



SHORT-TERM ECONOMIC TRENDS

June 2021



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SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

June 2021

- Industrial production surged by 9.5% in June 2021 compared to the same month last year;
- Consumer prices in June 2021 recorded more moderate annual growth of 2.7%;
- Export in the period January - June 2021 surged by 39.1%, while import grew by 38.7%, resulting in increase of the trade deficit by 37.7% compared to the same period in 2020;
- In the period January - June 2021, total budget revenues reached an amount of Denar 101,069 million, i.e. 14.3% of GDP, showing higher performance by 15.6% in relation to the same period in 2020;
- Total budget expenditures amounted to Denar 116,766 million in the period January – June 2021, i.e. they accounted for 16.5% of GDP, being higher by 3.0% compared to the same period in 2020;
- Total credits of banks in June 2021 grew by 5.1% compared to June 2020, while total deposit potential of banks surged by 6.8%.

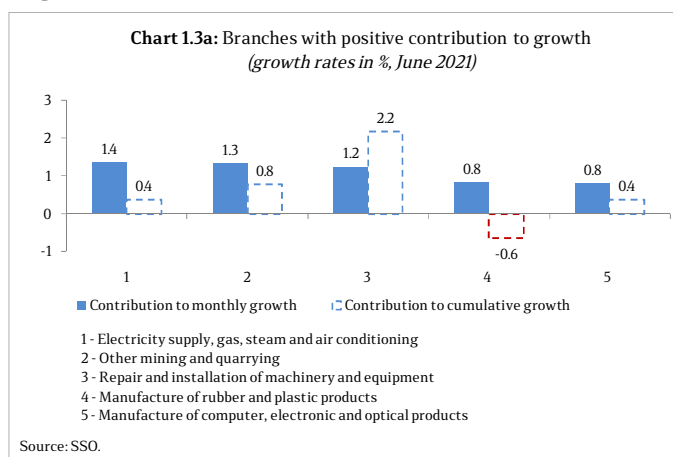
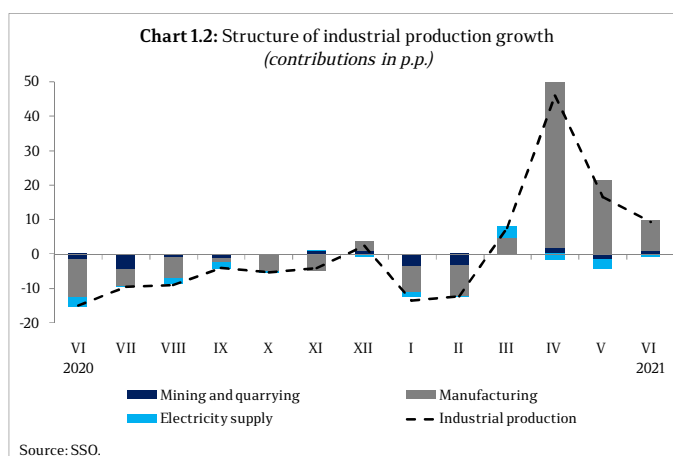
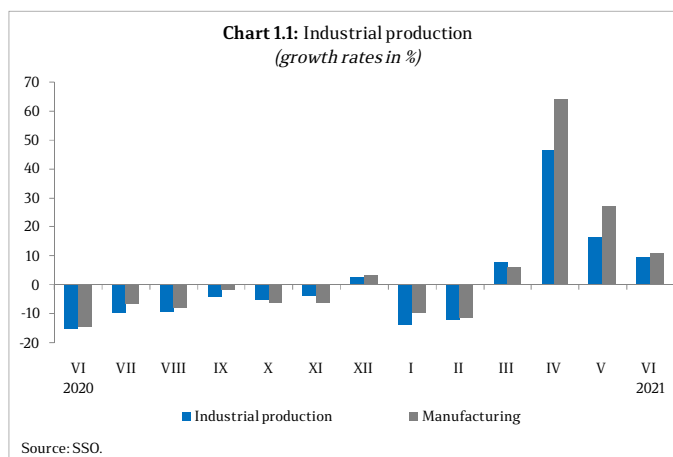


1. REAL SECTOR

Industrial Production

Industrial production surged by 9.5% in June 2021 compared to the same month last year. Growth in June 2021 was a result of the increased production in Manufacturing by 10.8% (contribution by 8.6 p.p.), and Mining and quarrying by 9.9% (contribution of 1.1 p.p.), while Electricity, gas, steam and air conditioning sector dropped by 8.0% (contribution of -0.8 p.p.).

In June 2021, growth in production was registered at 21 out of total of 27 industrial branches, comprising 77.7% in the total industry. As for branches with higher value added, increase in Manufacture was observed at electrical equipment by 34.5% and contribution of 1.2 p.p., machinery and equipment by 9.8% and contribution of 0.6 p.p., fabricated metal products by 12.9% and contribution of 0.5 p.p., as well as motor vehicles by 2.7% and contribution of 0.3 p.p.. As regards traditional branches, in June 2021, Manufacture of furniture surged by 85.5% and contribution of 1.4%, Manufacture of wearing apparel surged by 10.4% and contribution of 0.8 p.p., Manufacture of tile picked up by 15.5% and contribution of 0.7 p.p., Manufacture of tobacco goods grew by 29.1% and contribution of 0.5 p.p., while Food industry recorded minimum growth of 0.9% and contribution of 0.1 p.p.. As for branches with significant contribution, drop was seen at Manufacture of pharmaceutical products and preparations by 23.8% and contribution of -0.9 p.p., as well





as Mining of metal ore by 1.2% and contribution of -0.1 p.p..

Increase of production, according to the purpose of production units in June 2021 was mainly a result of the increased production of Intermediary goods by 25.4% (contribution of 7.9 p.p.), Non-durable consumer goods industry by 13.7% (contribution of 4.6 p.p.) and Durable consumer goods industry by 52.9% (contribution of 1.1 p.p.).

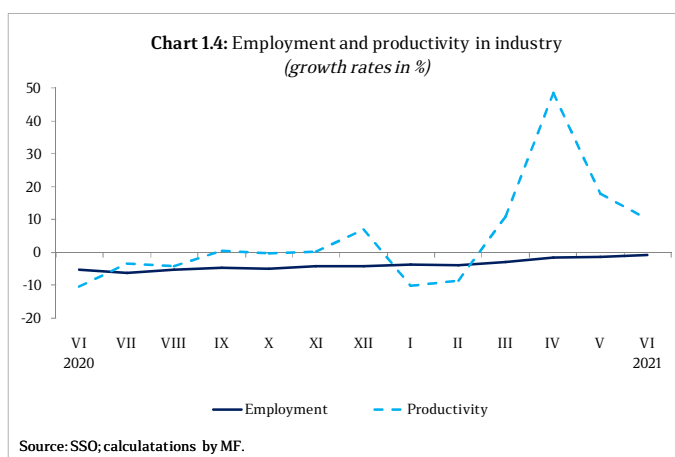
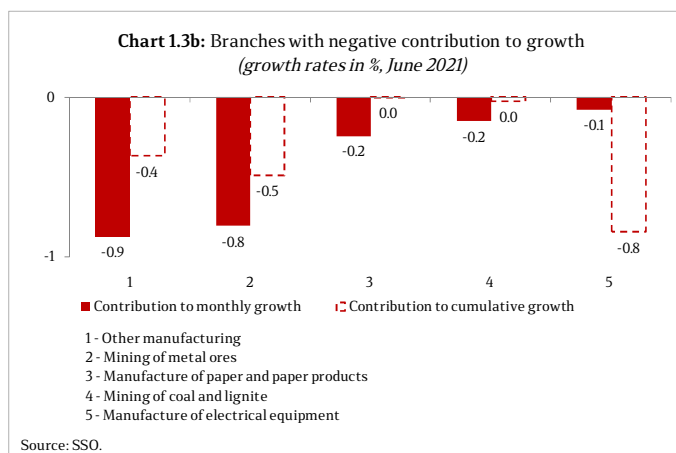
On cumulative basis, industry in the first half of the year, experienced 6.6% growth, which was a result of the increased production in Manufacturing by 10.9% and contribution of 8.6 p.p., while Mining and quarrying dropped by 9.1% and contribution of -1.0 p.p., with Electricity, gas, steam and air-conditioning supply sector dropping by 4.9% and contribution of -0.5 p.p.. As regards industrial branches, Manufacture of machinery and equipment (54.1% growth), Repair and installation of machinery and equipment by 2.2 p.p., recording 60.5% growth, as well as Manufacture of motor vehicles (11.5% growth) contributed the most to the growth.

According to the purpose of production units, growth in the period January – June 2021 was mostly a result of the growth of production in the following branches: Intermediary goods industry, except energy by 21.1% (contribution of 6.6 p.p.), Non-durable consumer goods industry by 7.5% (contribution of 2.5 p.p.) and Capital goods by 9.4% (contribution of 2.0 p.p.).

