expected in April. In 2025, metal prices are expected to stabilize relatively.

Regarding the **prices of food products,** more significant downward corrections have been made to the prices of corn and wheat for the period 2023–2024, that is, a larger price drop is expected compared to April forecasts. The downward revision is due to the prospects for higher production of wheat in Ukraine and the Russian Federation, that is, of corn in Brazil, with simultaneous expectations for a higher level of global inventories. In 2025, stabilization of the movements is expected, i.e. a small increase in the price of wheat and a minimal drop in the price of corn.

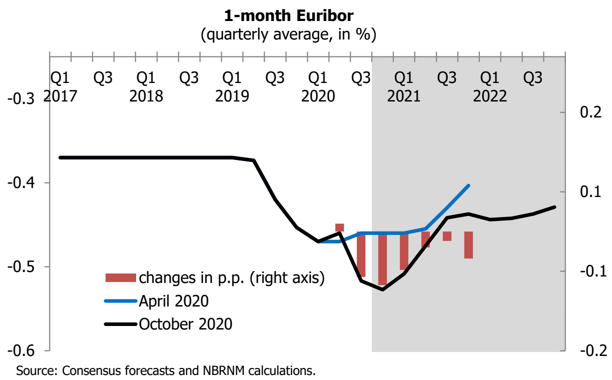


Source: IMF and NBRNM calculations.



Source: IMF and NBRNM calculations.

Regarding t**he interest rate of the one-month EURIBOR**, a more significant upward revision was made for the period 2023– 2024, in line with the previous higher performance. Thus, it is now expected that the average one-month EURIBOR would equal 3.20% in 2023 (2.66% in April) and 3.45% in 2024 (2.60% in April). Moreover, from the second half of 2024, a slight downward path of the foreign interest rate is expected, so that the average rate in 2025 would be reduced to the level of 2.94%. Such movements are in line with expectations for maintaining the current high level of ECB interest rates for a longer period.



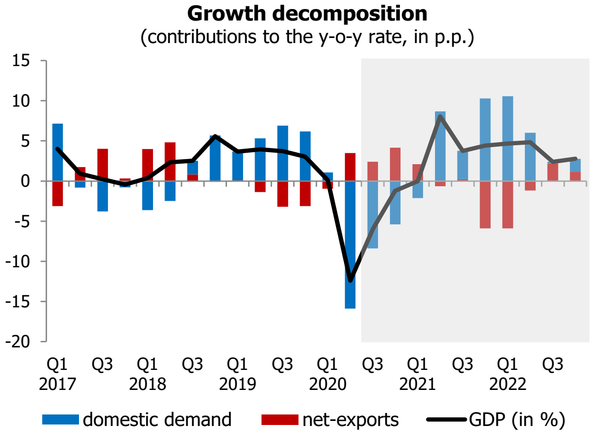
Source: Consensus forecasts and NBRNM calculations.

6.2. Forecast and effects on monetary policy

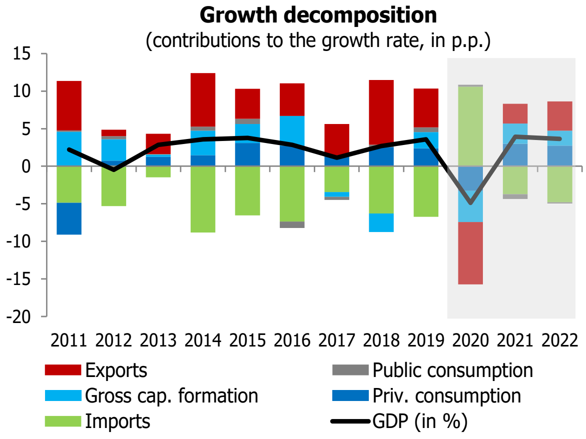
The environment for conducting monetary policy remains uncertain and most influenced by the future dynamics of inflation and changes in inflation expectations, which will also depend on the conduct of macroeconomic policies that affect demand in the economy. *The estimations about the* ***foreign interest rate,*** *as an important factor for the domestic monetary policy, have been revised upwards, primarily due to the higher realization than the April forecasts, and the projected path in the medium term points to expectations for maintaining the ECB's interest rates at the already achieved high level for a longer period.* ***With this forecast round, the external position of the domestic economy is assessed as significantly more favorable,*** *especially in the current account, where the import pressures are significantly reduced for the entire forecast period relative to April expectations, with the change being most pronounced in 2023. More favorable expectations for the current account, with simultaneously solid net inflows in the financial account, would contribute to the increase in* ***foreign reserves on an aggregate basis in the period 2023 – 2026, which will enable their retention at an appropriate level in accordance with international standards for maintaining exchange rate stability.***

Key risks to the baseline macroeconomic scenario are similar to those of the April forecasting round. Risks from the external environment, in both the short and the medium term, remain unfavorable and further pronounced. *The geopolitical turmoil, mainly related to the war in Ukraine and most recently in the Middle East, the possible intensification of the geoeconomic fragmentation and the more pronounced climate changes with their possible effects on the supply chains and the volatility of the world market prices, smaller increase in the Chinese economy, the possible further tightening of the global financial conditions and thus, the increased financial stress for the high indebted countries, are the key limiting factors for the global growth.* ***The risks from the domestic environment in the short term*** *are associated with the uncertain economic effects of the double elections in 2024, while the effects of the NATO membership, the progress in the EU accession negotiations which may accelerate structural reforms, as well as the possible use of the geographical advantage of our economy within the started process of adjustment of global chains* ***are again evaluated as positive risks in the medium term.***

The domestic economic growth in the first half of 2023 was moderate and amounted to 1.6%, due to the positive contribution of net exports in conditions of significantly reduced import pressures related to the decrease in the part of the investments which refers to inventory. In accordance with the assessments for a gradual depletion of these effects, **a slight acceleration of the growth is expected in the second half of the year,** due to domestic demand, amid expectations for positive movements in investments, as well as amid increased public consumption in the last quarter. The imports will further decline, amid expectations for a decline in the exports as well, due to high base effect from the last year, the high level of utilization of some of the export capacities, the downward trend of metal prices, as well as the lower foreign demand. **Consequently, the growth of the domestic economy is expected to amount to 1.9% for the entire year,** amid positive contribution of both net exports (amid faster decline in imports than in exports), and domestic demand (supported by the growth of household consumption and gross investments). **Accelerated growth is expected in the next period, which would reach 3% in 2024 and 4% in 2025 and 2026.** Analyzing the growth structure in the next two years, it is expected to arise from the domestic demand, amid negative contribution of net exports. Thus, this scenario does not assume major escalations related to the military activities in Ukraine and the Middle East.



