



# Q1-2020

## QUARTERLY ECONOMIC REPORT

### - first quarter 2020 -

### Summary

- **Gross Domestic Product** in Q1 2020 compared to the same quarter of 2019, increased by 0.2% in real terms, amid deteriorated international environment and introduction of containment measures for the purpose of preventing the spread of Coronavirus in the country;
- **Number of employed persons** in Q1 2020 was higher by 2.7% compared to the same quarter in 2019. **Number of unemployed persons** dropped by 8.6%, which resulted in reduction of **unemployment rate** to 16.2% in Q1 2020;
- Average **net wage** amounted to Denar 27,055 in Q1 2020, increasing by 10.7% in nominal terms, i.e. surging by 10.0% in real terms, compared to the net wage Q1 2020;
- Total **budget revenues** were higher by 1.0% in Q1 2020, and total **budget expenditures** were higher by 9.4% compared to the same quarter in 2019;
- **Inflation rate** was 0.6% in Q1 2020 on annual basis, measured according to CPI;
- Total **deposit potential** of banks decreased by 0.6% in Q1 2020 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q1 2020 grew by 0.7% on quarterly basis;
- In Q1 2020, decrease of both **export of goods** by 8.2% and **import of goods** by 3.6% was registered on annual basis, by which total **foreign trade**, expressed in euros, dropped by 5.6%;



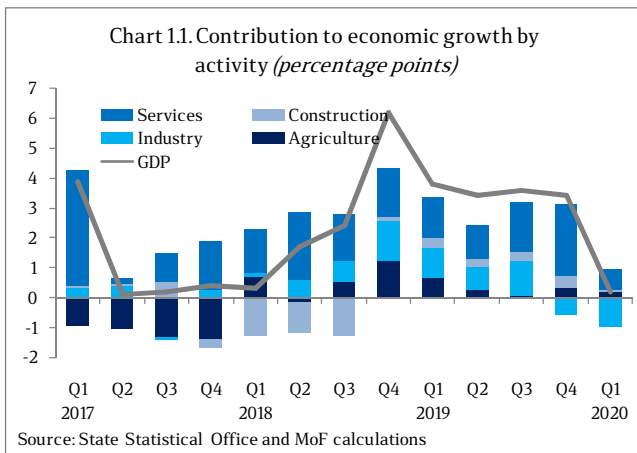
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## 1. Economic Activity

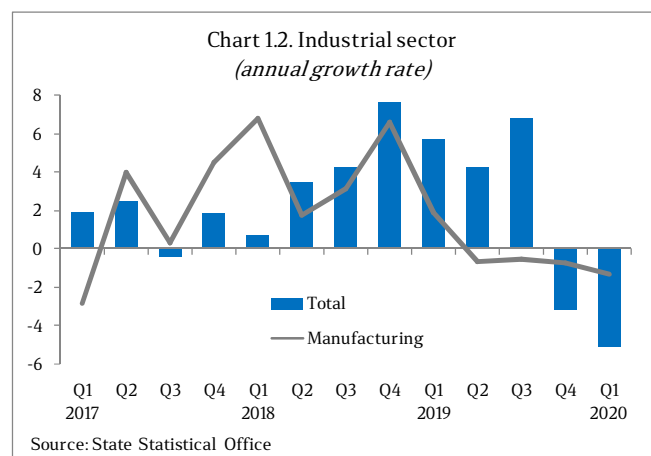
In Q1 2020, in line with the expectations, the **economic growth** significantly slowed down, accounting for 0.2% on annual basis due to the deterioration of the international environment and significant drop of the foreign demand as well as the containment measures to a lesser extent, being undertaken in March for the purpose of preventing the spread of coronavirus in the country. Hence, export sector and industrial production as well as some of the activities in the services sector, such as trade, transport and hospitality industry were mostly affected.



Activity in the **services sector** as a whole, picked up by 1.4%, being a result of the favourable trends in the following activities: Information and communication by 10.4%, Real estate activities by 6.5% and Arts, entertainment, recreation and other service activities by 5.2%, while drop was seen at the following: Public administration, education, health and social protection by 0.9%, Trade, transport and hospitality industry by 1.3%,

Financial and insurance activity by 1.9% and Expert, scientific, technical and administrative activities by 2.8%. Reduced trade activity, in line with the monthly data arises from the unavoidable trends in the wholesale trade and trade in motor vehicles, while retail turnover increased in this quarter, despite the drop in March.

**Construction activity** picked up by 1.5% in real term in Q1 2020, which in line with the high-frequency data was a result of the performed construction works as regards civil engineering structure, i.e. road construction. **Agriculture sector** registered growth of 2.8% in this period.

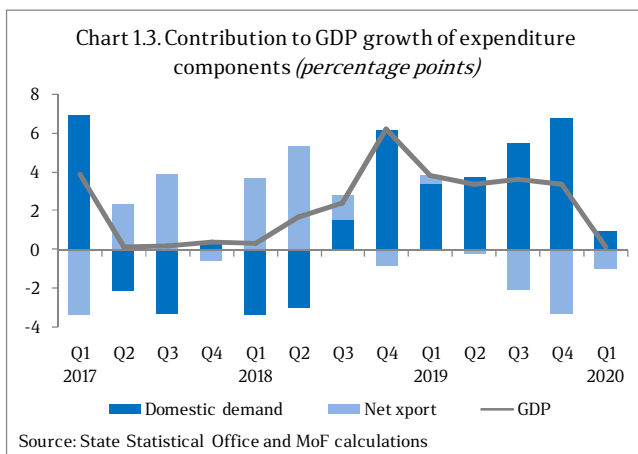


Activity in the **industrial sector** dropped by 5.1%. In line with the monthly data on industrial production, Manufacturing and Electricity supply experienced drop, while Mining and quarrying had positive contribution to the industry. Drop in **Manufacturing** was mostly a result of the reduced manufacture of machinery, equipment and electrical equipment, i.e. activities related to the major industrial capacities with foreign capital, being to a



great extent integrated in the global production chains.