Number of Employees in the Industry

In June 2021, number of employees in the industry decreased by 0.7%. Such decline was due to the reduced number of employees in all sectors, as follows: Mining and quarrying by 7.2%, Electricity, gas, steam and air-conditioning supply by 2.6% and Manufacturing industry by 0.1%. However, certain branches recorded employment increase, such as Repair and installation of machinery and equipment by 28.6% and Manufacture of fabricated metal products, recording 13.0% growth.

Data on the number of employees in the industry by target groups in June 2021 compared to the same period last year, showed that decrease in the number of





employees was recorded at Energy and Non-durable consumer goods industry, being most evident at Non-durable consumer goods industry, decreasing by 5.1%.

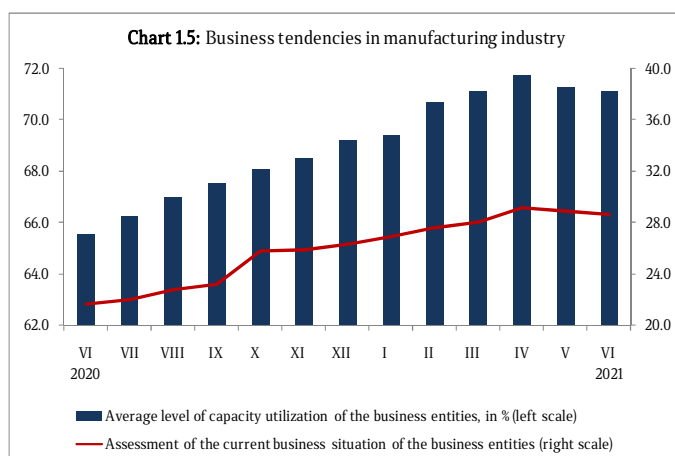
Cumulative data show that number of employees in the industry in the period January – June 2021 dropped by 2.4% as a result of the decreased number of employees in all sectors, i.e. Mining and quarrying by 7.0%, Electricity, gas, steam and air-conditioning supply sector by 2.9% and Manufacturing by 2.0%.

As for target groups, number of employees in the industry in the first half of 2021 was reduced at Energy, Intermediary goods and Non-durable consumer goods industry, while the drop was most evident at the group Non-durable consumer goods industry of 4.3%.

Business Tendencies in Manufacturing

Economic situation of business entities in June 2021 was more favourable compared to May 2021, as well as in relation to the same month in 2020.

Average utilization of capacities of business entities in June accounted for 71.1% of the regular utilization, being a decrease compared to the previous month, when it accounted for 71.3%. On annual basis, utilization of the capacities was higher by 5.6 p.p..

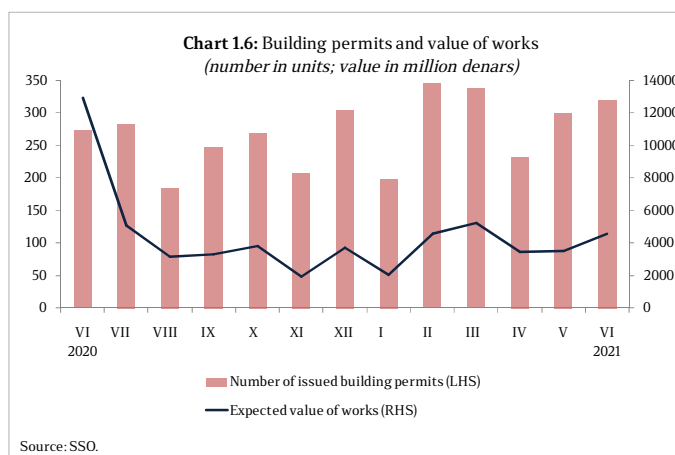


Following factors limited the most the production volume in June: insufficient foreign demand with 20.7%, uncertain economic environment with 14.9%, shortage of skilled labour with 16.6%, insufficient domestic demand with 15.2%.

As regards the volume of production orders in June 2021, it was more favourable compared to May 2021, it is expected for the production volume in the next three months to be less favourable, while stocks of finished products increased on monthly basis.

Number of Issued Building Permits and Expected Value of Works

In June 2021, 320 building permits were issued in total, increasing by 17.2% compared to June 2020. Compared to the previous month, number of issued building permits



Source: SSO.

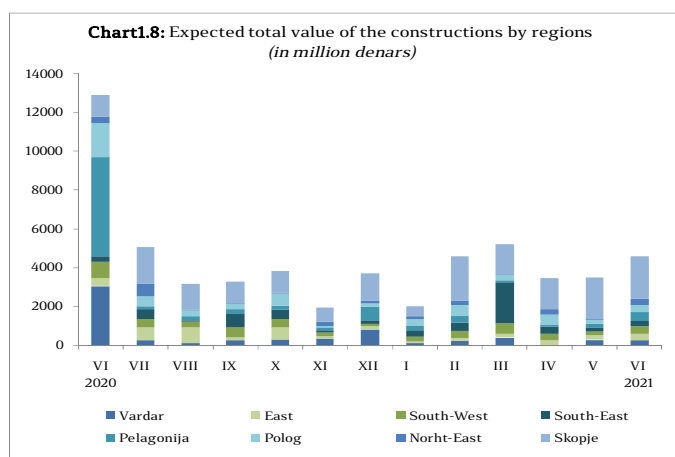
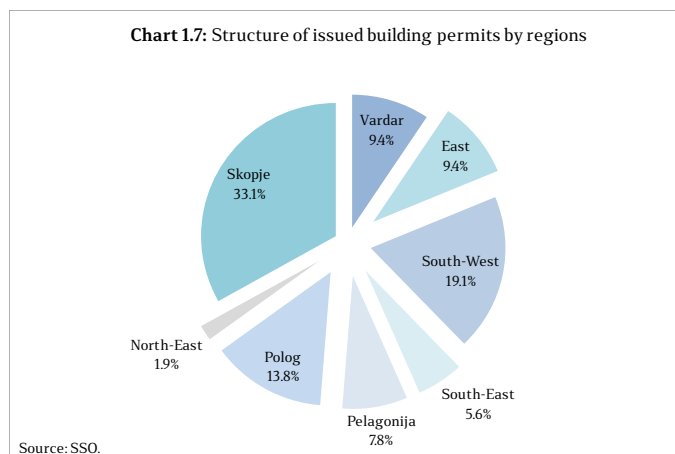


increased by 6.7%. Expected value of works, according to the issued building permits in June 2021, declined by 64.6% compared to the same month in 2020, increasing by 30.8% on monthly basis.

Analyzed by types of constructions, out of the total number of issued building permits, 191 (or 59.7%) were intended for buildings, 43 (or 13.4%) for civil engineering structures and 86 (or 26.9%) for reconstruction.

Analyzed by types of investors, out of total 320 issued building permits, individuals were investors in 164 facilities (or 51.3%), while business entities were investors in 156 facilities (or 48.7%).

In June 2021, construction of 639 flats was envisaged, with total usable area of 61,828 m². Number of flats envisaged for construction grew by 3.9% on monthly basis, while increasing by 23.1% on annual basis.



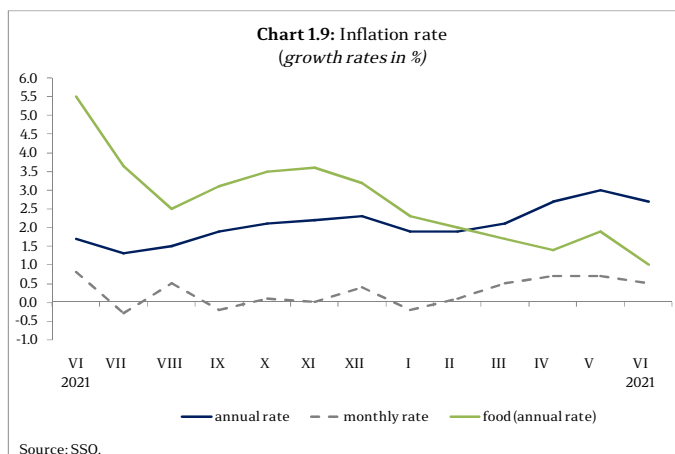
Inflation

Consumer prices in June 2021 recorded more moderate annual growth of 2.7%, prices recorded increase in many categories, among which highest growth was recorded at prices of energy, as well as increase of the basic inflation rate. In the course of the previous month, consumer prices surged by 3.0% on annual basis. Inflation rate in the first six months of 2021 accounted for 2.4%. Inflation rate in 2021 is expected to remain stable and within the projections, however, there is still evident uncertainty from the trends of global prices of primary commodities in the upcoming period, as result of the COVID-19 pandemic.

