



# Q-2-2023

## QUARTERLY ECONOMIC REPORT

### - second quarter of 2023 -

#### Summary

- In Q2 2023, **economic activity growth** of 1.1% was recorded on annual basis, by which the GDP growth in the first half of 2023 accounted for 1.6%.
- **Total number of unemployed people** aged 17-74 years was 103,888 people. **Unemployment rate** in Q2 2023 accounted for 13.1% in the category aged 15-74 years, accounting for 13.2% in the category aged 15-64, whereby it accounted for 24.5% at the youth population (15-29 years);
- Average **net wage** amounted to Denar 36,376 in Q2 2023, increasing by 15.1% in nominal terms, i.e. growing by 3.6% in real terms, compared to the net wage in Q2 2022;
- Total **budget revenues** were higher by 10.1% in Q2 2023, while total budget expenditures surged by 35.6% compared to the same quarter in 2022;
- **Inflation rate** in Q2 2023 accounted for 11.2% on annual basis;
- Total **deposit potential** of banks increased by 4.5% in Q2 2023 on quarterly basis;
- In Q2 2023, decrease of both **export of goods** by 1.5% and **import of goods** by 11.5% was registered on annual basis, by which total **foreign trade**, expressed in euros, dropped by 7.4%;



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## 1. Economic Activity

In Q2 2023, **economic activity growth** of 1.1% was recorded by which economic growth in the first half of 2023 accounted for 1.6%. Analyzed according to the GDP by production method, activity in the **services sector** picked up by 3.9%. Highest growth within the service activities was registered at Trade, transport and hospitality industry by 7.6%, followed by: Financial and insurance activities by 5.0%, Information

and communications by 3.7%, Professional, scientific and technical activities by 2.8%, Real estate-related activities by 2.6% and Public administration, defense, education and health by 0.8%. The drop was seen only at the activity Arts, entertainment and recreation by 0.5%.

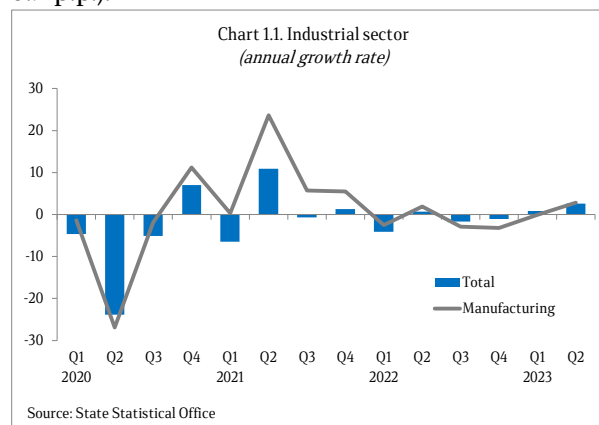
Table 1: GDP and component by production method - annual growth rates (%) and contributions to GDP growth (p.p.)

Sectors	real growth (%)								contribution to growth (p.p.)							
	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	H1 2023	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	H1 2023
Gross domestic product	2.2	4.0	2.0	0.6	2.1	2.1	1.1	1.6								
Agriculture	1.6	4.3	3.5	-0.9	2.0	0.1	0.2	0.1	0.1	0.3	0.2	-0.1	0.1	0.0	0.0	0.0
Industry	-4.1	0.7	-1.7	-1.1	-1.5	0.8	2.6	1.7	-0.7	0.1	-0.3	-0.2	-0.3	0.1	0.4	0.3
Manufacturing	-2.5	1.9	-2.9	-3.2	-1.8	-0.1	2.8	1.4	-0.3	0.2	-0.4	-0.5	-0.2	0.0	0.4	0.2
Construction	-16.7	-1.0	-9.1	-8.1	-8.4	12.7	-21.8	-7.5	-0.6	0.0	-0.6	-0.6	-0.5	0.5	-1.1	-0.3
Services	6.6	5.9	4.5	2.2	4.7	3.6	3.9	3.7	3.8	3.3	2.6	1.2	2.7	2.2	2.3	2.3
Trade, transport and catering	7.4	6.4	9.1	8.3	7.8	10.6	7.6	9.1	1.3	1.2	1.9	1.6	1.5	2.2	1.7	1.9
Information and communication	6.6	7.3	-0.7	-2.0	2.6	3.8	3.7	3.8	0.3	0.3	0.0	-0.1	0.1	0.2	0.2	0.2
Financial and insurance activities	1.0	-0.7	5.8	-0.9	1.3	4.7	5.0	4.8	0.0	0.0	0.2	0.0	0.0	0.2	0.1	0.1
Real estate activities	4.7	7.2	3.1	1.3	4.1	0.4	2.6	1.4	0.6	0.7	0.3	0.1	0.4	0.0	0.3	0.2
Professional, scientific and technical activities	17.1	12.1	5.6	0.5	8.7	0.5	2.8	1.7	0.7	0.5	0.2	0.0	0.3	0.0	0.1	0.1
Public administration and defence, education and health	2.1	0.9	-0.9	-1.9	0.0	-0.9	0.8	0.0	0.3	0.1	-0.1	-0.2	0.0	-0.1	0.1	0.0
Arts, entertainment and recreation	17.7	14.2	11.8	1.5	11.0	-1.6	-0.5	-1.0	0.5	0.4	0.3	0.0	0.3	-0.1	0.0	0.0
Net taxes on products	-2.2	0.9	1.7	-0.9	-0.2	0.3	1.0	0.9	-0.3	0.1	0.2	-0.1	0.0	0.0	0.1	0.1
residual									-0.1	0.1	-0.2	0.3	0.0	-0.8	-0.7	-0.7

Source: State Statistics Office (News release of GDP, second quarter of 2023) and MoF calculations.

**Industrial sector** picked up by 2.6% amid increase at Manufacturing by 2.8%. According to high-frequency data, Electricity and gas supply registered 30.4% growth, while Mining and quarrying dropped by 1.5% in Q2 2023. Under Manufacturing, more significant contribution to growth was recorded by the following branches: Repair and installation of machinery and equipment (219.9% growth and contribution of 1.0 p.p.), Manufacture of basic pharmaceutical products and pharmaceutical preparations (22.9% growth and contribution of 0.9 p.p.)

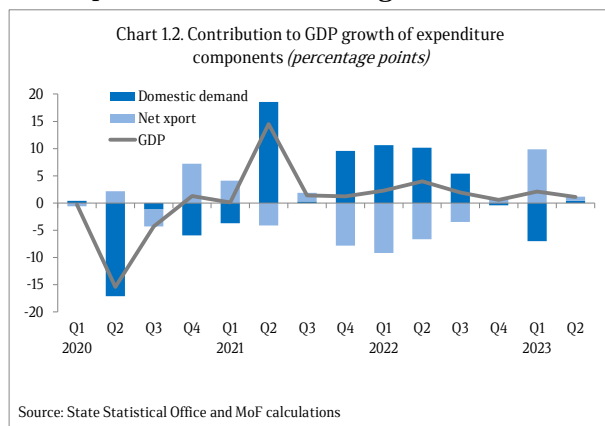
and Manufacture of machinery and equipment (growth of 12.5%, contribution of 0.9 p.p.).