Economic growth decomposition, according to the expenditure side, shows that domestic demand had positive contribution to the economic activity growth in Q1 2020 as a result of the increased consumption, while contribution of net export was negative, amid drop of both import and export activity (Chart 1.3).



Consumption grew by 1.5% in real terms, amid positive contribution by both private and public consumption. Growth of **private consumption** accounted for 1.2%, being a result of the favourable trends on the labour market, i.e. increase of wages and employment in the country, as well as the higher pensions, and to the household crediting to a certain extent, whose growth was at solid level. Growth of **public consumption** accounted for 2.4% in

real terms, reflecting the effect from the increased wages in the public sector during the previous quarter.

**Gross investments** decreased by 0.5% in real terms, which is assumed, according to the high frequency data, that it was a result of the drop of investments in machinery and equipment, i.e. it corresponds to the drop of production, and the import of capital goods to a lesser extent. On the other hand, favourable trends in the construction sector and the increase of budget capital expenditures, as well as the solid inflow of foreign direct investments in the first quarter, had positive contribution to the gross investments.

**Export of goods and services** in Q1 2020 dropped by 5.4% in real terms, mostly as a result of the deteriorated international environment and the drop of foreign demand, resulting mainly in drop of export of the capacities in the free economic zones, i.e. export of machinery, transport equipment and chemical products, while the performance of some of the remaining export segments were solid, such as food, medical and pharmaceutical products. **Import of goods and services** decreased by 3.2% in real terms, conditioned mostly by the lower import of intermediary goods, amid drop of export, while import of consumer goods experienced growth.

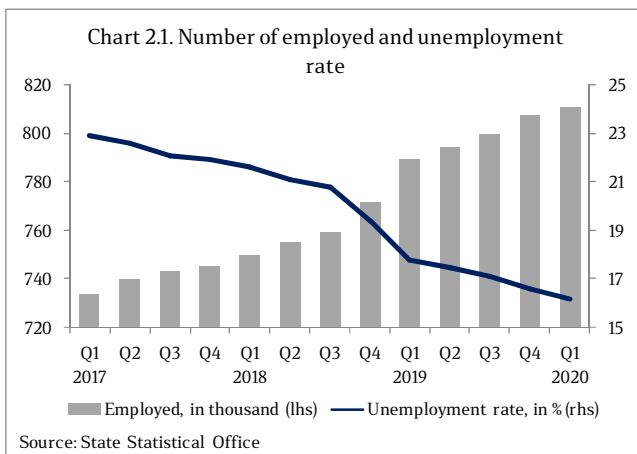
## 2. Labour Market

Positive trends on the labour market continued in Q1 2020 thus, according to the Labour Force Survey, **number of**

**employed persons** was higher by 2.7%, i.e. by 21.7 thousand persons compared to same quarter in 2019, whereby



employment gains were registered in the services sector (29.1 thousand or 6.8%), and the industry (5.5 thousand or 29%), while drop of the number of employed persons was recorded in the agriculture sector (11.5 thousand or 10.4%) and construction (2.4 thousand and 4.4%).



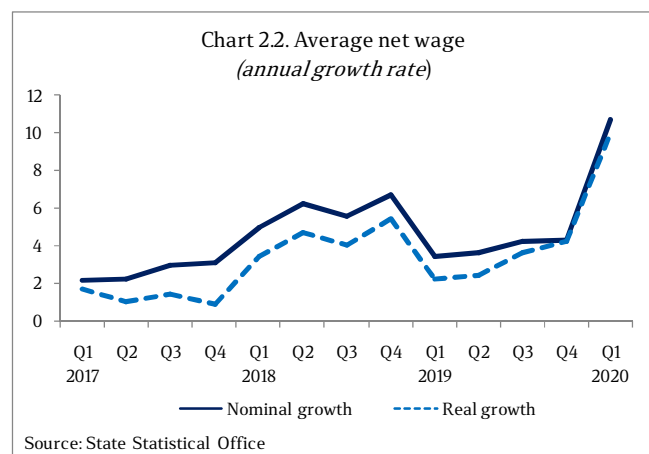
Analyzed according to the economic status, employment growth was registered in employed persons (wage earners) by 38.5 thousand or 6.2% and employers by 1.5 thousand or 5.0%, while drop was seen in the number of family workers by 9.9 thousand or 21.9% and the number of self-employed persons by 8.4 thousand or 9.0%. **Employment rate** in Q1 2020 amounted to 48.1%, being higher by 1.2 p.p. compared to the same quarter in 2019.

Employment growth was coupled with a decrease in the **number of unemployed persons**, falling down by around 14.7 thousand persons, i.e. by 8.6% compared to the same quarter in 2019. Such trends caused the **unemployment rate** in Q1 2020 to reduce to 16.2%, i.e. by 1.6 p.p. compared to the same quarter in 2019, being lower

by 0.4 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment decreased at all groups compared to Q1 2019, whereby the most significant reduction was seen at the age group 50-64 years, accounting for 9.3%, followed by the age group 25-49 years, dropping by 8.9% and the group aged 15-24 years, declining by 6.4%. Observed by gender, unemployment rate was reduced among the male population by 1.9 p.p., accounting for 16.6% and being higher by 1.0 p.p. compared to unemployment of women, which dropped by 1.2 p.p. and accounts for 15.6%.

