



QUARTERLY ECONOMIC REPORT

with revised macroeconomic projections for 2020

Summary

- **Gross Domestic Product** in Q4 2019 compared to the same quarter in 2018 increased by 3.4% in real terms. Economic growth is broad based, amid positive performance at all activities;
- **Number of employed persons** in Q4 2019 increased by 4.6% compared to the same quarter in 2018. **Number of unemployed persons** dropped by 13.2%, which resulted in reduction of **unemployment rate** to 16.6% in Q4 2019;
- Average **gross wage** amounted to Denar 38,823 in Q4 2019, increasing by 5.7% in nominal terms, as well as in real terms, compared to the gross wage in Q4 2018;
- Total **budget revenues** were higher by 9.4% in Q4 2019, while total **budget expenditures** surged by 10.3% compared to the same quarter in 2018;
- **Consumer prices** in Q4 2019, based on the Consumer Price Index, were not changed compared to the same quarter in 2018;
- Total **deposit potential** of banks in Q4 2019 picked up by 4.1% on quarterly basis;
- **Credit activity** of banks to non-governmental sector in Q4 2019 grew by 3.8% on quarterly basis;
- In Q4 2019, **export of goods** grew by 0.5%, while **import of goods** increased by 7.3% on annual basis, by which total **foreign trade** expressed in euros increased by 4.4%;
- **Economic activity** in 2020 is expected to drop by 3.4%, while **inflation rate** is projected at -0.2%;



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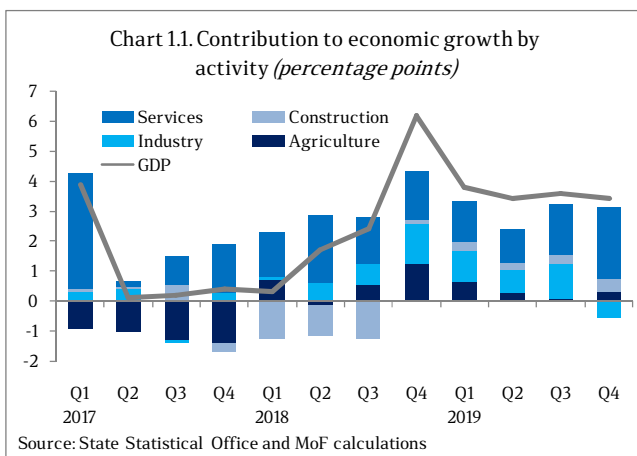
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1. Economic Activity

Gross Domestic Product (GDP) in Q4 2019, compared to the same quarter in 2018, increased by 3.4% in real terms (Chart 1.1), by which the total growth in 2019 amounted to 3.6%¹, being somewhat higher than the revised projection of the Ministry of Finance.

Analyzed by activity, economic growth in Q4 2019 was a result of the positive performance at all activities, except for the industry. Economic growth structure by production method is presented in Chart 1.1.

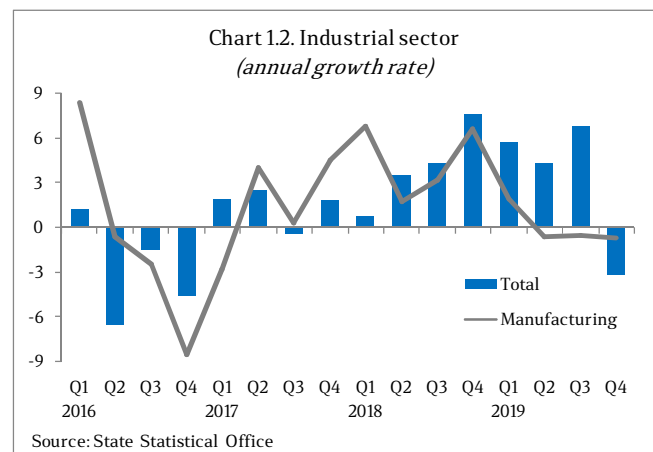


Favourable trends in the **construction sector** continued with more intensified dynamics in Q4 2019, i.e. it experienced 6.7% growth in real terms. In line with the monthly data for completed construction works, such performance was a result of the growth of construction activity as regards civil engineering.

Services sector experienced 4.6% growth, being mostly a result of the increased activity in Trade, transportation and accommodation and food services by 81%, followed by: Information and communication by 5.7%, Professional, scientific, technical and administrative activities by 4.5%, Arts, entertainment, recreation and other services by 4.1%, Real estate activities by 2.9%, Public administration, defense, education and health activities by 1.3%, and Financial and insurance activities by 0.2%.

Agricultural activity in Q4 2019 grew by 3.1% in real terms, following the growth of 0.6% in the previous quarter.