Source: SSO and NBRNM calculations.

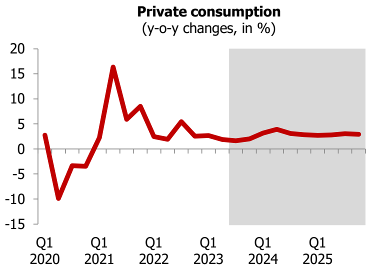


Source: SSO and NBRNM calculations.

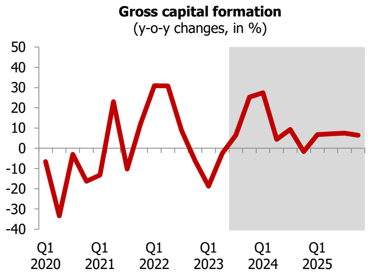
Within **domestic demand**, gross investments and private consumption will be the main factors for the economic growth in the period 2023-2025. The largest individual positive contribution is expected from **gross investments,** especially in 2024 and 2025. Significant slowdown in the growth rate in this category is expected in 2023, primarily as a result of the high base effect related to the growth of inventories in the previous year, as well as the slow implementation of new infrastructure projects and more moderate FDI. Intensive implementation of public investments in road and rail infrastructure is expected in the next two years, especially in the construction of the road infrastructure (corridor 8 and 10d). Investment stimulus is expected from the need for energy sustainability and larger investments in renewable energy sources, increased foreign direct investments, exports recovery and foreign effective demand, as well as from the solid credit support of the banking sector

The **household consumption** expects a slower growth rate in 2023 as well, as a result of the restraint from consumption, with existing uncertainty and high domestic prices, despite the solid growth in real disposable income. The growth of the disposable income is supported by the significant real growth in wages and pensions in 2023, whereby the wage growth assessment takes into account the realization[86], as well as the effect of the growth of wages in the public sector[87], while the growth of pensions is in accordance with the regular adjustment and the assessments for a moderate growth in the number of pensioners. In 2024 and 2025, a moderately faster growth of private consumption is expected as well, mostly due to the disposable income dynamics, with the wages being the main driver of the growth. The growth of the economy is expected to lead to further moderate increase in the number of employees, as well as to growth in wages, especially in 2024, given the transfer effect of the increased wages in the public sector in 2023 and the effect of the announced increase in 2024 and 2025 in accordance with the laws and other legal regulations[88]. Despite in wages, further, yet more moderate growth is expected in pensions, in accordance with the announced legal adjustment of nominal pensions, while a real growth in 2025 is expected in private transfers as well. Also, in the next two years, the household consumption would be traditionally partly supported by the intensive credit activity.

[86] The performances include the effect of the increase in the minimal wage, the growth in wages of part of the public sector in relation to the adjustment of the minimal wage and the growth of wages of the appointed officials in accordance with the amendments, all of them with the payment of March wages.
[87] The General Collective Agreement of the public sector from 18.7.2023 includes an increase of the gross wage of the public sector employees by 10%, starting with the September 2023 wage (link), and an additional increase of 5% of the September wages in elementary and secondary education (link).
[88]It refers to the legal adjustment of the minimal wage and the wages of appointed officials with the March wage in 2024 and 2025, as well as the adjustment of the public sector wages included in the new General Collective Agreement of the public sector (growth of the wages in the public sector for September 2024, in the amount of 3%, if the consumer prices index in the first six months of 2024, compared to the consumer prices index in the first six months of 2023 exceeds 3% and entry into force of the new method of calculating gross wages in the public sector in March 2025, according to which the gross wage is the average gross wage paid per employee in the Republic for the previous year multiplied by the complexity ratio at the workplace).



Source: SSO and NBRNM calculations.

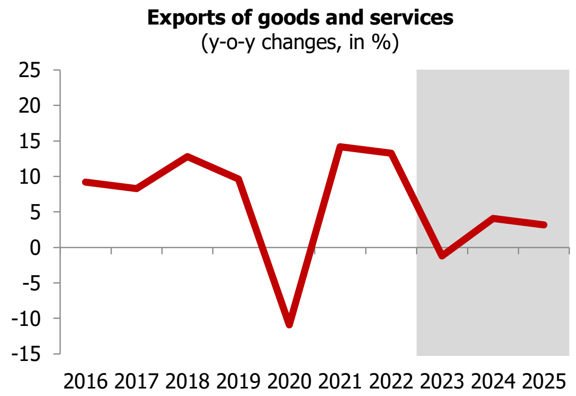


Source: SSO and NBRNM calculations.

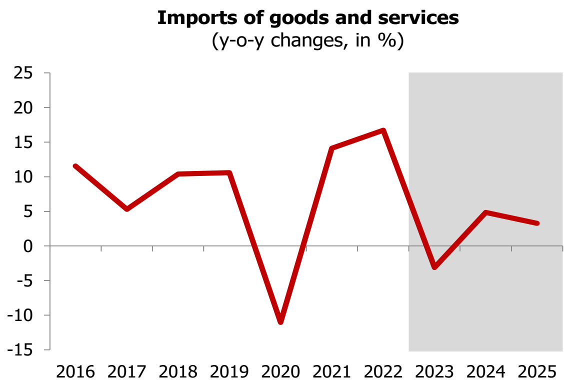
Source: SSO and NBRNM calculations.

In accordance with the fiscal plans[89], 2023 and 2024 expect a real decline in **public consumption** and its growth in 2025, thus it would made a slight negative contribution, on average, to the expected growth of GDP during the forecast horizon.

After two consecutive years intensive real growth in the **export of goods and services**, a slight decline is expected in 2023, amid expectations for a decline in metal prices, a significant slowdown in foreign demand, especially from Germany as a major export partner and forecasts for moderate FDI. On the other hand, gradual recovery of the foreign effective demand in the next two years would positively affect the traditional export sector, with a positive contribution from the export activity of automotive companies. Additional positive effect on the export is also expected from the service activities related to the new project in the road infrastructure. Consequently, the forecasts for 2024 and 2025 show a solid growth in exports of goods and services.



Source: SSO and NBRNM calculations.



Source: SSO and NBRNM calculations.

