



# Q1-2019

## QUARTERLY ECONOMIC REPORT

### first quarter of 2019

### Summary

- **Gross Domestic Product** in Q1 2019 compared to the same quarter of 2018 increased by 4.1% in real terms, by which economic growth continued with intensified dynamics. Economic growth is broad based, with almost all activities registering positive trends, and positive contribution of exports, investment and consumption to economic growth;
- **Number of employed** persons in Q1 2019 increased by 5.3% compared to the same quarter in 2018. **Number of unemployed** persons dropped by 17.1%, which resulted in reduction of **unemployment rate** to 17.8% in Q1 2019;
- Average **gross wage** amounted to Denar 36,254 in Q1 2019, increasing by 4.6% in nominal terms, i.e. by 3.4% in real terms, compared to the gross wage in Q1 2018;
- Total **budget revenues** were higher by 6.2% in Q1 2019, and total **budget expenditures** were higher by 6.0% compared to the same quarter in 2018;
- **Inflation rate** was 1.2% in Q1 2019 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 0.7% in Q1 2019 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q1 2019 grew by 0.8% on quarterly basis;
- In Q1 2019, increase of both **export of goods** by 16.8% and **import of goods** by 11.5% was registered on annual basis, whereby **total foreign trade**, expressed in euros, surged by 13.7%;



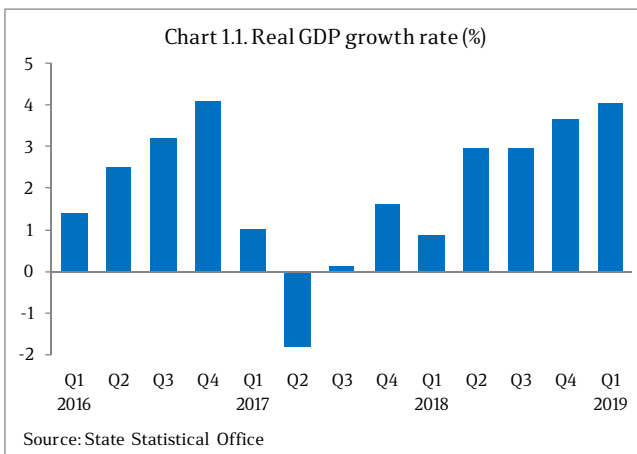
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## 1. Economic activity

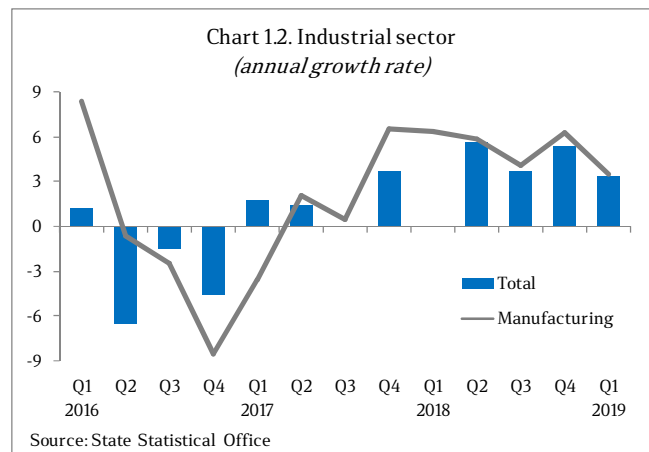
**Gross Domestic Product (GDP)** in Q1 2019 compared to the same quarter of 2018 increased by 4.1% in real terms, by which economic growth continued with intensified dynamics (Chart 1.1).



**Analyzed by activity**, economic growth in Q1 2019 was a result of the positive performance at almost all activities. Favourable trends in **construction activity** continued in Q1 2019, registering 7.0% growth in real terms, which according to the monthly data on completed construction work was a result of construction activity growth as regards civil engineering structures, i.e. roads, while activities with respect to buildings declined. **Agricultural activity** in Q1 2019 grew by 13.6% in real terms.

**Industrial sector** registered an increase of 3.4%, mostly as a result of the growth in Manufacturing. According to high-frequency data, Mining and Electricity and gas supply grew by 4.1% and 15.9%, respectively. Within **Manufacturing**, more significant contribution to growth was observed in: Manufacture of

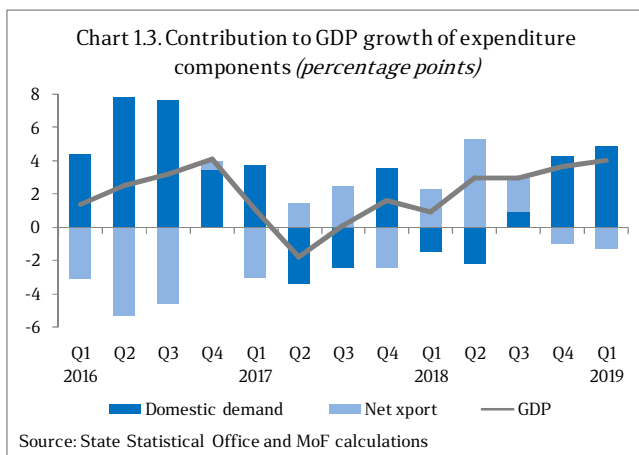
machinery and equipment (23.8%), Manufacture of motor vehicles (13.9%), Manufacture of beverages (26.0%), Manufacture of base metals (20.9%), Manufacture of electric equipment (16.4%), Manufacture of pharmaceutical products and preparations (23.1%), Manufacture of textiles (13.2%), Manufacture of other non-metallic mineral products (11.0%), etc. In fact, growth was registered at 12 branches, comprising 55% of the industrial production.



