



Q4-2018

QUARTERLY ECONOMIC REPORT

- fourth quarter of 2018 -

Summary

- **Gross Domestic Product** in Q4 2018 compared to the same quarter in 2017 recorded 3.7% growth in real terms, by which total growth in 2018 reached 2.7%. Economic growth in Q4 2018 is broad based, amid positive performance at all sectors, i.e. positive contribution of consumption, investments and export over economic growth;
- **Number of employed persons** in Q4 2018 was higher by 3.6% compared to the same quarter in 2017. **Number of unemployed persons** dropped by 10.9%, which resulted in reduction of **unemployment rate** to 19.4% in Q4 2018;
- Average **gross wage** amounted to Denar 36,737 in Q4 2018, increasing by 6.6% in nominal terms, i.e. surging by 5.3% in real terms, compared to the gross wage in Q4 2017;
- Total **budget revenues** were higher by 6.4% in Q4 2018, and total **budget expenditures** were higher by 3.4% compared to the same quarter in 2017;
- **Inflation rate** was 1.2% in Q4 2018 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 4.7% in Q4 2018 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q4 2018 grew by 3.4% on quarterly basis;
- In Q4 2018, increase of both **export of goods** by 23.1% and **import of goods** by 15.1% was registered on annual basis, whereby total **foreign trade**, expressed in euros, surged by 18.4%;



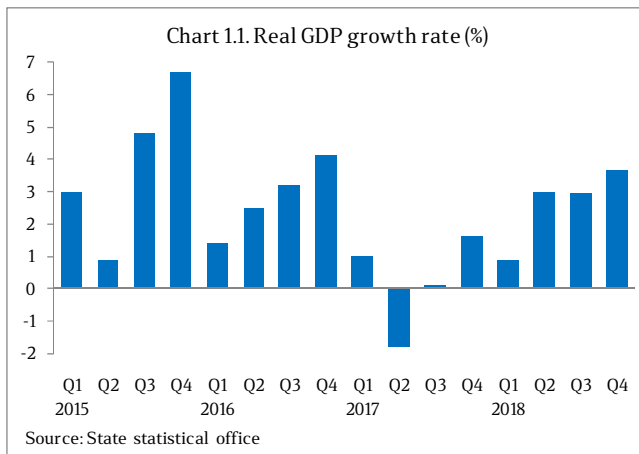
Contents:

1. Economic Activity	3
2. Labour Market	5
3. Public Finances.....	6
3.1. Budget Revenues according to the Economic Classification	6
3.2. Revenues by Budget Users	7
3.3. Budget Expenditures according to the Economic Classification	7
3.4. Expenditures by Budget Users	8
3.5. Budget Deficit and Government Debt	11
4. Inflation and Monetary Trends	11
5. External Sector	14
5.1. Foreign Trade	14
5.2. Balance of Payments	16



1. Economic Activity

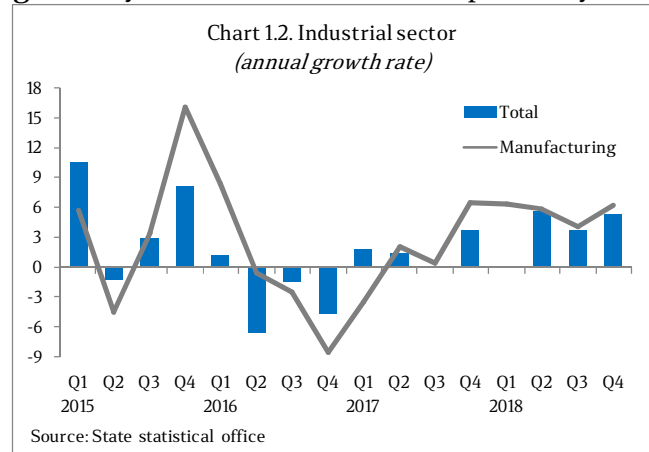
Gross Domestic Product (GDP) in Q4 2018 compared to the same quarter in 2017 surged by 3.7% in real terms, following the 3.0% growth in the second and the third quarter, contributing to a total growth in 2018 of 2.7%, being similar with the autumn economic growth forecast of the Ministry of Finance. Nominal GDP growth in Q4 2018 accounted for 7.7% on annual basis, while the growth in 2018 amounted to 7.1%.



Analyzed by sectors, economic growth in Q4 2018 was a result of the positive performance in all sectors. Highest growth was seen in the **construction sector**, accounting for 19.6% in real terms, being neutralized by the drop of activity in the recent three quarters, by which total growth amounted to 0.2% in 2018. Growth in the construction in Q4 2018, in line with the monthly data, is a result of the favourable trends as regards both civil engineering structures and buildings.

Industrial sector picked up by 5.4%, in real terms in Q4 2018, mostly as a result of the growth in Manufacturing by 6.3%.

According to the high-frequency data, Electricity and gas supply and Mining grew by 8.0% and 10.4%, respectively.



Within **Manufacturing**, more significant contribution to growth was observed in: Manufacture of machinery and equipment (14.9%), Manufacture of basic metals (30.4%) Manufacture of beverages (29.3%), Manufacture of motor vehicles (18.1%), Manufacture of furniture (31.2%), Manufacture of food products (4.9%), Manufacture of basic pharmaceutical products and preparations (14.8%), Manufacture of other non-metallic mineral products (5.8%), Manufacture of textile (7.5%), etc. Hence, an annual positive growth was registered at 14 branches, comprising 55.3% of the industrial production.