The real import of goods and services would also decline in 2023, as a result of the high base effect from the previous year due to significantly increased import for creation of inventories of raw materials and energy, which, on the other hand, were utilized in the current year, with an additional impact from the lower export which has a significant import component. The expectations for growth of both exports and domestic demand, primarily of investments related to the construction of the road infrastructure which is to be implemented by a foreign contractor, will increase the imports in the medium run. Hence, growth is also expected in imports in 2024 and 2025. Given the movement forecasts in exports and imports, the net exports in 2023 will have a positive contribution to the GDP growth, amid faster real decline in imports of goods and services than exports, while in the next two years, amid similar growth rates of both trading components, negative contribution of the net exports to the total economic growth is expected.

In accordance with the slower lending activity in the first nine months and the tightening of the monetary policy, by the **end of 2023 an annual growth of loans of 5.7% is estimated (growth of 9.4% at the end of 2022). In the medium run, gradual acceleration in the credit growth**

[89] The forecasts for public consumption are based on data from the Decision on the redistribution of funds in the Budget for 2023 from October 2023 and the Fiscal Strategy 2024 - 2028 from April 2023.

is expected, which for the period 2024 – 2026 would average 6.9%. Such forecasts are in line with the gradual acceleration in the economic growth, the stabilization of expectations and the growing confidence of economic agents. Regarding the deposits, as the main source of financing of lending activity, solid growth rates are expected in the entire period of the forecast, given the more attractive savings conditions, as a reflection of the measures undertaken by the National Bank and the increased confidence in the domestic currency, but also due to the expected growth of the households' funds. Thus, in 2023 the growth of total deposits is expected to accelerate and they would reach 8.4% (4.9% at the end of 2022), while in the period 2024 - 2026 an average growth of 7.8% is forecasted.

After the less favorable external factors which contributed to current account deterioration in 2022, the forecast for the current account deficit in 2023 shows significant downward correction, by 5 percentage points, and it would equal 1.2% of GDP. Such movements mostly resulted from significant downward correction in import prices, primarily energy, as well as the lower quantitative import of raw materials and energy, amid high inventories from the previous year. This would significantly reduce imports and adequately narrow the trade deficit on an annual basis, especially in energy. On the other hand, the commencement of large public infrastructure projects would negatively affect the service balance, due to high initial import component of these projects, causing reduction of the surplus in this category on an annual basis. In addition, some stabilization is expected in private transfers expressed in nominal amounts, thus their share in GDP would decrease on an annual basis. **The current forecast for 2024 shows slight deterioration of the current account deficit by 1.2 percentage points of GDP, to the level of 2.4% of GDP.** The expected slight increase in energy prices (that is gas and electricity), as well as higher expected import for investments and raw materials for the industry in accordance with the gradual increase in trade and normalization in the dynamics of import of goods would cause a slight widening of the trade deficit compared to the previous year. The same effect would arise from the stabilization of private transfers to the level of 2023, which assumes reduced surplus in secondary income as a share in GDP, as an additional factor for current account deterioration annually. On the other hand, solid export achievements in services will be further registered, thus from this year positive effect is also expected from the import of services related to the implementation of the road infrastructure projects, which would lead to higher surplus in this component. **On the medium term basis, the current account deficit is expected to stabilize (2.4% of GDP in 2025, i.e. 2.3% of GDP in 2026). Regarding the financial net inflows, in the period 2023-2026 they are expected to fully cover the current account deficit, thus ensuring additional reserves accumulation.** Observed structurally, most of the financial inflows on a net basis are expected in the form of foreign direct investments and long-term government borrowing. **It is important to note that throughout the forecast horizon, foreign reserves are expected to remain appropriate.**

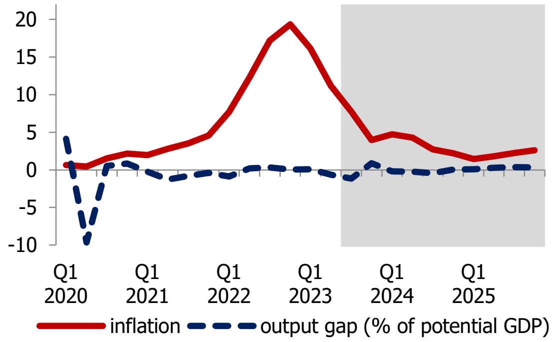
Balance of Payment forecast (% of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account	**-0.8**	**0.2**	**-3.0**	**-2.9**	**-2.8**	**-6.2**	**-1.2**	**-2.4**	**-2.4**
Balance of goods & services	-14.1	-12.7	-14.3	-12.7	-15.7	-21.2	-15.7	-15.5	-14.6
Goods, net	-17.8	-16.2	-17.3	-16.6	-20.0	-27.0	-20.6	-21.7	-21.0
Services, net	3.7	3.5	3.0	3.9	4.3	5.8	4.9	6.2	6.5
Primary income, net	-4.0	-4.2	-4.6	-3.8	-4.4	-4.4	-4.6	-4.6	-5.1
Secondary income, net	17.3	17.1	16.0	13.6	17.4	19.4	19.1	17.7	17.2
Private sector, net	16.1	16.1	15.6	12.6	16.2	18.9	18.1	17.3	16.7
Capital account	**0.2**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**1.0**	**2.0**
Financial account	**0.9**	**-4.5**	**-5.6**	**-3.9**	**-4.9**	**-7.9**	**-3.9**	**-4.1**	**-2.7**
FDI, net	-1.8	-5.6	-3.2	-1.4	-3.3	-5.1	-3.5	-3.6	-3.7
Portfolio Investment, net	0.2	-3.0	1.3	-2.6	-1.0	-0.4	-0.3	-2.0	-0.2
Other Investment, net	2.5	4.1	-3.7	0.1	-0.6	-2.5	-0.1	1.4	1.2

Source: NBRNM.

The inflation rate in 2023 is expected to slow down and from the current 10.7% as of October, it will reduce to one-digit level and average around 9.5% (14.2% in 2022). The severe drop in the world prices of primary products, the slower growth of foreign effective inflation, as well as the gradual tightening of the monetary policy contribute to the downward adjustment of domestic prices, especially of food and energy. The core inflation also registered a downtrend of the annual growth rates but in the average, it will be slightly higher for the entire year due to the late start of the downward adjustment in relation to the variable components. **Inflation would continue to slow down in the following two years and it is estimated that the average annual price growth will reduce to 3.5%, 4% in 2024 and to around 2% in 2025 - 2026**. Moreover, downward price adjustment is expected in all three components, amid assessments for predominantly further decline in stock prices of food and oil, further slowdown in foreign effective inflation and absence of significant pressures through the domestic demand and the output gap channel. Risks to the inflation forecast from the external environment are upward and are associated with the future movements in energy and food prices due to the uncertainty about the development of the war in Ukraine and the Middle East, and in the medium term, the risk of geoeconomic fragmentation and climate changes may jeopardize the supply chains, increase the world prices of food and energy and raise the price volatility. From the domestic factors, the upward risks are associated with the possible stronger wage growth than expected, with the uncertain dynamics of further increase in the regulated prices of electricity, as well as with the behavior of the domestic companies in the part of the production of and trade in food after the discontinuation of the government measures.