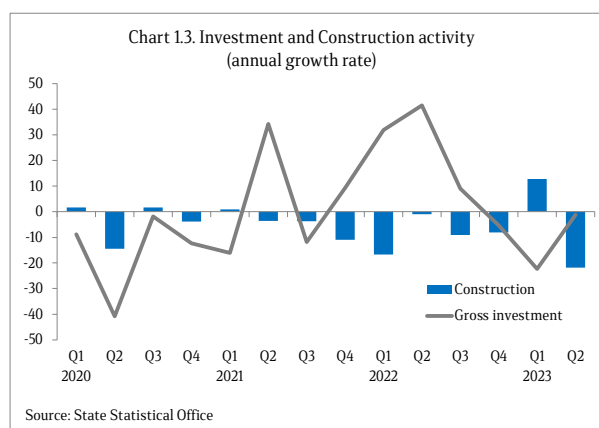
**Agriculture sector** picked up by 0.2%, following the 0.1% growth in the previous quarter, while **construction activity** declined by 21.8% (following the 12.7% growth in Q1 2023), which in line with the monthly data was due to both segments, i.e. buildings and civil engineering structures.

Analyzed according to the expenditure side of GDP, economic activity growth was a result of the positive contribution of net-export on the economic growth, as well as



recorded a 0.8% growth in real terms, under which **private consumption** surged by 1.6%, while **public consumption** decreased by 2.7% in real terms.

**Gross investments** dropped by 1.2% due to the high comparative basis in Q2 2022 (41.5% growth), mostly as a result of the increase of inventories during this period.



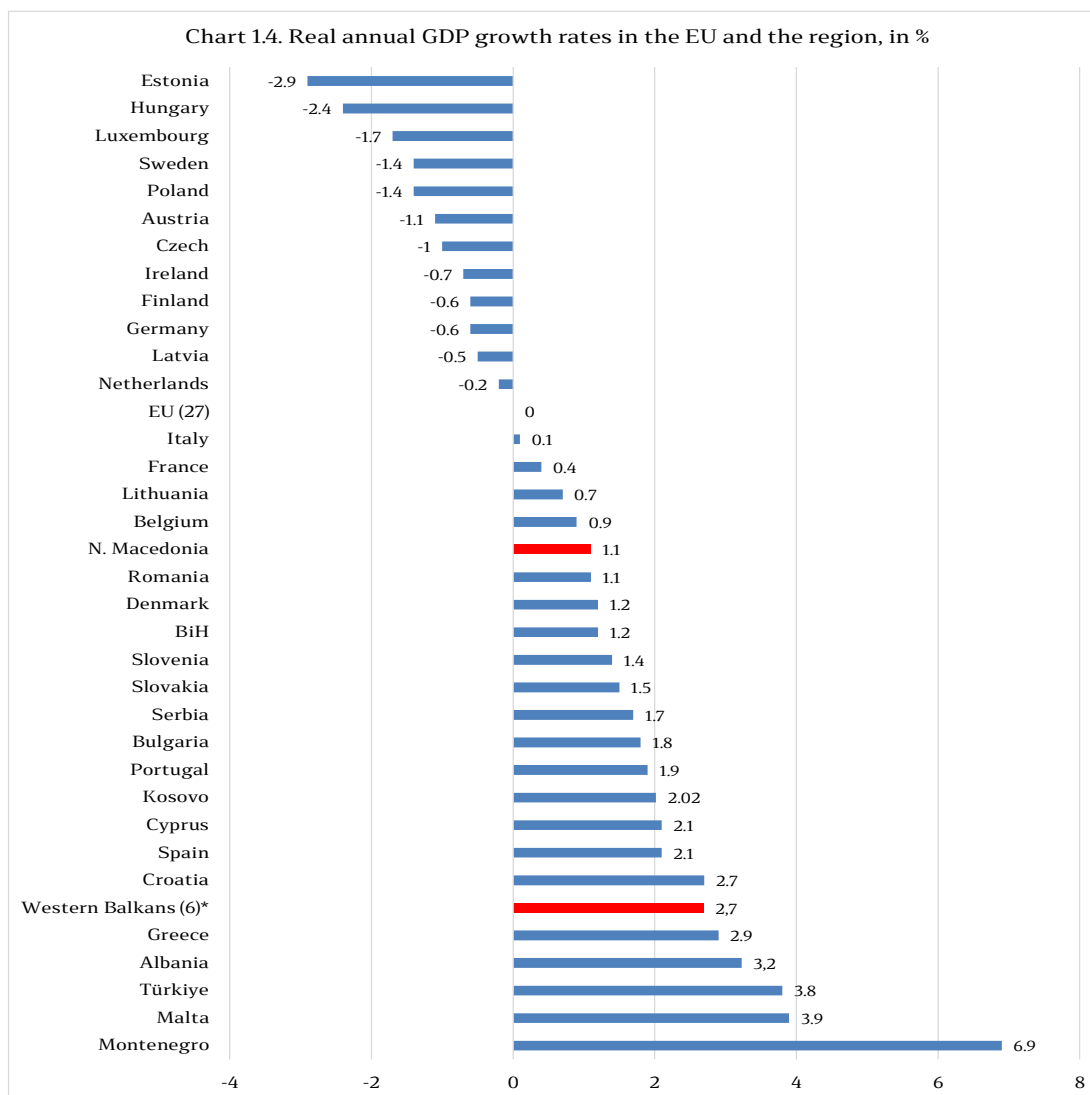
**Exports of goods and services** dropped by 1.2% in real terms, while **imports of goods and services** dropped by 1.7%. Hence, despite the drop of export, net export had positive contribution to the economic growth.

the consumption growth. Consumption

Table2: GDP and component by production method – annual growth rates (%) and contributions to GDP growth (p.p.)