Growth of the **services sector** amounted to 1.2% in real terms, being a result of the increased activity in: Trade, transport and catering by 7.9%, Arts, entertainment and recreation and other service activities by 14.0%, Professional, scientific, technical and administrative activities by 5.2% and

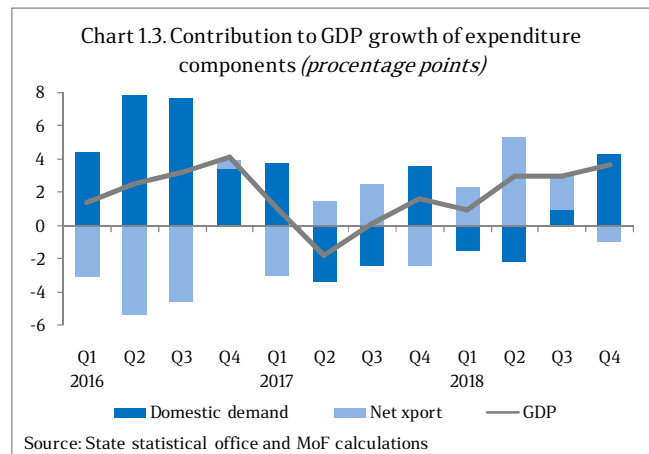


Financial and insurance activities by 1.7%, while the other activities registered drop in the activity, as follows: Information and communications by 12.6%, Real estate activities by 3.8%, and Public administration and defense and Education and Health by 2.3%.

Agriculture sector in Q4 2018 grew by 0.3% in real terms, following the drop in the previous three quarters.

Analyzed according to the **expenditure side of GDP**, economic activity growth in Q4 2018 was a result of growth of domestic demand, coupled by the growth of both consumption and gross investments, while net export had negative contribution to the economic growth, despite the high growth of export (Chart 1.3).

Growth of **export** of goods and services amounted to 21.7% in real terms on annual basis, also underpinned by the sound performance of some of the other export segments, such as metal and textile industries, despite the somewhat less favourable trends of the external demand. **Import** of goods and services surged by 17.5% in real terms. Net export, despite the negative contribution in Q4 2019, together with the consumption, are driving forces of the economic growth in 2018. More detailed information of export and import of goods is shown in point 5.1.



Consumption increased by 4.6% in real terms in Q4 2018, thus continuing to underpin the economic activity. Thereby, private consumption surged by 4.6%, mostly as a result of the growth of the household disposable income amid increase of both employment and wages in the economy, also underpinned by the crediting to households. Public consumption increased by 4.7% in real terms, amid increased execution of expenditures related to wages and allowances.

Gross investments surged by 1.6% in real terms, following the drop in the previous three quarters, which is a result of the growth of investments in construction works, favourable trends at foreign direct investments, as well as more intensive crediting to the corporate sector.



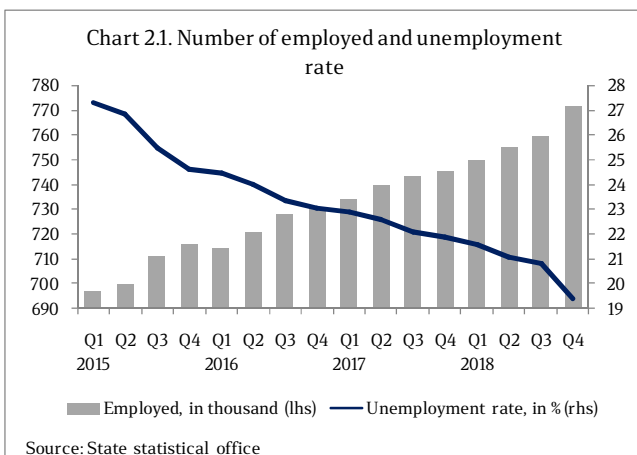
2. Labour Market

Positive trends on the labour market continued in Q4 2018, thus, according to the Labour Force Survey, **number of employed persons** was higher by 3.6%, i.e. by 26.6 thousand persons compared to the same quarter in 2017, whereby employment growth was recorded in the industrial sector (9.7 thousand or 5.5%), and services sector (19.5 thousand or 5.0%). As for the construction sector, the number of employed persons remained unchanged, while employment in the agriculture sector reduced by 5.0% or 6.0 thousand persons.

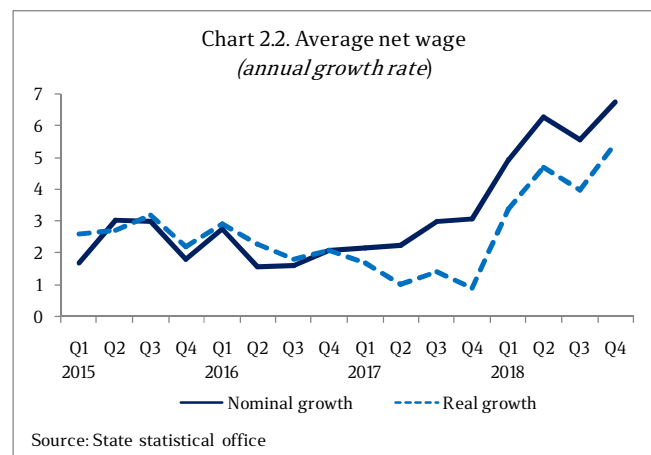
Increase of employment was coupled by drop in the **number of unemployed persons**, decreasing by 22.7 thousand persons, i.e. by 10.9% compared to the same quarter in 2017. Such trends caused a reduction of the **unemployment rate** in Q4 2018 to 19.4%, i.e. by 2.5 p.p. compared to the same quarter in 2017, being lower by 1.4 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 at the age group of 50-64 years, accounting for 11.9%. Observed by gender, unemployment rate was mostly reduced at the female population (by 2.6 p.p.), accounting for 18.7%, being lower by 1.2 p.p. compared to unemployment at men, which dropped by 2.3 p.p., accounting for 19.9%.