Inflation
(y-o-y changes, in %)



Source: SSO and NBRNM calculations.

6.3. Comparison with the previous forecast

In the latest forecasts, the macroeconomic landscape registered no significant changes regarding the economic growth trajectory and inflation slowdown for the entire forecast round, compared to the April cycle. Regarding the intensity of changes, moderate downward corrections have been made to the economic growth forecasts for this and next year, and moderate upward corrections to the inflation rate. Such changes in the assessments of the domestic economic activity, amid slightly improved performance in the first half of 2023 than expected in April, are due to lower high-frequency indicators of the activity in the third quarter and downward revisions in foreign effective demand (until the end of 2024). The inflation in 2023 is expected to slightly exceed the upper limit from the interval in the April forecast, which means a slightly higher transmission effect in 2024. This, together with the assessments for a slight decline in oil prices (energy) than previously expected, means a slightly higher inflation for 2024. On the other hand, the significantly lower price pressures, partly due to fast decline in energy stock prices, as well as the lower raw material and part of the energy imports, made a significant downward correction in the expectations for the current account deficit for 2023, while a more favorable external position compared to the previous forecast is expected in the following two years. Consequently, lower net inflows are cumulatively projected in financial account, compared to the previous forecast round.

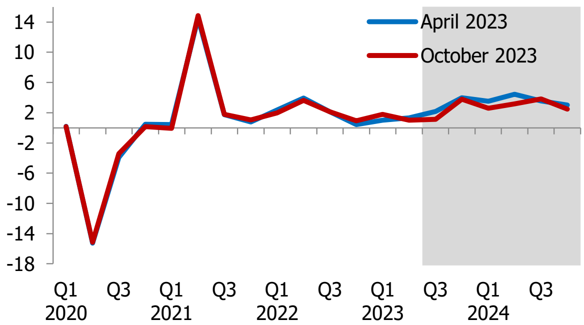
Forecast of selected macroeconomic variables

	2023 forecast		2024 forecast		2025 forecast
	Apr.	Oct.	Apr.	Oct.	Oct.
GDP, %	**2.1**	**1.9**	**3.6**	**3.0**	**4.0**
Private consumption	2.2	2.1	2.3	3.2	2.9
Gross capital formation	4.4	1.8	6.5	8.7	7.0
Public consumption	0.3	-3.3	-0.4	-3.4	2.1
Exports of goods and services	1.5	-1.3	4.1	3.9	3.2
Imports of goods and services	1.5	-3.1	3.1	4.8	3.3
Inflation	**8.0-9.0**	**9.5**	**2.4**	**3.5-4.0**	**2.0**
Current account deficit, % of GDP	**-3.6**	**-1.2**	**-3.2**	**-2.4**	**-2.4**

Source: NBRNM.

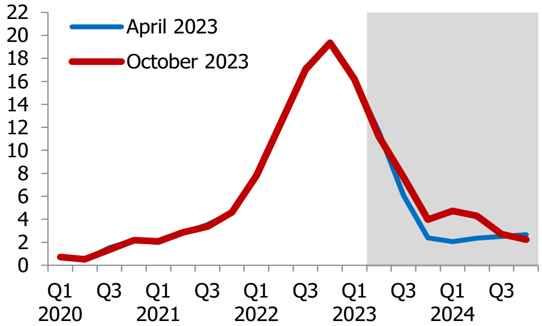
The performance in the first two quarters of this year is slightly higher compared to the April forecast, when a growth rate of 2.1% was expected for the entire 2023, supported by domestic specific factors (announced public infrastructure investments from the second quarter of 2023, mainly related to corridors 8 and 10d). However, the latest available information indicate slower realization and weaker investment stimulus from the infrastructure projects, which would partly move forward and intensify from the fourth quarter of the current year and during the following year and beyond. The external outlook is also assessed as less favorable until the end of 2024 (especially of our major trading partner Germany), amid faster decline in the prices of metals in 2023 and 2024, which would also spill over to the domestic economy, primarily to domestic production and exports. **In such circumstances, the assessments for the growth of the domestic economy are revised moderately downward for the second half of the current year and for 2024. Thus, the growth of gross domestic product would amount to 1.9% in 2023 (downward deviation of 0.2 percentage points from April), followed by an acceleration in 2024, at a slightly lower rate from the previously expected, i.e. 3% (3.6% in April). The assumption for accelerated growth remains in the medium run, i.e. increase of 4% in 2025, in accordance with the expectations for a recovery of the external environment.** Analyzing the structure, 2023 expects a slight positive contribution of the domestic demand compared to April, especially from investments due to slower implementation of infrastructure projects, which will be mostly offset by the current projected positive contribution from net exports, amid assessments for faster decline in imports than the exports of goods and services (as opposed to the negative contribution in April, amid projected growth in both categories). For 2024, larger negative contribution is expected from net exports, due to the assessments for faster growth in imports then the previously expected in April, mainly supported by the currently projected high growth in domestic demand, which results from specific factors. The private consumption suffered an upward revision due to the assessments for stronger spillover effect of the growth of real disposable income in 2023, amid assessments for lower household consumption restraint, while in investments it reflects the lower base effect, i.e. expectations for greater effect of the latest public infrastructure projects, whose weaker effect in the previous year would be partially compensated in 2024.

GDP
(y-o-y changes, in %)



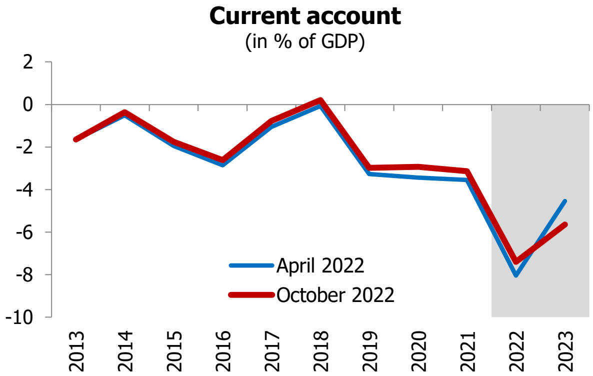
Source: SSO and NBRNM calculations.