Growth in the **services sector** amounted to 2.7%, being a result of the positive trends in: Trade, transportation and accommodation and food service activities by 6.6%, Public administration, defence, education and health activities by 2.8%, Real estate activities by 1.3% and Professional, scientific, technical and administrative activities by 0.7%. Drop of activity was registered at: Financial and insurance services by 1.1% and Information and communication by 0.7%, whereas Arts, entertainment, recreation and other services activity remained unchanged.



Analyzed according to the **expenditure side of GDP**, economic growth in Q1 2019 was a result of the growth of domestic demand, stemming from both consumption and gross investment growth, while net export had a negative contribution to the economic growth, despite the high growth of export (Chart 1.3).



Growth of **export** of goods and services amounted to 15.6% in real terms, mostly as a result of the export of capacities in free economic zones, also underpinned by the sound performance of some of the other

export segments, such as metal and food industries, despite the somewhat less favourable trends of the external demand. **Import** of goods and services surged by 14.4% in real terms. More detailed information of export and import of goods is shown in point 5.1.

**Consumption** in Q1 2019 grew by 2.1% in real terms, mostly as a result of the private consumption, which surged by 2.6%, being largely a result of the household disposable income growth, amid employment gains and increase of wages in the economy. Private consumption was also supported by the increased crediting to households. Public consumption grew by 0.1% in real terms.

Real growth of **gross investment** continued with more intensified dynamics in Q1 2019, amounting to 9.9%, being a result of investment in construction works, as well as more intensive crediting to the corporate sector.

## 2. Labour market

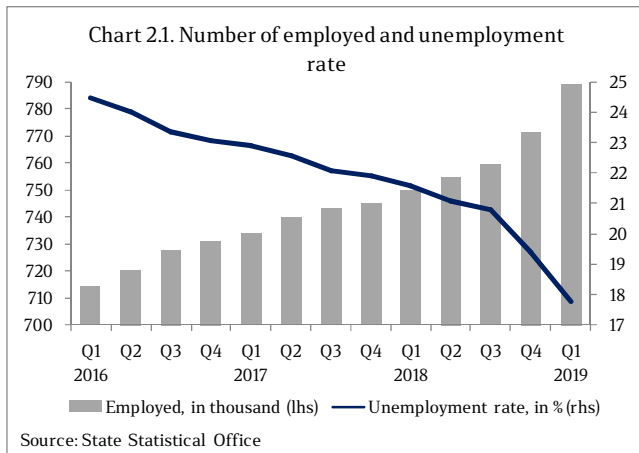
Positive trends on the labour market continued in Q1 2019, thus, according to the Labour Force Survey, **number of employed persons** was higher by 5.3%, i.e. by 39.5 thousand persons compared to the same quarter in 2018, whereby employment gains were registered in industrial sector (13.3 thousand or 7.5%), services sector (34.1 thousand or 8.6%) and construction sector (306 or 0.5%).

Employment in agriculture sector dropped by 9.6 thousand persons or 8.0%.

Analyzed according to the economic status, an increase of employment was registered for employed persons (wage earners) by 51.4 thousand or 9.0% and self-employed persons by 1.3 thousand or 1.4%, while a decrease was seen in the number of employers by 7.6 thousand or 20.7% and the number of family workers by 5.6 thousand or 11.0%. **Employment rate** in Q1



2019 amounted to 46.9%, being higher by 2.3 p.p. compared to the same quarter in 2018.



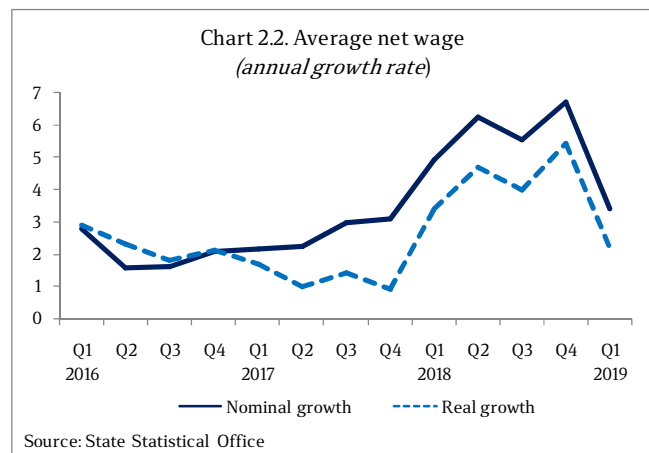
Employment growth was coupled with a decrease in the **number of unemployed persons**, dropping by 35.4 thousand persons, i.e. by 17.1% compared to the same quarter in 2018. Such trends caused for the **unemployment rate** in Q1 2019 to reduce to 17.8%, i.e. by 3.8 p.p. compared to the same quarter in 2018 or by 1.6 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment decreased for all groups, whereby the most significant reduction was seen for the age group 15-24 years, amounting to 18.8%. Observed by gender, unemployment rate was mostly reduced for the male population (by 4.2 p.p.), amounting to 18.5%, being higher by 1.7 p.p. compared to

unemployment for women, which dropped by 3.2 p.p., amounting to 16.8%.

Number of **active population** increased by 4.1 thousand persons, i.e. by 0.4% on annual basis. Active population in Q1 2019 accounted for 57.1% of the total working age population, being higher by 0.2 p.p. compared to the same quarter in 2018.