In June, inflation rate in the Eurozone picked up, accounting for 1.9% on annual basis. Price increase was mainly a result of the more significant growth of prices of energy by 12.5% (13.1% in May), followed by the increase of prices of non-energy industrial goods by 1.2%, services by 0.7% and food, alcohol and tobacco by 0.6%.

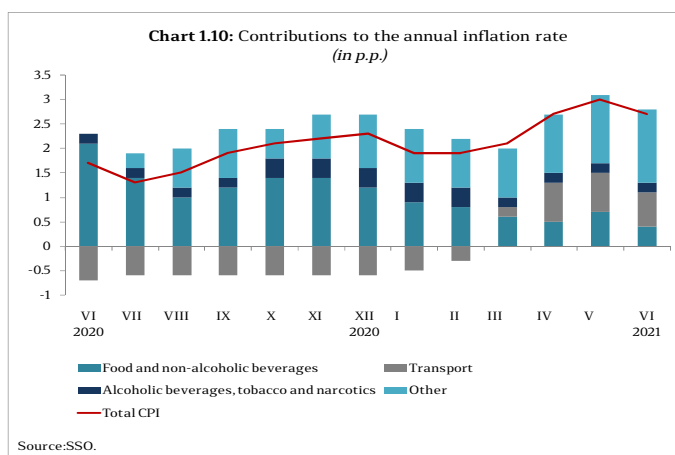


Prices in the Food and non-alcoholic beverages category, having the highest share in the CPI index, experienced 1.0% increase in June 2021 on annual basis. Slowed down growth rate of food prices was a result of the reduced prices of Fruit (-3.5%) and Vegetables (-5.3%) due to the seasonal effects on prices, while increased prices of Oil (30.8%) had the highest contribution to the price increase.



Highest annual increase of prices in June 2021 was recorded at category Transport by 9.3%, followed by the increase of prices in the categories Restaurants and hotels by 6.3%, Housing, water, electricity, gas and other fuels by 4.3%, Alcoholic beverages, tobacco and narcotics by 4.0%, Recreation and culture by 3.2%, Health protection by 3.0%, Miscellaneous goods and services by 1.6%, Furnishings, household equipment and routine maintenance of the house by 1.4%, Clothing and footwear by 0.9% and Education by 0.1%. Drop on annual basis was recorded in the category Communications by 0.5%.

Consumer prices in June increased by 0.5% on monthly basis (during the previous month, consumer prices grew by 0.7%), increase of prices was a result of the seasonal increase of prices of fruit, as well as the increase of prices of restaurants and hotels. Monthly price growth was also recorded at the following categories: Transport by 3.1%, Restaurants and hotels by 1.3%, Miscellaneous goods and services by 0.4%, Food and non-alcoholic beverages by 0.3% and Recreation and Culture and Health protection by 0.1% each. Prices at the other categories remained unchanged.



Retail prices in June 2021 were higher by 4.0% compared to the same month last year, while on monthly basis, retail prices grew by 0.9%.

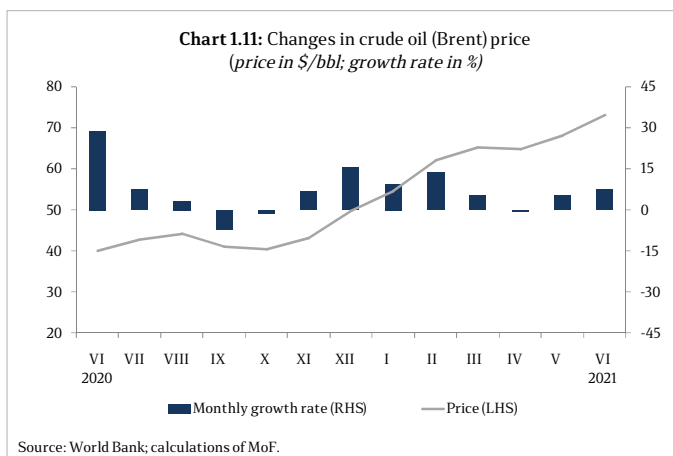
Stock Market Prices

In June 2021, crude oil price (Brent) on the global stock markets grew by 7.4% compared to the previous month, reaching the price of US\$ 73.1 per barrel, thus reaching the level before the pandemic outbreak. In the course of 2020, the industry and the economic activity throughout the world were severely hit by the containment measures, aimed at



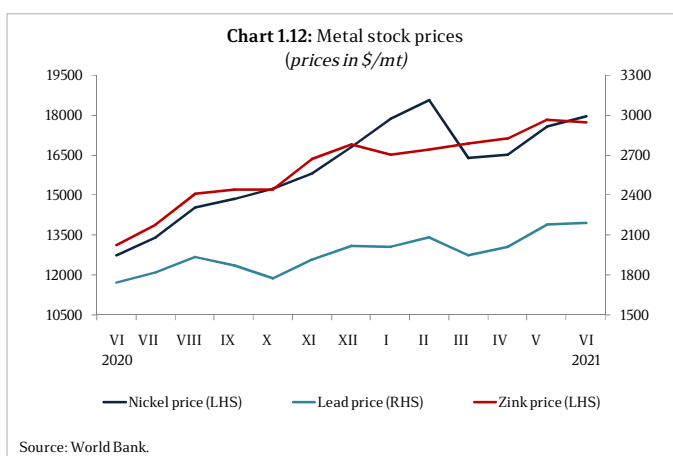
preventing the COVID-19 spread. Therefore, in April 2020, oil prices reached the trough, followed by an upward trend in general, which remained by the end of Q1 2021. Oil price was by 83% times higher on annual basis.

Price of natural gas at the end of 2019 started to record downward trend until the beginning of the third quarter of 2020, when its price started to gradually increase. Upward trend continued by March 2021, when the price registered sharp monthly decrease, getting back on the growth trajectory in April, registering 13.5% growth in June on monthly basis.



Similar to the oil price trajectory, price of nickel recorded an upward trend after reaching the trough in April 2020, amid a gradual recovery of industrial activity, a trend that was halt in March 2021, when nickel price experienced a monthly decline, followed by the upward trend of the price. In June, price of nickel on monthly basis recorded 2.3% growth rate. In June, prices of base metals recorded slowed down monthly increase, while some of them observed a decrease in their prices. Thus, price of tin was higher by 0.8%, copper price experienced 5.2% drop, price of lead recorded 0.4% growth, price of aluminium picked up by 0.5%, while price of zinc declined by 0.5%. In June 2021, price of iron ore increased by 3.2% (15.5% growth was recorded in May) compared to May 2021.

As for precious metals, gold in August 2020 reached the highest price on global stock markets in history, followed by downward price trend, until the end of the year. In 2021, price of gold recorded periodic movements, experiencing a monthly increase at the beginning of the year, following by its drop in February and March, increasing again in April and May, while in June 2021, price of gold dropped again by 0.8%. The monthly decreasing trend of the gold price was followed by other precious metals, i.e. the price of silver decreased by 1.9%, while the price of platinum dropped by 7.4%. Some of the reasons for drop in prices of precious metals were the appreciation of the dollar, as well as the change of the interest of investors.



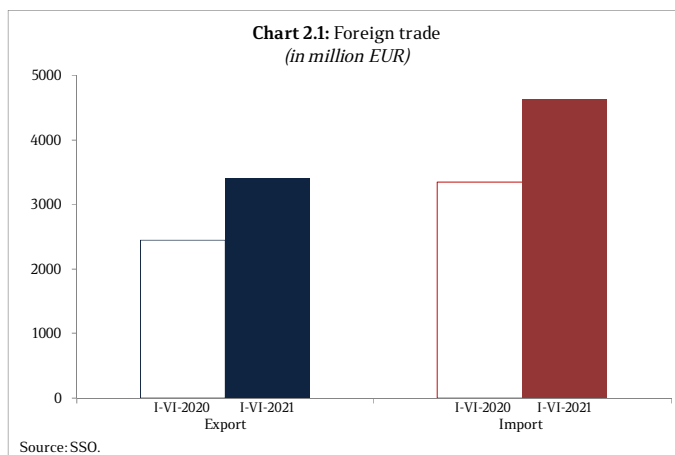


In June 2021, price of maize on global stock markets dropped by 4.4%, while price of wheat increased by 1.5% on monthly basis.

2. FOREIGN TRADE

Total foreign trade in the first half of 2021 amounted to EUR 8,050.5 million, surging by 38.9% compared to the same period last year.