Inflation
(y-o-y changes, in %)



Source: SSO and NBRNM calculations.

With regard to inflation rate forecasts, they maintain the path of constant downward adjustment until the end of the forecast horizon. For 2023, its further deceleration is expected at around 9.5%, which is slightly above the upper limit of the projected range from April (from 8 to 9%). In terms of individual components, the food component suffered an upward correction for 2023. On the other hand, the revisions in energy component were downward, mostly reflecting the lower performances, mainly due to the lower growth in the price of electricity than the projected in April[90], while the assessments of core inflation remained unchanged. **For 2024, the inflation is expected to further slowdown, from 3.5% to 4%, which is a slight upward adjustment compared to the April inflation expectations below 3%.** This is due to the higher transmission effect from the last year, as well as the upper correction of the assessments of world oil prices, with slight upward revisions in all three components.



Source: NBRNM.

The current forecasting cycle includes significantly lower current account deficit in 2023 compared to the April cycle, by 2.4 percentage points of GDP (1.2% of GDP, against 3.6% of GDP), primarily due to the reduced import pressures, which amid more moderate downward adjustment on the export of goods side, led to significantly lower deficit compared to the April expectations. The overall secondary income expects no significant movements compared to April. On the other hand, the higher expected newly created value by foreign-owned companies led to higher projected primary income deficit. **Improved expectations for the current account deficit are predicted for the period 2024 - 2025, thus both years expect a deficit of 2.4% of GDP, compared to the average deficit of 3% of GDP, in accordance with the April forecasts.** The favorable expectations are due to the lower expected deficit in the balance of goods and services, as a result of the reduced import pressures and higher expected balance in trade of services, which is a result of the more favorable expectations on the export side. On the other hand, the current forecast includes a slightly higher deficit in the primary income for both years, with a slightly lower surplus in the secondary income as well. **Cumulatively for the period 2023 - 2025, the financial flows expect slightly lower net inflows compared to the April forecasts,** due to the less favorable expectations in short-term components, more specifically currencies and deposits and trade credits, amid further solid expectations for net inflows

[90]The April forecasts include only the effect of the legal increase, i.e. the reversal of the VAT rate of electricity from 10% to 18%, while in July 2023 a decision to change the electricity price was adopted, which partly mitigated the effect of the increased VAT rate.

from foreign direct investments in the forecast horizon.

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

Organisation	Month of publication	Real GDP growth, %			Inflation (average rate, %)		
		2023	2024	2025	2023	2024	2025
IMF	October 2023	2.5	3.2	3.5	10.0	4.3	2.2
World Bank	October 2023	1.8	2.5	2.9	9.1	3.0	2.0
European Commission	May 2023	2.0	3.1	-	7.9	3.7	-
EBRD	September 2023	2.0	3.0	-	-	-	-
Consensus Forecast	October 2023	1.9	2.8	-	9.2	4.0	-
Ministry of Finance	April 2023	2.5	4.0	5.0	8.9	2.5	2.0
National Bank of the Republic of North Macedonia	October 2023	1.9	3.0	4.0	9.5	3.5-4.0	2.0

Source: IMF, World Economic Outlook, October 2023; World Bank, Western Balkans Regular Economic Report, Fall 2023; European Commission European Economic Forecast, Spring 2023; EBRD Regional Economic Prospects, September 2023; Consensus Forecast, October 2023; Ministry of Finance, Fiscal Strategy 2024-2028, April 2023; and the National Bank of the Republic of North Macedonia, October 2023.

VII. Analytical appendices

Annex: Assessment of the external position based on IMF indicators for the Macedonian economy, the other CESEE countries[91] and the Baltic countries

The appendix aims to show the external position of the Macedonian economy, including other economies from Central, Eastern, Southeastern Europe and Baltic countries, assessed by the IMF, as well as the change in the assessments in terms of rising uncertainty and volatility of cash, especially on the energy market and their reflection on the current account balances of economies.

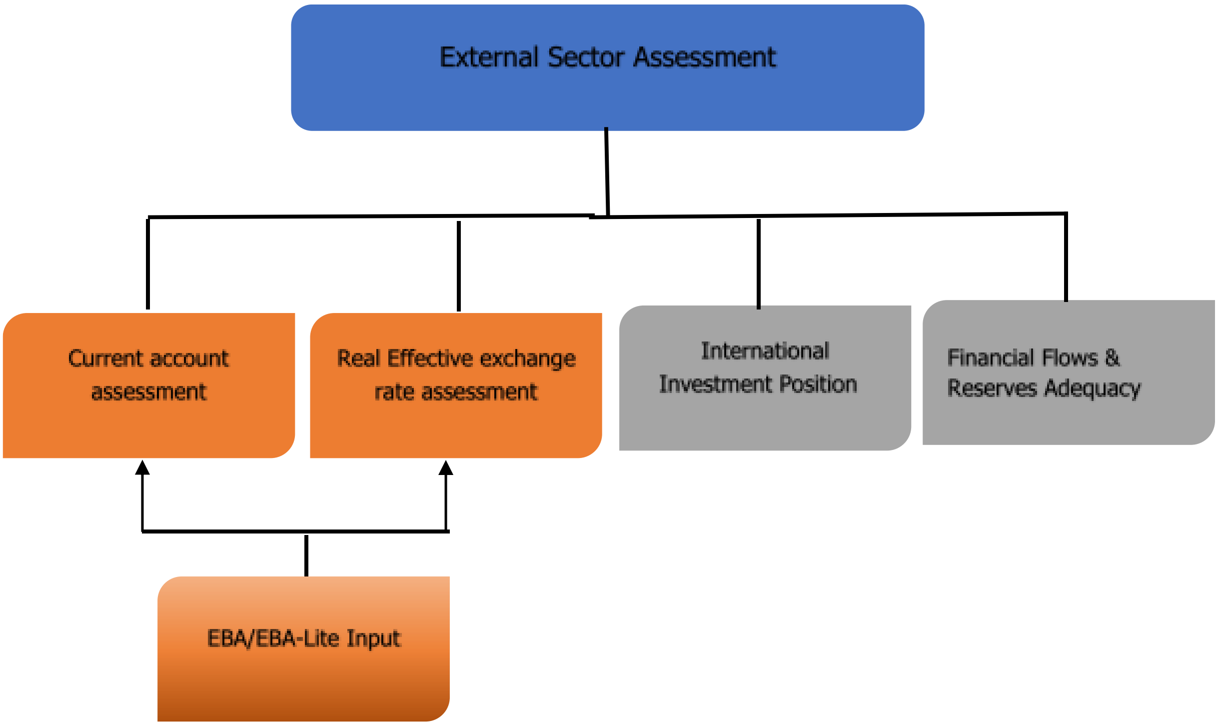
The growth of trade and financial integration, apart from numerous benefits, also carries increased risks, due to greater exposure of economies to external shocks. The resilience of the external position of economies to such shocks may be assessed through relevant analytical approaches. They basically evaluate how much certain indicators deviate from their fundamentals, whether there are certain imbalances and how serious they are. In fact, there are imbalances in the global economy as well, which are interconnected and reinforce each other. As long as they are sustainable and in the long run, they are not unwelcome and contribute to exchange of financial and other resources among surplus and deficit economics. However, several global crisis episodes show that not every external imbalance is sustainable, while amid high global integration the probability for fast spillover of crisis from one country to another is high.