**Number of active population** increased by 7.0 thousand, persons i.e. by 0.7% on annual basis. Active population in Q1 2020 accounted for 57.4% of the total working age population, being higher by 0.3 p.p. compared to the same quarter in 2019.



Average monthly **net wage** amounted to Denar 27,055 in Q1 2020, being higher by 10.7% in nominal terms compared to the same quarter in 2019, while net wage increased by 10.0% in real terms. Average monthly **gross wage** amounted to Denar



40,369 in Q1 2020, increasing by 11.4% in nominal terms, i.e. surging by 10.6% in real terms (Chart 2.2).

**Labour productivity** in Q1 2020 decreased by 2.5% 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

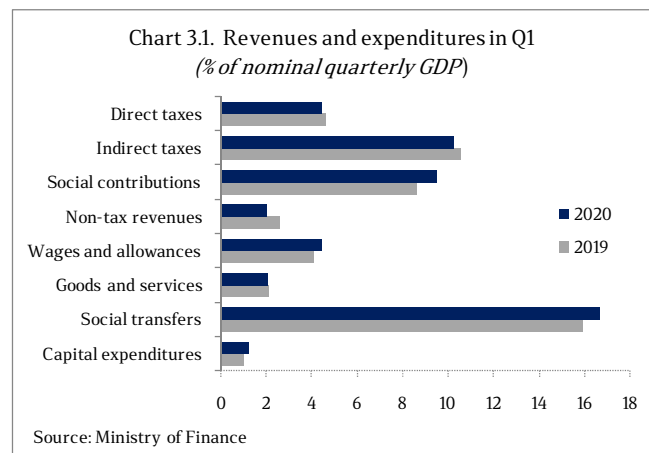
In Q1 2020, share of **total budget revenues** accounted for 28.1% of the quarterly GDP, being higher by 1.0% compared to the same quarter in 2019, due to the higher collection of social contributions by 12.2%, while tax and non-tax revenues dropped by 0.5% and 22.4%, respectively. Thereby, as for tax 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 Q1 2020, collection of indirect taxes was lower by 1.7%, while collection of direct taxes decreased by 1.9% compared to Q1 2019. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes decreased by 0.2 p.p., i.e. from 4.6% of quarterly GDP in Q1 2019 to 4.4% in Q1 2020, while share of revenues on the basis of indirect taxes was lower by 0.4 p.p., in Q1 2020 compared to Q1 2019, accounting for 10.2% of GDP.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 45.0% of total tax revenues in Q1 2020, being lower by 3.1% 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 1.4% compared to the same quarter of 2019.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 8.4%, while profit tax revenues declined by 14.1% compared to the same quarter of the previous year, as a result of the lower collection on the basis



of tax balances.

Collection of **social contributions** was higher by 12.2%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 12.8%, health insurance contributions by 11.1%, and employment contributions by 10.3%.

Collection of **non-tax revenues**, accounting for 2.0% of the quarterly GDP,



was lower by 22.4% in Q1 2020 compared to the same quarter of 2019.

**Capital revenues**, including revenues on the basis of lease of construction land, sale

### 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 40,367 million in Q1 2020, i.e. 92.6% of the revenues of all budget users, accounting for 20.8% of the annual projections of this budget user.

Within the Ministry of Finance – Functions of the State, tax revenues accounted for the most – 64.0% of total revenues and inflows to this budget user, whereby their collection reached 20.4% of the annual projections in the first quarter in 2020. Inflows on the basis of domestic borrowing in this period amounted to Denar 12,478 million, accounting for 30.9% of the total amount of this budget user.

of flats, as well as revenues on the basis of dividends, were higher by 75.0% on annual basis in Q1 2020. Revenues on the basis of **foreign donations** dropped by 32.0%.

**Ministry of Education and Science** collected revenues in the amount of Denar 895 million, i.e. 2.1% of the revenues and inflows of all budget users, most of which (79.5%) were non-tax revenues, collected mainly on the basis of fees and charges.

**Ministry of Finance**, as budget user, collected revenues in the amount of Denar 403 million, or 0.9% of the revenues and inflows of all budget users. Inflows on the basis of foreign borrowing amounted to Denar 244 million, accounting for 60.5% of the total amount of this budget user.

The remaining budget users collectively generated revenues accounting for 4.4% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link

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

As regards **budget funds**, Pension and Disability Insurance Fund of North Macedonia, collected revenues in the amount of Denar 18,474 million, accounting for 23.9% of the Fund's annual projections in Q1 2020. In this period, Health Insurance Fund of North Macedonia collected revenues in the amount of Denar 8.191 million, i.e. 23.9% of the Fund's annual projections. Employment Agency of the Republic of North Macedonia collected revenues in

<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.



the amount of Denar 674 million, accounting for 20.2% of the annual

projections.

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

In Q1 2020, **total budget expenditures** participating with 32.5% in the quarterly GDP, were higher by 9.4% compared to the same quarter in 2019.

**Current expenditures**, accounting for 31.3% of the quarterly GDP, participated with 96.3% in the total expenditures and experienced 8.9% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 0.9%, while expenditures related to wages and allowances were higher by 9.3% compared to the same quarter in 2019.