Components	real growth (%)								contribution to growth (p.p.)							
	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	H1 2023	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	H1 2023
Gross domestic product	2.2	4.0	2.0	0.6	2.1	2.1	1.1	1.6								
Final consumption	2.5	0.2	3.5	1.9	2.0	1.0	0.8	0.9	2.1	0.2	2.9	1.6	1.7	0.9	0.7	0.8
Private	2.5	1.5	5.4	3.0	3.1	2.7	1.6	2.1	1.7	1.0	3.6	2.0	2.1	1.9	1.2	1.5
Public	2.7	-5.2	-4.7	-2.8	-2.6	-5.9	-2.7	-4.3	0.4	-0.9	-0.8	-0.4	-0.4	-1.0	-0.4	-0.7
Gross capital formation	31.8	41.5	9.0	-5.3	15.0	-22.3	-1.2	-11.7	9.1	12.0	2.6	-2.2	4.9	-8.3	-0.4	-4.2
Export of goods and service	11.3	14.2	17.8	10.2	13.4	7.1	-1.2	2.8	7.6	9.4	12.1	6.5	8.9	5.5	-0.9	2.2
Import of goods and service	21.2	19.8	19.4	6.5	16.1	-4.3	-1.7	-3.0	16.8	16.2	15.6	5.7	13.2	-4.4	-1.7	-3.0
Net exports									-9.1	-6.7	-3.5	0.8	-4.4	9.9	0.8	5.2
residual									0.1	-1.4	-0.1	0.4	0.0	-0.3	0.0	-0.6

Source: State Statistics Office (News release of GDP, second quarter of 2023) and MoF calculations.



Source: Eurostat and national statistical institutions.

\*Data on Western Balkans (6) pertains to the countries: Albania, Bosnia and Herzegovina, Kosovo, North Macedonia Serbia and Montenegro.

## 2. Labour Market

Starting 2021, Labour Force Survey was carried out in all EU Member States in line with the Regulation (EU) no. 2019/1700 of the European Parliament and the Council of Social Statistics and the corresponding executive regulation of the Commission

(EU) no. 2019/22240 in the field of labour force. They were implemented by the Republic of North Macedonia in 2023, whereby the previous Regulation (EC) no. 577/98 has been repealed. These changes caused interruption of time series of data,



thus, data in 2023 are not comparable with the data from the previous years.

### Employment

In Q2 2023, according to the Labour Force Survey, the **number of employed people** at the age of 15 to 89 years, was 689,714, growing by 0.9% (or 6,472 persons), compared to the first quarter.

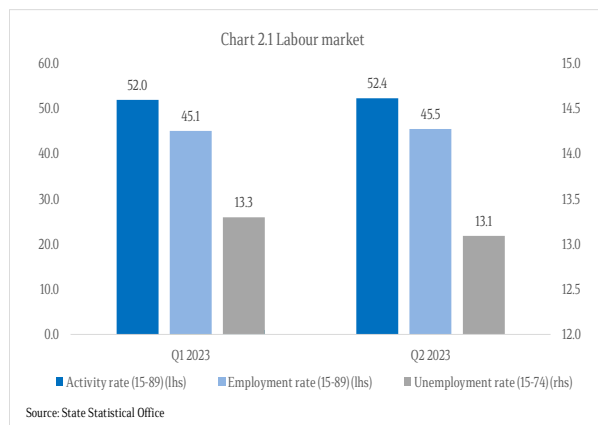
**By activities**, most of the employed people in Q2 2023 were in the services sector (411,014 people or 59.6% of the total employed people), followed by the industry with total of 161,809 people (23.5% share in the total number of employed people) under which most of the employed people were seen at Manufacturing (130,757 employees or 19.0% of total employed people). Employed people in the agriculture and construction sectors participated with 8.7% and 7.8% in the total number of employed people, i.e. 60,047 people and 53,887 people, respectively.

As for the services sector, most of the employed people were from the Wholesale and retail trade (104,155 people or 15.1% of the total employed people), followed by the sectors: Public administration and defense (56,979 people or 8.3% of the total employed people), Education (48,024 people or 7.0% of the total employed people) Health and social protection activities (44,392 people or 6.4% of the total employed people).

Out of the total number of employed persons, 509,650 (73.9% of total employed people) were persons employed in privately owned entities, while 180,064 were persons employed in entities in other mixed,

collective or state ownership (26.1% of the total employed people).

In Q2 2023, **the employment rate** in the 15-64 category accounted for 56.8%, while accounting for 45.5% at the category 15-89. Compared to the previous quarter, the employment rate increased by 0.4 p.p. and 0.3 p.p., respectively. As for people aged 15-29 years, the employment rate accounted for 34.8%, being higher by 1.4 p.p. compared to the previous quarter.



**According to the gender structure** employment rate at the category 15-89 years was significantly higher at men, accounting for 54.3% as opposed to 37.0% at women.

### Unemployment

**The total number of unemployed people** aged 15-74 years was 103,888 people. In Q2 2023, people aged 15-74 years, **the unemployment rate** accounted for 13.1%, being lower by 0.2 p.p. compared to the previous quarter. The unemployment rate at the category 15-64 accounted for 13.2%, while accounting for 24.5% at the youth population (15-29), and compared to Q1



2023, they decreased by 0.2 p.p. and 1.2 p.p., respectively.

**According to the gender structure,** unemployment rate at the female population aged 15-74 years in Q2 2023 accounted for 12.8%, being lower by 0.5 p.p. compared to the unemployment rate at men at the same age, accounting for 13.3%.

### Active Population

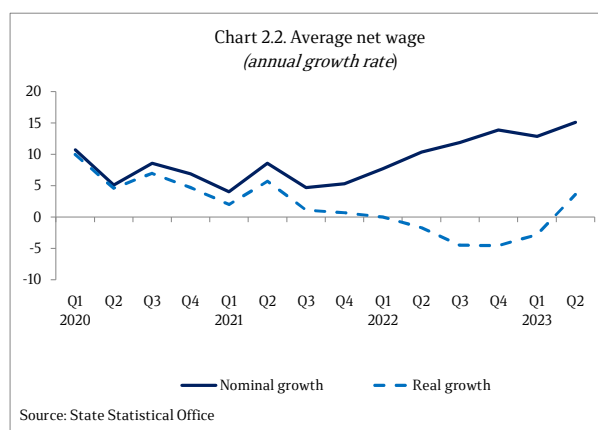
**Total active population** aged 15-89 years in Q2 2023 was 793,602 people, accounting for 52.4% of the total working-age population.

**As per the gender structure,** activity rate of women aged 15-89 years accounted for 42.5%, being lower by 20.2 p.p. than the activity rate of men (62.6%).

### Wages

Average monthly **net wage** amounted to 36,376 Denar in Q2 2023, being higher by 15.1% in nominal terms compared to the same quarter in 2022, while net wage was higher by 3.6% in real terms.

Highest net wage in Q2 2023 was paid in the Information and communications sector (Denar 70,086), followed by Financial and insurance activities, with Denar 55,528, Mining and quarrying (Denar 48,189) and Electricity, gas, steam and air conditioning supply with average paid net wage in the amount of Denar 48,173.



Average monthly **gross wage** amounted to Denar 54,254 in Q2 2023, increasing by 15.4% in nominal terms and by 3.8% in real terms.

## 3. Public Finances

### 3.1 Budget revenues according to the economic classification

**In Q2 2023,** total budget revenues accounted for 31.5% of the quarterly GDP, being higher by 10.1% compared to the same quarter in 2022, amid higher collection of taxes by 7.7% and contributions by 21.3%, while non-tax revenues were reduced by 5.3%. Tax revenues recorded higher collection at personal income tax, VAT, excise duties and import duties.