Growth in the **industrial sector** dropped by 3.1%, upon the strong growth of 5.6% in the previous three quarters in (Chart 1.2), by which total growth in 2019 accounted for 3.1%.



Based on the monthly data for industrial production, in Q4 2019, drop was seen in Mining and Electricity supply, while Manufacturing had positive contribution to the industrial production. Growth in

¹ At the same time, State Statistical Office revised downward the GDP real growth for the first quarter to 3.8% from the previous 3.9%.

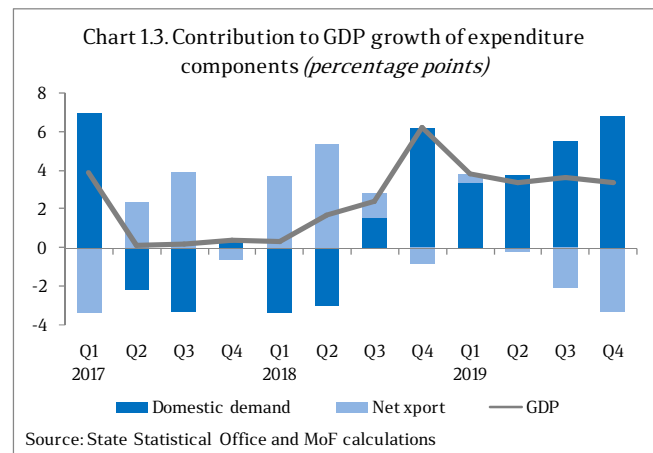


Manufacturing was mostly a result of the increased manufacture of motor vehicles, fabricated metal products, food products and chemical products. On the other hand, manufacture of clothing, leather and articles of leather, as well as manufacture of beverages had the highest negative contribution.

Analyzed according to the **expenditure side of GDP**, economic activity growth in Q4 2019 was a result of the growth of domestic demand, stemming from both consumption and gross investment growth, while net export had a negative contribution to the economic growth, amid drop of export and growth of import. Economic growth structure by expenditure method is presented in Chart 1.3.

Real growth of **gross investments** continued in Q4 2019 as well, amounting to 11.5% in real terms, being a result of growth of investments in construction works, as well as investments in machinery and equipment amid intensified growth of import of investment goods. Growth of gross investments corresponds with the execution of budget capital expenditures in this quarter.

Consumption surged by 3.3% in real terms, as a result of the growth of both private and public consumption. **Private consumption** grew by 2.4%, being largely



a result of the household income growth, amid intensified increase of wages and employment in the economy in real terms, also underpinned by the solid crediting to households. **Public consumption** grew by 7.1%, as a result of the increased expenditures for wages and allowances amid increase of wages in the public sector, as well as the higher budget expenditures for goods and services.

Export of goods and services decreased by 1.6% in real terms, following the strong growth of 12.2% in the previous three quarters. Drop of export was mostly as a result of the reduced export of chemical materials and products, as well as the export of electricity. **Import** of goods and services picked up by 2.8% in real terms, driven by the intensified import of capital goods, amid growth of investments, while the dynamics of import of Intermediary goods slowed down amid reduced export activity in this quarter.

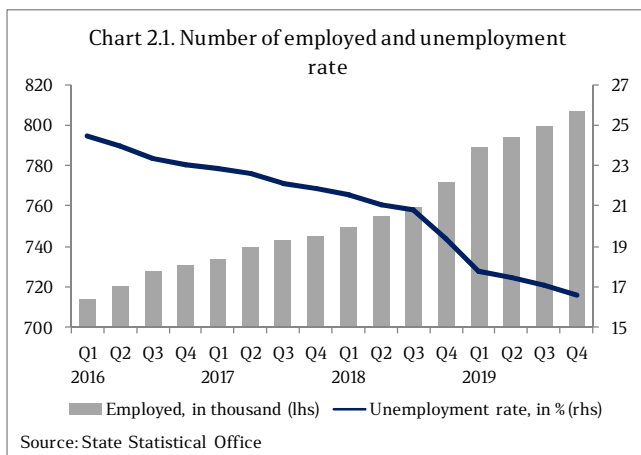
2. Labour Market

Positive trends on the labour market continued in Q4 2019, thus, according to

the Labour Force Survey, **number of employed persons** was higher by 4.6%, i.e.



by 35.6 thousand persons compared to the same quarter in 2018, whereby highest employment growth was registered in the services sector (41.8 thousand or 10.3%), followed by the industrial sector (8.6 thousand or 4.6%). Employment drop was seen in the construction sector (6.5 thousand or 11.2%) and in the agriculture sector (9.8 thousand persons or 8.6%).