Number of active population increased by 3.9 thousand, persons i.e. by 0.4% on annual basis. Active population in Q4 2018 accounted for 56.9% of the total working age population, being higher by 0.1 p.p. compared to the same quarter in 2017.



Analyzed according to the economic status, employment growth was registered in employed persons (wage earners) by 29.6 thousand or 5.2% and self-employed persons by 2.9 thousand or 3.0%, while drop was seen in the number of employers by 3.4 thousand or 10.2% and the number of family workers by 2.5 thousand or 5.7%. **Employment rate** in Q-4-2018 amounted to 45,9%, being higher by 1.6 p.p. compared to the same quarter in 2017.





Average monthly **net wage** amounted to Denar 25,049 in Q4 2018, being higher by 6.7% in nominal terms compared to the same quarter in 2017, while net wage increased by 5.4% in real terms. Average monthly **gross wage** amounted to Denar 36,737 in Q4 2018, increasing by 6.6% in

nominal terms, i.e. surging by 5.3% in real terms (Chart 2.2).

Labour productivity in Q4 2018 increased by 0.1% being a result of the minimally higher growth of production than the growth of employment.

3. Public Finances

3.1. Budget Revenues according to the Economic Classification

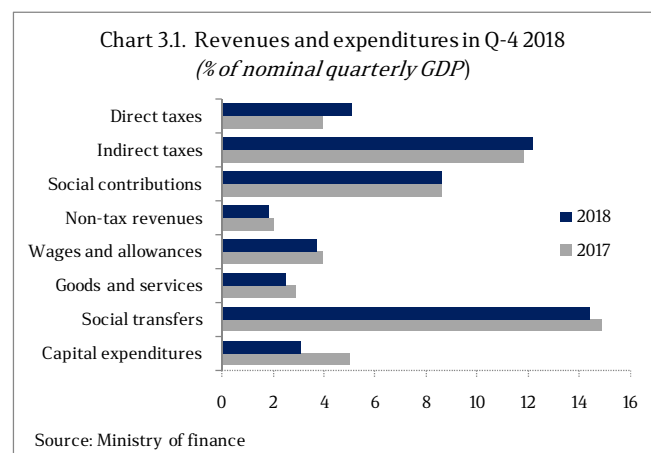
In Q4 2018, share of total budget revenues accounted for 28.9% of the quarterly GDP, being higher by 6.4% compared to the same quarter in 2017, due to the higher collection of tax revenues and social contributions by 7.8%, while the collection of non-tax revenues was lower by 1.6%. Thereby, as for tax revenues, higher collection was recorded at all items, such as: value added tax, excise duties, personal income tax, profit tax, revenues on the basis of customs duties, as well as revenues on the basis of other taxes.

In Q4 2018, collection of indirect taxes was higher by 11.0%, while collection of direct taxes surged by 38.5% compared to Q4 2017. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes increased by 1.1 p.p., i.e. from 4.0% of quarterly GDP in Q4 2017 to 5.1% in Q4 2018, while share of revenues on the basis of indirect taxes was higher by 0.4 p.p., accounting for 12.2% of GDP in Q4 2018 compared to Q4 2017.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 45.0% of total tax revenues in Q4 2018,

being higher by 14.0% 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 5.4% compared to the same quarter of 2017, while collection of customs duties grew by 8.7%.

As for **direct taxes**, collection of revenues on the basis of personal income tax surged by 34.1%, while profit tax revenues experienced a significant increase by 47.6% compared to the same quarter of the previous year, as a result of the higher collection on the basis of monthly advance payments and tax balances.





Collection of **social contributions** was higher by 7.8%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 7.3%, employment contributions by 8.6% and health insurance contributions by 8.8%.

Collection of **non-tax revenues**, accounting for 1.9% of the quarterly GDP,

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 39,200 million in Q4 2018, i.e. 92.3% of the revenues of all budget users, accounting for 23.7% of the annual projections of this budget user.

Within the Ministry of Finance - Functions of the State, tax revenues accounted for the most – 78.9% of total revenues and inflows to this budget user, whereby their collection reached 27.8% of the annual projections in Q4 2018. Funds on the basis of foreign borrowing amounted to Denar 5,253 million, accounting for 13.4% of the total amount of this budget user.

Ministry of Education and Science collected revenues in the amount of Denar 937 million, accounting for 2.2% of the revenues and inflows of all budget users,

3.3. Budget Expenditures according to the Economic Classification

In Q4 2018, total budget expenditures, accounting for 31.4% of the quarterly GDP, were higher by 3.4% compared to the same quarter of 2017.

was lower by 1.6% in Q4 2018 compared to the same quarter of 2017.

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 higher by 113.4% on annual basis in Q4 2018. Revenues on the basis of foreign donations dropped by 74.3%.

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 Transport and Communications** which collected revenues in the amount of Denar 679 million, i.e. 1.6% of the revenues and inflows of all budget users, most of which was on the basis of foreign borrowing. The remaining budget users collectively generated revenues, accounting for 3.9% 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 18,238 million in Q4 2018, accounting for 26.6% of the Fund's annual projections.

Current expenditures, accounting for 28.3% of quarterly GDP, participated with 90.2% in the total expenditures and experienced 10.1% higher execution on annual basis. As for current expenditures,



expenditures for goods and services were lower by 6.0%, while expenditures related to wages and allowances were higher by 1.9% compared to the same quarter in 2017.