Average monthly **net wage** amounted to Denar 24,433 in Q1 2019, being higher by 3.4% in nominal terms and by 2.2% in real terms compared to the same quarter in 2018. Average monthly **gross wage** amounted to Denar 36,254 in Q1 2019, increasing by 4.6% in nominal terms, i.e. surging by 3.4% in real terms (Chart 2.2).



**Labour productivity** in Q1 2019 decreased by 1.2%, as a result of the higher growth of employment than the production growth.

### 3. Public finances

#### 3.1. Budget revenues according to the economic classification

In Q1 2019, share of total budget revenues being higher by 6.2% compared to the same quarter in 2018, due to the higher



collection of social contributions by 7.7%, tax revenues by 2.9%, as well as higher performance of non-tax revenues by 35.3%. Thereby, as for tax revenues, higher collection was recorded at value added tax, excise duties, personal income tax, profit tax, while excise duties, as well as revenues on the basis of other taxes decreased. Revenues on the basis of customs duties remained unchanged compared to the same quarter of 2108.

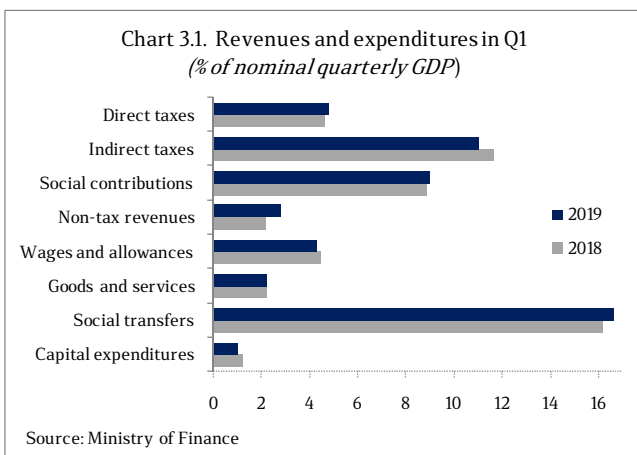
46.1% of total tax revenues in Q1 2019, being higher by 5.2% compared to the same quarter of last year. As for VAT structure, VAT share was the biggest when importing, followed by VAT collected on the basis of sales in the country. Excise revenues were lower by 9.5% compared to the same quarter of 2018.

As for **direct taxes**, collection of revenues on the basis of personal income tax surged by 12.1%, while profit tax revenues experienced an increase by 7.9% compared to the same quarter of the previous year, as a result of the higher collection on the basis of monthly advance payments, while collection on the basis of tax balances declined.

Collection of **social contributions** was higher by 7.7%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 7.7%, employment contributions by 6.3% and health insurance contributions by 7.8%.

Collection of **non-tax revenues**, accounting for 2.8% of the quarterly GDP, was higher by 35.3% in Q1 2019 compared to the same quarter of 2018.

**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 52.2% on annual basis in Q1 2019. Revenues on the basis of foreign donations picked up by 12.7%.



In Q1 2019, collection of indirect taxes was higher by 0.3%, while collection of direct taxes surged by 10.1% compared to Q1 2018. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes increased by 0.2 p.p., i.e. from 4.6% of quarterly GDP in Q1 2018 to 4.8% in Q1 2019, while share of revenues on the basis of indirect taxes was lower by 0.7 p.p., accounting for 11.9% of GDP in Q1 2019 compared to Q1 2018.

With respect to **indirect taxes**, VAT revenues predominated, accounting for

### 3.2. Revenues by budget users

Budget revenues, i.e. inflows to the Central Budget, are generated mainly

through the **Ministry of Finance - Functions of the State**, which amounted



to Denar 32,261 million in Q1 2019, i.e. 92.9% of the revenues of all budget users, accounting for 20.2% of the annual projections of this budget user. Within the Ministry of Finance - Functions of the State<sup>1</sup>, tax revenues accounted for the most – 80.6% of total revenues and inflows to this budget user, whereby their collection reached 21.9% of the annual projections in Q1 2019. Funds on the basis of domestic borrowing amounted to Denar 4,217 million, accounting for 13.1% of the total amount of this budget user.

**Ministry of Education and Science** collected revenues in the amount of Denar 898 million, accounting for 2.6% of the revenues and inflows of all budget users, being mainly non-tax revenues, collected on the basis of fees and charges.

Next budget user, having the highest revenues and inflows, is the **Ministry of Finance** which collected revenues in the amount of Denar 310 million, i.e. 0.9% of the revenues and inflows of all budget users, most of which was on the basis of transfers and donations. The remaining

budget users collectively generated revenues, accounting for 3.7% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link

(<https://finance.gov.mk/en/node/5618>).

As for **budget funds**, Pension and Disability Insurance Fund of North Macedonia collected the most revenues, amounting to Denar 18,392 million in Q1 2019, accounting for 25.4% of the Fund's annual projections.

<sup>1</sup> As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities (interest and principal repayment) 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 (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of North Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds for financing unforeseen costs in the course of the fiscal year.



### 3.3. Budget expenditures according to the economic classification

In Q1 2019, total budget expenditures, accounting for 31.5% of the quarterly GDP, were higher by 6.0% compared to the same quarter of 2018.

**Current expenditures**, accounting for 30.5% of quarterly GDP, participated with 96.7% in the total expenditures and experienced 6.6% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 6.9%, while expenditures related to wages and allowances were higher by 3.2% compared to the same quarter in 2018.

Funds for transfers, which participated with 72.1% in the total expenditures, were higher by 6.0% on annual basis. Social transfers surged by 8.9%, accounting for 52.7% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 8.9%, accounting for 32.6% of the total

expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 18.6% of the total expenditures, i.e. it dropped by 1.2% compared to the first quarter in 2018. Block and earmarked grants to local government units surged by 5.0%, while subsidies and transfers were lower by 6.8%.

