



# Q2-2019

## QUARTERLY ECONOMIC REPORT

### second quarter of 2019

### Summary

- **Gross Domestic Product** in Q2 2019 compared to the same quarter in 2018 increased by 3.1% in real terms. Economic growth is broad based, amid positive performance at almost all activities;
- **Number of employed** persons in Q2 2019 increased by 5.2% compared to the same quarter in 2018. **Number of unemployed** persons dropped by 16.9%, which resulted in reduction of **unemployment rate** to 17.5% in Q2 2019;
- Average **gross wage** amounted to Denar 37,252 in Q2 2019, increasing by 4.8% in nominal terms, i.e. surging by 3.6% in real terms, compared to the gross wage in Q2 2018;
- Total **budget revenues** were higher by 5.9% in Q2 2019, and total **budget expenditures** were higher by 10.8% compared to the same quarter in 2018;
- **Inflation rate** was 1.2% in Q2 2019 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 2.3% in Q2 2019 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q2 2019 grew by 1.8% on quarterly basis;
- In Q2 2019, increase of both **export of goods** by 11.3% and **import of goods** by 10.8% was registered on annual basis, whereby **total foreign trade**, expressed in euros, surged by 11.0%;



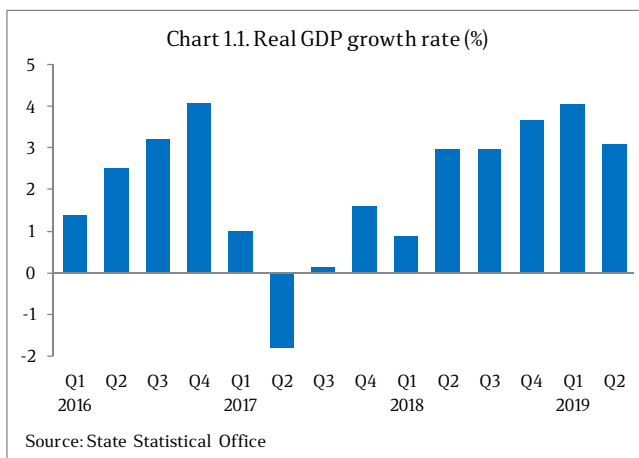
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## 1. Economic Activity

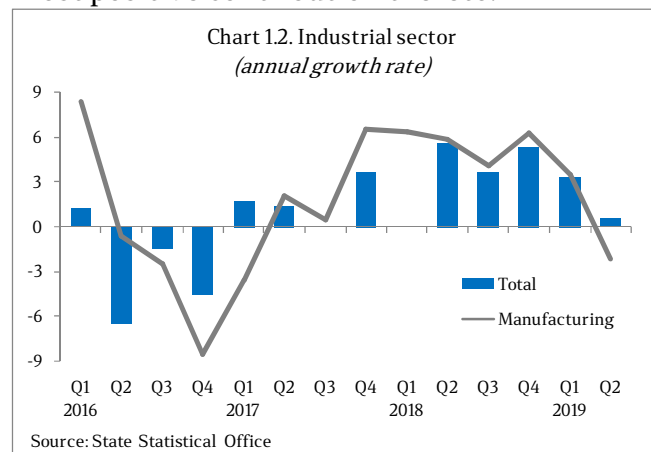
**Gross Domestic Product (GDP)** in Q2 2019, compared to the same quarter in 2018, increased by 3.1% in real terms, following the 4.1% growth in the first quarter, by which the economic growth in the first half amounted to 3.6% (Chart 1.1).



**Analyzed by activities**, economic growth in Q2 2019 was a result of the positive performance at most of the activities, mostly as a result of the growth in **the services sector** by 3.3% in real terms, being mostly a result of the increased activity in Trade, transportation, accommodation and food services by 7.5%. Within the services sector growth was also recorded at the following activities: Professional, scientific, technical and administrative activities by 3.6%, Public administration, defense, education and health activities by 3.5%, Real estate activities by 2.3% and Financial and insurance activities by 0.2%. Drop of activity was registered at: Information and communication, and Arts, entertainment, recreation and other services by 4.6% and 0.2%, respectively.

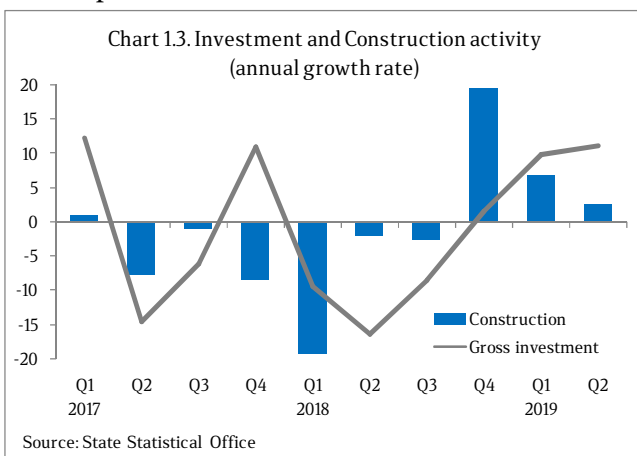
Favourable trends in **the construction sector** continued in Q2 2019, however with somewhat weaker dynamics compared to the previous quarter, i.e. it surged by 2.8% in real terms. In line with the monthly data for completed construction works, such performance was a result of the growth of construction activity as regards buildings, while activity in civil engineering structures experienced drop.