Funds for transfers, which participated with 67.2% in the total expenditures, were higher by 15.4% on quarterly basis. Social transfers surged by 4.1%, accounting for 45.7% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 7.0%, accounting for 28.1% of the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 20.2% in the total expenditures, i.e. they surged by 52.3% compared to the fourth quarter in

3.4. Expenditures by Budget Users

Review of budget expenditures for the largest budget users¹ is shown below, the total annual budget of which accounts for around 85% of the total budget of all budget users.

In the fourth quarter of 2018, Denar 11,587 was spent through the organizational code **Ministry of Finance - Functions of the State**², accounting for 24.5% of its annual budget. Repayment of principal accounted for most of the expenditures or

2017. Block and earmarked grants to local government units surged by 13.2%, while subsidies and transfers were higher by 104.4%.

Interest-related expenditures decreased by 12.3% on annual basis, whereby domestic debt interest-related expenditures surged by 4.2% and expenditures related to interest on foreign debt dropped by 23.7%.

Capital expenditures, accounting for 3.1% of quarterly GDP, declined by 33.4% compared to the same quarter in 2017, i.e. they participated with 9.8% in the total expenditures.

37.1%, Denar 4,303 million being spent therefore, i.e. 15.2% of the funds projected for this purpose in 2018. As regards expenditures related to subsidies and transfers, they accounted for 27.0% of the total expenditures, Denar 3,124 million being spent therefore or accounting for 86.8% of the projected expenditures.

Ministry of Labour and Social Policy executed funds in the amount of Denar 11,018 million or 25.3% of its total 2018 budget in Q4 2018. Thereby, most of the expenditures (72.9%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 8,028 million was spent or 25.2% of the funds allocated for 2018. The second highest expenditure category was social benefits, participating with 19.3% in the total expenditures. As for this purpose, 25.6%

¹ Data are not consolidated, also including the outflows.

² As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components, etc.



(Denar 2,126 million) of the expenditures projected for 2018 were executed.

In Q4 2018, Ministry of Education and Science executed budget funds in the amount of Denar 6,434 million, i.e. 26.5% of its total 2018 budget. Current transfers to local government units accounted for most of the expenditures (57.5%), for which Denar 3,698 million was spent or 26.8% of the total projected funds. Expenditures related to goods and services were the second highest expenditure category, accounting for 17.1% of the total expenditures, with funds in the amount of Denar 1,101 million being executed therefore, i.e. 26.9% of total projected ones.

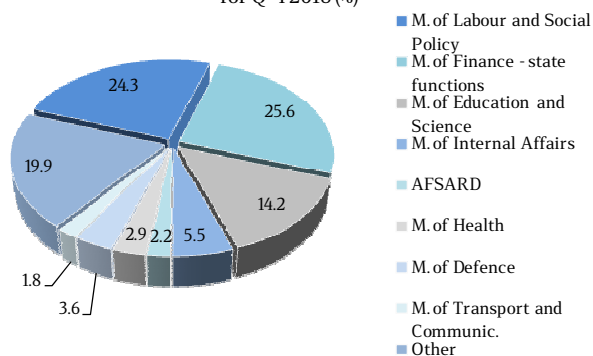
accounting for 20.4% of the annual projections.

In Q4 2018, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 987 million, accounting for 11.5% of the funds projected for the current year, while subsidies and transfers accounted for 50.8% thereof.

Ministry of Defense, in Q4 2018, spent budget funds in the amount of Denar 1,652 million, i.e. 26.5% of its total 2018 budget. Expenditures related to wages and allowances accounted for the most with 57.0%, Denar 941 million being spent therefore in Q4 2018, accounting for 25.2% of the total funds projected for the current year. Expenditures related to goods and services accounted for 26.2% of total expenditures, Denar 433 million being spent therefore during the analyzed period, i.e. 29.3% execution of the total projected funds.

Ministry of Health, in the fourth quarter of 2018, spent budget funds in the amount of Denar 1,336 million, accounting for 21.9% of its total 2018 budget. Expenditures related to goods and services accounted for the most in the expenditures with 48.7%, Denar 651 million being executed therefore or 31.1% of the funds projected for 2018. Current transfers to extra-budgetary funds were the second highest expenditure category, accounting for 35.9% of the total expenditures, funds in the amount of Denar 480 million being executed therefore in the analyzed period, i.e. 14.9% of total projected ones.

Chart 3.2. Structure of expenditures by budget user for Q-4 2018 (%)



Source: Ministry of finance

In the fourth quarter of 2018, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,488 million, accounting for 24.0% of its 2018 budget. Wages and allowances were the highest expenditure item, participating with 77.0%, Denar 1,916 million being spent therefore, or accounting for 26.0% of the projected ones. The second highest expenditure item was goods and services, participating with 13.5%, funds in the amount of Denar 336 million being spent therefore, or



Ministry of Transport and Communications, in the fourth quarter of 2018, spent budget funds in the amount of Denar 835 million, i.e. 20.8% of its 2018 total budget. Capital expenditures accounted for the most in the total expenditures with 79.0%, while their execution accounted for 20.6%, i.e. Denar 659 million was spent.

As regards **financing the activities in the field of culture**³ in Q4 2018, funds in the amount of Denar 1,162 million were spent, accounting for 31.4% of its total 2018 budget. Subsidies and transfers accounted for the most in the total expenditures with 49.3%, while their execution accounted for 41.2%, i.e. Denar 573 million was spent therefore. Wages and allowances accounted for 22.0%, whereby Denar 256 million or 24.4% of the projected funds were spent therefore. 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 This Organizational Code supports the programs of cultural institutions related to publishing, library activities, film, music and theatre, protection of cultural heritage, arts and exhibitions, cultural events, museum and film library activities, international cooperation in the area of culture, support to young talents, organizations in the field of culture, etc.