Funds for transfers, which participated with 72.7% in the total expenditures, were higher by 10.4% on annual basis. Social transfers surged by 6.8%, accounting for 51.4% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by

5.6%, accounting for 31.4% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 20.1% in the total expenditures, i.e. they surged by 18.5% compared to the first quarter in 2019. Block and earmarked grants to local government units surged by 13.5%, while subsidies and transfers were higher by 25.2%.

Interest-related expenditures decreased by 1.5% on annual basis, whereby domestic debt interest-related expenditures dropped by 1.1% and expenditures related to interest on foreign debt declined by 1.8%.

**Capital expenditures** accounting for 1.2% of quarterly GDP, compared to the same quarter in 2019, were higher by 24.4%, i.e. they participated with 3.7% in the total expenditures.

### 3.4. Expenditures by budget users

Review of budget expenditures for the largest budget users is shown below, the total annual budget of which accounts for 85.8% of the total budget of all budget users.

In the period January - March 2020, Denar 14,257 million was spent through the organizational code **Ministry of Finance – Functions of the State**<sup>2</sup> accounting for

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.

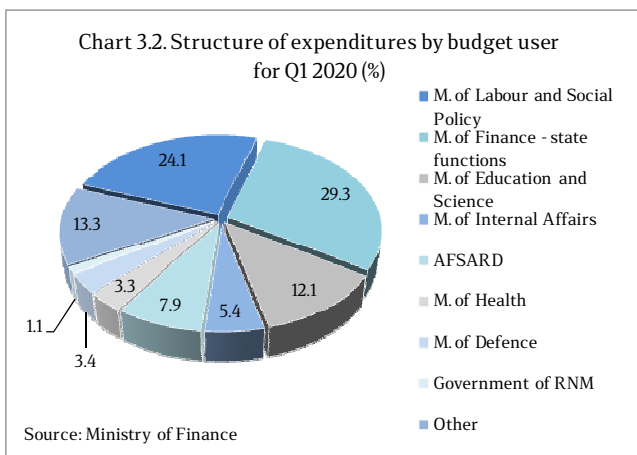
<sup>2</sup>As regards the Organizational Code "Functions of the State", the following activities are included: timely





24.4% of its annual Budget. Repayment of principal accounted for most of the expenditures or 79.1%, Denar 11,282 million being spent therefore, i.e. 26.2% of the funds projected for this purpose in 2020. As regards expenditures related to interest payments, they accounted for 13.3% of the total expenditures, Denar 1,898 million being spent therefore or accounting for 23.0% of the projected interest payments.

executed budget funds in the amount of Denar 5,903 million, i.e. 22.6% of its total 2020 budget. Current transfers to LGUs accounted for the most of the expenditures (67.5%), Denar 3,984 million being spent therefore or 24.7% of total projected funds. Wages and allowances were the second highest expenditure item, participating with 15.5%, Denar 914 million being spent therefore, i.e. 23.3% of the total funds projected for the current year.



During the analyzed period, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,619 million, accounting for 22.8% of its 2020 budget. Wages and allowances were the highest expenditure item, participating with 76.2%, Denar 1.996 million being spent therefore, or accounting for 24.7% of the projected ones. The second highest expenditure item was goods and services, participating with 14.6%, funds in the amount of Denar 382 million being spent therefore, or accounting for 18.3% of the annual projections.

In the first three months of 2020, **Ministry of Labour and Social Policy** executed funds in the amount of Denar 11,719 million or 23.9% of its total budget for the current year. Thereby, most of the expenditures (69.6%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 8.157 million was spent or 24.1% of the funds allocated for 2020. The second highest expenditure category was social benefits, participating with 21.7% in the total expenditures. As for this purpose, 24.1% (Denar 2,538 million) of the expenditures projected for 2020 were executed.

During the first three months of 2020, **Ministry of Defence** executed budget funds in the amount of Denar 1,650 million, i.e. 19.0% of its total 2020 budget. Wages and allowances accounted for the most with 61.1%, for which Denar 1,009 million was spent, accounting for 24.5% of the total funds projected for the current year. Expenditures related to goods and services accounted for 21.5% of the total expenditures, Denar 356 million being spent therefore during the analyzed period, i.e. 14.9% execution of the total projected funds.

In the period January - March 2020, **Ministry of Education and Science**



In the period January - March 2020, **Ministry of Health** executed budget funds in the amount of Denar 1,616 million, accounting for 22.7% of its total 2020 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 47.0%, for which Denar 760 million was spent or 24.9% of the funds projected for the current year.

**Agency for Financial Support in Agriculture and Rural Development** spent funds in the amount of Denar 3,839 million, accounting for 51.8% of the funds projected for the current year. As for subsidies and transfers, accounting for 91.1% of the total expenditures, 54.9% or Denar 3,498 million of the projected funds were spent therefore.

**Government of the Republic of North Macedonia** spent Denar 535 million, i.e. 5.6% of the funds projected for 2020. Thereby, subsidies and transfers amounted to Denar 372 million (4.4%), participating with 69.6% in the total expenditures.

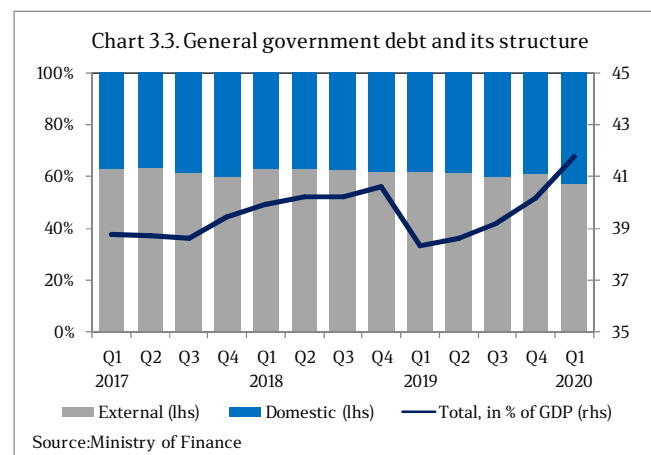
### 3.5. Budget deficit and government debt

In the first quarter of 2020, the **consolidated budget deficit** amounted to Denar 7,409 million or 4.5% of GDP realized in this quarter, while central budget deficit amounted to Denar 7,266 million, i.e. 4.4% of quarterly GDP.