**Agricultural activity** in Q2 2019 grew by 3.9% in real terms. Growth in the **industrial sector** continued with slower dynamics in Q2 2019, amounting to 0.5% in real terms, amid drop in Manufacturing by 2.1% (Chart 1.2), while Mining and Electricity supply, in line with the monthly data, had positive contribution to the industrial production growth. Drop in **Manufacturing** was mostly a result of the reduced production of fabricated metal products, food products, clothing and metals. On the other hand, manufacture of machinery and equipment, electrical equipment, pharmaceutical products and preparation, as well as textile had the most positive contribution thereto.





Analyzed according to the **expenditure side of GDP**, economic activity growth in Q2 2019 was a result of the positive contribution of domestic demand, amid growth of both consumption and gross investment, while net export had negative contribution to the economic growth, in conditions of high growth of export and import.



Real growth of **gross investment** continued with more intensified dynamics in Q2 2019, amounting to 11.1% (Chart 1.3), being partially due to the growth of

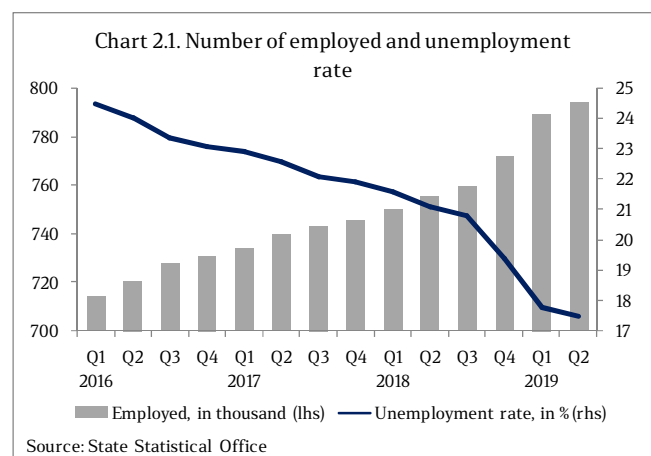
investment in construction works, and to a certain extent to the investment in machinery and equipment amid growth of import of capital goods.

**Consumption** surged by 2.7% in real terms, mostly as a result of the private consumption, which surged by 3.1%, being mostly a result of the increase of household disposable income, amid growth of employment and wages in the economy, also underpinned by the increased crediting to households. Public consumption increased by 1.2% in real terms.

Growth of **export** of goods and services amounted to 10.6% in real terms, mainly as a result of export by the capacities in the free economic zones, also supported by the sound performance of export of food products. **Import** of goods and services picked up by 10.9% in real terms, amid growth of investment and export, driven by import of intermediary goods.

## 2. Labour Market

The positive trends on the labour market continued in Q2 2019, thus, according to the Labour Force Survey, **number of employed persons** was higher by 5.2%, i.e. by 39.2 thousand persons compared to the same quarter in 2018, whereby employment growth was the highest in the services sector (36.6 thousand or 9.3%), followed by the industry (12.1 thousand or 6.8%) and construction (782 or 1.4%). Employment in the agricultural sector dropped by 9.3 thousand persons or 7.6%.





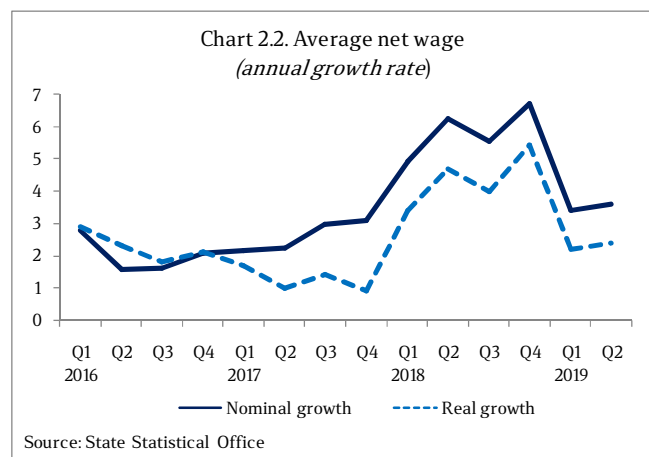
Analyzed according to the economic status, employment growth was registered in employed persons (wage earners) by 53.1 thousand or 9.3% and self-employed persons by 235 thousand or 0.8%, while drop was seen in the number of family workers by 4.9 thousand or 10.3% and the number of self-employed persons by 9.3 thousand or 8.6%. **Employment rate** in Q2 2019 amounted to 47.1%, being higher by 2.2 p.p. compared to the same quarter in 2018.