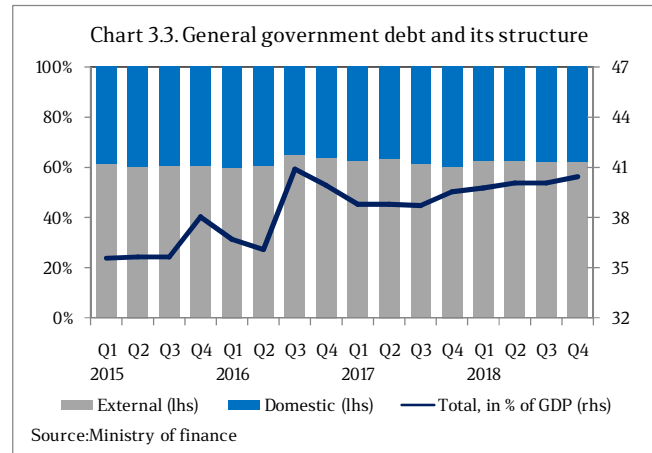


3.5. Budget Deficit and Government Debt

In the fourth quarter of 2018, the **consolidated budget deficit** amounted to Denar 4,592 million or 2.6% of GDP realized in this quarter, while central budget deficit amounted to Denar 3,365 million, i.e. 1.9% of quarterly GDP.

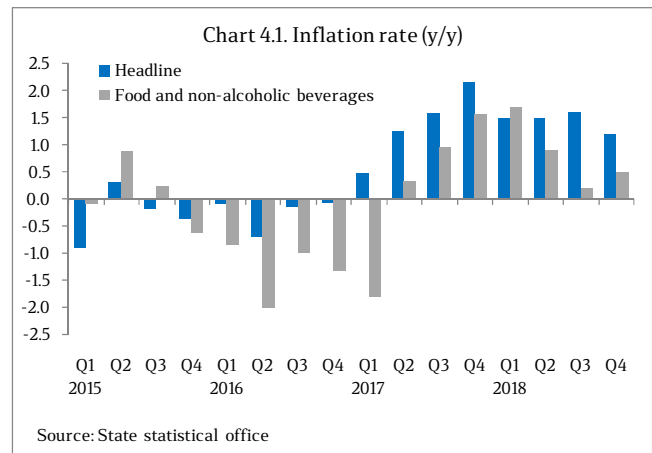
Total **government debt** at the end of Q4 2018 accounted for 40.5% of GDP, increasing by 0.4. p.p. compared to Q3 2018. The share of the external debt in the total government debt decreased by 0.4 p.p. compared to Q3 2018, accounting for 62.0%/ Share of domestic debt respectively

grew by 0.4 p.p., accounting for 38.0% of the total government debt.



4. Inflation and Monetary Trends

Inflation rate, measured according to CPI index, in Q4 2018, amounted to 1.2% on annual basis, being lower by 0.4 p.p. compared to Q3 2018. Growth of consumer prices in Q4 2018 was a result of the higher prices in the following categories: Alcoholic beverages, tobacco and narcotics by 4.9%, Transport by 4.1%, Recreation and culture by 2.6%, Restaurants and hotels by 2.5%, Health by 1.8%, Communications and Furnishings, household equipment and routine maintenance of the house by 0.7% each, Food and non-alcoholic beverages and Clothing and Footwear by 0.5% each, Housing, water, electricity, gas and other fuels by 0.1% and Miscellaneous goods and services by 1.2%. In Q4 2018, 0.3% drop of prices was recorded in the category Education.



In the fourth quarter⁴ of 2018, National Bank of the Republic of North Macedonia reduced the **reference interest rate** by 0.25 p.p., from 2.75% to 2.50% as a result of the continuous favourable trends on the foreign currency market, showing solid

⁴ Data from the monetary statistics, statistics of other financial corporations and the statistics of interest rates are according to the new methodology.



external position and stable expectations of the economic agents. Developments in the deposit base of banks were also favourable, being a signal for stable expectations and confidence. Interest rate on the seven-day deposits amounted to 0.3% in December 2018, and compared to the previous quarter, it remained unchanged.

In Q4 2018, **primary money**⁵ increased by 25.6% on quarterly basis (1.9% growth was recorded in the previous quarter) as a result of the increase of both total liquidity of banks by 46.7% and currency in circulation by 8.6%. Compared to Q4 2017, primary money grew by 18.9% (1.3% drop was recorded in Q3 2018), as a result of the increase of total liquidity of banks by 28.5% and currency in circulation by 10.0%.

In Q4 2018, the narrowest money supply M1⁶ experienced 9.9% increase compared to the previous quarter. Monetary aggregate M2 surged by 6.4%, while the widest monetary aggregate M4 increased by 5.3%.

Total **deposit potential**⁷ of banks in Q4 2018 grew by 4.7% on quarterly basis, following the 2.4% growth in the previous quarter. From the point of view of sectors,

deposits of enterprises increased by 4.5%, while deposits of households grew by 5.2%. From currency point of view, Denar and foreign currency deposits, compared to the previous quarter, surged by 5.9% and 3.0%, respectively. Level of euroization dropped by 0.6 p.p. compared to the previous quarter, accounting for 40.0%, measured through the share of foreign currency deposits in the total deposit potential.