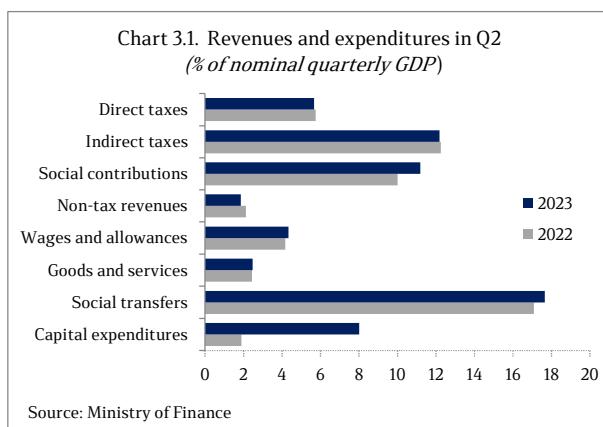
**In Q2 2023,** collection of indirect taxes increased by 8.0%, while collection of direct taxes picked up by 7.1% compared to Q2 2022. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes decreased by 0.1 p.p. on annual basis, i.e. from 5.8% in the second quarter last year to 5.7% of the quarterly GDP in the same quarter this year, while





share of revenues on the basis of indirect taxes was lower by 0.1 p.p., accounting for 12.2% of GDP in Q2 2023 compared to Q2 2022, when it accounted for 12.3%.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 41.4% of total tax revenues in Q2 2023, being higher by 4.2% compared to the same quarter of last year. As for VAT structure,

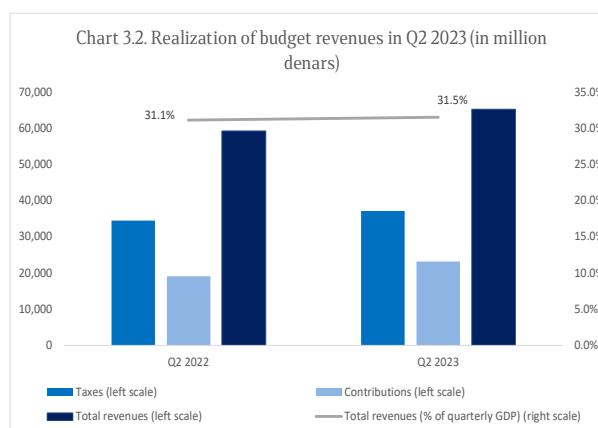


VAT share was the biggest when importing, followed by VAT collected on the basis of sales in the country. Excise revenues were higher by 12.9% compared to the same quarter in the previous year, while collection of customs duties grew by 18.5%.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 13.8%, while profit tax

revenues declined by 0.4% compared to the same quarter of the previous year.

Collection of **social contributions** was higher by 21.3%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 21.1%, employment contributions by 21.8%, and health insurance contributions by 21.5%.



Collection of **non-tax revenues**, accounting for 1.9% of the quarterly GDP, was lower by 5.3% in Q2 2023 compared to the same quarter of 2022.

**Capital revenues**, including revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends, were lower by 62.5% on annual basis in Q2 2023. Revenues on the basis of **foreign donations** were lower by 18.4% compared to the same quarter in 2022.

### 3.2. Budget Expenditures according to the Economic Classification

In Q2 2023, **total budget expenditures**, participating with 41.2% in the quarterly GDP, were higher by 35.6% compared to the same quarter in 2022.

**Current expenditures**, accounting for 33.2% of the quarterly GDP, participated with 80.5% in the total expenditures and experienced 15.9% higher execution on annual basis. As for current expenditures, expenditures for goods and services



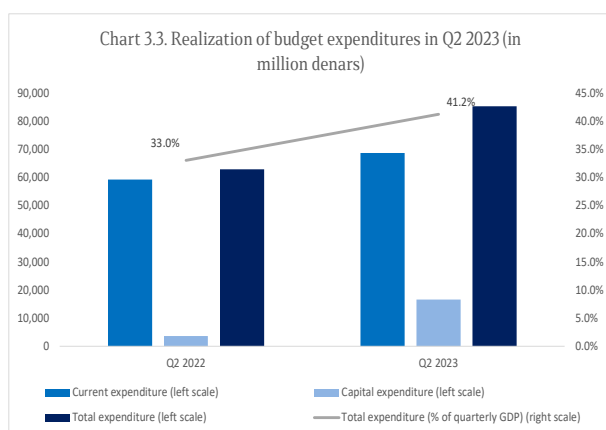


increased by 9.5%, while expenditures related to wages and allowances were higher by 12.7% compared to the same quarter last year.

Funds for transfers, which participated with 60.3% in the total expenditures, were higher by 16.8% on an annual basis. Social transfers surged by 12.2%, accounting for

2022. Block and earmarked grants to local government units increased by 15.8%, while subsidies and transfers were higher by 38.2% compared to Q2 2022.

Interest-related expenditures increased by 21.3% on an annual basis, whereby domestic debt interest-related expenditures surged by 12.2%, with expenditures related to interest on foreign debt increasing by 25.2%.

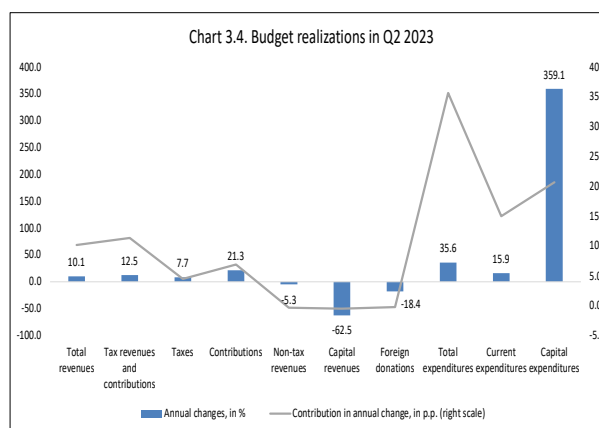


42.8% of the total expenditure. Pension-related expenditures, accounting for most of the social transfers, surged by 13.5%, accounting for 26.6% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 16.8% of the total expenditures, i.e. it surged by 29.5% compared to the second quarter in

### 3.3. Expenditures by Budget Users

Review of budget users for the largest budget users is given below.