The increase of employment rate was accompanied by drop in the **number of unemployed persons**, decreasing by 34.2 thousand persons, i.e. by 16.9% compared to the same quarter in 2018. Such trends caused for the **unemployment rate** in Q2 2019 to reduce to 17.5%, i.e. by 3.6 p.p. compared to the same quarter in 2018, being lower by 0.3 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment decreased at all groups, whereby the most significant reduction was recorded at the age group of 15-24 years, accounting for 28.0%. Observed by gender structure, unemployment rate was mostly reduced among the male population (by 6.2 p.p.), accounting for 15.5%, being lower by 4.8 p.p. compared to the unemployment of

women, which surged by 0.1 p.p., accounting for 20.3%.

**Number of active population** increased by 5.0 thousand, persons i.e. by 0.5% on annual basis. Active population in Q2 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 25,087 in Q2 2019, being higher by 3.6% in nominal terms compared to the same quarter in 2018, while net wage increased by 2.4% in real terms. Average monthly **gross wage** amounted to Denar 37,252 in Q2 2019, increasing by 4.8% in nominal terms, i.e. surging by 3.6% in real terms (Chart 2.2).

**Labour productivity** in Q2 2019 decreased by 2.0% as a result of the higher growth of employment than production.

### 3. Public Finances

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

In Q2 2019, share of total budget revenues accounted for 30.2% of the quarterly GDP, being higher by 5.9% compared to the

same quarter in 2018, due to the higher collection of social contributions by 10.2% and non-tax revenues by 82.3%, while tax

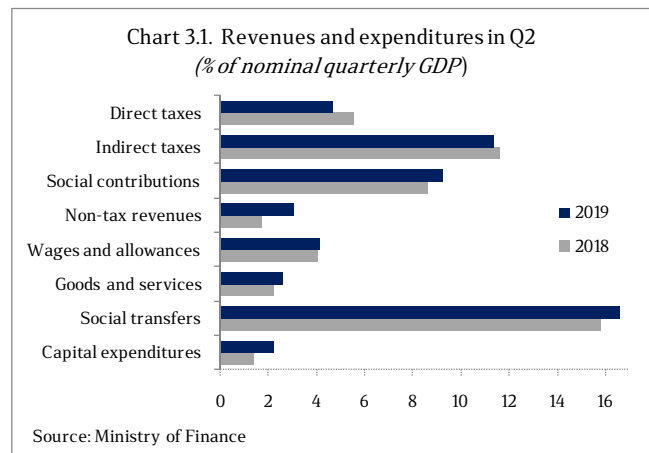


revenues dropped by 3.3%. Thereby, as for tax revenues, lower collection was recorded at value added tax and profit tax, while personal income tax, excise duties, revenues on the basis of customs duties and revenues on the basis of other taxes increased.

In Q2 2019, collection of indirect taxes was higher by 0.6%, while collection of direct taxes decreased by 13.1% compared to Q2 2018. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes decreased by 0.8 p.p., i.e. from 5.5% of quarterly GDP in Q2 2018 to 4.7% in Q2 2019, while share of revenues on the basis of indirect taxes was lower by 0.2 p.p. compared to Q2 2018, accounting for 11.4% of GDP in Q2 2019.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 42.4% of total tax revenues in Q2 2019, being lower by 4.8% 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 11.7% compared to the same quarter of 2018.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 19.7%, while profit tax revenues declined by 38.4% compared to the same quarter of the previous year, as a result of the lower collection on the basis of monthly advance payments, tax balances and withheld tax paid to foreign legal entities.



Collection of **social contributions** was higher by 10.2%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance – 10.9%, health insurance contributions – 9.1%, and employment contributions – 8.4%.

Collection of **non-tax revenues**, accounting for 3.0% of the quarterly GDP, was higher by 82.3% in Q2 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 50.1% on annual basis in Q2 2019. Revenues on the basis of foreign donations picked up by 57.4%.



### 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**<sup>1</sup>, which amounted to Denar 35,037 million in Q2 2019, i.e. 90.5% of the revenues of all budget users, accounting for 22.0% of the annual projections of this budget user.

Within the Ministry of Finance - Functions of the State, tax revenues accounted for the most – 79.5% of total revenues and inflows to this budget user, whereby their collection reached 23.4% of the annual projections in Q2 2019. Funds on the basis of domestic borrowing amounted to Denar 5,125 million, accounting for 14.6% of the total amount of this budget user.

Next budget user, having the highest revenues and inflows, is the **Ministry of**

**Transport and Communications** which collected revenues in the amount of Denar 1,178 million, i.e. 3.0% of the revenues and inflows of all budget users, almost all of which was on the basis of foreign borrowing.

**Ministry of Education and Science** collected revenues in the amount of Denar 874 million, or 2.3% of the revenues and inflows of all budget users. The remaining budget users collectively generated revenues, accounting for 4.2% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link

(<http://finance.gov.mk/mk/node/692>).

As for **budget funds**, Pension and Disability Insurance Fund of North Macedonia collected the most revenues, amounting to Denar 30,793 million in Q2 2018, accounting for 24.5% 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 Q2 2019, total budget expenditures, accounting for 32.5% of the quarterly GDP, were higher by 10.8% compared to the same quarter of 2018.

**Current expenditures**, accounting for 30.3% of quarterly GDP, participated with 93.2% in the total expenditures and experienced 8.2% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 20.4%, while expenditures related to wages and allowances were higher by 5.5% compared to the same quarter in 2018.