The International Monetary Fund (IMF) plays a significant role in the alert for possible disruptions of the external position of countries, through the introduced framework for assessment of the countries' external indicators. As a part of this process, the IMF suggests adequate policy adjustment, to maintain the economic growth and to promote macroeconomic stability. **This appendix briefly presents the IMF assessment the external position of the Macedonian economy and part of the countries from the region in the past few years. In its regular reports (Article IV[92]), the IMF gives a descriptive assessment of the external position of Member States, based on the current account analysis, real effective foreign exchange rate, international investment position and financial flows.**

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

[92]The regular IMF Report by country-Article IV, sums up the situation in the county's economy, thus evaluating the adequacy of policies, in order to promote macroeconomic and financial stability. Reports by country-Article IV can be found on the following link: List of Recent Article IV Consultations.

Process of countries' external position assessment



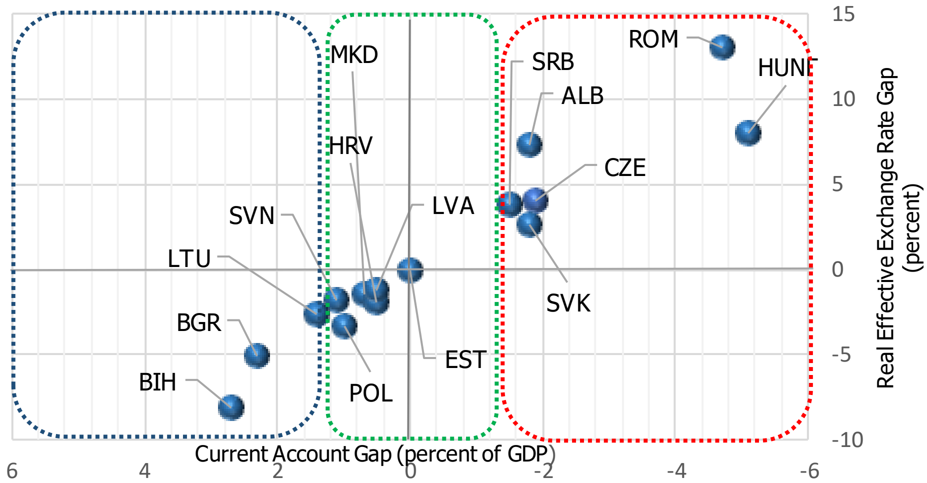
The assessment is based on the IMF's expert judgment, analytically adjusted to specific circumstances of each country, supported by a wide range of methods as part of the integrated and consistent framework of the countries' external position indicators. The methods are pillars of the developed methodology for External Balance– EBA и EBA-lite)[93] and an important quantitative input assumption in the assessment process, determining the levels of current account and real foreign currency rate, consistent with the medium-term fundamental values and desired policies of the country. Thus, current account balance which is higher (lower) than the level harmonized with the fundamentals corresponds with the positive (negative) gap in the current account. In accordance with the assessed current account gap, the positive (negative) deviation of the real effective exchange rate of fundamentals, points to overestimated (underestimated) exchange rate. In addition, **the positive (negative) deviation of the current account level and the real effective exchange rate from the level balanced with the fundamentals *may imply strong (weak) external position.*** The dynamics and size of the international investment position also indicate external vulnerability of economies. The compliance of the pace and structure of external assets and liabilities of the economy with the sustainability of its external position is assessed by the IMF on the basis of constant monitoring and analysis of the international investment position. The analysis of the other balance of payment flows completes the conclusion for sustainability of the country's external position. Furthermore, the IMF focuses on the movement of capital and financial flows, as well as the adequate level of foreign reserves, as a risk of possible disruptions in the macroeconomic and financial stability of economies.

[93] The process of assessing the countries' external position is partly based on models embedded in the External Balance– EBA and EBA-lite Methodology. The model produces the height of the current account gap (CA gap), as the difference between the current account balance (adjusted for cyclic component) and current account balance harmonized with the medium-term macroeconomic fundamentals and policies of the country, on the basis of which it produces the real exchange rate gap (REER gap). The IMF constantly improves the Methodology, harmonizing it with the latest data on fundamentals and policies and expands the list of countries included in the model assessment sample. The External Balance Assessment Methodology is applied to 52 largest economies in the world which are not exporters of goods or financial centers. The external sector assessments, for most of the IMF member countries, rely on the ЕБА-lite methodology. In addition to the standard fundamentals and policies of EBA methodology, the specification of the EBA-lite model also includes several other fundamentals, policies and assessments of possible shocks determined by the analysis of other countries included in the EBA-lite methodology. The latest changes in the specifications of the External Balance Assessment methodologies EBA and EB- lite can be found in the working papers on the following links: 2022 Update of the External Balance Assessment Methodology и The Revised EBA-Lite Methodology.

On the basis of the Framework for external position assessment, **the IMF assesses the external position of the Macedonian economy in 2021 as sustainable, with no specific deviations of the current account and real effective exchange rate from the values of medium-term macroeconomic fundamentals and policies**, also confirmed with the low level of the current account and real exchange rate gap. **This means that the exchange rate of the denar is in line with the fundamentals, i.e. there are no signs of overestimation or underestimation.** In addition to the domestic economy, countries with **assessed** external position in line with the macroeconomic fundamentals also include the Czech Republic, Poland, Croatia, Estonia and Latvia**.** The sound fundamentals and policies classify the external position of Bulgaria, Bosnia and Herzegovina, Slovenia, and Lithuania as **strong external position**, whereby the IMF assesses positive deviations of the current account and real exchange rate from the balanced levels.[94] According to the external sector indicators, the IMF assesses the other CESEE countries, Hungary, Romania, Serbia, Slovakia and Albania as countries with **weak external position.** Therefore, the quantitative assessment of these countries' external position, amid negative gap in the current account and overestimated real exchange rate, points to the need for improving the economic policies in order to increase the resilience of the external position.