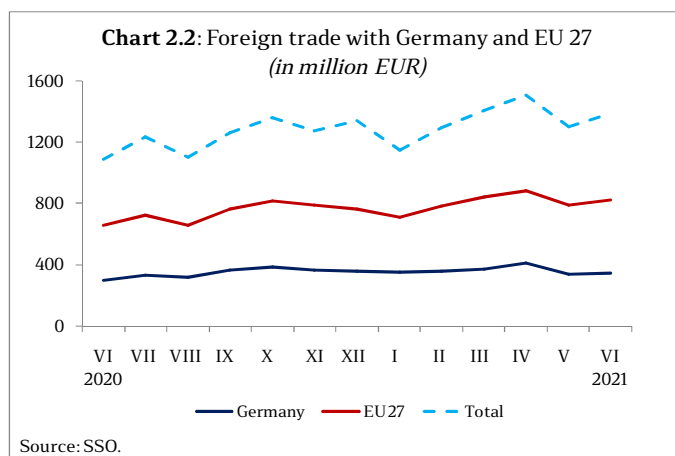
In the period January - June 2021, share of trade with the EU (EU 27¹), as the largest trading partner, decreased by 0.2 p.p. compared to the same period last year, accounting for 59.9%. Germany is the major trading partner to our country. As for total foreign trade structure of our country, share of the trade with Germany in the first half of 2021, accounted for 27.0%, increasing by 2.6 p.p. compared to the same period in 2020.



Export

In the period January - June 2021, value of imported goods amounted to EUR 3,409.0 million, surging by 39.1% (EUR 958.7 million) compared to the same period in 2020, while physical output of import grew by 16.1%.

Value of exported goods amounted to EUR 583.8 million in June 2021, surging by 18.7% (EUR 91.8 million) compared to the same month of the previous year, while physical output of export increased by 3.4% compared to June 2020.



Analyzed on monthly basis, in June 2021, export grew by 6.7% (EUR 36.7 million), compared to the previous month, and, should export be seasonally adjusted, it registered monthly increase of 6.4%, showing positive effects of the seasonal factor (0.3 p.p.) on export this month.

¹Starting June 2020, Great Britain is included in the economic group of countries - Miscellaneous countries

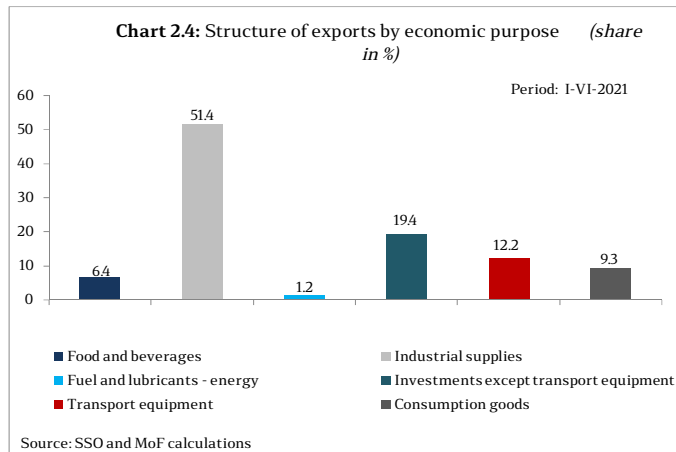
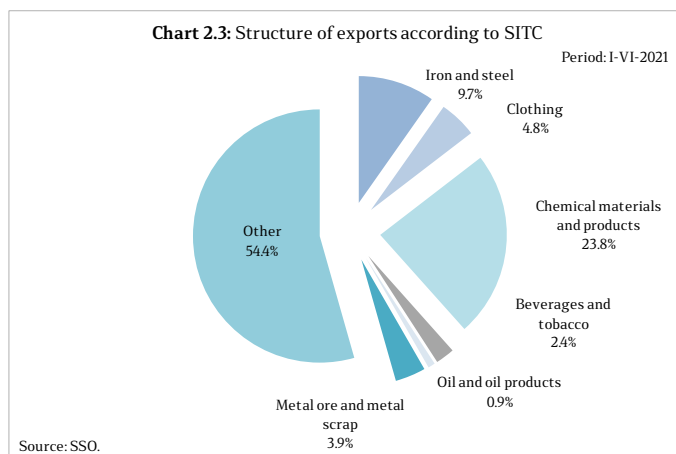


Main group of products (according to SITC²) being most exported in the period January-June 2021 were the following: chemical materials and products, iron and steel, clothing, metal ore and metal scrap, beverages and tobacco and oil and oil products. These six groups of products comprised 45.6% of the total export of the country.

Analyzed according to the economic groups³ of countries, in the period January - June 2021, compared to the same period in 2020, export grew at the following groups: EU 27, EFTA, Western Balkans, North American Free Trade Zone and Commonwealth of Independent States, while drop was seen at the following groups: Organization of Petroleum Exporting Countries and Asia-Pacific Economic Cooperation. Export to EU 27 grew by 45.2% annually, while export to Western Balkan countries increased by 23.7%, whereby export of goods to EU 27 and the Western Balkan countries accounted for 79.6% and 10.4%, respectively in the total export from the Republic of North Macedonia.

Import

In the period January - June 2021, value of imported goods amounted to EUR 4,641.5 million, surging by 38.7% (EUR 1,295,8 million) compared to the same period in 2020, while physical output of import grew by 11.3%.



²Standard International Trade Classification

³Economic groups cover the following countries: EU 27 (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Latvia, Malta, Netherlands, Poland, Portugal, Romania, Sweden, Slovenia and Slovakia); EFTA (Switzerland, Iceland, Liechtenstein and Norway); Organization of Petroleum Exporting Countries (United Arab Emirates, Angola, Algeria, Ecuador, Iraq, Iran, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia and Venezuela); Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Kosovo and Serbia); North American Free Trade Agreement (Canada, Mexico and USA); Asia-Pacific Economic Cooperation ((Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Mexico, Malaysia, New Zealand, Peru, Papua New Guinea, Philippines, Russia, Singapore, Thailand, Taiwan, USA and Vietnam) and Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Kyrgyzstan, Kazakhstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan).



In June 2021, import value amounted to EUR 805.5 million, surging by 34.8% (EUR 207.8 million) compared to the same month in 2020, while imported quantities of goods grew by 27.6%.

Analyzed on monthly basis, in June 2021, import grew by 6.9% (EUR 51.9 million), compared to the previous month, and, should export be seasonally adjusted, it registered monthly increase of 3.6%, showing positive effects of the seasonal factor (3.3 p.p.) on import this month.

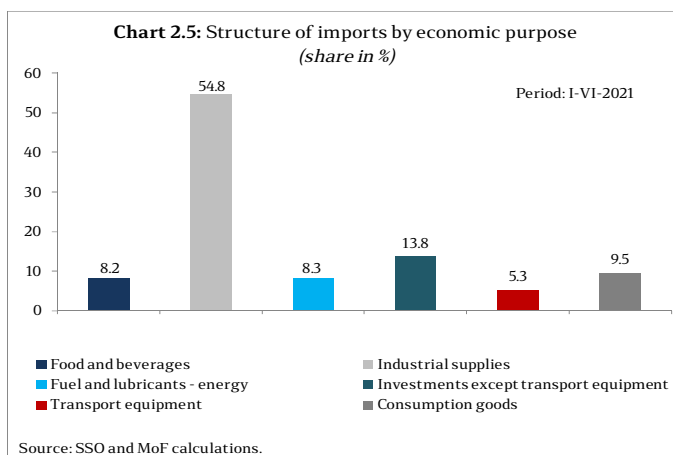


Table 2.1. Review of export and import of selected groups of products

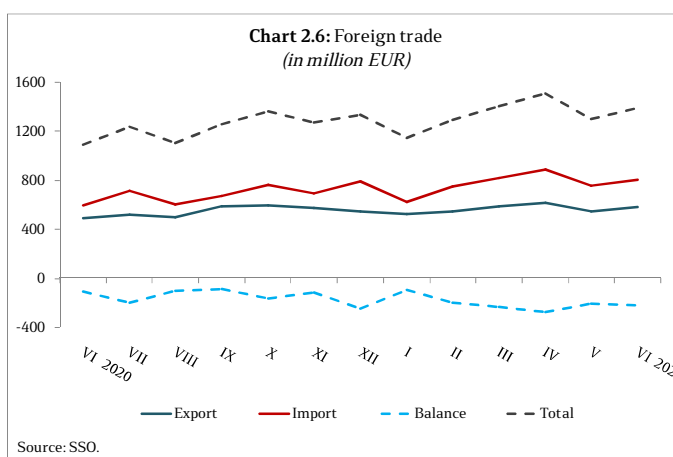
Export of chemical products*)					Import of chemical products*)				
	I-VI-2020	I-VI-2021	Balance	% rate		I-VI-2020	I-VI-2021	Balance	% rate
000 T	29,9	42,9	13,1	43,8	.000 T	14,7	18,0	3,3	22,4
EUR mil.	429,0	812,8	383,8	89,5	EUR mil.	83,8	113,6	29,7	35,4
\$ mil.	475,0	980,0	504,9	106,3	\$ mil.	92,6	136,8	44,2	47,8
*)Previous data					*)Previous data				
Export of iron and steel*)					Import of iron and steel*)				
	I-VI-2020	I-VI-2021	Balance	% rate		I-VI-2020	I-VI-2021	Balance	% rate
000 T	347,0	354,8	7,8	2,3	.000 T	375,9	354,2	-21,7	-5,8
EUR mil.	264,2	332,3	68,1	25,8	EUR mil.	174,8	229,0	54,3	31,1
\$ mil.	291,1	400,5	109,3	37,6	\$ mil.	192,6	275,8	83,2	43,2
*)Previous data					*)Previous data				
Export of electrical machines and spare parts*)					Import of electrical machines and spare parts*)				
	I-VI-2020	I-VI-2021	Balance	% rate		I-VI-2020	I-VI-2021	Balance	% rate
000 T	25,4	42,6	17,2	68,0	.000 T	26,6	36,5	10,0	37,4
EUR mil.	342,6	507,1	164,5	48,0	EUR mil.	284,6	412,6	127,9	44,9
\$ mil.	378,8	611,0	232,2	61,3	\$ mil.	314,2	496,9	182,7	58,1
*)Previous data					*)Previous data				

Trade Balance

In the period January - June 2021, trade deficit increased by 37.7%, i.e. by EUR 337.2 million, compared to the same period last year.