Funds for transfers, which participated with 71.0% in the total expenditures, were higher by 7.6% on annual basis. Social transfers surged by 7.8%, accounting for 51.1% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by

9.0%, accounting for 31.0% of the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 19.2% in the total expenditures, i.e. they surged by 6.8% compared to the second quarter in 2018. Block and earmarked grants to local government units surged by 6.2%, while subsidies and transfers were higher by 7.5%.

Interest-related expenditures grew by 0.5% on annual basis, whereby domestic debt interest-related expenditures declined by 4.7%, and expenditures related to interest on foreign debt surged by 7.4%.

**Capital expenditures** accounting for 2.2% of quarterly GDP, compared to the same quarter in 2018, were higher by 64.6%, i.e. they participated with 6.8% 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 Q2 2019 executed funds in the amount of Denar 11,011 million or 24.7% of its total budget for the current year. Thereby, most

of the expenditures (69.9%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 7,700 million was spent or 25.4% of the funds allocated for 2019. The second highest expenditure category was social benefits, participating with 22.0% in the total expenditures. As for this purpose, 23.7% (Denar 2,428 million) of the expenditures projected for 2019 were executed.

<sup>2</sup> Data are not consolidated, and include the outflows.



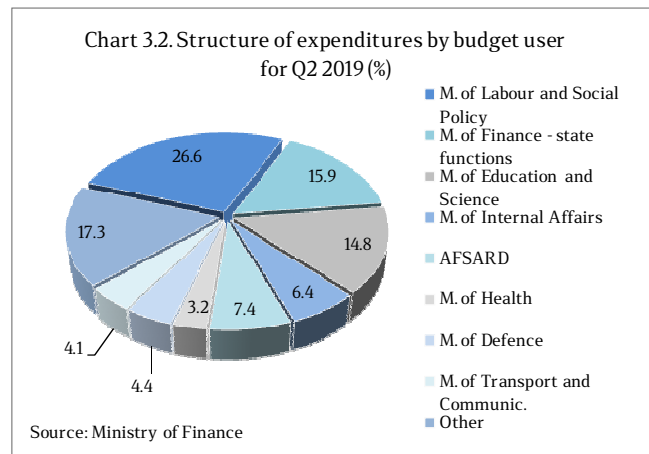


In the second quarter of 2018, Denar 6,601 was spent through the organizational code **Ministry of Finance – Functions of the State**<sup>3</sup> accounting for 19.7% of its annual budget. Repayment of principal accounted for most of the expenditures or 65.9%, Denar 4,348 million being spent therefore, i.e. 26.6% of the funds projected for this purpose in 2019. As regards expenditures related to interest payments, they accounted for 12.0% of the total expenditures, Denar 793 million being spent therefore or accounting for 8,8% of the projected interest payments.

In Q2 2019, **Ministry of Education and Science** executed budget funds in the amount of Denar 6,133 million, i.e. 23.5% of its total 2019 budget. Current transfers to LGUs accounted for the most of the expenditures (58.2%), Denar 3,569 million being spent therefore or 24.8% of total projected funds. Goods and services were the second highest expenditure category, participating with 16.3%, Denar 1,002 million being spent therefore, i.e. 24.1% of

the total funds projected for the current year.

In Q2 2019, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 3,051 million, accounting for 35.2% of the funds projected for the current year. As for subsidies and transfers, accounting for 93.5% of the total expenditures, 41.7% of the projected funds were spent therefore.



In the second quarter of 2019, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,650 million, accounting for 24.0% of its 2019 budget. Wages and allowances were the highest expenditure item, participating with 74.0%, Denar 1,960 million being spent therefore, or accounting for 25.5% of the projected ones. The second highest expenditure item was goods and services, participating with 16.4%, funds in the amount of Denar 435 million being spent therefore, or accounting for 22.0% of the annual projections.

**Ministry of Defense**, in Q2 2019, spent budget funds in the amount of Denar 1,821 million, i.e. 21.9% of its total 2019 budget. Wages and allowances accounted for the

<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.



most with 52.8%, for which Denar 962 million was realized, accounting for 24.2% of the total funds projected for the current year. Expenditures related to goods and services accounted for 19.4% of the total expenditures, Denar 353 million being spent therefore during the analyzed period, i.e. 17.8% execution of the total projected funds.

In the second quarter of 2019, **Ministry of Transport and Communications** executed funds in the amount of Denar 1,710 million, i.e. 23.5% of its total budget for the current year. Capital expenditures predominated in the total budget of this user, accounting for 85.6%, for which purpose Denar 1,464 million was spent, i.e. 23.9% of the projected ones.