Interest-related expenditures grew by 36.7% on annual basis, whereby domestic debt interest-related expenditures declined by 18.3%, and expenditures related to interest on foreign debt surged by 135.5%.

**Capital expenditures**, accounting for 1.0% of quarterly GDP, declined by 10.0% compared to the same quarter in 2018, i.e. they participated with 3.3% in the total expenditures.

### 3.4. Expenditures by budget users

Review of budget expenditures for the largest budget users<sup>2</sup> is shown below, the total annual budget of which accounts for around 81% of the total budget of all budget users.

**Ministry of Labour and Social Policy**, in Q1 2019, executed funds in the amount of Denar 10,837 million or 24.3% of its total

budget for the current year. Thereby, most of the expenditures (73.5%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 7,963 million was spent or 26.3% of the funds allocated for 2019. The second highest expenditure category was social benefits, participating with 18.1% in the total expenditures. As for this purpose, 19.1% (Denar 1,958 million) of the

<sup>2</sup> Data are not consolidated, also including the outflows.



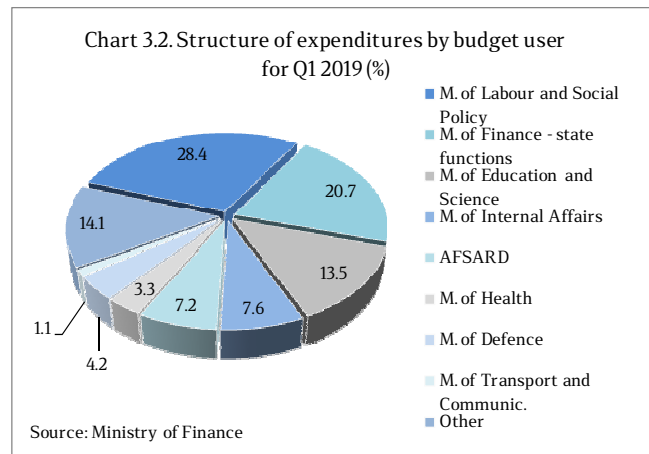


expenditures projected for 2019 were executed.

In the first quarter of 2019, Denar 7,901 million was spent through the organizational code **Ministry of Finance – Functions of the State**<sup>3</sup>, accounting for 23.6% of its annual budget. Repayment of principal accounted for most of the expenditures or 56.9%, Denar 4,497 million being spent therefore, i.e. 27.5% of the funds projected for this purpose in 2019. As regards expenditures related to interest payments, they accounted for 24.5% of the total expenditures, Denar 1,938 million being spent therefore or accounting for 21.1% of the projected interest payments.

In Q1 2019, **Ministry of Education and Science** executed budget funds in the amount of Denar 5,164 million, i.e. 19.8% of its total 2019 budget. Current transfers to LGUs accounted for the most of the expenditures (69.1%), Denar 3,569 million being spent therefore or 24.8% of total projected funds. Wages and allowances were the second highest expenditure

category, participating with 16.5%, Denar 853 million being spent therefore, i.e. 23.2% of the total funds projected for the current year.



In the first quarter of 2019, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,903 million, accounting for 26.5% of its 2019 budget. Wages and allowances were the highest expenditure item, participating with 66.8%, Denar 1,939 million being spent therefore, or accounting for 25.2% of the projected ones. The second highest expenditure item was goods and services, participating with 22.9%, funds in the amount of Denar 666 million being spent therefore, or accounting for 33.7% of the annual projections.

In Q1 2019, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 2,743 million, accounting for 31.6% of the funds projected for the current year. As for subsidies and transfers, accounting for 97.8% of the total expenditures, 40.6% of the projected funds were spent therefore.

<sup>3</sup> As regards the Organizational Code "*Functions of the State*", the following activities are included: timely servicing of liabilities (interest and principal repayment) 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 (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of North Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds for financing unforeseen costs in the course of the fiscal year.



**Ministry of Defense**, in Q1 2019, spent budget funds in the amount of Denar 1,588 million, i.e. 19.1% of its total 2019 budget. Wages and allowances accounted for the most with 60.5%, for which Denar 960 million was realized, accounting for 24.2% of the total funds projected for the current year. Expenditures related to goods and services accounted for 25.2% of total expenditures, Denar 400 million being spent therefore during the analyzed period, i.e. 20.2% execution of the total projected funds.

**Ministry of Health**, in the first quarter of 2019, spent budget funds in the amount of Denar 1,276 million, accounting for 19.7% of its total 2019 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 51.5%, for which Denar 657 million was spent or 22.9% of the funds projected for the

current year. Expenditures related to goods and services were the second highest expenditure category, accounting for 38.4% of the total expenditures, funds in the amount of Denar 490 million being executed therefore in the analyzed period, i.e. 21.4% of total projected ones.

**Ministry of Transport and Communications**, in the first quarter of 2019, spent budget funds in the amount of Denar 409 million, i.e. 5.6% of its total budget for the current year. Expenditures related to subsidies and transfers accounted for 49.4% in the total budget of this user, for which purpose Denar 202 million was spent, i.e. 28.2% of the projected ones.