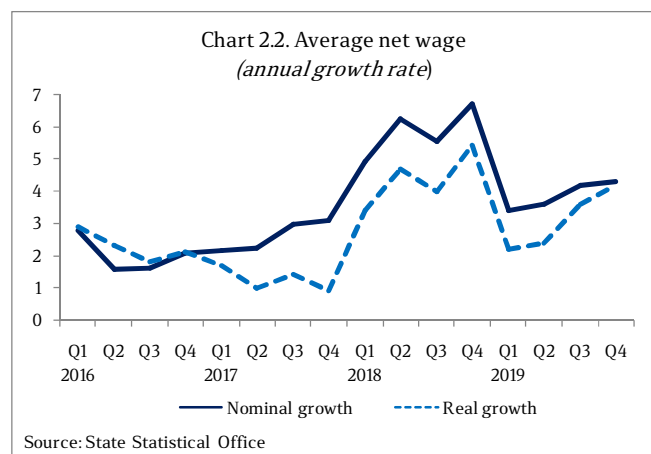
Analyzed according to the economic status, employment growth was registered at employed persons (wage earners) by 48.7 thousand or 8.1% and employers by 2.2 thousand or 7.2%, while drop was seen in the number of self-employed by 11.4 thousand or 11.5%, and the number of family workers by 3.9 thousand or 9.2%. **Employment rate** in Q4 2019 amounted to 47.9%, being higher by 2.0 p.p. compared to the same quarter in 2018.

Employment growth was coupled with a decrease in the **number of unemployed persons**, decreasing by around 24.6 thousand persons, i.e. by 13.2% compared to the same quarter in 2018. Such trends caused for the **unemployment rate** in Q4 2019 to reduce to 16.6%, i.e. by 2.8 p.p.

compared to the same quarter in 2018, being lower by 0.5 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment decreased at all groups compared to Q4 2018, whereby the most significant reduction was seen at the age group 50-64 years, accounting for 23.2%, while significant drop of 18.4% was also registered at the age group 15-24 years. Observed by gender, unemployment rate was reduced among the male population (by 3.4 p.p.), accounting for 16.4%, being lower by 0.6 p.p. compared to unemployment of women, which dropped by 1.7 p.p., accounting for 17.0%.

Number of active population increased by 11.0 thousand, persons i.e. by 1.1% on annual basis. Active population in Q4 2019 accounted for 57.5% of the total working age population, being higher by 0.6 p.p. compared to the same quarter in 2018.



Average monthly **net wage** amounted to Denar 26,115 in Q4 2019, being higher by 4.3% in nominal terms compared to the same quarter in 2018, while in real terms, net wage increased by 4.2%. Average monthly **gross wage** amounted to Denar



38,823 in Q4 2019, increasing by 5.7% in nominal terms, as well as in real terms (Chart 2.2).

Labour productivity in Q4 2019 decreased by 1.1%, as a result of the higher employment than production growth.

3. Public Finances

3.1. Budget revenues according to the economic classification

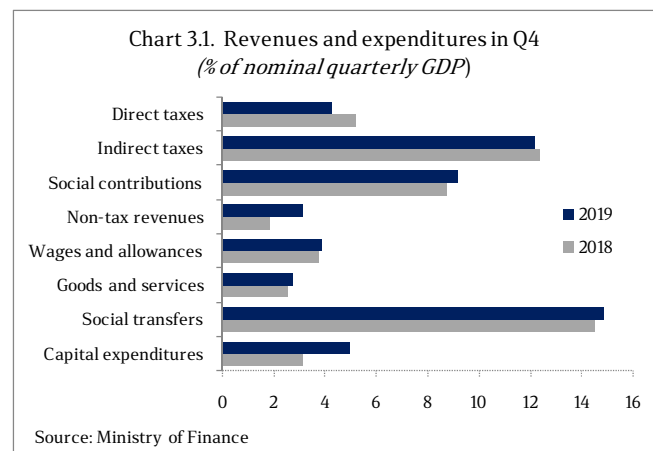
In Q4 2019, share of **total budget revenues** accounted for 30.3% of the quarterly GDP, being higher by 9.4% compared to the same quarter in 2018, due to the higher collection of contributions by 10.6%, as well as non-tax revenues by 77.0%, while tax revenues reduced by 0.9%. Thereby, as for tax revenues, lower collection was recorded at profit tax and personal income tax, while VAT, excises, revenues on the basis of customs duties and revenues from other taxes increased.