**Ministry of Health**, in the second quarter of 2019, spent budget funds in the amount of Denar 1,316 million, accounting for

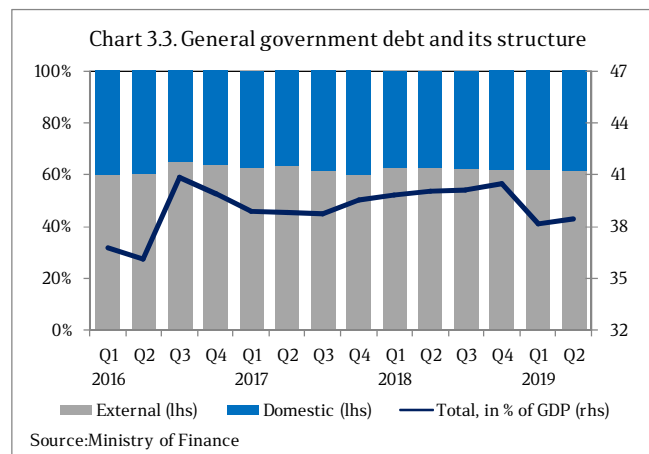
### 3.5. Budget deficit and government debt

In the second quarter of 2019, **consolidated budget deficit** amounted to Denar 3,837 million or 2.3% of GDP realized in this quarter, while central budget deficit amounted to Denar 3,931 million, i.e. 2.4% of quarterly GDP.

Total **government debt** at the end of Q2 2019 accounted for 38.4% of GDP, increasing by 0.2. p.p. compared to Q1 2019. The share of the external debt in the total government debt decreased by 0.8 p.p. compared to Q1 2019, accounting for 61.1% Share of domestic debt respectively grew by 0.8 p.p., accounting for 38.9% of the total government debt.

20.3% of its total 2019 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 54.7%, for which Denar 720 million was spent or 25.1% of the funds projected for the current year. Expenditures related to goods and services were the second highest expenditure category, accounting for 38.0% of the total expenditures, funds in the amount of Denar 500 million being executed therefore in the analyzed period, i.e. 21.8% of total projected ones.

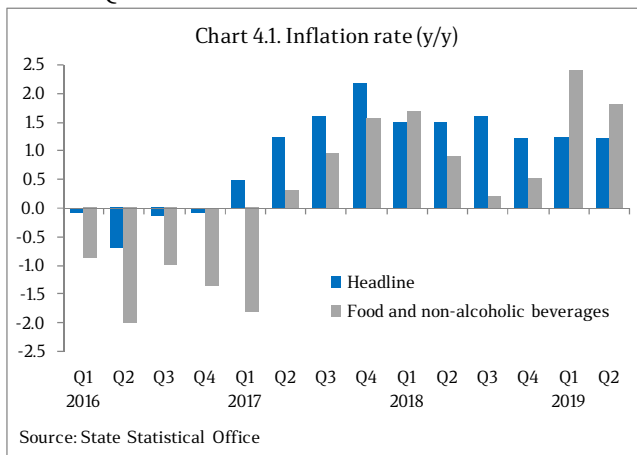
Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/692>).





## 4. Inflation and Monetary Trends

**Inflation rate**, measured according to CPI index, in Q2 2019, amounted to 1.2% on annual basis, being unchanged compared to Q1 2019.



Growth of consumer prices in Q2 2019 was a result of the higher prices in the following categories: Alcoholic beverages, tobacco and narcotics by 6.5%, Health by 2.9%, Recreation and culture by 2.5%, Food and non-alcoholic beverages by 1.8%, Restaurants and hotels and Communications and Furnishings, household equipment and routine maintenance of the house by 1.3% each and Transport by 0.3%.

Price decline in Q2 2019 was recorded at the following categories: Communications by 1.7%, Clothing and footwear by 0.8%, Education and Miscellaneous goods and services by 0.5% each, and Housing, water, electricity, gas and other fuels by 0.1%.

In the second quarter<sup>4</sup> of 2019, National Bank of the Republic of North Macedonia retained the **reference interest rate** at 2.25%, after previously reducing it by 0.25 p.p. in the first quarter, as a result of the continuous favourable trends on the foreign currency market, indicating absence of pressures in the external sector and stable observations of domestic entities, as well as absence of price pressures. Interest rate on available 7-day deposits amounted to 0.3% in June 2019 and, compared to the previous quarter, it remained unchanged.

In Q2 2019, **primary money**<sup>5</sup> increased by 6.7% on quarterly basis (19.3% drop was recorded in the previous quarter) as a result of the increase of both total liquidity of banks by 11.8% and currency in circulation by 3.0%. Compared to Q2 2018, primary money surged by 10.1% (6.8% growth was registered in Q1 2019), as a result of the increase of both currency in circulation by 11.2% and total liquidity of banks by 8.7%.

<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).



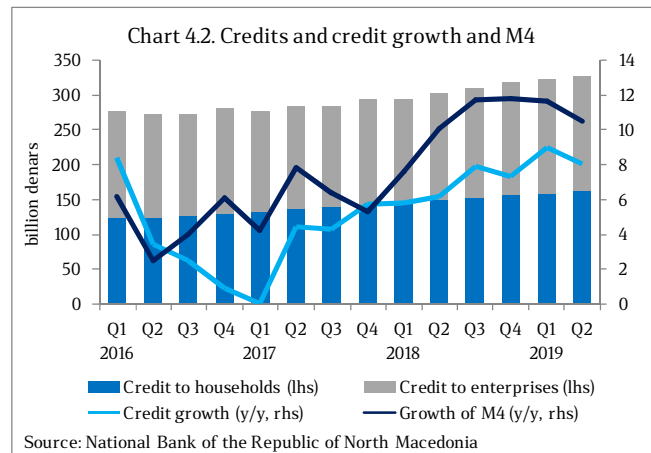
In Q2 2019, the narrowest money supply M1<sup>6</sup> experienced 4.7% increase compared to the previous quarter. Monetary aggregate M2 surged by 2.3%, while the widest monetary aggregate M4 increased by 2.0%.