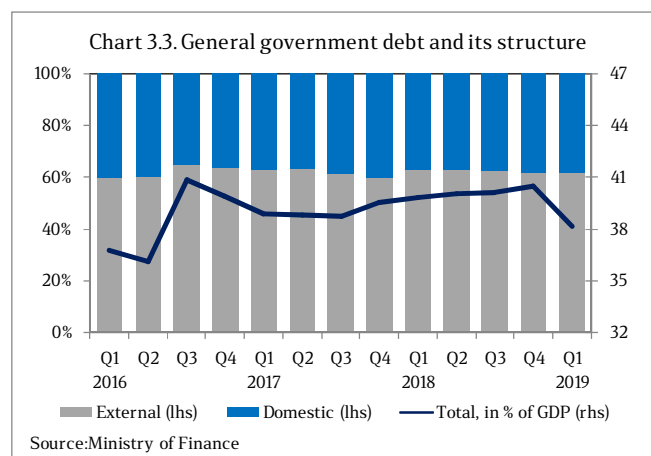
Detailed data on each budget user are presented in the statistical annex attached at the following link (<https://finance.gov.mk/en/node/5618>).

### 3.5. Budget deficit and government debt

In the first quarter of 2019, the **consolidated budget deficit** amounted to Denar 3,194 million or 2.0% of GDP realized in this quarter, while central budget deficit amounted to Denar 3,402 million, i.e. 2.2% of quarterly GDP.

Total **government debt** at the end of Q1 2019 accounted for 38.2% of GDP, decreasing by 2.3 p.p. compared to Q4 2018. The share of the external debt in the total government debt decreased by 0.1 p.p. compared to Q4 2018, accounting for 61.9%. Share of domestic debt respectively

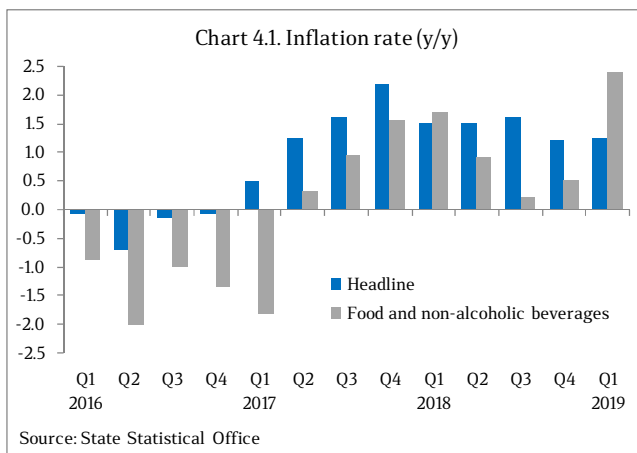
grew by 0.1 p.p., accounting for 38.1% of the total government debt.





## 4. Inflation and monetary trends

**Inflation rate**, measured according to CPI index, in Q1 2019, amounted to 1.2% on annual basis, being unchanged compared to Q4 2018. Growth of consumer prices in Q1 2019 was a result of the higher prices in the following categories: Alcoholic beverages, tobacco and narcotics by 6.1%, Health by 2.9%, Food and non-alcoholic beverages by 2.4%, Recreation and culture by 2.1%, Restaurants and hotels by 2.0%, Furnishings, household equipment and routine maintenance of the house by 1.1% and Miscellaneous goods and services by 0.6%.



Price decline in Q1 2019 was recorded at the following categories: Transport by 3.1%, Communications by 1.3%, Education by 0.5% and Clothing and footwear by 0.3%. Prices in the category Housing, water, electricity, gas and other fuels remained unchanged in Q1 2019.

In the first quarter<sup>4</sup> of 2019, National Bank of the Republic of North Macedonia reduced the **reference interest rate** by 0.25 p.p., i.e. from 2.50% to 2.25%, as a result of the continuous favourable trends on the foreign exchange market, indicating absence of pressures in the external sector and stable perceptions of domestic entities, as well as absence of price pressures. Interest rate on available 7-day deposits amounted to 0.3% in March 2019 and, compared to the previous quarter, it remained unchanged.

**Primary money**<sup>5</sup> in Q1 2019 decreased by 19.3% on quarterly basis (25.6% growth was recorded in the previous quarter) as a result of the decrease of both total liquidity of banks by 34.5% and currency in circulation by 2.9%. Compared to Q1 2018, primary money surged by 6.8% (18.9% growth was registered in Q4 2018), as a result of the increase of both currency in circulation by 12.0% and total liquidity of banks by 0.5%.

In Q1 2019, the narrowest money supply M1<sup>6</sup> experienced 2.5% decrease compared

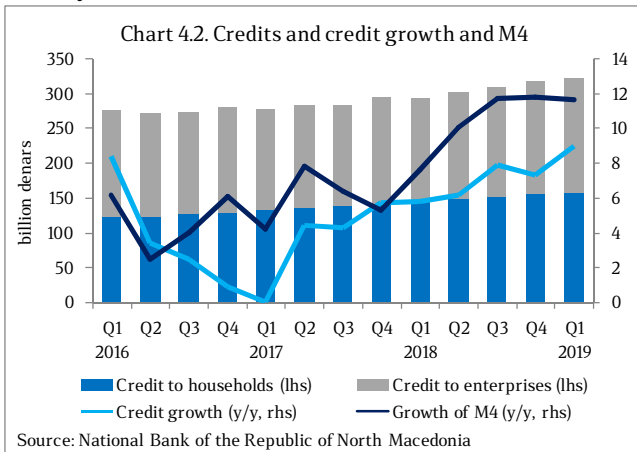
<sup>4</sup> Data from the monetary statistics, statistics of other financial institutions and the statistics of interest rates are according to the new methodology.

<sup>5</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>6</sup> Monetary aggregate M1 comprise currency in circulation and deposit money. Monetary aggregate M2 comprises the



to the previous quarter. Monetary aggregate M2 reduced by 0.4%, while the widest monetary aggregate M4 increased by 0.4%.