In Q4 2019, collection of indirect taxes was higher by 3.7%, while collection of direct taxes decreased by 13.8% compared to Q4 2018. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes dropped by 1.0 p.p., i.e. from 5.2% of quarterly GDP in Q4 2018 to 4.2% in Q4 2019, while share of revenues on the basis of indirect taxes was lower by 0.2 p.p. in Q4 2019 compared to Q4 2018, accounting for 11.3% of GDP.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 46.1% of total tax revenues in Q4 2019, being higher by 1.6% 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 8.4% compared to the same quarter of 2018.

As for **direct taxes**, collection of revenues on the basis of personal income tax decreased by 8.6%, while profit tax revenues declined by 23.4% compared to the same quarter of the previous year, as a result of the lower collection on the basis of monthly advance payments and tax balances.



Collection of **social contributions** was higher by 10.6%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 11.2%, health insurance contributions by 9.5%, and employment contributions by 8.3%.

Collection of **non-tax revenues**, accounting for 3.1% of the quarterly GDP, was higher by 77.0% in Q4 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 by more than twice higher

on annual basis in Q4 2019. Revenues on the basis of foreign donations picked up by 33.6%.

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**², which amounted to Denar 46,546 million in Q4 2019, i.e. 92.9% of the revenues of all budget users, accounting for 29.1% of the annual projections of this budget user.

Education and Science that collected revenues in the amount of Denar 937 million, i.e. 1.9% of the revenues and inflows of all budget users, most of which were non-tax revenues, collected mainly on the basis of fees and charges.

Within the Ministry of Finance - Functions of the State, tax revenues predominated – 65.8% of total revenues and inflows to this budget user, whereby their collection reached 25.8% of the annual projections in Q4 2019. Funds on the basis of foreign borrowing amounted to Denar 7,670 million, accounting for 16.5% of the total amount of this budget user.

Ministry of Transport and Communications collected revenues in the amount of Denar 603 million, or 1.2% of the revenues and inflows of all budget users. The remaining budget users collectively generated revenues, accounting for 4.1% 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>).

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

As for **budget funds**, Pension and Disability Insurance Fund of North Macedonia collected the most revenues, amounting to Denar 20,714 million in Q4 2019, accounting for 28.2% of the Fund's annual projections.

² 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 Q4 2019, total budget expenditures, accounting for 33.2% of the quarterly GDP, were higher by 10.3% compared to the same quarter of 2018.

Current expenditures, accounting for 28.3% of the quarterly GDP, participated with 85.1% in the total expenditures and experienced 4.2% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 14.2%, while expenditures related to wages and allowances were higher by 7.8% compared to the same quarter in 2018.

Funds for transfers, which participated with 62.7% in the total expenditures, were higher by 2.9% on annual basis. Social transfers surged by 7.9%, accounting for 44.7% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by

3.1%, accounting for 26.2% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 16.6% in the total expenditures, i.e. they declined by 9.5% compared to the fourth quarter in 2018. Block and earmarked grants to local government units surged by 7.1%, while subsidies and transfers were lower by 20.5%.

Interest-related expenditures dropped by 8.5% on annual basis, whereby domestic debt interest-related expenditures declined by 18.1% and expenditures related to interest on foreign debt surged by 0.6%.

Capital expenditures accounting for 4.9% of quarterly GDP, compared to the same quarter in 2018, were higher by 66.8%, i.e. they participated with 14.9% in the total expenditures.

3.4. Expenditures by budget users

Review of budget expenditures for the largest budget users³ is shown below, the total annual budget of which accounts for around 80% of the total budget of all budget users.

Ministry of Labour and Social Policy, in Q4 2019, executed funds in the amount of Denar 11,330 million or 25.5% of its total budget for the current year. Thereby, most

of the expenditures (65.8%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 7,458 million was spent or 24.5% of the funds allocated for 2019. The second highest expenditure category was social benefits, participating with 23.1% in the total expenditures. As for this purpose, 27.3% (Denar 2,614 million) of the expenditures projected for 2019 were executed.

³ Data are not consolidated, also including the outflows.



In the fourth quarter of 2019, Denar 8,700 million was spent through the organizational code **Ministry of Finance - Functions of the State**⁴, accounting for 27.4% of its annual budget. Repayment of principal accounted for most of the expenditures or 67.0%, Denar 5,827 million being spent therefore, i.e. 36.1% of the funds projected for this purpose in 2019. Interest-related payments accounted for 18.0% of the total expenditures, Denar 1,564 million being spent therefore or 19.0% of the projected funds.