Total **deposit potential**<sup>7</sup> of banks in Q2 2019 grew by 2.3% on quarterly basis, following the 0.7% growth in the previous quarter. Analyzed by sectors, deposits of enterprises increased by 3.6%, while deposits of households grew by 1.7%. From currency point of view, Denar deposits increased by 4.0%, while foreign currency deposits dropped by 0.2% compared to the previous quarter. Level of euroization dropped by 1.0 p.p. compared to the previous quarter, accounting for 39.7%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q2 2019, share of long-term deposits in total deposit potential decreased by 0.3 p.p. compared to the previous quarter, reaching 27.8% (accounting for 28.1% in Q1 2019). During the analyzed period, short-term deposits grew by 0.2%.

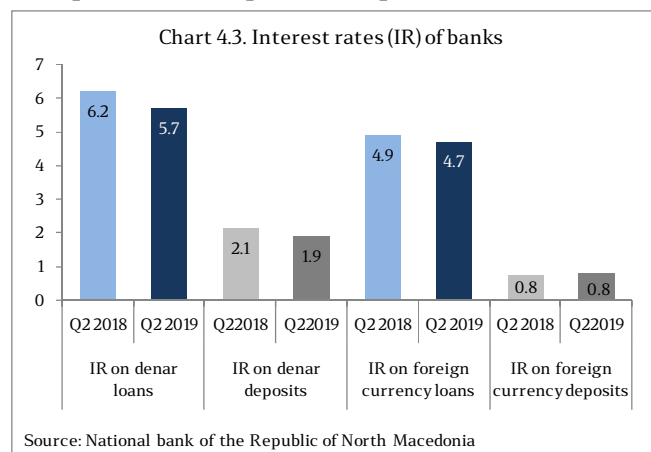
**Credit activity** of banks to non-government sector in Q2 2019 increased by 1.8% on quarterly basis (compared to 0.8% growth in the previous quarter), in

conditions of growth of credits to households by 3.4%, while credits to enterprises surged by 0.4%.



From currency point of view, Denar and foreign currency credits increased by 1.4% and 2.5% respectively in Q2 2019, compared to the previous quarter. From maturity point of view, long-term credits in Q2 2019 experienced 2.3% growth compared to the previous quarter, while short-term credits were lower by 1.7%.

In Q2 2019, **interest rate**<sup>8</sup> on Denar credits amounted to 5.67%, decreasing by 0.08 p.p. compared to the previous quarter. Interest



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

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



rate on foreign currency credits was 4.65% in Q2 2019, dropping by 0.05 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.01 p.p., accounting for 1.94% in Q2 2019 compared to the previous month, while interest rate on foreign currency deposits remained the same compared to the previous quarter, accounting for 0.80%. In Q2 2019, interest

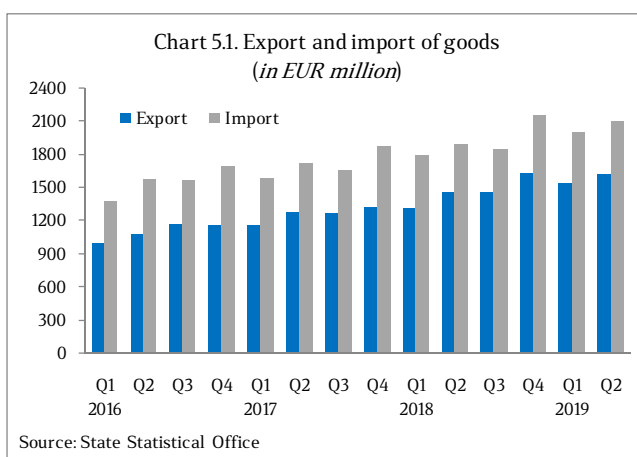
rate on newly granted Denar credits amounted to 5.0%, while interest rate on newly approved foreign currency credits accounted for 4.2%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.5% and 0.8%, respectively.

## 5. External Sector

### 5.1. Foreign trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,717.8 million in Q2 2019, surging by 11.0% compared to the same quarter in 2018.

In Q2 2019, **export of goods** amounted to EUR 1,623.6 million, whereby compared to Q2 2018, it surged by 11.3%, while compared to the previous quarter, it increased by 5.8%.



**Analyzed by SITC sectors** (Standard International Trade Classification), positive trends in the export in Q2 2019,

compared to the same quarter in 2018, were registered at the following:

- chemical products surging by 23.4% (wherein highest growth was seen at the category chemical materials and products by EUR 71.2 million or 26.6%);
- machinery and transport equipment by 9.0% (industrial machines and spare parts by EUR 36.1 million or 24.0% and electrical machinery, apparatus and appliances by EUR 20.5 million or 9.2%);
- beverages and tobacco by 28.5% (tobacco and tobacco manufactures by EUR 13.9 million or 37.7%);
- food products by 22.0% (fruit and vegetables by EUR 8.4 million or 19.7%);
- miscellaneous manufactured articles by 2.8% (furniture and parts thereof, bedding, mattresses, cushions and similar articles by EUR 6.8 million or 10.8%);
- crude materials, except fuel by 1.8% (crude fertilizers and minerals (excluding coal, petroleum and precious stones) by EUR 3.9 million or 27.3%) and



- animal and vegetable oils by 63.6% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 1.3 million or 74.4%).