In June 2021, trade deficit increased by 109.7% or EUR 116.0 million compared to June 2020.

If we analyze the balance of export and import of goods by economic purpose, deficit increase was a result of the widened deficit of the trade in industrial supplies, consumer goods, fuels and lubricants, and food and beverages. On the other hand, reduction of the deficit in the trade in investment goods





without transport equipment, as well as increase of the positive balance in the trade in transport equipment, contributed to reducing the negative balance.

In the period January - June 2021, 90.6% of the trade deficit of the country was realized in the trade with Great Britain and China, followed by: Greece, Serbia, Turkey, Poland, Italy and etc. Surplus was realized in the trade with Germany, Kosovo, Slovakia, Spain and Hungary.

Currency Structure

Observed by currency structure, 91.5% of the trade in the period January - June 2021 was realized in euros and, compared to the same period in 2020, it surged by 4.0 percentage points. On export and import side, euro accounted for 94.1% and 89.5%, respectively, whereby share of the euro in export was higher by 2.7 p.p., while increase of the share of the euro in import accounted for 4.9 p.p. compared to the period January - June 2020.

import	I - VI - 2020					I - VI - 2021					absolute change in currency value	relative change in currency value (in %)
currency	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar	structure in %	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar	structure in %		
EUR	2.111,7	2.832.010.843	61,6530	174.601.964.513	84,7	2.486,1	4.156.245.619	61,6355	256.172.276.861	89,5	1.324.234.776	46,8
USD	1.108,1	530.222.712	55,9869	29.685.525.937	14,4	1.095,7	537.248.527	51,1427	27.476.340.240	9,6	7.025.815	1,3
GBP	1,5	8.526.486	70,6090	602.046.621	0,3	0,9	8.645.786	70,9980	613.833.486	0,2	119.300	1,4
EUR+USD+ GBP	3.221,3			204.889.537.070	99,0	3.582,6			284.262.450.588	99,4		
tot. import	3.227,8			206.253.707.266	100,0	3.592,3			286.095.297.808	100,0		38,7

Source: SSO and NBRNM

3. FISCAL SECTOR

Budget Revenues According to the Economic Classification

In the period January - June 2021, total budget revenues reached an amount of Denar 101,069 million, i.e. 14.3% of GDP, showing higher performance by 15.6% in relation to the same period in 2020. This is the fifth month in a row, recording annual increase of revenues, increasing significantly by 24.5% in June, upon recoding the previous annual growth of around 30% in April and May. Growth was also a result of the lower revenues throughout the second quarter in the previous year, when significant adverse effects of the pandemic on budget revenues were felt.

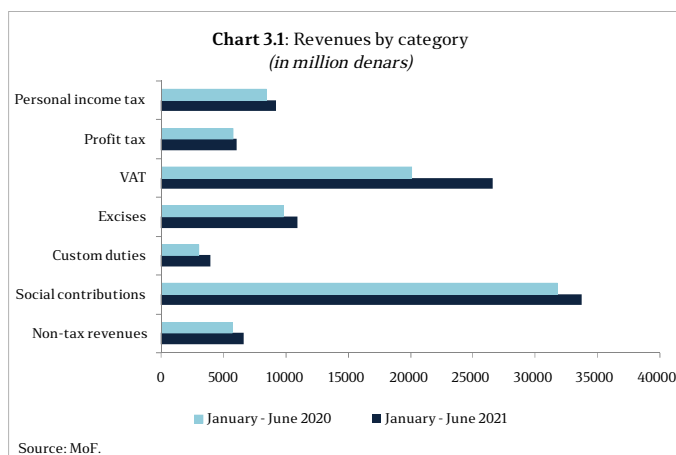
Tax revenues were collected in the amount of Denar 57,172 million, being higher by 20.8%, compared to January - June 2020, mostly as a result of the high increase of VAT revenues.

VAT revenues usually predominate by accounting for 46.5% of total tax revenues, the collection of which amounts to Denar 26,600 million, increasing significantly by 32.3% in relation to the crisis period January - June 2020. Increase of these revenues was particularly evident in the second quarter, when the annual growth increased significantly by 61.8%. Thereby, during the first half of the year, VAT collection amounted to Denar 40,207 million on gross basis, Denar 13,607 million out of which was



refunded to taxpayers (gross collection was higher by 20.8%, while VAT refund was lower by 3.1% compared to the period January - June 2020). As for VAT structure, collection of VAT when importing accounted for the most, increasing by 26.3%, while VAT revenues collected on the basis of sales in the country picked up by 9.1%.

Revenues on the basis of excises were collected in the amount of Denar 10,965 million (participating with 19.2% in the tax revenues), surging by 12.0% compared to the same period in 2020. Hence, revenues collected on the basis of these two indirect taxes amounted to Denar 37,565 million, i.e. 65.7% of total tax revenues in the period January - June 2021.



PIT revenues were collected in the amount of Denar 9,273 million, increasing by 9.7% on annual basis, whereby revenues on the basis of tax on wages and other personal earnings accounted for 67.2% of the personal income tax, revenues on the basis of games of chance and award games accounted for 7.6%, capital revenues accounted for 7.5%, revenues on the basis of contractual agreement accounted for 7.3%, while revenues on the basis of other types of income tax accounted for 10.4%.

Profit tax revenues in this period amounted to Denar 6,079 million, increasing by 5.9% compared to the same period in the previous year, mostly as a result of the positive performance of tax balances, increasing by 70.4%, whereby decrease was observed at monthly advance payments by 10.6%.

Revenues on the basis of customs duties were collected in the amount of Denar 3,952 million, increasing by 32.2%. Collection of revenues on the basis of other taxes, amounting to Denar 303 million, grew by 28.9% compared to last year.

Revenues on the basis of social contributions were collected in the amount of Denar 33,727 million, which was higher by 6.2% compared to the same period last year. Thereby, collection of pension and disability insurance contributions and health insurance contributions was higher by 6.2%, while employment contributions grew by 5.7%.

Non-tax revenues were collected in the amount of Denar 6,619 million and, in relation to the analyzed period in 2020, they were higher by 15.9% (these revenues include revenues on the basis of profit generated by the public institutions, revenues collected on the basis of administrative fees and fines, concessions, etc.).

Capital revenues collected on the basis of sale of construction land, flats and dividends reached Denar 432 million, decreasing by 16.1% compared to the period January - June last year.



Revenues collected on the basis of foreign donations from international and bilateral cooperation amounted to Denar 2,470 million, increasing by 49.6% compared to the same period last year.

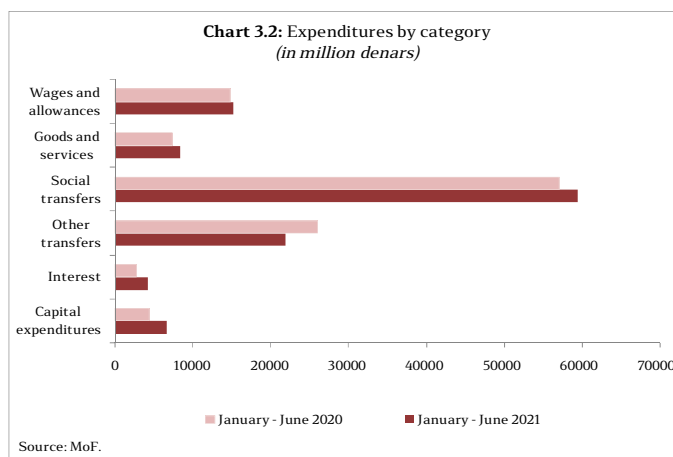
Budget Expenditures According to the Economic Classification

Total budget expenditures amounted to Denar 116,766 million in the period January – June 2021, i.e. they accounted for 16.5% of GDP, being higher by 3.0% compared to the same period in 2020.