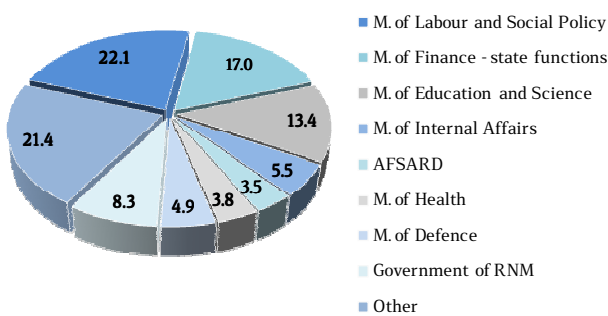
amount of Denar 6,858 million, i.e. 26.9% of its total 2019 budget. Current transfers to LGUs accounted for the most of the expenditures (56.7%), Denar 3,890 million being spent therefore or 26.9% of total projected funds. Goods and services were the second highest expenditure item, participating with 17.4%, Denar 1,196 million being spent therefore, i.e. 28.9% of the total funds projected for the current year.

In the fourth quarter of 2019, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,808 million, accounting for 25.1% of its 2019 budget. Wages and allowances were the highest expenditure item, participating with 69.6%, Denar 1,955 million being spent therefore, or accounting for 25.0% of the projected ones. The second highest expenditure item was goods and services, participating with 15.7%, funds in the amount of Denar 442 million being spent therefore, or accounting for 21.2% of the annual projections.

Ministry of Defense, in Q4 2019, spent budget funds in the amount of Denar 2,505 million, i.e. 31.3% of its total 2019 budget. Wages and allowances accounted for the most with 40.2%, for which Denar 1,008 million was spent, accounting for 25.8% of the total funds projected for the current year. Capital expenditures accounted for 34.3% of the total expenditures, Denar 859 million being spent therefore during the analyzed period, i.e. 58.8% execution of the total projected funds.

Ministry of Health, in the fourth quarter of 2019, spent budget funds in the amount

Chart 3.2. Structure of expenditures by budget user for Q4 2019 (%)



Source: Ministry of Finance

In Q4 2019, **Ministry of Education and Science** executed budget funds in the

⁴ 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.



of Denar 1,965 million, accounting for 31.0% of its total 2019 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 48.8%, for which Denar 959 million was spent or 31.4% of the funds projected for the current year. Expenditures related to goods and services were the second highest expenditure item, accounting for 42.9% of the total expenditures, funds in the amount of Denar 843 million being executed therefore in the analyzed period, i.e. 33.3% of total projected ones.

Government of the Republic of North Macedonia, in the fourth quarter of 2019, spent funds in the amount of Denar 4,261 million, accounting for 65.3% of the total budget for the current year. Capital

expenditures accounted for 65.2% in the total budget of this user, Denar 2,778 million being spent therefore, i.e. 96.0% of the projected ones.

In Q4 2019, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 1,790 million, accounting for 21.5% of the funds projected for the current year. As for subsidies and transfers, accounting for 78.3% of the total expenditures, Denar 1,401 million was spent therefore.

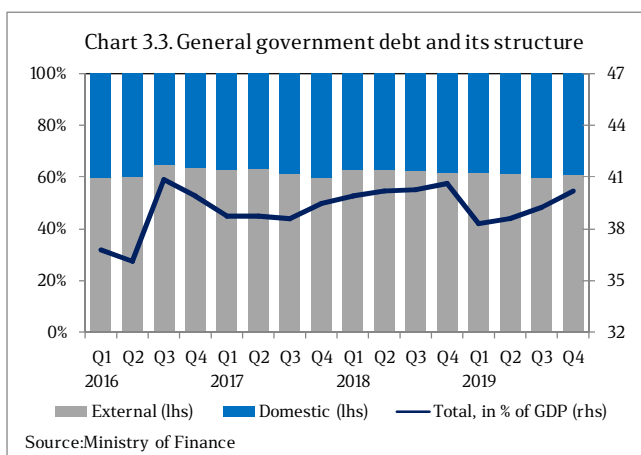
Detailed data on each budget user are presented in the statistical annex attached at the following link (<https://finance.gov.mk/en/node/5618>).

3.5. Budget deficit and government debt

In the fourth quarter of 2019, the **consolidated budget deficit** amounted to Denar 5,489 million or 2.9% of GDP realized in this quarter, while central budget deficit amounted to Denar 8,186 million, i.e. 4.4% of quarterly GDP.

Total **government debt** at the end of Q4 2019 accounted for 40.2% of GDP, increasing by 1.0 p.p. compared to Q3 2019. Share of external debt in the total government debt increased by 0.5 p.p. compared to Q3 2019, accounting for 60.6%.