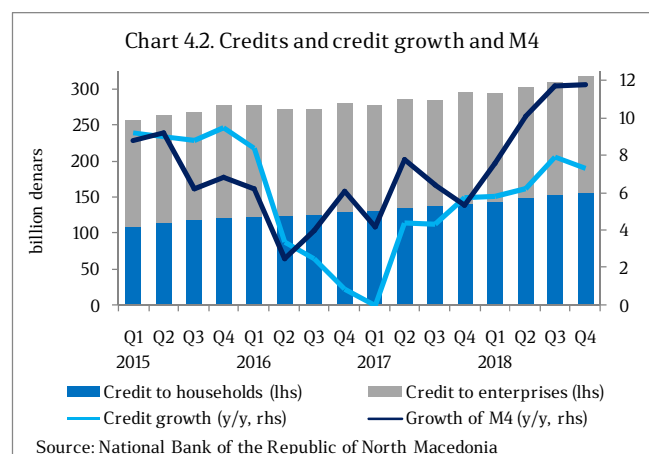
As regards maturity, in Q4 2018, share of long-term deposits in total deposit potential decreased by 0.7 p.p. compared to the previous quarter, reaching 27.5% (accounting for 28.2% in Q3 2018). During the analyzed period, short-term deposits grew by 3.3%.

Credit activity of banks to non-government sector in Q4 2018 increased by 3.4% on quarterly basis (compared to 1.8% growth in the previous quarter), in conditions of growth of credits to private enterprises by 4.7%, while credits to households surged by 1.8%.

⁵ 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).

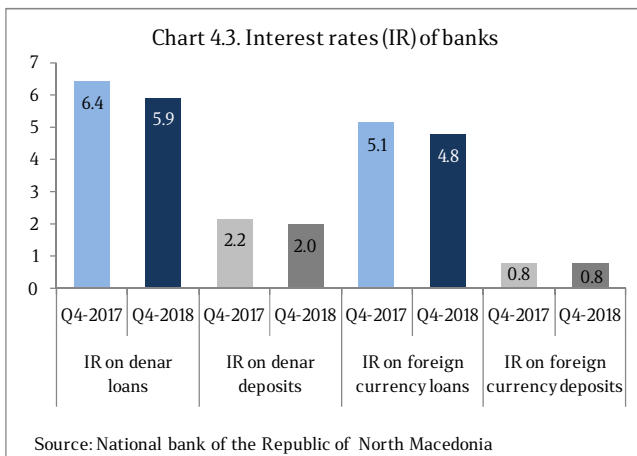
⁶ Monetary aggregate M1 comprise currency in circulation and deposit money. Monetary aggregate M2 comprises the monetary aggregate M1 and short-term deposits, while monetary aggregate M4 includes monetary aggregate M2 and long-term deposits.

⁷ Deposits also include calculated interest.





From currency point of view, in Q4 2018, Denar credits grew by 5.8%, while foreign currency credits remained unchanged compared to the previous quarter. From maturity point of view, long-term credits in Q4 2018 experienced 2.1% growth compared to the previous quarter, while short-term credits were higher by 8.3%. deposits accounted for 1.8% and 0.9%, respectively.



Source: National bank of the Republic of North Macedonia

In Q4 2018, **interest rate**⁸ on Denar credits amounted to 5.9%, decreasing by 0.1 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.77% in Q4 2018, dropping by 0.07 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.01 p.p., accounting for 1.97% in Q4 2018 compared to the previous quarter, while interest rate on foreign currency deposits grew by 0.01 p.p. compared to the previous quarter, accounting for 0.79%. In Q4 2018, interest rate on newly granted Denar credits amounted to 5.0%, while interest rate on newly granted foreign currency credits accounted for 4.1%. Interest rates on newly received Denar and foreign currency

⁸ Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.

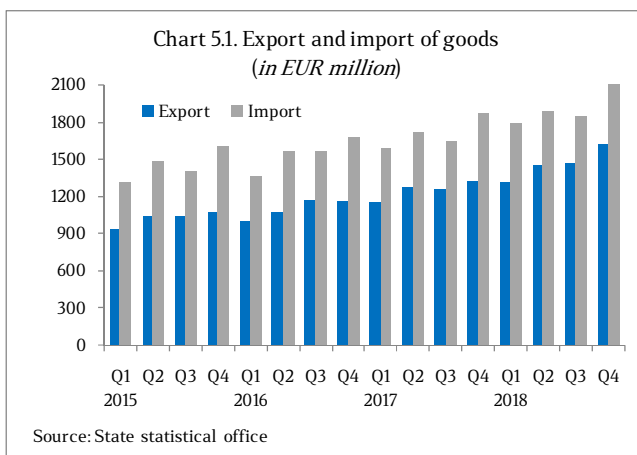


5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,783.1 million in Q4 2018, increasing by 18.4% compared to the same quarter of 2017.

In Q4 2018, **export of goods** amounted to EUR 1,630.0 million, whereby, compared to Q4 2017, it surged by 23.1%, while compared to the previous quarter, it increased by 11.4%.



Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q4 2018, compared to the same quarter in 2017, were registered at all sectors, as follows:

- chemical products surging by 29.9% (wherein highest growth was seen at the category chemical materials and products by EUR 92.6 million or 33.5%);
- machinery and transport equipment by 31.5% (industrial machines and machine parts by EUR 63.4 million or 44.6%, electrical machinery, apparatus and appliances by EUR 51.6 million or 27.5%);

- manufactured goods classified chiefly by material by 34.8% (iron and steel by EUR 45.8 million or 46.5%);
- miscellaneous manufactured articles by 0.4% (furniture and parts thereof, bedding, mattresses and similar by EUR 7.5 million or 13.4%);
- mineral fuels and lubricants by 43.9% (petroleum and petroleum products by EUR 7.0 million or 57.4%);
- food products by 9.6% (cereals and cereal preparations by EUR 4.6 million or 22.4% and dairy products and eggs by EUR 2.0 million or 62.1%);
- beverages and tobacco by 6.3% (beverages by EUR 3.5 million or 23.5%);
- crude materials, inedible, except fuels by 2.5% (crude fertilizers and minerals, excluding coal, petroleum and precious stones by EUR 3.3 million or 25.5%) and
- animal and vegetable oils by 47.2% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.9 million or 55.4%).