**The Ministry of Labour and Social Policy**, in Q2 2023, executed funds in the amount of Denar 14,023 million or 26.3% of its total budget for the current year. Thereby, most of the expenditures (66.5%) in this period were allocated for current transfers to



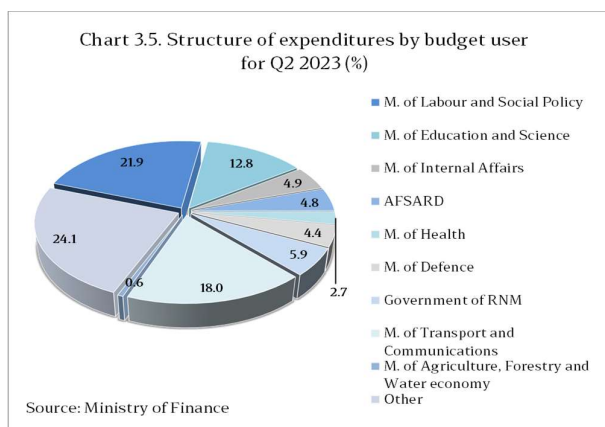
**Capital expenditures**, accounting for 8.0% of quarterly GDP, were higher by 359.1% compared to the same quarter in 2022, i.e. they participated with 19.5% in the total expenditures.

extra-budgetary funds, for which Denar 9,326 million was spent or 26.7% of the funds allocated for 2023. The second highest expenditure category was the social benefits, participating with 24.2% in the total expenditures, whereby 26.7% (Denar 3,387 million) of the expenditures



projected for 2023 was executed for this purpose.

During the analyzed period, **the Ministry of Education and Science** executed budget funds in the amount of Denar 8,231 million, i.e. 25.4% of its total 2023 budget. Current transfers to LGUs accounted for most of the expenditures (58.9%), Denar 4,846 million being spent therefore or 25.1% of total projected funds. Wages and allowances were the second most significant category, accounting for 16.1%, with Denar 1,329 million being spent therefore, i.e. 25.3% of the total projections.



In Q2 2023, **Government of the Republic of North Macedonia** spent total of Denar 3,771 million, i.e. 21.0% of the funds projected for 2023. Thereby, capital expenditures predominantly accounted for 79.6% of total expenditures of this budget user, Denar 3,002 million (58.1% of the projected funds) being spent therefore.

During the analyzed period, **the Ministry of Internal Affairs** executed expenditures in the total amount of Denar 3,119 million, accounting for 24.5% of its 2023 budget.

Wages and allowances were the highest expenditure item, participating with 67.8%, Denar 2,116 million being spent therefore, or accounting for 24.7% of the projected ones. The second highest expenditure category was goods and services, participating with 20.0%, funds in the amount of Denar 624 million being spent therefore, or accounting for 26.3% of the annual projections.

During this period, **the Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 3,077 million, accounting for 34.9% of the funds projected for the current year. As for subsidies and transfers, with a significant share of 94.5% of the total expenditures, 39.9% or Denar 2,909 million of the projected funds, were spent therefore.

In Q2 2023, **Ministry of Health** executed budget funds in the amount of Denar 1,701 million, i.e. 24.5% of its total 2023 budget. Current transfers to extra-budgetary funds accounted for most of the expenditures with 57.3%, for which, during this period, Denar 974 million was spent or 32.5% of the funds projected for 2023. As for goods and services, Denar 653 million, i.e. 20.6% of total projected funds, were allocated therefore.

In the period Q2 2023, **the Ministry of Defense** executed budget funds in the amount of Denar 2,827 million, accounting for 16.6% of its year's total budget. Expenditures related to wages and



allowances accounted for 47.9% of total expenditures, with Denar 1,354 million being spent therefore during the analyzed period, i.e. 27.1% execution of the total projected funds. Goods and services are the second most significant item in the total expenditure structure, accounting for 26.0%, with Denar 734 being paid, accounting for 20.3% of the funds projected for the current year.

During this period, **Ministry of Transport and Communications** executed funds in the amount of Denar 11,540 million, i.e. 57.6% of its total budget for the current year. Capital expenditure execution, as the main item, accounted for 59.3% of the projections for the whole year (Denar 11,170 million).

In the period Q2 2023, **the Ministry of Agriculture, Forestry and Water economy** executed budget funds in the amount of Denar 363 million, accounting for 17.5% of its year's total budget. Expenditures related to wages and

allowances accounted for 36.8% of total expenditures, with Denar 134 million being spent therefore during the analyzed period, i.e. 25.0% execution of the total projected funds. Capital expenditures are the second most significant item in the total expenditure structure, accounting for 36.7%, with Denar 133 million being paid, accounting for 14.0% of the funds projected for the current year.

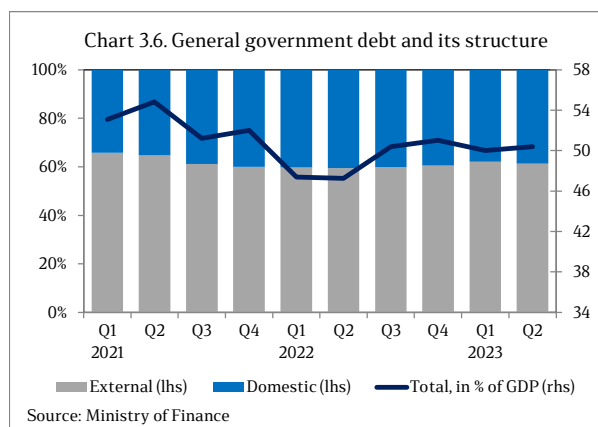
During this period, **the Public Revenue Office** executed funds in the amount of Denar 801 million, i.e. 24.4% of its total budget for the current year. The realization of subsidies and transfers, as the main item, accounted for 29.2% of the total projected funds (Denar 616 million).

Detailed data on each budget user are presented in the statistical annex attached at the following link <http://finance.gov.mk/квартален-економски-извештај/>.

### 3.4. Budget Deficit and General Government Debt

In the second quarter of 2023, **consolidated budget deficit** amounted to Denar 20,053 million or 9.7% of GDP realized in this quarter, while central budget deficit amounted to Denar 20,792 million, i.e. 10.0% of quarterly GDP.

Total **general government debt** at the end of Q2 2023 accounted for 50.4% of GDP, increasing its share in GDP by 0.4 p.p. compared to Q1 2023. The share of external debt in the total government debt decreased by 0.8 p.p. compared to Q1 2023,

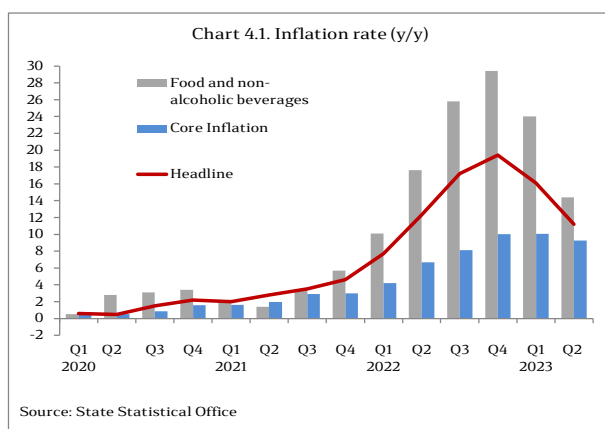




accounting for 61.3%, while share of domestic debt increased respectively, accounting for 38.7% of the total general government debt.