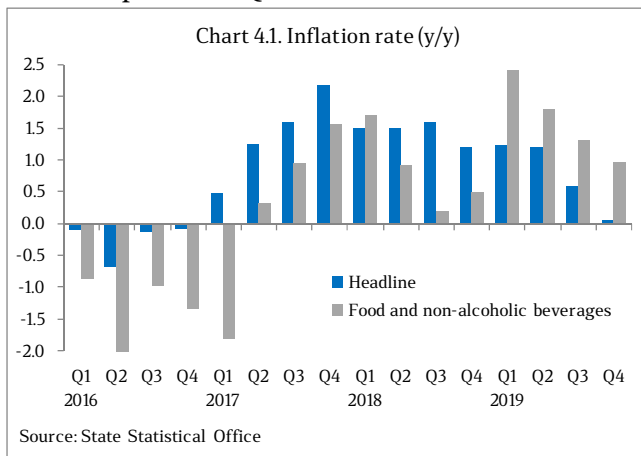
Share of domestic debt respectively dropped by 0.5 p.p., accounting for 39.4% of the total government debt.





4. Inflation and Monetary Trends

Inflation rate, measured according to CPI index, in Q4 2019, amounted to 0.0% on annual basis, being lower by 0.6 p.p. compared to Q3 2019.



Growth of consumer prices in Q4 2019 was a result of the higher prices in the following categories: Alcoholic beverages, tobacco and narcotics by 5.1%, Health by 1.8%, Furnishings, household equipment and routine maintenance of the house and Food and non-alcoholic beverages by 1.0% each, and Recreation and Culture by 0.2%. Price decline was recorded at the following categories: Transport by 4.4%, Clothing and footwear by 2.8%, Communications by 1.9%, Education by 0.3%, and Housing, water, electricity, gas and other fuels by 0.2%. Prices in the categories: Restaurants and hotels and Miscellaneous goods and services remained unchanged. In the fourth

quarter⁵ of 2019, NBRNM kept the **reference interest rate** at 2.25%, after reducing it by 0.25 p.p. in the first quarter, as a result of the continuous favourable trends on the forex market, indicating absence of pressures in the external sector and stable perceptions of domestic entities, as well as absence of price pressures. Interest rate on available 7-day deposits amounted to 0.3% in December 2019 and, compared to the previous quarter, it remained unchanged.

In Q4 2019, **primary money**⁶ increased by 0.7% on quarterly basis (27.8% growth was recorded in the previous quarter) as a result of the decrease of total liquidity of banks by 3.1% and increase of currency in circulation by 5.4%. Compared to Q4 2018, primary money surged by 10.8% (38.1% growth was registered in Q3 2019), as a result of the increase of total liquidity of banks by 12.7% and currency in circulation by 8.8%.

In Q4 2019, the narrowest money supply M1⁷ experienced 8.5% increase compared

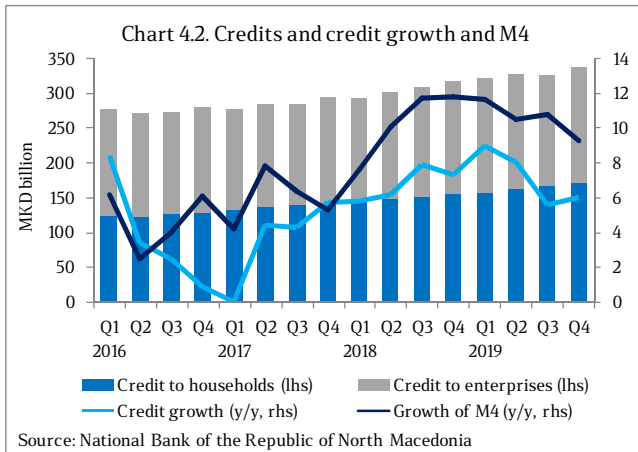
⁵ Data from the monetary statistics, the statistics of other financial corporations and the statistics of interest rates are according to the new methodology.

⁶ 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).

⁷ Monetary aggregate M1 comprises currency in circulation and deposit money. Monetary aggregate M2 comprises monetary aggregate M1 and short-term



to the previous quarter. Monetary aggregate M2 surged by 4.7%, while the widest monetary aggregate M4 increased by 3.8%.