With respect to the structure of total executed expenditures, current expenditures, amounting to Denar 110,204 million, accounted for 94.4% and they increased by 1.2% in relation to the same period in 2020.

Expenditures related to wages and allowances were executed in the amount of Denar 15,213 million, increasing by 2.9% in relation to the period January – June in the previous year, accounting for 13.0% of the total budget expenditures.

Expenditures related to goods and services amounted to Denar 8,380 million, increasing by 14.6% compared to the same period in 2020.



Funds allocated for transfers amounting to Denar 82,410 million accounted for the most in the current expenditure items. Such expenditures declined by 2.1% compared to the same period in 2020, participating with 70.6% in the total expenditures.

Drop of transfers was a result of the 16.0% reduction of expenditures at the category other transfers, driven primarily by the subsidies and transfers, amounting to Denar 11,169 million, decreasing by 27.3%. Drop of expenditures was high due to the base effect, upon the recorded exceptionally high amount of expenditures for subsidies and transfers in June 2020, related to the measures aimed at coping with the crisis. Block grants to local government units, amounting to Denar 9,546 million, grew by 0.9% compared to the period January-June in the previous year. Funds allocated for social transfers amounted to Denar 59,420 million, increasing by 4.1% and accounting for 50.9% of the total expenditures. Transfers towards the Pension and Disability Insurance Fund, accounting for the most of the social transfers, amounted to Denar 35,643 million, increasing by 3.9% compared to the same period in 2020 and accounting for 30.5% of the total expenditures.



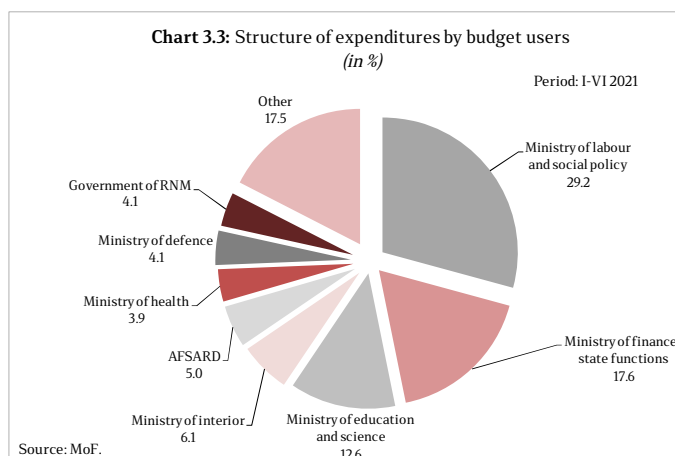
During the analyzed period, funds for capital expenditures were executed in the amount of Denar 6,562 million, participating with 5.6% in the total expenditures, thereby significantly increasing by 48.2% compared to the period January - June 2020.

Expenditures by Budget Users

Review of budget expenditures and outflows for the largest budget users is shown below, the total annual budget of which accounts for around 85% of the total budget of all budget user.

Ministry of Labour and Social Policy spent Denar 26,453 million more in the first half of 2021, or 7.9% more compared to the previous year. Expenditure execution accounted for 49.5% of its total 2021 budget. Thereby, most of the expenditures (68.2%) in this period were allocated for current transfers to budgetary Funds, Denar 18,044 million being spent therefore or 49.6% of the funds allocated for 2021. The second highest expenditure category were the social benefits, participating with 22.4% in the total expenditures, whereby 49.8% (Denar 5,915 million) of the projected funds was spent for this purpose in 2021.

In the period January – June 2021, Denar 15,950 million, i.e. 25.7% of the funds projected for 2021 was spent through the organizational code Ministry of Finance – Functions of the State⁴. Lower execution was caused by the main category of this budget user, Principal Repayment, accounting for 15.2% of the amount projected for the whole year, however, it is envisaged to increase in the second half, when repayment



of the Eurobond, issued in 2014, falls due. Funds in the amount of Denar 6,543 million were spent under this category, accounting for 41.0% in the total expenditures. As regards expenditures related to interest payments, they accounted for 26.3% of the total expenditures, Denar 4,197 million being spent therefore, accounting for 51.6% of the total budget for this purpose. Third highest expenditure category, participating with 21.2%, was capital expenditures, Denar 3,378 million being spent therefore.

In the period January – June 2021, Ministry of Education and Science executed budget funds in the amount of Denar 11,428 million (42.0% of the projected ones), being by 4.9% less compared to 2020. Current transfers to LGUs accounted for the most of the

⁴As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components, etc.



expenditures (71.1%), Denar 8,125 million being spent therefore or 50.0% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 14.5%, Denar 1,653 million being spent therefore, i.e. 38.2% of the total projected funds.

In the first half of 2021, Ministry of Internal Affairs executed expenditures in the total amount of Denar 5,495 million, accounting for 45.9% of its 2021 budget, being by 6.3% higher compared to 2020. Wages and allowances were the highest expenditure item, participating with 72.3%, Denar 3,975 million being spent therefore, or accounting for 49.1% of the projected ones. The second highest expenditure category was goods and services, participating with 18.7%, funds in the amount of Denar 1,030 million being spent therefore, accounting for 42.0% of the annual projections.

In the period January – June 2021, Agency for Financial Support in Agriculture and Rural Development executed expenditures in the amount of Denar 4,538 million (85.3% of the total funds projected for 2021). Major expenditure category at this budget user, participating with 83.8% in the total expenditures, is subsidies and transfers, funds in the amount of Denar 3,804 million being spent therefore, accounting for 89.0% of the projected funds.

In the first half of 2021, Ministry of Defense executed budget funds in the amount of Denar 3,708 million, accounting for 33.4% of its total this year's budget, being by 9.7% higher compared to the previous year. Expenditures related to wages and allowances accounted for the most with 55.9%, Denar 2,072 million being spent therefore in the period January – June 2021 (accounting for 48.8% of the total projected funds). Expenditures related to goods and services accounted for 27.6% of total expenditures, Denar 1,024 million being spent therefore in the analyzed period, i.e. 38.3% execution of the total projected funds.

Government of the Republic of North Macedonia spent funds in the amount of Denar 3,673 million in the six month of 2021, accounting for 52.5% of the annual projections, being by almost twice lower compared to the previous year, as a result of the exceptionally high amount of subsidies and transfers in the same period in 2020, related to the measures aimed at coping with the health and economic crisis. Subsidies and transfers is undoubtedly the highest expenditure category, accounting for 86.1%, Denar 3,163 million being spent therefore in the first half of 2021, i.e. 56.5% of 2021 projected amount.

In the first half of the year, Ministry of Health executed budget funds in the amount of Denar 3,500 million (15.1% increase in relation to the same period in the previous year), accounting for 48.6% of its total 2021 budget. Expenditures related to goods and services accounted for the most in the total expenditures with 61.0%, Denar 2,135 million being executed therefore in the period January – June 2021, or 59.7% of the funds projected for 2021. Current transfers to extra-budgetary funds were the second highest expenditure category, accounting for 31.9% of the total expenditures, funds in the



amount of Denar 1,117 million being executed therefore in the analyzed period, i.e. 40.6% of total projected ones.

In the period January – June 2021, Ministry of Transport and Communications executed funds in the amount of Denar 1,047 million, accounting for 19.7% of its total 2021 budget, being lower by 22.2% compared to the previous year. Category with the highest share in total expenditures in this budget user are capital expenditures, the execution of which in the first half of 2021, amounted to Denar 691 million (66.0% of total expenditures), accounting for 15.8% of its annual budget for this purpose. Funds in the amount of Denar 257 million were spent for subsidies and transfers, accounting for 45.5% of 2021 projections, participating with 24.5% in the total expenditures.

Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/693>).

Budget Balance

In the period January – June 2021, the budget deficit reached the amount of Denar 15,697 million, accounting for 2.22% of GDP, while central budget deficit amounted to Denar 15,802 million or 2.24% of GDP. Budget deficit in the first half of the year accounted for 34.0% of total budget deficit projected for the whole 2021.

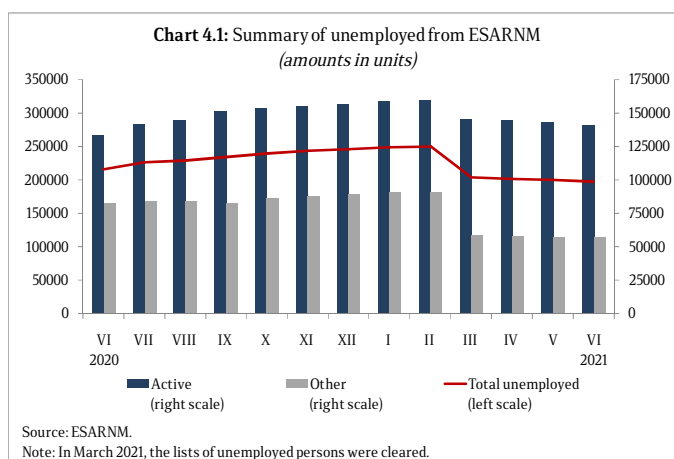
4. SOCIAL SECTOR

Established Work Contracts and Registered Unemployed Persons in EARNM

In June 2021, Employment Agency registered total of 95,017 established work contracts. Total number of newly employed persons was higher by 14.8% compared to June 2020.