Total **government debt** at the end of Q1 2020 accounted for 41.8% of GDP, increasing its share in GDP by 1.6 p.p. compared to Q4 2019. Share of external debt in the total government debt decreased by 3.6 p.p. compared to Q4 2019,

In the period January - March, **Ministry of Transport and Communications** executed funds in the amount of Denar 563 million, i.e. 10.2% of its total budget for the current year. Capital expenditure execution accounted for 8.5% of the projected amount (Denar 394 million), participating with 70.0% in the total expenditures of this budget user. Expenditures related to subsidies and transfers accounted for 22.7% in the total budget of this user, for which purpose Denar 128 million was spent, i.e. 21.7% 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>).



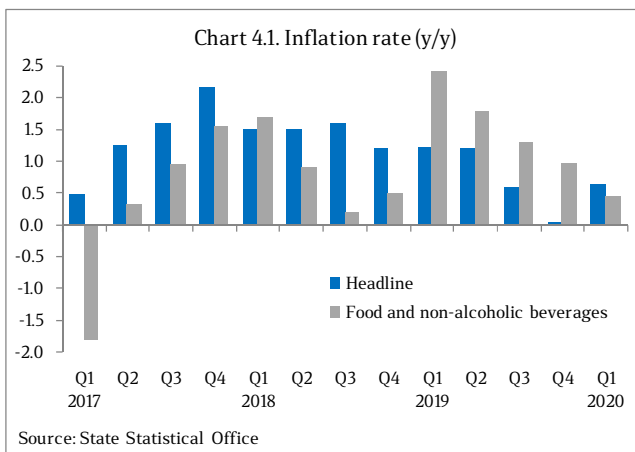
accounting for 57.0%, while share of



domestic debt increased respectively, government debt. accounting for 43.0% of the total

## 4. Inflation and Monetary Trends

**Inflation rate**, measured according to CPI index, in Q1 2020, amounted to 0.6% on annual basis, being higher by 0.6 p.p. compared to Q4 2019.



Increase of consumer prices in Q1 2020 was registered in the following categories: Alcoholic beverages, tobacco and narcotics by 4.9%, Miscellaneous goods and services by 1.7%, Recreation and culture by 1.5%, Transport and Restaurants and hotels by 1.1% each, Food and non-alcoholic beverages by 0.5%, Health protection and Furnishings, household equipment and routine maintenance by 0.4% each, Education by 0.2% and Housing, water, electricity, gas and other fuels by 0.1%. Drop of prices was registered at the following categories: Clothing and footwear by 1.5% and Communications by 0.2%.

In the first quarter<sup>3</sup> of 2020, National Bank of the Republic of North Macedonia reduced the **reference interest rate** by 0.25 p.p., i.e. from 2.25% to 2.0%, as a result of the continuous favourable trends on the forex market, as well as the moderate increase of domestic prices, and thus, the absence of price pressures.

Interest rate on available 7-day deposits amounted to 0.3% in March 2020 and, compared to the previous quarter, it remained unchanged.

**Primary money**<sup>4</sup> in Q1 2020 surged by 0.6% on quarterly basis (0.6% growth was registered in the previous quarter), amid reduced total liquidity of banks by 2.7% and increase of currency in circulation by 4.4%. Compared to Q1 2019, primary money surged by 38.2% (10.8% growth was registered in Q4 2019), as a result of the increase of both total liquidity of banks by 67.4% and currency in circulation by 17.0%.

<sup>3</sup> Data from the monetary statistics, the statistics of other financial corporations and the statistics of interest rates are according to the new methodology..

<sup>4</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).



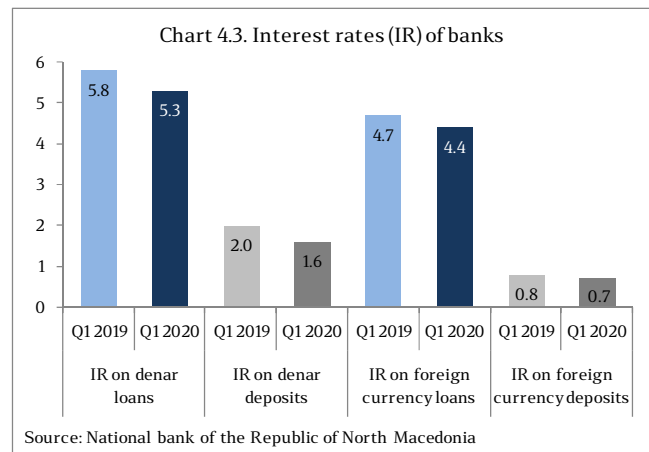
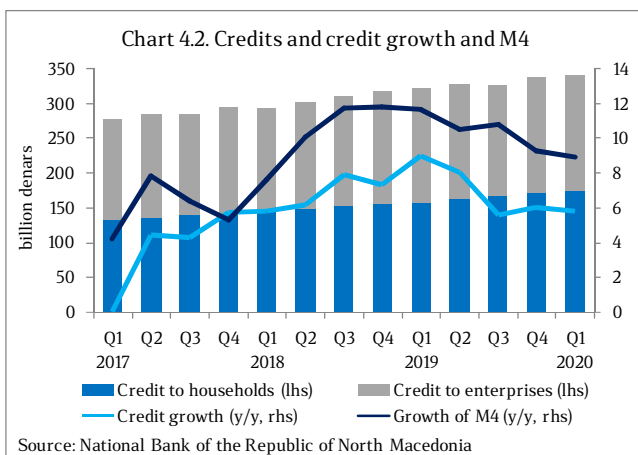
In Q1 2020, the narrowest money supply M1<sup>5</sup> experienced 0.3% decrease compared to the previous quarter. Monetary aggregate M2 surged by 0.6%, while the widest monetary aggregate M4 increased by 0.1%.