Total **deposit potential**<sup>7</sup> of banks in Q1 2019 grew by 0.7% on quarterly basis, following the 4.7% growth in the previous quarter. Analyzed by sectors, deposits of enterprises decreased by 3.1%, while deposits of households grew by 0.5%. From currency point of view, Denar deposits decreased by 0.4%, while foreign currency deposits grew by 2.4% compared to the previous quarter. Level of euroization grew by 0.7 p.p. compared to the previous quarter, accounting for 40.7%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q1 2019, share of long-term deposits in total deposit potential increased by 0.6 p.p. compared to the previous quarter, reaching 28.1% (accounting for 27.5% in Q4 2018). During

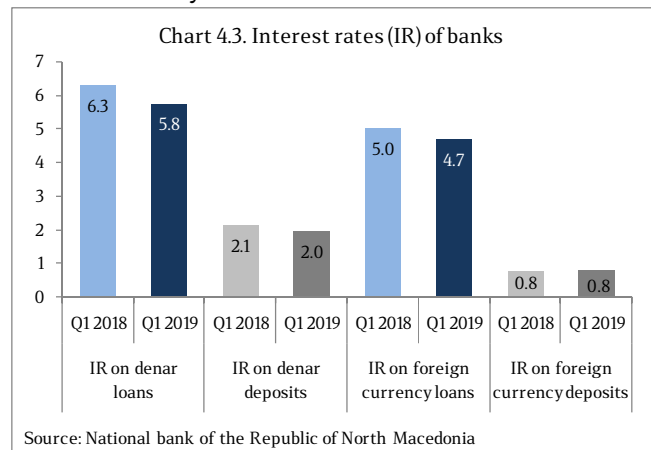
monetary aggregate M1 and short-term deposits, while monetary aggregate M4 includes monetary aggregate M2 and long-term deposits.

<sup>7</sup> Deposits also include calculated interest.

the analyzed period, short-term deposits grew by 1.4%.

**Credit activity** of banks to non-government sector in Q1 2019 increased by 0.8% on quarterly basis (registering 3.4% growth in the previous quarter), in conditions of growth of credits to households by 1.8%, while credits to enterprises remained unchanged.

Analyzed by currency, Denar and foreign currency credits increased by 0.6% and 1.2% respectively in Q1 2019, compared to the previous quarter. From maturity point of view, long-term credits in Q1 2019 experienced 1.1% growth compared to the previous quarter, while short-term credits were lower by 0.5%.



In Q1 2019, **interest rate**<sup>8</sup> on Denar credits amounted to 5.75%, decreasing by 0.15 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.70% in Q1 2019, dropping by 0.07 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.02 p.p., accounting for 1.95% in Q1 2019 compared to the previous quarter, while interest rate

<sup>8</sup> Credits and deposits with a forex clause are included in foreign currency credits and deposits.



on foreign currency grew by 0.01 p.p. compared to the previous quarter, accounting for 0.80%. In Q1 2019, interest rate on newly granted Denar credits amounted to 5.1%, while interest rate on

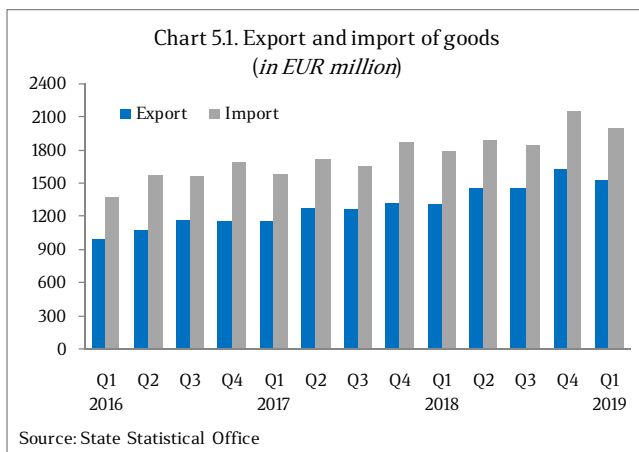
newly approved foreign currency credits accounted for 4.3%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.7% and 1.0%, respectively.

## 5. External sector

### 5.1. Foreign trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,517.6 million in Q1 2019, surging by 13.7% compared to the same quarter in 2018.

In Q1 2019, **export of goods** amounted to EUR 1,529.2 million, whereby compared to Q1 2018, it surged by 16.8%, while compared to the previous quarter, it decreased by 6.2%.



**Analyzed by SITC sectors** (Standard International Trade Classification), positive trends in the export in Q1 2019, compared to the same quarter in 2018, were registered at the following:

- o machinery and transport equipment by 26.9% (wherein the highest growth was seen at the categories: electrical

machinery, apparatus and appliances by EUR 50.6 million or 26.5% and industrial machines and spare parts by EUR 46.1 million or 32.3%);

- o chemical products surging by 18.2% (wherein highest growth was seen at the category: chemical materials and products by EUR 51.7 million or 18.5%);
- o manufactured goods classified by material picking up by 21.5% (iron and steel increasing by EUR 39.1 million or 36.8%);
- o food products picking up by 21.1% (fruit and vegetables increasing by EUR 8.4 million or 42.4%, dairy products and eggs by EUR 3.6 million or by almost two and a half times and cereals and cereal preparations surging by EUR 3.2 million or 19.4%);
- o animal and vegetable oils by twice (fixed vegetable fats and oils by EUR 1.5 million or by more than twice).