Decline of export was seen only at manufactured goods classified chiefly by material by 3.5% (wherein highest drop was seen at the category iron and steel by EUR 6.6 million or 4.4%).

Observed by **economic purpose**, in Q2 2019, increase of export was recorded at the following groups of products:

- goods for industrial supplies picking up by EUR 81.6 million or 11.7%;
- investment products without transport equipment by EUR 44.5 million or 20.2%;
- food and beverages by EUR 20.3 million or 19.3%.
- fuels and lubricants by EUR 12.7 million or 72.2% and
- consumer goods by EUR 6.6 million or 3.7%.

Decline of export was only seen at transport equipment by EUR 0.9 million or 0.4%.

**Import of goods** in Q2 2019 amounted to EUR 2,094.1 million, growing by 10.8% compared to Q2 2018, while in relation to the previous quarter, it increased by 5.2%.

**Analyzed by SITC sectors**, increase of import in Q2 2019, compared to Q2 2018, was seen at:

- manufactured goods classified chiefly by material growing by 148% (wherein highest growth was seen at the

category non-ferrous metals by EUR 102.4 million or 44.0%);

- mineral fuels and lubricants by 12.9% (petroleum and petroleum products by EUR 18.4 million or 13.8% and electricity by EUR 8.2 million or 35.4%);
- machinery and transport equipment by 6.2% (electrical machines, devices and spare parts by EUR 12.4 million or 6.9% and machinery specialized for particular industries by EUR 4.8 million or 12.7%);
- chemical products by 12.3% (inorganic chemical products by EUR 11.8 million or 73.3%; medical and pharmaceutical products by EUR 9.3 million or 25.5%);
- crude materials, except fuel by 23.9% (metalliferous ore and metal scrap by EUR 11.9 million or 42.0%);
- miscellaneous manufactured articles by 2.1% (furniture and parts thereof, bedding, mattresses, cushions and similar articles by EUR 3.6 million or 19.2%);
- food products by 6.7% (dairy products and eggs by EUR 2.3 million or 13.4% and cereals and cereal preparations by EUR 1.8 million or 8.8%) and
- beverages and tobacco by 0.3% (beverages by EUR 1.5 million or 14.3%).

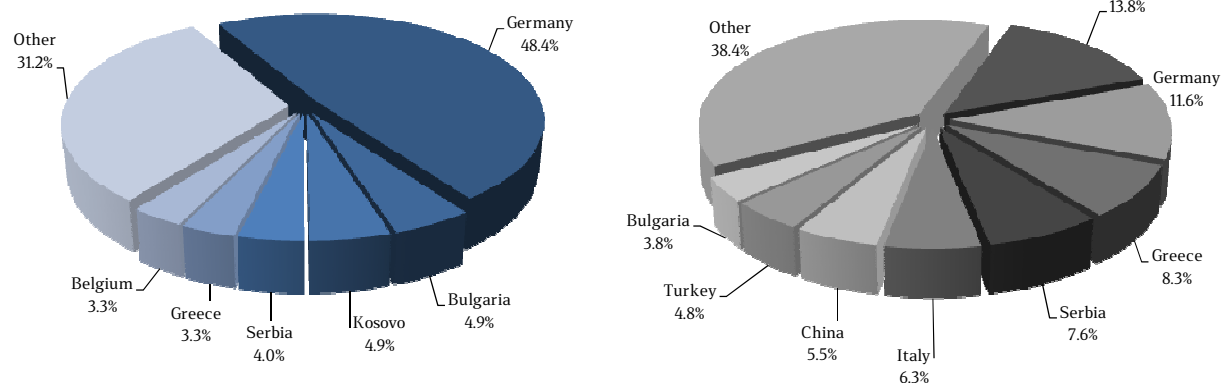
Decline of import was only seen at animal and vegetable oils by 7.0% (wherein highest drop was seen at the category fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.9 million or 8.2%).

Observed by **economic purpose**, in Q2 2019, increase of import was recorded at all groups of products, as follows:

- goods for industrial supplies picking up by EUR 138.6 million or 14.2%;
- fuels and lubricants by EUR 22.1 million or 12.7%;
- investment products without transport equipment by EUR 13.6 million or 5.0%;
- food and beverages by EUR 12.0 million or 7.1%;
- transport equipment by EUR 10.1 million or 8.6% and
- consumer goods by EUR 7.6 million or 4.1%.