Total **deposit potential**<sup>6</sup> of banks in Q1 2020 declined by 0.4% on quarterly basis, following the 4.1% growth in the previous quarter. From the point of view of sectors, deposits of enterprises decreased by 3.5%, while deposits of households grew by 1.1%. From currency point of view, Denar deposits decreased by 2.1%, while foreign currency deposits grew by 2.4% compared to the previous quarter. Level of euroization grew by 1.1 p.p. compared to the previous quarter, accounting for 39.6%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q1 2020 share of

long-term deposits in total deposit potential decreased by 0.3 p.p. compared to the previous quarter, reaching 26.6% (accounting for 26.9% in Q4 2019). During the analyzed period, short-term deposits grew by 1.4%.

**Credit activity** of banks to non-government sector in Q1 2020 increased by 0.7% on quarterly basis (compared to 3.8% growth in the previous quarter), in conditions of drop of credits to enterprises by 0.2%, while credits to households surged by 1.5%. From currency point of view, in Q1 2020, foreign currency credits picked up by 0.5%, while Denar credits experienced 0.8% growth compared to the previous quarter. From maturity point of view, long-term credits in Q1 2020 experienced 0.4% growth compared to the previous quarter, while short-term credits were higher by 0.3%.



In Q1 2020, **interest rate**<sup>7</sup> on Denar credits amounted to 5.33%, decreasing by 0.11 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.41%

<sup>5</sup>Monetary aggregate M1 comprises currency in circulation and deposit money. Monetary aggregate M2 comprises monetary aggregate M1 and short-term deposits, while monetary aggregate M4 includes monetary aggregate M2 and long-term deposits.

<sup>6</sup>Deposits also include calculated interest.

<sup>7</sup>Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.



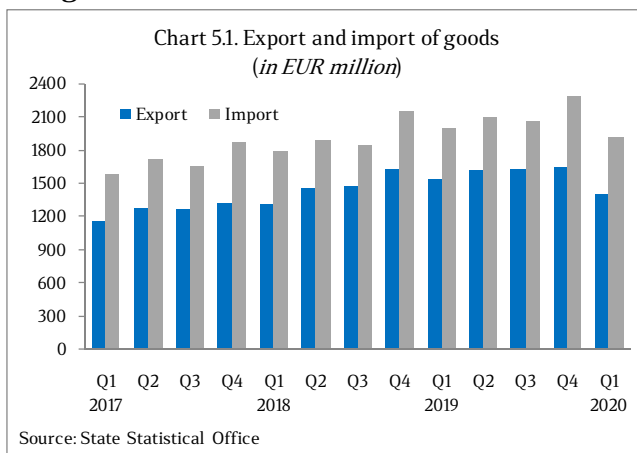
in Q1 2020, dropping by 0.08 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.14 p.p., amounting to 1.59% in Q1 2020 compared to the previous quarter, while interest rate on foreign currency deposits decreased by 0.07 p.p. compared to the previous quarter, amounting to 0.68%.

In Q1 2020, interest rate on newly granted Denar credits amounted to 1.0%, while interest rate on newly approved foreign currency credits accounted for 0.6%. Interest rates on newly received Denar deposits accounted for 3.7%.

## 5. External Sector

### 5.1. Foreign trade

According to the data of the State Statistical Office, total **foreign trade** amounted to EUR 3,326.1 million in Q1 2020, decreasing by 5.6% compared to the same quarter in 2019. Drop of foreign trade was a result of the crisis caused by Coronavirus, spreading throughout the globe.



In Q1 2020, **export of goods** amounted to EUR 1,407.7 million, whereby compared to Q1 2019, it dropped by 8.2%, while compared to the previous quarter, it decreased by 14.0%.

Analyzed **by sectors** of SITC (Standard International Trade Classification), drop of

export activity in Q1 2020, compared to the same quarter in 2019 was a result of the lower export of:

- chemical products by 11.9% (wherein highest drop was seen at the category chemical materials and products by EUR 52.1 million or 15.7%);
- machinery and transport equipment increasing by 13.3% (industrial machines and spare parts by EUR 36.1 million or 19.1%, electrical machinery, apparatus and appliances by EUR 22.7 million or 9.4% and road vehicles by EUR 13.7 million or 16.3%);
- miscellaneous manufactured articles by 3.5% (clothing by EUR 9.9 million or 8.5%) and
- crude materials, except fuel, by 9.3% (crude fertilizers and minerals, excluding coal, petroleum, precious stones by EUR 3.8 million or 43.6%; metalliferous ore and metal scrap by EUR 2.5 million or 4.3%);

Growth of export was seen at the following sectors:



- manufactured goods classified chiefly by material by 1.7% (wherein highest growth was seen at the category textile yarn, fabrics and textile products by EUR 7.0 million or 39.2%);
- food products by 6.4% (fruit and vegetables by EUR 5.0 million or 17.8%);
- beverages and tobacco by 3.8% (tobacco and tobacco manufactures by EUR 3.4 million or 22.8%) and
- animal and vegetable oils by 17.5% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.4 million or 16.5%).