As regards the total number of established work contracts, 43.3% was engaged on permanent basis, while the rest of the respective contracts pertained to employment on temporary basis and as seasonal workers. In June 2021, 21.5% out of the total number of newly employed persons was from the unemployed records.

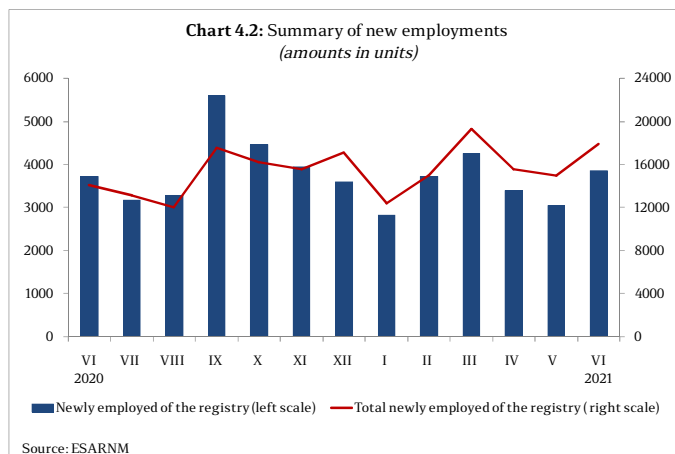
Total number of unemployed persons in June 2021 was 197,342, 140,674 persons out of which were active job seekers, while 56,668 persons were from the category “other unemployed”. Total number of newly employed persons was lower by 8.6% compared to





the same month in 2020. On monthly basis, number of unemployed persons was lower by 2,776 persons. To that end, given the monthly reduction of the number of unemployed people in the months of April, May and June, increasing trend in the number of unemployed people, recorded throughout 2020 and the first two months of 2021, has been finally halt. Previously, the lists were reviewed in March 2021.

Major percentage of the unemployed (62.2%) came from urban areas (cities), whereby 49.0% were men. Analyzed by the level of education, majority, i.e. 65.3%, of the unemployed persons were with incomplete secondary education or less, 25.4% were with completed secondary education, while 9.2% of the unemployed persons were with completed community college or higher education level.

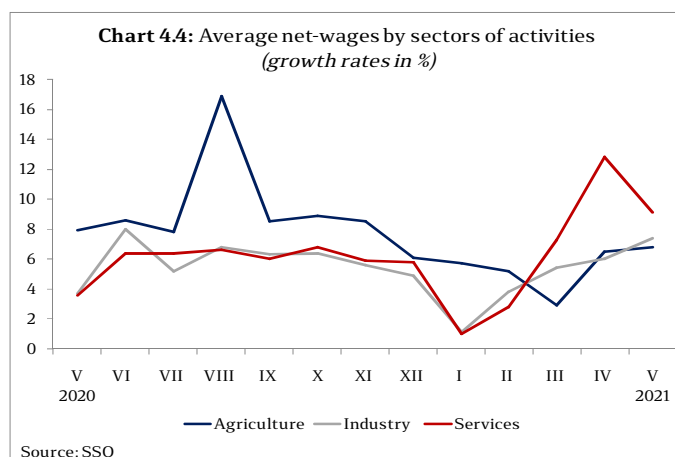
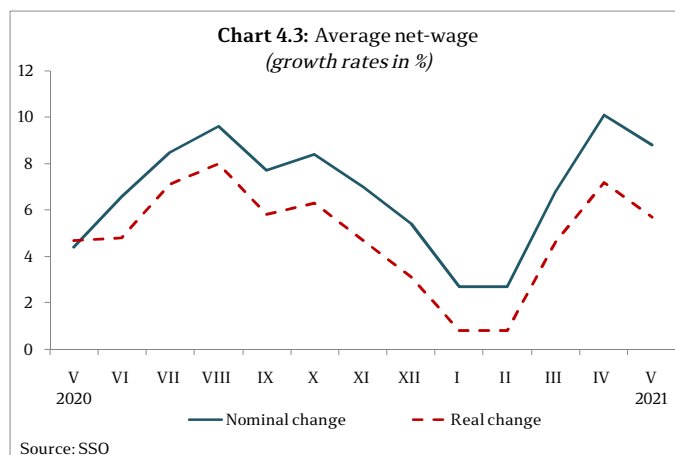


Analyzed by age structure, most of the unemployed persons or 51.2% of the unemployed people belong to the group aged 25-49 years. According to the time they waited for a job, 59.2% of the unemployed persons wait for employment from 1 to 7 years, while 5.0% wait for employment for 8 years and more.

Wages

In May 2021, average net wage increased by 8.8% on annual basis, and it was higher by 1.0% in relation to April 2021. The highest increase of average net wage, in relation to May 2020, was observed at the following sectors: Arts, entertainment and recreation (29.0%), Accommodation and food service activities (28.7%) and Other service activities (14.4%). In May 2021, wages grew by 5.7% in real terms on annual basis.

In May 2021, average gross wage increased by 8.9% in nominal terms on annual basis, and it was higher



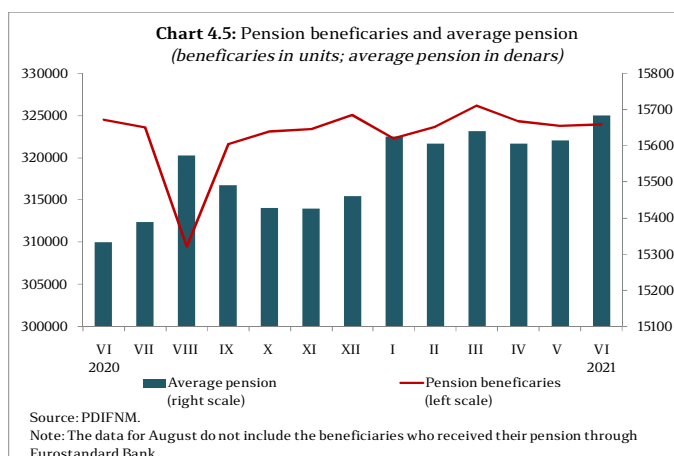


by 1.1% in relation to the previous month. The highest increase of average gross wage in May 2021, compared to the same month last year, was recorded in the following sectors: Arts, entertainment and recreation (29.8%), Accommodation and food service activities (28.7%) and Other service activities (14.7%). Real gross wage surged by 5.8% annually.

Pensions

In June 2021, Pension and Disability Insurance Fund registered 323,997 pensioners. As regards the total number of pensioners, 67.5% were beneficiaries of old-age pension, 23.1% of survival pension and 9.4% of disability pension.

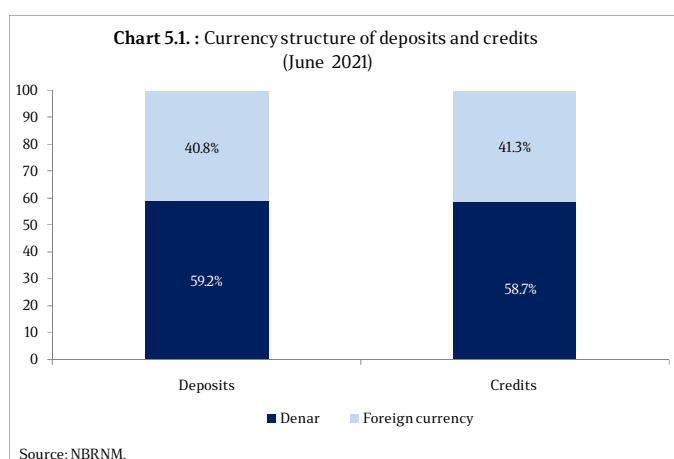
Average pension in June 2021 amounted to Denar 15,684, being higher by 2.3% compared to June 2020⁵. Ratio between the average pension and the average paid wage in May 2021 (the most recent available data) was 54.4%.



In June 2021, average old-age pension amounted to Denar 16,951, average disability pension amounted to Denar 14,179, while average survival pension amounted to Denar 12,600. In June 2021, Denar 5,064 million was spent for payment of pensions, accounting for 49.4% of the total social transfers.