Observed by **economic purpose**, in Q4 2018, increase of export was recorded at all groups of products, as follows:

- goods for industrial supplies picking up by EUR 161.6 million or 26.5%;
- investment products without transport equipment by EUR 73.4 million or 35.5%;
- transport equipment by EUR 50.3 million or 27.0%;
- food and beverages by EUR 9.6 million or 10.0%.



- o fuels and lubricants by EUR 8.2 million or 41.2% and
- o consumer goods by EUR 2.5 million or 1.2%;

Import of goods in Q4 2018 amounted to EUR 2,153.1 million, growing by 15.1% compared to Q4 2017, while, in relation to the previous quarter, it increased by 16.7%.

Analyzed by **SITC sectors**, increase of import in Q4 2018, compared to Q4 2017, was seen at all sectors, as follows:

- o machinery and transport equipment by 13.2% (wherein the highest growth was seen at the category electrical machinery, apparatus and appliances by EUR 45.8 million or 29.5%);
- o manufactured goods classified chiefly by material by 14.3% (non-ferrous metals by EUR 42.9 million or 16.5%, non-metallic mineral manufactures by EUR 23.0 million or 21.9% and iron and steel by EUR 20.3 million or 20.5%);
- o mineral fuels and lubricants by 17.7% (petroleum and petroleum products by EUR 22.4 million or 18.7%);
- o chemical products by 25.0% (medical and pharmaceutical products by EUR 18.9 million or 40.2% and inorganic chemicals by EUR 12.5 million or 89.3%);
- o crude materials, inedible, except fuels, by 51.2% (metalliferous ore and metal scrap by EUR 18.6 million or 115.4%);
- o miscellaneous manufactured articles by 9.2% (clothing by EUR 3.8 million or 17.6% and furniture and parts thereof, bedding, mattresses and similar by EUR 2.2 million or 12.9%).

- o food products by 6.1% (diary products and eggs by EUR 3.3 million or 26.9%; fish and fish preparations by EUR 2.4 million or 39.7% and coffee, tea, cocoa, spices and manufactures thereof by EUR 2.2 million or 9.7%);
- o beverages and tobacco by 15.5% (tobacco and tobacco manufactures by EUR 1.4 million or 17.3% and beverages by EUR 1.3 million or 13.9%) and
- o animal and vegetable oils, by 1.7% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.7 million or 7.0%).

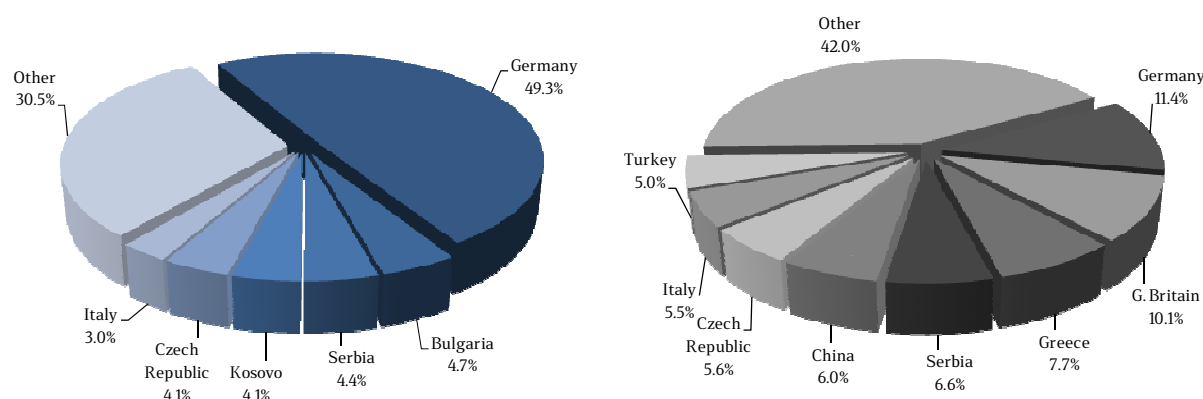
Observed by **economic purpose**, in Q4 2018, increase of import was recorded at all groups of products, as follows:

- o goods for industrial supplies picking up by EUR 174.7 million or 18.7%;
- o consumer goods by EUR 32.0 million or 16.6%;
- o fuels and lubricants by EUR 28.6 million or 16.5%.
- o investment products without transport equipment by EUR 17.9 million or 6.5%;
- o transport equipment by EUR 16.1 million or 14.3% and
- o food and beverages by EUR 13.6 million or 7.6%.

In Q4 2018, foreign trade of the Republic of North Macedonia with the European Union (EU 28), in relation to Q4 2017, surged by 15.7%, whereby share of trade with the EU in the total foreign trade decreased by 1.3 p.p. compared to the fourth quarter in 2017, accounting for 69.8%. Thereby, in Q4 2018, export of goods accounted for 81.0%, while share of import of goods was 61.4%.