Observed by **economic purpose**, in Q1 2019, drop of export was recorded at the following groups of products:

- goods for industrial supplies decreasing by EUR 46,6 million or 6.5%;
- investment products without transport equipment by EUR 38.3 million or 14.3%;
- transport equipment by EUR 31.4 million or 12.9%;
- consumer goods by EUR 8.9 million or 4.6% and
- fuels and lubricants by EUR 3.6 million or 15.7%.

Growth of export was seen only at food and beverages by EUR 3.8 million or 4.2%.

**Import of goods** in Q1 2020 amounted to EUR 1,918.4 million, dropping by 3.6% compared to Q1 2019, while in relation to the previous quarter, it dropped by 16.0%.

Analyzed by **sectors** of SITC, lower import in Q1 2020 compared to Q1 2019 was due to the lower import of the following:

- manufactured goods classified chiefly by material by 10.6% (wherein highest

drop was seen at the following categories: iron and steel by EUR 38.4 million or 30.7%, non-ferrous metals by EUR 31.4 million or 10.4%;

- mineral fuels and lubricants by 5.0% (petroleum and petroleum products by EUR 15.5 million or 12.7%);
- machinery and transport equipment by 2.5% (road vehicles by EUR 11.8 million or 13.3%; machinery specialized for particular industries by EUR 9.0 million or 24.0%) and
- beverages and tobacco by 12.0% (tobacco and tobacco manufactures by EUR 3.2 million or 22.6%).

Growth of import was seen at the following sectors:

- chemical products by 2.7% (wherein highest growth was seen at the category medical and pharmaceutical products by EUR 22.4 million or 55.0%);
- food products by 11.0% (cereals and cereal preparations by EUR 3.6 million or 16.9%; meat and meat preparations by EUR 3.4 million or 11.6%);
- crude materials, except fuel by 2.0% (metalliferous ore and metal scrap by EUR 2.3 million or 7.2%);
- miscellaneous manufactured articles by 3.2% (furniture and parts thereof, bedding, mattresses, mattress holders, cushions and similar articles by EUR 2.3 million or 12.6%) and
- animal and vegetable oils by 19.3% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 2.1 million or 20.5%).

Observed by **economic purpose**, in Q1 2020, drop of import was recorded at the following groups of products:

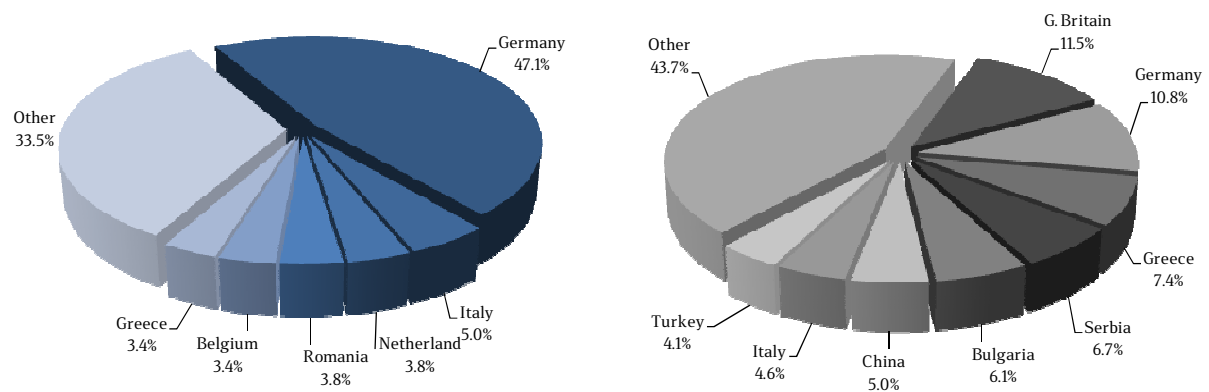


- goods for industrial supplies decreasing by EUR 97.0 million or 9.2%;
- fuels and lubricants by EUR 11.7 million or 5.7%;
- transport equipment by EUR 3.6 million or 3.1% and
- investment products without transport equipment by EUR 3.0 million or 1.2%.

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

- consumer goods increasing by EUR 26.8 million or 14.8% and
- food and beverages by EUR 16.1 million or 9.7%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q1 2020



Source: MoF calculations based on SSO data

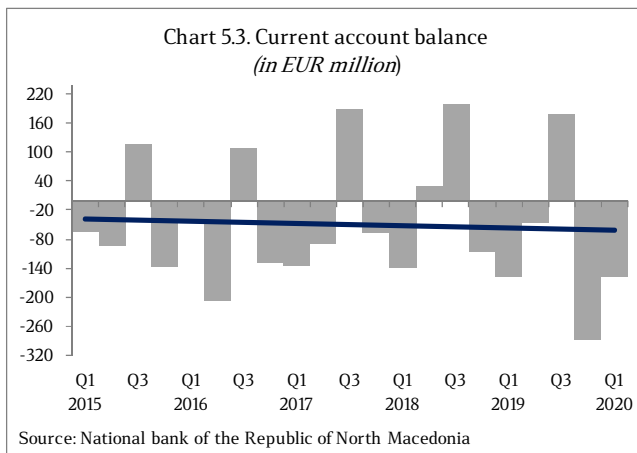
In Q1 2020, foreign trade of the Republic of North Macedonia with the European Union (EU 27<sup>8</sup>), in relation to Q1 2019, decreased by 8.6%, whereby share of trade with the EU in the total foreign trade decreased by 2.0 p.p. compared to the first quarter in 2019, accounting for 61.6%. Thereby, in Q1 2020 export of goods accounted for 80.1%, while share of import of goods was 48.0%.