## 4. Inflation and Monetary Trends

**The inflation rate**, measured according to the CPI Index accounted for 11.2% in Q2 2023 (16.1% in the previous quarter) on an annual basis, being lower by 4.9 p.p. compared to Q1 2023. Consumer prices in the second quarter of 2023 recorded further intensified reduction, reflecting the drop of prices of food and energy products on global stock markets.



Core inflation recorded slowed down growth, however the growth rates are still high and in the second quarter the core inflation increased by 9.3% (10.1% in Q1 2023), with the category Restaurants and hotels mostly contributing thereto. Core

inflation is easing slower than the expectations, as a result of the lagging effects from last year's rising prices of food and energy products.

In the second quarter, prices of energy products and commodities on global stock markets recorded further reduction and easing, following the huge rise due to the price distortions triggered by the war in Ukraine and the economic consequences thereof. However, inflation in the Eurozone and the region, proved to be more persistent, in particular the core one despite the efforts of the central banks, having increased their policy rates, all to the end of curbing the inflation.

Observed by components, prices in the Food and non-alcoholic category in Q2 2023 picked up by 14.4% (24.0% in the previous quarter), being a decrease by almost 10 p.p. compared to the previous quarter, and it is in line with the price trends on global stock markets. Food price level resulted from the prices of bread and cereals, meat, milk, cheese and eggs and vegetables. Oil prices recorded a drop in the second quarter.



Increase of consumer prices in Q2 2023 was also registered in the following categories: Restaurants and hotels by 17.8%, Furnishings, household equipment and routine maintenance of the house by 15.7%, Housing, water, electricity, gas and other fuels by 14.1%, Miscellaneous goods and services by 12.8%, Alcoholic beverages, tobacco and narcotics by 8.7%, Recreation and culture by 6.8%, Clothing and footwear by 4.9%, Health protection by 4.3%, Education by 3.6% and Communications by 0.8%. Prices in the category Transport reduced by 2.1% as a result of the reduced prices of fuels. Retail prices in the second quarter grew by 5.0%.

In response to the rising inflation and the inflation expectations in the course of 2022, the National Bank increased its **policy rate** on several occasions, tightened monetary policy continued to be pursued in the first half of 2023 as well, thus, in the second quarter, NBRNM increased the interest rate or 5.50% in March to 6.0% in June 2023.

In line with the increase in the policy rate, interest rates on both available overnight deposits and 7-day deposits were also increased, accounting for 3.90% and 3.95%, respectively.

**Primary money**<sup>1</sup> in Q2 2023 dropped by 2.9% on quarterly basis (2.8% growth was registered in the previous quarter), as a

result of decreased total liquidity of banks by 10.9%, while currency in circulation grew by 4.7%.

Compared to Q2 2022, primary money dropped by 4.1% (1.4% drop was registered in Q1 2023), as a result of the decrease of total liquid assets by 16.4%, while currency in circulation picked up by 9.0%.

In Q2 2023, the narrowest money supply M1<sup>2</sup> experienced 6.6% growth compared to the previous quarter. Monetary aggregate M2 surged by 3.8%, while the widest monetary aggregate M4 increased by 4.6% on quarterly basis.

Total **deposit potential**<sup>3</sup> of banks in Q2 2023 grew by 4.5% on quarterly basis, following the 1.1% drop in the previous quarter. Analyzed by sectors, deposits of enterprises and deposits of households increased by 9.4% and 2.6%, respectively. From currency point of view, compared to the previous quarter, Denar deposits grew by 6.4%, while foreign currency deposits surged by 2.3%.

The level of euroization dropped by 0.9 p.p. compared to the previous quarter, accounting for 44.1%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q2 2023, share of long-term deposits in total deposit potential increased by 0.7 p.p. compared to

<sup>1</sup>It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

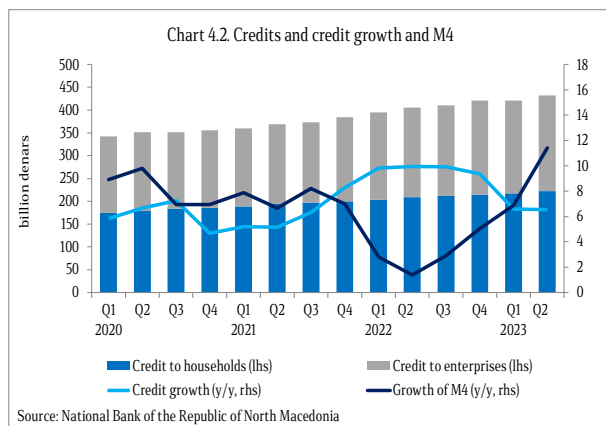
<sup>2</sup>Monetary aggregate M1 comprises currency in circulation

and deposit money. Monetary aggregate M2 comprises monetary aggregate M1 and short-term deposits, while monetary aggregate M4 includes monetary aggregate M2 and long-term deposits.

<sup>3</sup>Deposits also include calculated interest.



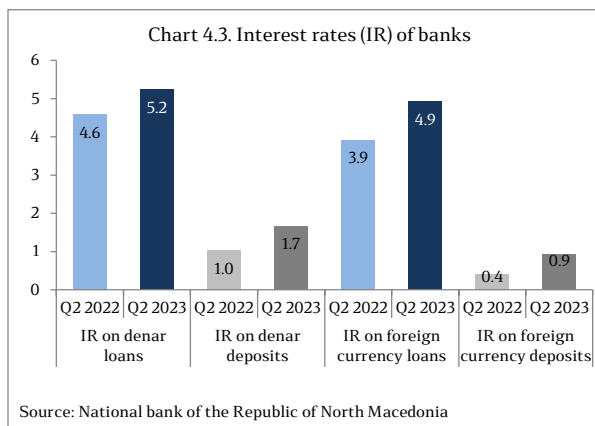
the previous quarter, accounting for 21.3% (accounting for 20.6% in Q1 2023).. During the analyzed period, short-term deposits grew by 0.9%.



**Credit activity** of banks in Q2 2023 picked up by 2.6% on quarterly basis (credits stagnated in the previous quarter), in conditions of growth of credits to enterprises by 3.1%, while credits to households surged by 2.2%. From currency aspect, in Q2 2023, Denar and foreign currency credits surged by 2.3% and 3.1%, respectively.

From maturity point of view, long-term credits in Q2 2023 experienced 3.1% growth compared to the previous quarter, while short-term credits were higher by 0.3%.

In Q2 2023, **interest rate**<sup>4</sup> on Denar credits accounted for 5.24%, increasing by 0.13 p.p. compared to the previous quarter. Interest rate on foreign currency credits accounted for 4.93% in Q2 2023, increasing by 0.4 p.p. compared to the previous quarter.