[94] The external position of the countries for which the 2022 report have not yet been published at the time of writing this appendix, was classified on the basis of the latest published report for the analyzed country.

Chart 1 The Current account gap (CA Gap) and the real exchange rate gap (REER Gap) based on the assessments of the EBA Model -deviation from the assessed balanced level



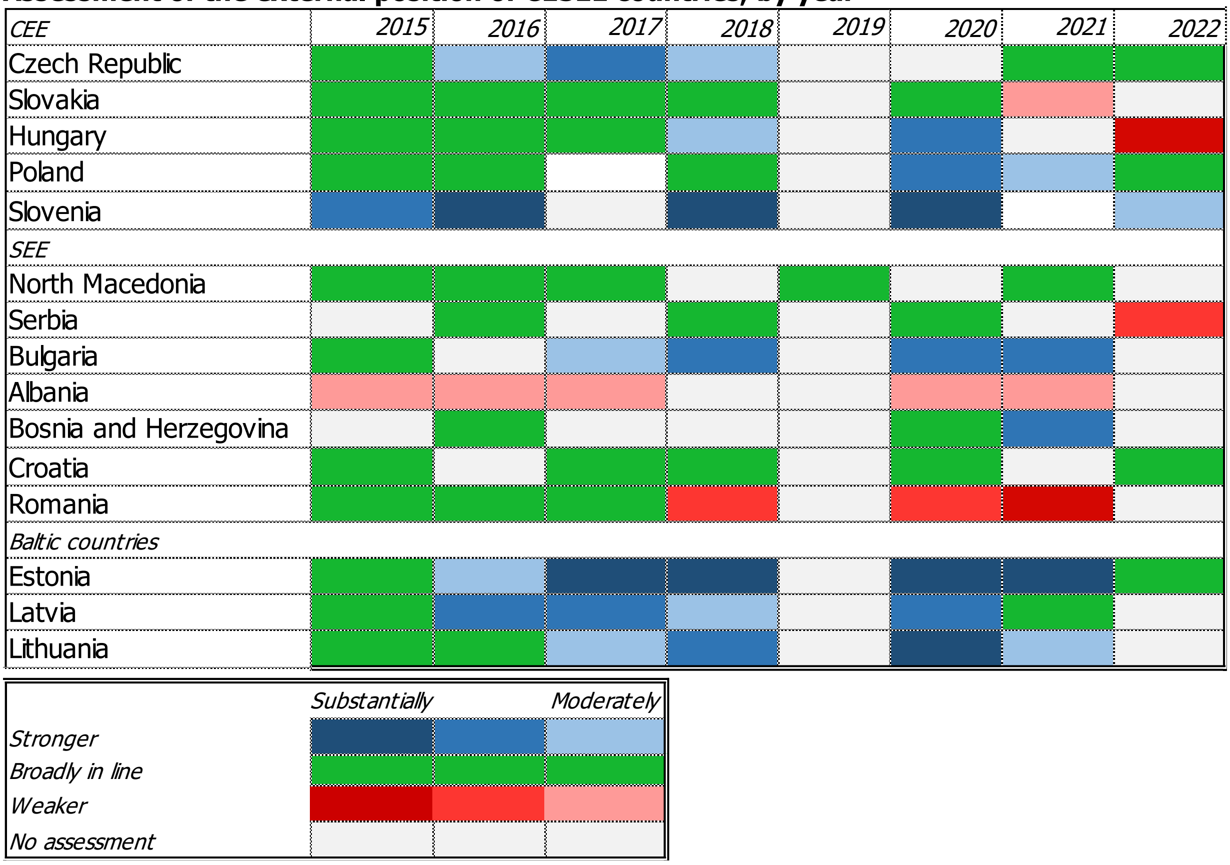
CA GAP	*REER GAP*	
>4%	<-20%	*Substantially stronger*
2%, 4%	*"-20%, -10%*	*Stronger*
1%, 2%	*"-20%, -5%*	*Moderately stronger*
"-1%, 1%	*"-5%, 5%*	*Broadly in line*
"-2%, -1%	*"5%, 10%*	*Moderately weaker*
"-4%, -2%	*"10%, 20%*	*Weaker*
<-4%	*>20%*	*Substantially weaker*

Source: Latest IMF reports (Article IV) by country.

The external position of the domestic economy is continuously assessed as mostly in line with the medium-term macroeconomic fundamentals and policies. The high trade and financial openness of the Macedonian economy creates challenges in various segments of the economy due to sudden economic disruptions. **The latest report on the Macedonian economy for 2021 (Article IV), concludes that the external position of the country is balanced in relation to the main macroeconomic fundamentals.** The IMF continuously confirms that the level of the real exchange rate shows no significant deviations from the trajectory of balance with the fundamentals. Also, it assesses the level of foreign reserves as entirely adequate, in line with the monetary strategy. The structure and size of the capital and financial flows are assessed as solid support for the country in dealing with external shocks, which points to adequate policies for capital flows. The report indicates moderate, yet sustainable weaknesses in current account and net debt position of the country. Thus, it points out that the shift in the current account balance mostly results from the deepening of the trade deficit, which indicates a vulnerability of the domestic economy to global developments. The report highlights the increased import prices and disrupted supply chains in the automotive industry as main factors of the deteriorated external trade position. On the other hand, the IMF points out the importance of inflows of private transfers and their role in financing the current account. It also points out that the size of the negative international investment position indicates possible risks, but the high structural share of liabilities based on direct investments as a form of financing foreign capital companies mitigates the risk profile in relation to the debt position of the economy.

The period following the COVID-19 pandemic is a turning point for the global economy, which is evident from the changes in the category which includes the external position of some of the CESEE countries in the past few years. The war in Ukraine hampered the post-pandemic recovery of the economies and caused new shocks with similar economic consequences. The already disrupted supply chains, followed by increased production costs due to the rising prices of energy at the end of 2021, led to price pressures, with various intensity across the sectors of the economy. In conditions of inflationary increase, central banks increased interest rates globally, which led to rising costs for financing the international financial markets, thus increasing the vulnerability of the economies to external shocks.

Assessment of the external position of CESEE countries, by year



Source: MF reports (Article IV) by country.