<sup>8</sup> Starting February 2020, Great Britain is included in the economic group of countries - Miscellaneous-countries, with which North Macedonia carries out trade..



## 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 157.0 million was recorded on the balance of payments **current account** in Q1 2020, accounting for 5.8% of quarterly GDP, as opposed to the deficit of 6.0% of GDP registered in the same quarter of 2019.

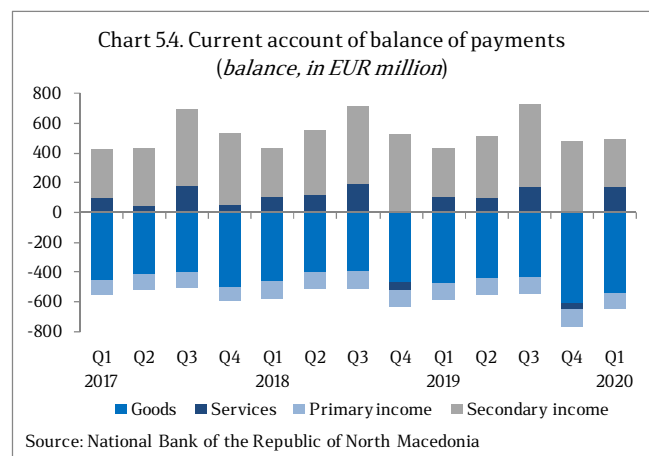


Analyzed on annual basis, the current account deficit in Q1 2020 decreased by EUR 1.2 million, i.e. by 0.7% being a result of the narrowed deficit on the primary income account by 9.4%, as well as the increase of the positive balance on the services account by 63.1%. Increase of the deficit on the goods account by 15.3%, as well as the decrease of the surplus on the secondary income account by 0.3%, had the opposite effect.

In Q1 2020, **trade deficit** increased by EUR 72.6 million on annual basis, widening by 2.4 p.p. on annual basis, i.e. accounting for 20.4% of quarterly GDP.

Surplus on **services account** amounted to EUR 166.2 million in Q1 2020 and, compared to the same quarter in 2019, it surged by EUR 64.3 million. **Trade openness** of the Republic of North Macedonia in Q1 2020 amounted to 126.9% of quarterly GDP, being lower by 9.7 p.p. compared to Q1 2019.

**Primary income** account experienced EUR 101.1 million deficit in Q1 2020, reducing by EUR 10.4 million on annual



basis.

Surplus on the **secondary income** account in Q1 2020 amounted to EUR 325.7 million, decreasing by EUR 1.0 million on annual basis. Drop was due to the reduction of private transfers by EUR 7.7 million, participating with 96.3% in the secondary income account, while official transfers grew by EUR 6.7 million.



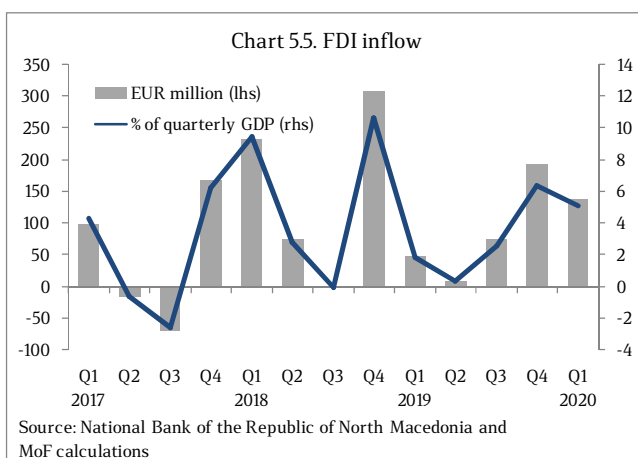


Balance on the **capital account** amounted to EUR 1.3 million in Q1 2020 and, compared to the same quarter of last year, it grew by EUR 0.7 million, which is fully due to the increased inflow of unproduced non-financial funds.

**Foreign Direct Investments (FDIs)** in the country in Q1 2020 amounted to EUR 137.3 million, increasing by EUR 88.7 million compared to Q1 2019. Inflow of FDIs in this period mostly arises from reinvestment of earnings of companies with foreign capital, upon which basis, it accounted for 62.9% of the total inflow of FDIs. On the basis of debt instruments, it accounted for 22.2% of the total inflow, while the remaining portion (14.9%) refers to equity.

experienced a negative balance in the amount of EUR 6.9 million.

**Reserve assets** amounted to EUR 3.0 billion at the end of the first quarter of 2020, increasing by 5.3% compared to Q1 2019. At the end of Q1 2020, reserve assets provided for 4.3-month coverage of import of goods and services in the previous 12-month period.



**Portfolio investments** in Q1 2020 amounted to EUR 31.6 million and, compared to the same quarter in 2019, they grew by EUR 9.3 million. **Other investments** in Q1 2020 amounted to EUR 177.7 million, unlike in Q1 2019, when they were negative. As regards the category other investments, currencies and deposits amounted to EUR 72.1 million, loans amounted to EUR 112.6 million, while trade credits and advances account