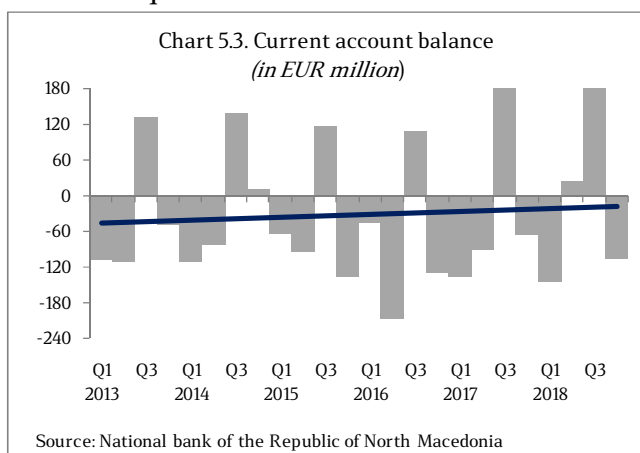
Chart 5.2 Countries having the highest share in export (left) and import (right) in Q4 2018



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 107.1 million was recorded on the balance of payments **current account** in Q4 2018, accounting for 3.7% of quarterly GDP, as opposed to the deficit of 2.4% of GDP registered in the same quarter of 2017.



Source: National bank of the Republic of North Macedonia

Analyzed on annual basis, the current account deficit in Q4 2018 surged by EUR

41.1 million, i.e. by 62.1% as a result of the service account deficit, versus the surplus registered in Q4 2017, as well as the widening of the deficit on the primary income account by 12.7%. Reduction of the deficit on the goods account by 6.4%, as well as the increase of the positive balance on the secondary income account by 8.4% had the opposite effect.

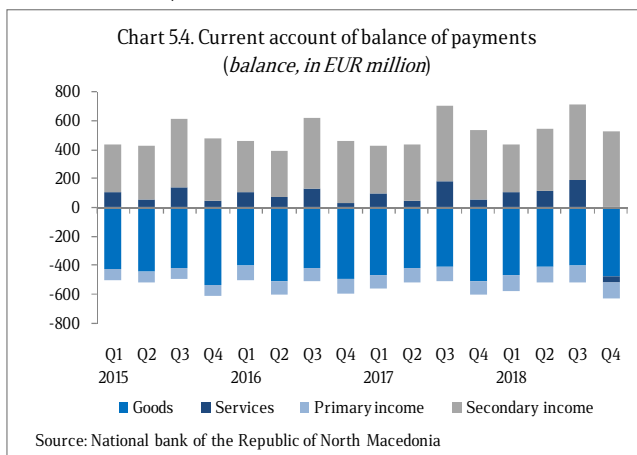
In Q4 2018, **trade deficit** dropped by EUR 32.0 million on annual basis, narrowing by 2.4 p.p. on annual basis, i.e. accounting for 16.1% of quarterly GDP.

The **service account** deficit amounted to EUR 47.8 million in Q4 2018 compared to the surplus in the fourth quarter of 2017, when it amounted to EUR 53.6 million. **Trade openness** of the Republic of North Macedonia in Q4 2018 amounted to 140.2% of quarterly GDP, being higher by 16.7 p.p. compared to Q4 2017.



Primary income account experienced EUR 108.2 million deficit in Q4 2018, widening by EUR 12.2 million on annual basis.

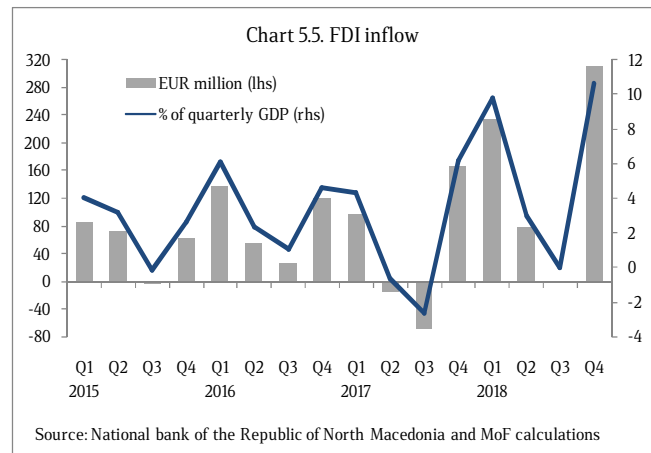
Surplus on the **secondary income** account in Q4 2018 amounted to EUR 520.2 million, increasing by EUR 40.5 million on annual basis. Growth was a result of the increase of both official transfers by EUR 27.3 million (accounting for 16.0% of the secondary income account) and private transfers by EUR 13.1 million (accounting for 84.0% of the secondary income account).



Balance on the **capital account** amounted to EUR 6.3 million in Q4 2018 and, compared to the same quarter of last year, it grew by EUR 0.4 million, which is fully due to the increased inflow of nonproduced nonfinancial assets.

Foreign Direct Investments (FDIs) in the country in Q4 2018 amounted to EUR 311.4 million, increasing by EUR 143.4 million compared to Q4 2017. Most (60.3%) of FDIs in this period, i.e. EUR 187.8 million are in the form of equity and reinvestment of earnings, while the rest is on the basis of debt instruments. FDIs are mainly

targeted industrial sector, accounting for 67.7% of the total inflow of FDI, especially in manufacturing. The inflow of FDI in the services sector accounts for 8.5% of the total inflow.



Portfolio investments in Q4 2018 amounted to EUR 11.9 million, thus registering improvement of the balance compared to the same quarter in 2017, when they were negative and amounted to EUR 8.0 million.

Other investments in Q4 2018 amounted to EUR 75.5 million, being higher by EUR 46.3 million compared to the same quarter in 2017. As regards the category other investments, currency and deposits amounted to EUR 60.1 million, loans amounted to EUR 35.1 million, while trade credits and advances account experienced a negative balance in the amount of EUR 19.7 million.

Reserve assets amounted to EUR 2.9 billion at the end of the fourth quarter in 2018, surging by 22.7% compared to Q4 2017. At the end of Q4 2018, reserve assets provided for 4.4-month coverage of import of goods and services in the previous 12-month period.