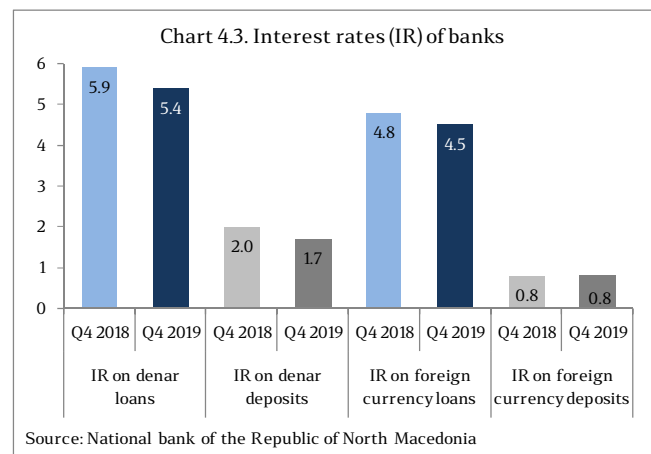


Total **deposit potential**⁸ of banks in Q4 2019 grew by 4.1% on quarterly basis, following the 2.1% growth in the previous quarter. Analyzed by sectors, deposits of enterprises increased by 7.6%, while deposits of households grew by 3.9%. From currency point of view, compared to the previous quarter, Denar deposits grew by 5.8%, while foreign currency deposits surged by 1.5%. Level of euroization dropped by 1.0 p.p. compared to the previous quarter, accounting for 38.5%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q4 2019, share of long-term deposits in total deposit potential decreased by 0.8 p.p. compared to the previous quarter, reaching 26.9% (accounting for 27.7% in Q3 2019). During

the analyzed period, short-term deposits grew by 1.1%.

Credit activity of banks to non-government sector in Q4 2019 grew by 3.8% on quarterly basis (compared to 0.5% drop in the previous quarter), in conditions of growth of credits to enterprises by 4.8%, while credits to households increased by 2.7%. From currency point of view, in Q4 2019, foreign currency credits increased by 4.3%, while Denar credits registered 3.4% growth, compared to the previous quarter. From maturity point of view, in Q4 2019, long-term credits experienced 4.2% growth, while short-term credits picked up by 3.6%, compared to the previous quarter.



In Q4 2019, **interest rate**⁹ on Denar credits amounted to 5.44%, decreasing by 0.14 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.49% in Q4 2019, dropping by 0.09 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.14 p.p., amounting to 1.73% in Q4 2019 compared

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

⁸ Deposits also include calculated interest.

⁹ Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.



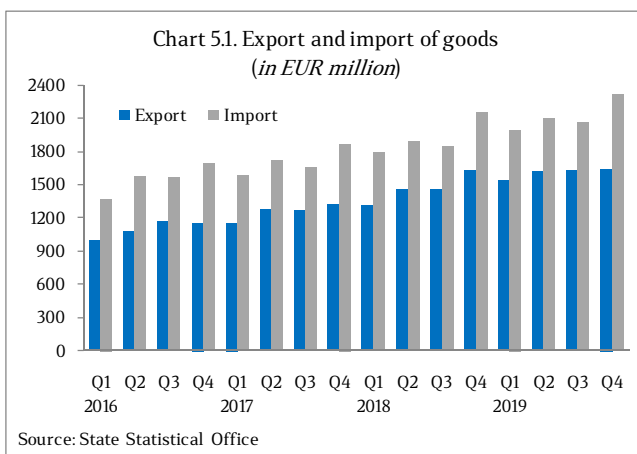
to the previous quarter, while interest rate on foreign currency deposits decreased by 0.04 p.p. compared to the previous quarter, amounting to 0.75%. In Q4 2019, interest rate on newly granted Denar credits amounted to 3.9%, while interest rate on

newly approved foreign currency credits accounted for 1.2%. Interest rates on newly received Denar and foreign currency deposits amounted to 1.2% and 1.1%, respectively.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,948.4 million in Q4 2019, surging by 4.4% compared to the same quarter in 2018.



In Q4 2019, **export of goods** amounted to EUR 1,637.4 million, being higher by 0.5% compared to Q4 2018, as well as compared to the previous quarter.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q4 2019, compared to the same quarter in 2018, were registered at the following:

- machinery and transport equipment by 5.1% (wherein the highest growth was seen at the categories: industrial

machines and spare parts by EUR 14.3 million or 7.0%, road vehicles by EUR 11.7 million or 15.8%);

- food products, surging by 8.4% (fruit and vegetables by EUR 7.0 million or 18.8%);
- beverages and tobacco by 12.4% (tobacco and tobacco manufactures by EUR 4.7 million or 16.2%);
- crude materials, except fuel, by 5.6% (crude fertilizers and minerals, excluding coal, petroleum and precious stones by EUR 3.8 million or 22.8%); and
- animal and vegetable oils 35.1% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.9 million or 33.3%).

Decline of export was seen at the following sectors:

- chemical products by 6.6% (within which highest drop was seen at the category: chemical materials and products by EUR 29.4 million or 8.0%);
- miscellaneous manufactured articles by 1.8% (clothing by EUR 12.3 million or 10.6%) and
- manufactured goods classified chiefly by material by 2.9% (non-metallic mineral manufactures by EUR 6.2 million or 29.5%).