In Q2 2019, foreign trade of the Republic of North Macedonia with the European Union (EU 28), in relation to Q2 2018, surged by 12.9%, whereby share of trade with the EU in the total foreign trade increased by 0.5 p.p. compared to the second quarter in 2018, accounting for 72.2%. Thereby, in Q2 2019, export of goods accounted for 80.6%, while share of import of goods was 65.6%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q2 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 39.4 million was recorded on the balance of payments **current account** in Q2 2019, accounting for 1.5% of quarterly GDP, as opposed to the surplus of EUR 23.9 million, i.e. of 0.9% of GDP registered in the same quarter in 2018.

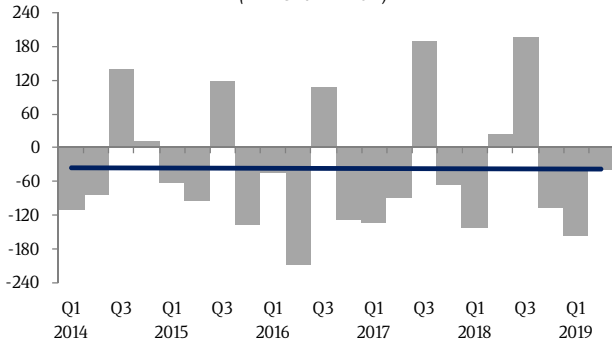
Analyzed by components, current account deficit in Q2 2019 compared to the surplus in the same quarter of the previous year

was a result of the deepening of the deficit on the goods account by 6.7% and the primary income account by 0.1%, as well as reduction of the positive balance on the services account by 16.2% and the secondary income account by 4.0%.

In Q2 2019, **trade deficit** increased by EUR 27.3 million on annual basis, widening by 0.6 p.p. on annual basis, i.e. accounting for 16.1% of quarterly GDP.



Chart 5.3. Current account balance  
(in EUR million)

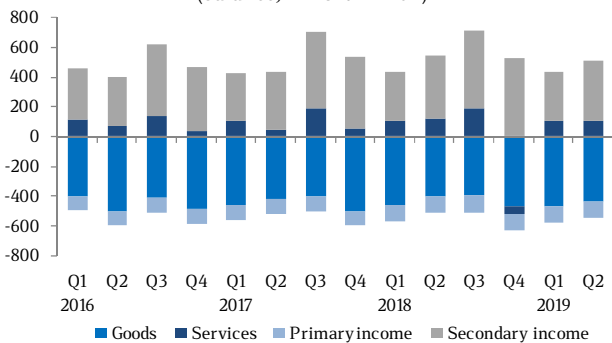


Source: National bank of the Republic of North Macedonia

Surplus on **services account** amounted to EUR 97.9 million in Q2 2019 and, compared to the same quarter of 2018, it declined by EUR 18.9 million. **Trade openness** of the Republic of North Macedonia in Q2 2019 amounted to 139.1% of quarterly GDP, being higher by 8.8 p.p. compared to Q2 2018.

**Primary income** account experienced EUR 111.3 million deficit in Q2 2019, widening by EUR 0.1 million on annual basis.

Chart 5.4. Current account of balance of payments  
(balance, in EUR million)



Source: National Bank of the Republic of North Macedonia

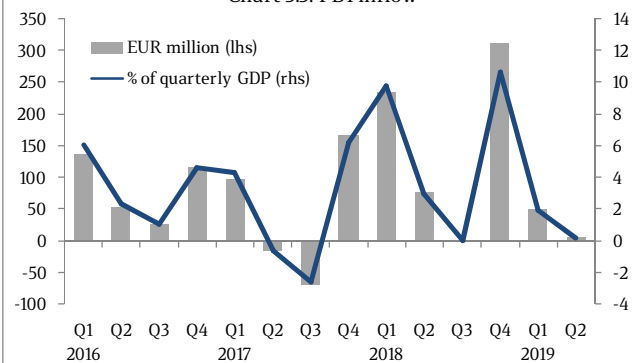
Surplus on the **secondary income** account in Q2 2019 amounted to EUR 407.9 million, decreasing by EUR 16.9 million on annual basis. Drop was due to the reduction of private transfers by EUR 14.5 million,

participating with 99.9% in the secondary income account. Official transfers reduced by EUR 2.5 million.

Balance on the **capital account** amounted to EUR 0.1 million in Q2 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 Investment (FDIs)** in the country in Q2 2019 amounted to EUR 6.1 million, decreasing by EUR 71.5 million compared to Q2 2018. Reduction arises from the outflow on the basis of debt instruments (EUR 55.3 million), while on the basis of equity and reinvestment of earning, inflow was registered (EUR 61.4 million).

Chart 5.5. FDI inflow



Source: National Bank of the Republic of North Macedonia and MoF calculations

**Portfolio investment** in Q2 2019 amounted to EUR 18.3 million and, compared to the same quarter in 2018, they grew by EUR 16.8 million.

**Other investment** in Q2 2019 were negative, amounting to EUR 84.6 million. Within this category, all components had negative balance, such as: currency and deposits by EUR 30.0 million, loans in the





amount of EUR 25.6 million and trade credit and advances by EUR 28.7 million.

**Reserve assets** amounted to EUR 2.9 billion at the end of the second quarter in 2019, surging by 10.8% compared to Q2 2018. At the end of Q2 2019, reserve assets provided for 4.3-month coverage of import of goods and services in the previous 12-month period.