5. MONETARY AND FINANCIAL SECTOR

In June 2021, the National Bank kept the policy rate at 1.25%, following its 0.25 p.p. reduction in March.. Decision on further monetary relaxation is reached amid stable developments on the foreign exchange market and moderate inflation dynamics, although there is uncertainty as regards the pandemic and the impact on the recovery of the economy. The objective of reducing the policy rate to 1.25% is expected to contribute to reducing the financing costs through loans from the banks and further credit support to the private sector, to the



⁵Military and agricultural pensions are not included when calculating the average pension.



end of mitigating the effects from the still ongoing pandemic on the domestic economy.

Interest rate on available 7-day deposits remained unchanged compared to the previous month, accounting for 0.3%.

Primary Money

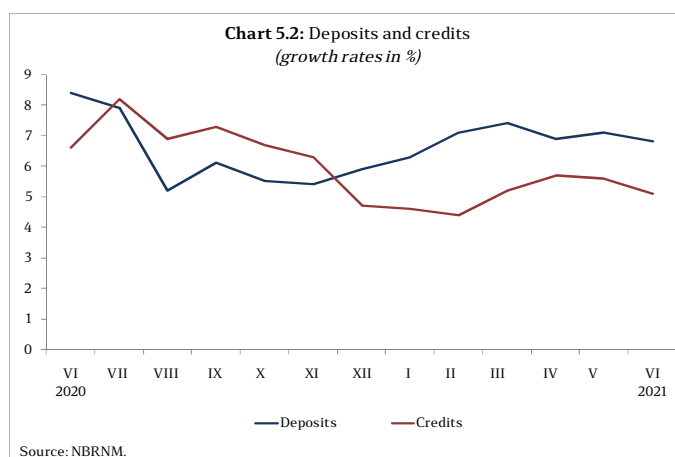
In June 2021, primary money⁶ increased by 5.5% compared to June 2020. Increase of primary money was a result of increase of both total liquid assets by 5.9% and currency in circulation by 5.0%.

On monthly basis, primary money declined by 2.4%, as a result of the decrease of total liquid assets of banks by 4.1%, while currency in circulation decreased by 0.4%.

Deposit Potential⁷

In June 2021, total deposits of banks grew by 1.0% on monthly basis. Sector analysis showed that, compared to the previous month, deposits of private enterprises grew by 3.7%, while deposits of households surged by 0.3%.

Analyzed by currency, in June 2021, compared to the previous month, Denar deposits increased by 0.8%, while foreign currency deposits picked up 1.4%.



Total deposit potential in June 2021 surged by 6.8% on annual basis. Analyzed by currency, domestic currency deposits and foreign currency deposits surged by 4.8% and 9.8%, respectively.

From sector point of view, this month, deposits of enterprises and deposits of households grew by 20.4% and 4.2%, respectively, on annual basis.

According to maturity, short-term deposits surged by 5.8%, while long-term deposits decreased by 5.1%, on annual basis.

⁶Primary money is calculated as a sum of currency in circulation (including cash in hand), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

⁷NBRNM published the data from the monetary statistics, statistics of other financial corporations and the statistics of interest rates according to the new methodology. Methodologic changes were made for the purpose of harmonization with the recommendations under the newly published IMF Monetary and Financial Statistics Manual and Compilation Guide as of 2016 (MFSMCG – IMF, 2016) and the IMF Technical Mission in the field of monetary and financial statistics in NBRNM as of 2015.



Currency structure of deposits remained stable, whereby share of domestic currency deposits in the deposit base was dominant and accounted for 59.2%.

Table 5.1. Deposit potential and credits to private sector;

Deposit potential and credits to private sector (June 2021)	Denar million	Monthly change	Annual change
Deposit Potential	447,237	1.0%	6.8%
By currency:			
<i>Denar</i>	<i>264,758</i>	<i>0.8%</i>	<i>4.8%</i>
<i>Foreign currency</i>	<i>182,479</i>	<i>1.4%</i>	<i>9.8%</i>
By maturity:			
<i>Short-term</i>	<i>186,252</i>	<i>0.5%</i>	<i>5.8%</i>
<i>Long-term</i>	<i>101,824</i>	<i>0.6%</i>	<i>-5.1%</i>
Credits to private sector	370,862	1.0%	5.1%
By currency:			
<i>Denar</i>	<i>217,868</i>	<i>0.6%</i>	<i>5.3%</i>
<i>Foreign currency</i>	<i>152,994</i>	<i>1.5%</i>	<i>5.0%</i>
By maturity:			
<i>Short-term</i>	<i>59,756</i>	<i>2.1%</i>	<i>2.3%</i>
<i>Long-term</i>	<i>294,241</i>	<i>0.9%</i>	<i>7.4%</i>
<i>Doubtful and contested claims</i>	<i>12,764</i>	<i>-0.7%</i>	<i>-20.7%</i>

Source: NBRNM

Bank Credits

In June 2021, total credits of banks to the private sector surged by 1.0% compared to the previous month. Sector analysis shows that credits to enterprises experienced growth of 0.6%, while credits to households increased by 1.3%. Analyzed by currency, in June 2021, Denar and foreign currency credits surged by 0.6% and 1.5% respectively, on monthly basis.

On annual basis, total credits grew by 5.1% in June 2021, in conditions of growth of both credits to households of 8.7% and credits to enterprises of 1.2%. Denar credits surged by 5.3%, while foreign currency credits increased by 5.0%.

As regards maturity, long-term credits experienced annual growth of 7.4%, and short-term credits grew by 2.3%.

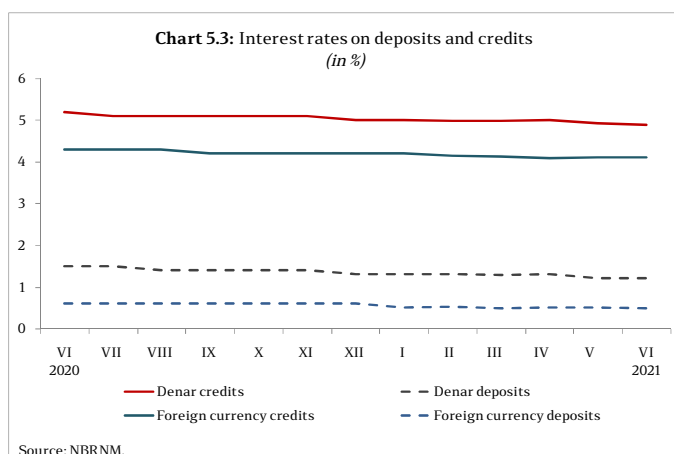
Interest Rates of Deposit Banks

In June 2021, total interest rate on credits dropped by 0.02 p.p. compared to the previous month, accounting for 4.54%. Interest rate on Denar credits dropped by 0.03 p.p.,



accounting for 4.89%, while interest rate on foreign currency credits decreased by 0.01 p.p. on monthly basis, accounting for 4.11%.

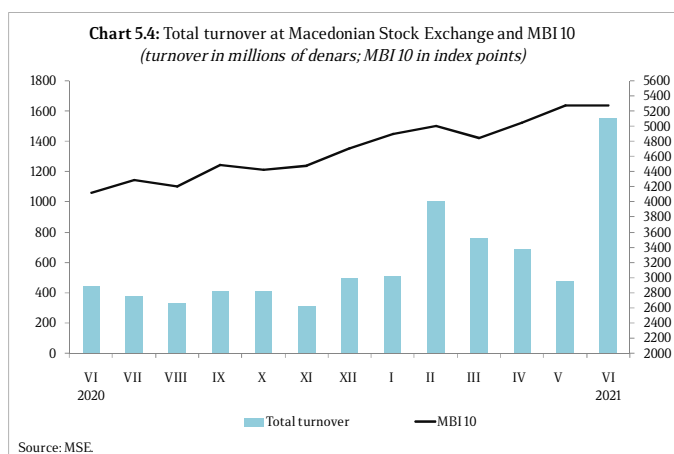
Total interest rate on deposits was 0.84% in June 2021, being lower by 0.01 p.p. compared to last month. Interest rate on Denar deposits remained unchanged on monthly basis, accounting for 1.21% p.p., while interest rate on foreign currency deposits decreased by 0.01 p.p., accounting for 0.49%.



Capital Market

As for the capital market, in June 2021, total turnover on the stock exchange surged by 227.7% on monthly basis, as a result of the increase of block transactions by 1,144.8%, as well as turnover from trading in best by 37.5%.

Total turnover on the stock exchange amounted to Denar 1,549.5 million in June 2021, increasing by 247.6% on annual basis.



Macedonian Stock Exchange Index MSEI - 10 amounted to 5,281.14 index points at the end of June 2021, whereby the index grew by 0.1% on monthly basis, while, compared to the same month last year, the index was higher by 28.3%.

Reserve Assets

Gross reserve assets at the end of June 2021 amounted to EUR 4,031.07 million and, compared to the previous month, they were higher by 0.3%, while compared to June 2020, they were higher by 10.8%.