Decline of export was seen at the following:

- o miscellaneous manufactured goods by 3.2% (wherein highest decline was recorded at the following categories: clothing by EUR 4.0 million or 3.3%, footwear by EUR 2.1 million or 17.8%



and furniture and parts thereof, bedding, mattresses, cushions and similar articles by EUR 1.9 million or 2.9%);

- beverages and tobacco by 3.0% (tobacco and tobacco manufactures by EUR 2.9 million or 16.3%) and
- crude materials, except fuel by 0.4% (raw skins and fur skins by EUR 0.5 million or 58.3%, and metal ore and metal scrap declining by EUR 0.4 million or 0.7%).

**Observed by economic purpose**, in Q1 2019, increase of export was recorded at all groups of products, as follows:

- goods for industrial supplies picking up by EUR 86.6 million or 13.9%;
- investment products without transport equipment picking up by EUR 60.0 million or 28.8%;
- transport equipment surging by EUR 47.0 million or 23.9%;
- food and beverages surging by EUR 13.9 million or 18.0%.
- fuels and lubricants growing by EUR 7.2 million or 46.0% and
- consumer goods picking up by EUR 4.7 million or 2.5%.

**Import of goods** in Q1 2019 amounted to EUR 1,988.4 million, growing by 11.5% compared to Q1 2018, while in relation to the previous quarter, it dropped by 7.6%.

**Analyzed by SITC sectors**, increase of import in Q1 2019, compared to Q1 2018, was seen at all sectors, as follows:

- manufactured goods classified by material growing by 11.6% (wherein highest growth was seen at the

following categories: non-ferrous metals by EUR 69.8 million or 30.1% and items from non-metal minerals by EUR 18.5 million or 19.9%);

- chemical products by 24.3% (inorganic chemical products by around three and a half times or EUR 40.3 million);
- mineral fuels and lubricants increasing by 22.0% (petroleum and petroleum products by EUR 20.6 million or 20.2%);
- machinery and transport equipment by 3.2% (electrical machines, devices and spare parts by EUR 12.3 million or 7.4% and machinery specialized for particular industries by EUR 5.1 million or 15.8%);
- crude materials, except fuel, picking up by 34.9% (metal ore and metal scrap growing by EUR 11.0 million or 51.6%);
- miscellaneous manufactured articles growing by 3.3% (furniture and parts thereof, bedding, mattresses, mattress holders, cushions and similar, stuffed articles by EUR 3.4 million or 23.1%).
- food products growing by 5.1% (dairy products and eggs increasing by EUR 3.3 million or 23.9%; cereals and cereal preparations surging by EUR 1.4 million or 6.9%);
- beverages and tobacco increasing by 8.6% (beverages by EUR 1.4 million or 18.7%) and
- animal and vegetable oils surging by 3.7% (fixed vegetable fats and oils, increasing by EUR 0.6 million or 6.0%).

**Observed by economic purpose**, in Q1 2019, increase of import was recorded at all groups of products, as follows:

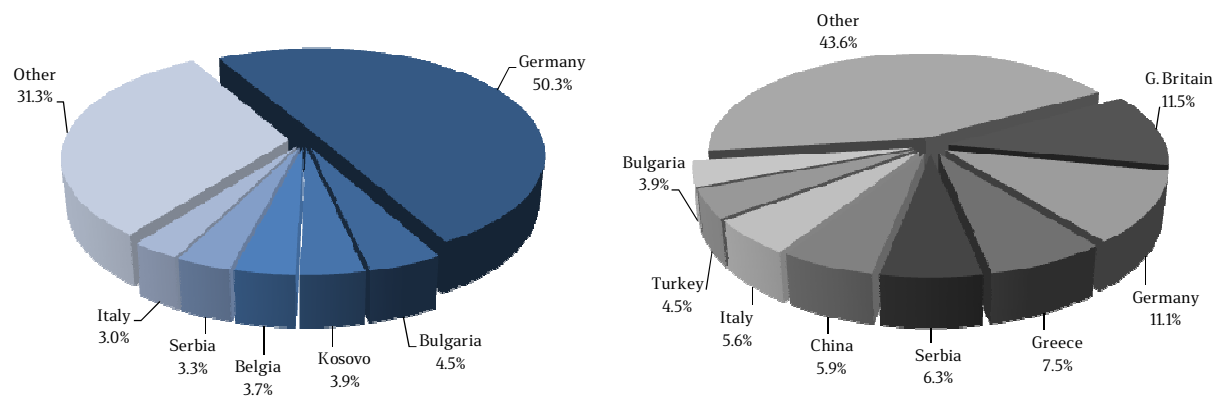


- goods for industrial supplies picking up by EUR 149.7 million or 16.5%;
- fuels and lubricants surging by EUR 35.7 million or 21.0%;
- food and beverages surging by EUR 10.0 million or 6.4%;
- investment products without transport equipment picking up by EUR 4.8 million or 1.9%;
- transport equipment increasing by EUR 3.4 million or 3.1% and

- consumer goods picking up by EUR 1.3 million or 0.7%.