Interest rate on Denar deposits grew by 0.28 p.p., accounting for 1.67% in Q2 2023 compared to the previous quarter, while interest rate on foreign currency deposits increased by 0.23 p.p., accounting for 0.94% compared to the previous quarter.

In Q2 2023, interest rate on newly granted Denar credits accounted for 5.50%, while interest rate on newly approved foreign currency credits accounted for 5.09%. Interest rates on newly received Denar and foreign currency deposits accounted for 2.79% and 1.81%, respectively.

<sup>4</sup>Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.

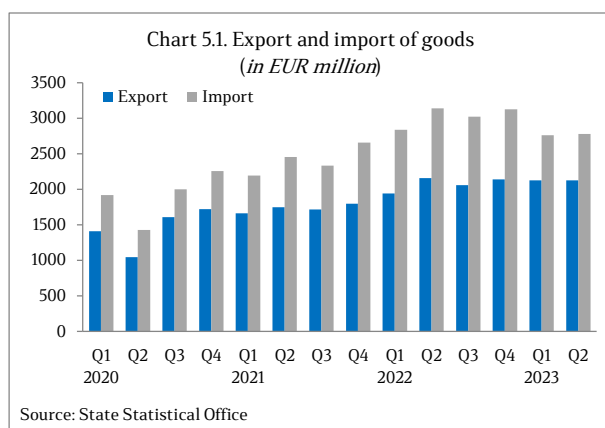




## 5. External Sector

### 5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 4,903.7 million in Q2 2023, dropping by 7.4% compared to the same quarter in 2022.



**Exports of goods** in Q2 2023 amounted to EUR 2,125.6 million, dropping by 1.5% compared to Q2 2022, while compared to the previous quarter, exports remained at the same level.

Analyzed by **sectors** of SITC (Standard International Trade Classification), in Q2 2023, drop of export on annual basis, was recorded at the following sectors:

- manufactured goods classified by material by 36.2% (wherein highest drop was seen at the following categories: iron and steel by EUR 100.4 million or 40.2%, textile yarn, fabrics and made-up articles and related products by EUR 20.8 million or 48.7%);
- mineral fuels and lubricants by 13.4% (petroleum and petroleum products by EUR 27.2 million or 55.5%);

- crude materials, except fuels by 21.1% (metalliferous ores and metal scrap by EUR 20.9 million or 22.4%) and
- animal and vegetable oils by 53.3% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 3.1 million or 55.0%).

Growth of export was seen at the following sectors:

- machinery and transport equipment by 17.5% (wherein the highest growth was seen at the categories: road vehicles by EUR 34.7 million or 34.7%, electrical machinery, apparatus and appliances by EUR 23.8 million or 8.3%);
- miscellaneous manufactured articles, by 14.2% (furniture and parts thereof, bedding, mattresses and similar by EUR 21.0 million or 27.4%; clothing by EUR 6.4 million or 6.1%);
- chemical products by 1.2% (chemical products by EUR 9.5 million or 1.5%; medical and pharmaceutical products by EUR 7.5 million or 24.9%);
- beverages and tobacco by 32.2% (tobacco and tobacco manufactures by EUR 16.0 million or 41.3%) and
- food products by 3.0% (fruit and vegetables by EUR 6.7 million or 5.3%; coffee, tea, cocoa, spices and manufactures thereof by EUR 1.0 million or 16.2%);

Observed by **economic purpose**, in Q2 2023, drop of export was recorded at the following groups of products:





- goods for industrial supplies by EUR 120.3 million or 9.3%;
- fuels and lubricants by EUR 10.4 million or 15.4%;

Growth of export was recorded at the following groups of products:

- investment products without transport equipment by EUR 46.5 million or 27.8%;
- transport equipment by EUR 35.8 million or 13.0%;
- consumer goods by EUR 10.4 million or 5.0% and
- food and beverages by EUR 6.6 million or 4.3%.

**Imports of goods** in Q2 2023 amounted to EUR 2,778.1 million, decreasing by 11.5% compared to Q2 2022, while, in relation to the previous quarter, it increased by 0.7%.

Analyzed by SITC **sectors**, decrease of import in Q2 2023, compared to Q2 2022, was seen at the following sectors:

- mineral fuels and lubricants by 42.3% (wherein highest drop were recorded at the categories: petroleum and petroleum products by EUR 116.6 million or 38.5%; electricity by EUR 97.1 million or 71.9%);
- products classified by material by 14.4% (iron and steel by EUR 86.4 million or 43.5%; non-ferrous metals by EUR 64.7 million or 15.3%);
- chemical products, by 13.9% (inorganic chemicals by EUR 62.9 million or 39.7%);
- crude materials, except fuel by 30.8% (metalliferous ores and metal scrap by EUR 21.1 million or 39.6%) and

- animal and vegetable oils by 54.1% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 16.7 million or 57.6%).

Increase of import was seen at the following sectors:

- machinery and transport equipment by 12.2% (wherein the highest growth was seen at the categories: road vehicles by EUR 29.7 million or 30.6%, electrical machinery, apparatus and appliances by EUR 22.3 million or 8.0%);
- food products by 9.5% (meat and meat preparations by EUR 7.1 million or 15.1%; fruit and vegetables by EUR 5.1 million or 16.2%; coffee, tea, cocoa, spices and manufactures thereof by EUR 4.8 million or EUR 22.6%);
- miscellaneous manufactured articles by 7.9% (professional, scientific and controlling instruments and apparatus by EUR 4.2 million or 24.3%); and
- beverages and tobacco by 4.3% (beverages by EUR 0.8 million or 3.8%).

Observed by **economic purpose**, in Q2 2023, drop of import was recorded at the following groups of products:

- goods for industrial supplies by EUR 274.3 million or 17.1% and
- fuels and lubricants by EUR 210.9 million or 41.7%.