Analyzing regions, the Baltic countries maintain the level of stable and sustainable external position in line with the macroeconomic fundamentals, in the last few years. Thus, in the latest IMF report on Estonia[95], the external position for 2022 is assessed as moderately worsened, yet sustainable, and in line with the medium-term macroeconomic fundamentals. Unfavorable external factors reflected the external position of Estonia, reducing its competitiveness, which is evident through the lower exports of goods and appreciation of the real effective exchange rate. **In the latest reports on several analyzed countries (Article IV),** the IMF points out the changes in the external position indicators for 2022, especially pronounced in the current account, due to deteriorated trade balance. **Most of the countries registered worsened external position for 2022 into lower category,** except the Czech Republic[96] and Croatia which maintained the balanced level of external position with the fundamentals, as well as Slovenia which remained in the category of strong external position. A significant unfavorable deviation of the external position level from the level harmonized with the fundamentals and policies, was noted in Hungary and Serbia, which was partially assessed from the increased current account gap, implicating current account below the level harmonized with the fundamentals. The shocks in the trade terms and conditions, coupled with the rising prices of energy and food, the disruptions in the supply chains and lower external demand, shifted the external position of ***Hungary*** to significantly weak, after multiple years of strong external position. The latest IMF report on Hungary (Article IV in 2023) shows the deepening of the trade deficit and rising need for external

[95]The Regular IMF report (Article IV) on Lithuania and Latvia for 2022 has not been published yet at the time of writing this appendix.

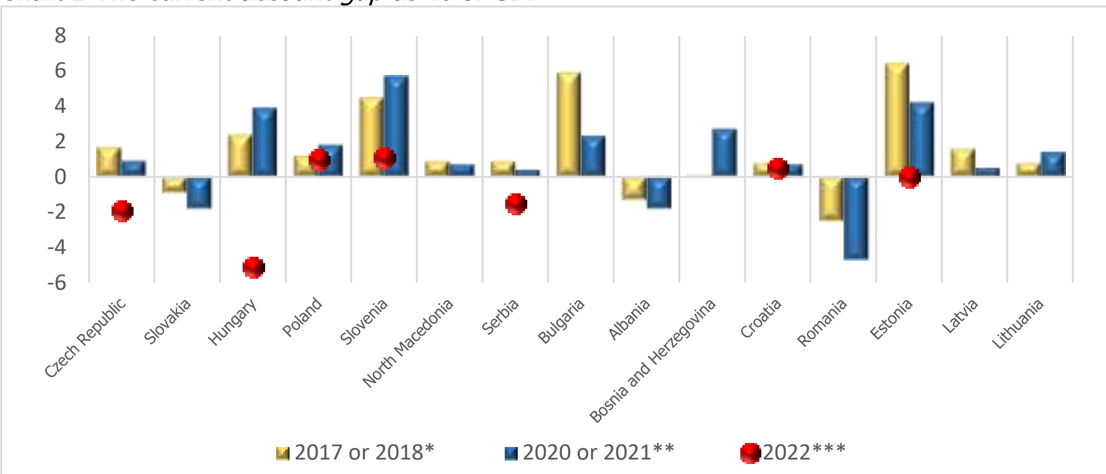
[96]The current account assessment model of the Czech Republic points to a current account balance which is below the balance consistent with the fundamentals, for 2022, but the overall assessment is based on other external position indicators, which was generally assessed in line with the fundamentals.

financing, highlighting the risk of further worsening of external trade. A pronounced change in the external position category for 2022 was also registered for ***Serbia.*** The strong price growth of energy, coupled with domestic disruption in production of electricity, increased the need for external financing, shifting the stable external position of Serbia in the category of weak external position. The external position of the other countries, for which the 2022 report has not been yet published, is classified on the basis of the latest report published on the analyzed country and in accordance with the increased global risks, expects deteriorated external positions in most of the countries from the region. The effects of the worsened global market conditions, primarily on the energy market were felt in the domestic economy as well. In 2022, there was a deepening of the current account deficit on an annual basis, caused by the increased trade deficit influenced by the energy component. On the other hand, despite the worsened global environment, net inflows of foreign direct investments in 2022 reached the historic record high, thus, together with the rest of the net inflows in the financial account, enabled full financing of the current account deficit and at the same time increase in foreign reserve, partially balancing some of the increased imbalances in current transactions, With the normalization of the market prices, the movements in the first half of 2023 were favorable , thus significantly improving the current account balance, amid significantly reduced trade deficit and favorable performances in energy component.

Stronger than Implied by Fundamentals*		
Slovenia		
Broadly in Line with Fundamentals		
Poland		
Estonia		
Czech Republic		
Croatia		
Weaker than Implied by Fundamentals		
Hungary		
Serbia		

* Evolution of External Sector Assessments, 2020 or 2021 and 2022 for those countries that Article IV is published with the external sector assessment for 2022

Chart 2 The current account gap as % of GDP



Source: Latest IMF reports (Article IV) by country.
*Data on the current account gap for the countries without external position assessment for 2017, were taken from the external position assessment report for 2018.
**For the countries without external position assessment for 2020, data on the current account gap level were taken from the external positions assessment report for 2021.
***Data on the current account gap level for 2022 were taken from external position assessment reports for 2022 for the countries for which they were published at the time of writing this appendix.

In the latest External Sector Report[97], the IMF wrote about the development of global economic factors, from the COVID-19 pandemics, through the war in Ukraine, as well as the policies that need to be taken, to avoid unsustainable imbalances in the external position of economies. Most of the countries

[97] The IMF prepares and publishes the External Sector Report annually. The report sums up the global events and their impact on the countries' economies, thus assessing the external position of the world's largest economies. For the external sector report for 2022, as well as its previous editions, visit the following link: IMF External Sector Reports.

included in the regular IMF report on the situation in the economies for 2022 have shifted their external position into lower category.

The indicators underlying the IMF external position assessment point to increased risk to sustainability of the Macedonian external position, although it is worth mentioning that the assessment period is as of 2021. The IMF continuously confirms the absence of significant deviations in the external position of the Macedonian economy from the macroeconomic fundamentals, amid prudent macroeconomic policies which enabled appropriate level of foreign reserves, balanced real exchange rate, with moderate weaknesses in the current account and international investment position of the country.

The uncertainty around the geopolitical escalation remains as a risk factor which can further disrupt global trade and cause turmoil in the financial sector. The persistence of the high prices of goods, the risk of new disruptions in supply chains, the intensive tightening of financial conditions, worsen the economic prospects and pronounce the need for coordinated and prudent macroeconomic and structural policies which will increase the resilience of the countries' external position.