In Q1 2019, foreign trade of the Republic of North Macedonia with the European Union (EU 28), in relation to Q1 2018, surged by 11.3%, whereby share of trade with the EU in the total foreign trade decreased by 1.5 p.p. compared to the first quarter in 2018, accounting for 71.1%. Thereby, in Q1 2019, export of goods accounted for 84.0%, while share of import of goods was 61.1%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q1 2019

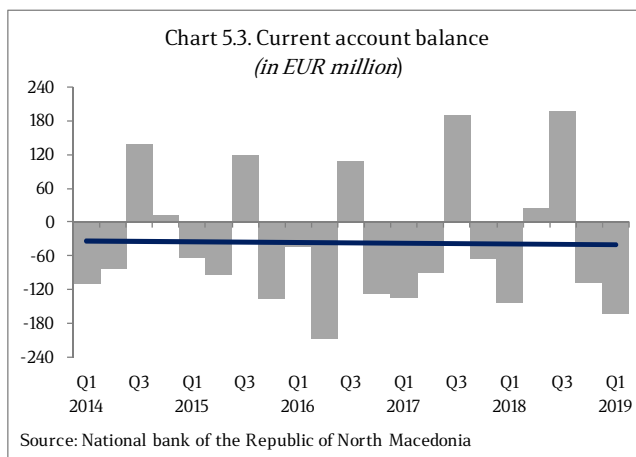


Source: MoF calculation based on SSO data

## 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 162.5 million was recorded on the balance of payments **current account** in Q1 2019, accounting for 6.4% of quarterly GDP, as opposed to the deficit of 6.0% of GDP registered in the same quarter of 2018.

Analyzed on annual basis, the current account deficit in Q1 2019 increased by EUR 18.0 million, i.e. by 12.5%, being a

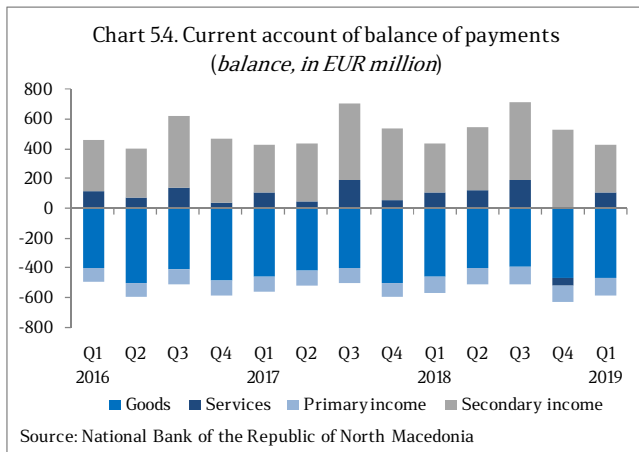




result of the widened deficit on the goods account by 2.2% and the primary income account by 0.4%, as well as the reduction of the positive balance of the services account by 4.4% and the secondary income account by 0.9%.

In Q1 2019, **trade deficit** increased by EUR 10.1 million on annual basis, narrowing by 0.7 p.p., i.e. accounting for 18.6% of quarterly GDP.

Surplus on **services account** amounted to EUR 98.4 million in Q1 2019 and, compared to the same quarter of 2018, it declined by EUR 4.5 million. Trade openness of the Republic of North Macedonia in Q1 2019 amounted to 142.0% of quarterly GDP, being higher by 9.5 p.p. compared to Q1 2018.



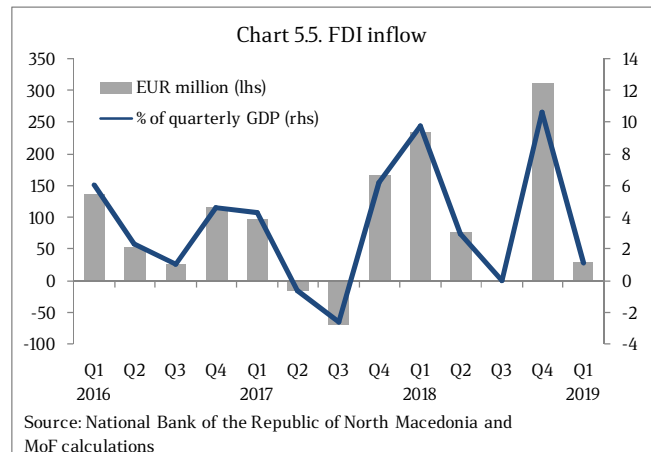
**Primary income account** experienced EUR 113.9 million deficit in Q1 2019, widening by EUR 0.4 million on annual basis.

Surplus on the **secondary income account** in Q1 2019 amounted to EUR 326.2 million, decreasing by EUR 3.0 million on annual basis. Drop was due to the reduction of private transfers by EUR

3.3 million, participating with 98.3% in the secondary income account, while official transfers grew by EUR 0.3 million.

Balance on the **capital account** amounted to EUR 0.3 million in Q1 2019 and, compared to the same quarter of last year, it declined by EUR 0.1 million, which is fully due to the decreased inflow of capital transfers.

**Foreign Direct Investments (FDIs)** in the country in Q1 2019 amounted to EUR 29.7 million, decreasing by EUR 205.5 million compared to Q1 2018. Reduction arises from the outflow on the basis of debt instruments (EUR 143.0 million), while on the basis of equity and profit reinvestment, inflow was registered (EUR 172.6 million).



**Portfolio investments** in Q1 2019 amounted to EUR 22.3 million, thus registering improvement of the balance compared to the same quarter in 2018, when they were negative and amounted to EUR 368.6 million.

**Other investments** in Q1 2019 were negative, amounting to EUR 153.0 million. As regards the category other





investments, currencies and deposits amounted to EUR 35.2 million, while accounts of the loans and trade credits and advance payments experienced a negative balance in the amount of EUR 19.1 million and EUR 169.2 million, respectively.

**Reserve assets** amounted to EUR 2.87 billion at the end of the first quarter of 2019, increasing by 11.2% compared to Q1 2018. At the end of Q1 2019, reserve assets provided for 4.3-month coverage of import of goods and services in the previous 12-month period.