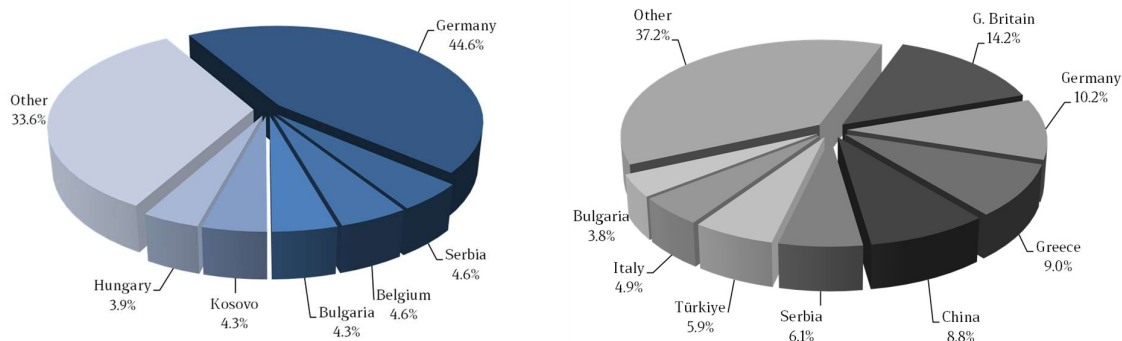
Growth of import was recorded at the following groups of products:

- investment products without transport equipment by EUR 42.0 million or 10.6%;
- transport equipment by EUR 34.9 million or 26.9%;



- consumer goods by EUR 34.7 million or 14.2% and
- food and beverages by EUR 6.6 million or 2.5%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q-2-2023



Source: MoF calculation on the based on SSO data

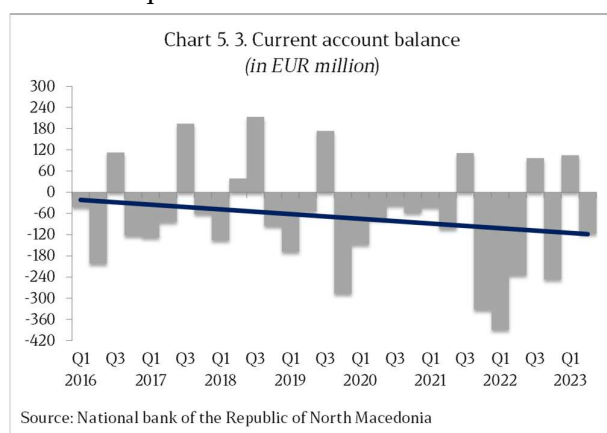
In Q2 2023, foreign trade with the European Union (EU 27<sup>5</sup>), in relation to Q2 2022, decreased by 3.5%, whereby share of trade with the EU in the total foreign trade increased by 2.5 p.p. compared to the second quarter in 2022, accounting for 61.9%. Thereby, in Q2 2023, export of goods accounted for 79.9%, while share of import of goods was 48.2%.

<sup>5</sup>Starting February 2020, Great Britain is included in the economic group of countries - Miscellaneous countries



## 5.2. Balance of Payments

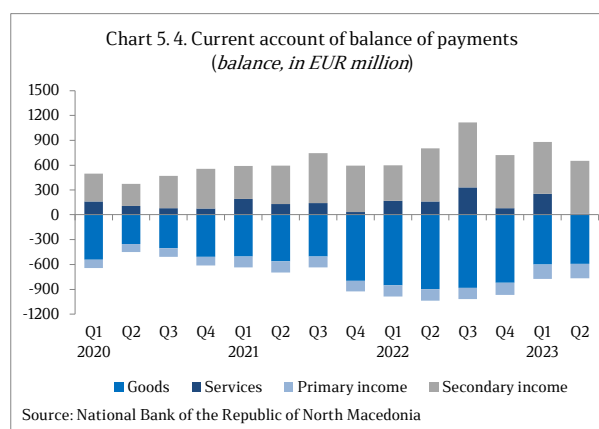
According to the data from the National Bank of the Republic of North Macedonia, deficit in the amount of EUR 116.9 million was recorded on the balance of payments **current account** in Q2 2023, accounting for 3.5% of quarterly GDP, as opposed to the deficit of 7.6% of GDP registered in the same quarter of 2022.



Analyzed on annual basis, the current account deficit in Q2 2023 decreased by EUR 117.1 million, i.e. by 50.1%, being a result of the reduced deficit on the goods account by 34.3%, as well as the decreased surplus on the services account by 91.3% and the secondary income account by 0.5%. The widened deficit on the primary income account by 29.1% had the opposite effect.

In Q2 2023, the **trade deficit** dropped by EUR 308.3 million on an annual basis, while the trade deficit as a percentage of

quarterly GDP narrowed by 11.5 p.p. on an annual basis, i.e. accounting for 17.6% of quarterly GDP.



The surplus on **services account** amounted to EUR 14.1 million in Q2 2023, and compared to the same quarter of 2022, it declined by EUR 148.3 million. **Trade openness** of the Republic of North Macedonia in Q2 2023 accounted for 165.1% of quarterly GDP, being lower by 15.4 p.p. compared to Q2 2022.

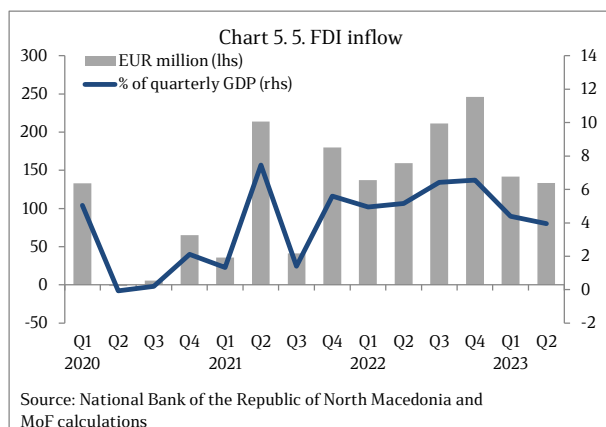
**Primary income** account experienced EUR 176.8 million deficit in Q2 2023, increasing by EUR 39.9 million on annual basis.

Surplus on the **secondary income** account in Q2 2023 amounted to EUR 636.9 million, decreasing by EUR 3.0 million on an annual basis. The drop was a result of the decrease in official transfers by EUR 9.8 million, participating with 1.5% in the secondary



income account, while current transfers increased by EUR 6.7 million, accounting for 98.5% of the secondary income account.

Deficit on **capital account** amounted to EUR 0.5 million in Q2 2023 and compared to the same quarter of 2022, it declined by EUR 0.1 million.



**Foreign Direct Investments (FDIs)** in the country in Q2 2023 amounted to EUR 133.2 million, decreasing by EUR 26.0 million compared to Q2 2022. During this period, inflow of FDIs mostly arose from equity (because of which 51.4% of the total inflow of FDIs was generated) and reinvestment of earnings (49.6% of total inflow of FDIs), whereby on the basis of debt instruments, outflow was registered.

**Portfolio investments** in Q2 2023 amounted to EUR 20.2 million and, compared to the same quarter in the previous year, they declined by EUR 48.9 million.

**Other investments** in Q2 2023 were negative, amounting to EUR 67.6 million. As regards the category other investments, currencies and deposits amounted to EUR 120.6 million, while accounts of the loans and trade credits and advance payments experienced a negative balance in the amount of EUR 174.9 million and EUR 12.5 million, respectively.

**Reserve assets** amounted to EUR 4.2 billion at the end of the second quarter in 2023, surging by 34.5% compared to Q2 2022. At the end of Q2 2023, reserve assets provided for 4.1-month coverage of import of goods and services in the previous 12-month period.