Observed by **economic purpose**, in Q4 2019, increase of export was recorded at the following groups of products:

- products for investments without transport equipment by EUR 25.7 million or 9.2%;
- food and beverages by EUR 11.0 million or 10.5%;
- transport equipment by EUR 4.0 million or 1.7% and
- fuels and lubricants by EUR 0.7 million or 2.5%.

Decline of export was seen at the following:

- goods for industrial supplies by EUR 18.1 million or 2.4%) and
- consumer goods by EUR 15.7 million or 7.6%).

Import of goods in Q4 2019 amounted to EUR 2,311.0 million, being higher by 7.3% compared to Q4 2018, while compared to the previous quarter, it increased by 11.9%.

Analyzed by **SITC sectors**, positive trends in import in Q4 2019, compared to Q4 2018, registered all sectors:

- manufactured goods classified chiefly by material by 4.2% (within which highest growth was seen at the category: non-ferrous metals by EUR 38.7 million or 12.8%);
- crude materials, except fuel, by 60.0% (metal ore and metal scrap by EUR 35.9million or 103.2%);
- machinery and transport equipment by 7.8% (industrial machines and spare parts by EUR 13.0 million or 22.7%; road vehicles by EUR 8.4 million or 8.5%;

- machinery specialized for particular industries by EUR 8.2 million or 21.5%);
- mineral fuels and lubricants by 10.0% (petroleum and petroleum products by EUR 16.6 million or 11.7%);
- chemical products by 2.1% (inorganic chemicals by EUR 13.6 million or by 51.4%; plastics in primary forms by EUR 2.3 million or 10.3%);
- food products by 6.2% (meat and meat preparations by EUR 6.0 million or 17.0%; fruit and vegetable by EUR 2.1 million or 7.6%);
- miscellaneous manufactured articles by 7.0% (furniture and parts thereof, bedding, mattresses, cushions and similar articles by EUR 3.1 million or 16.2%; professional, scientific and controlling instruments and apparatus by EUR 2.7 million or 14.5%);
- animal and vegetable oils by 16.6% (fixed vegetable fats and oils, crude, refined or fractioned by EUR 1.5 million or 13.7%) and
- beverages and tobacco by 0.2% (beverages by EUR 1.2 million or 11.3%).

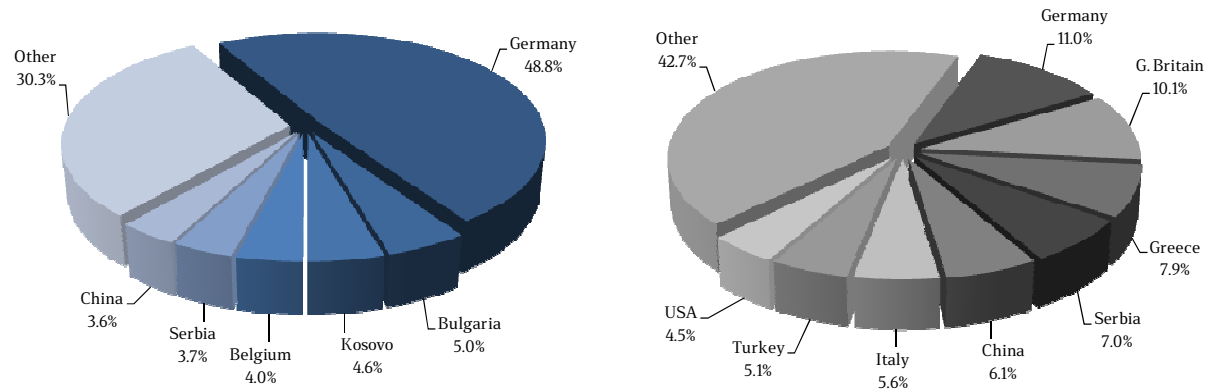
Observed by **economic purpose**, in Q4 2019, increase of import was recorded the following groups of products:

- goods for industrial supplies picking up by EUR 77.5 million or 7.0%;
- investment products without transport equipment surging by EUR 35.3 million or 12.0%;
- fuels and lubricants by EUR 20.8 million or 10.3%;
- food and beverages by EUR 12.9 million or 6.7% and



- o transport equipment by EUR 11.5 million or 8.9%.
- Decline of import was seen only at consumer goods by EUR 2.2 million or 1.0%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q4 2019



Source: MoF calculations based on SSO data

In Q4 2019, foreign trade of the Republic of North Macedonia with the European Union (EU 28), in relation to Q4 2018, surged by 1.7%, whereby share of trade with the EU in the total foreign trade

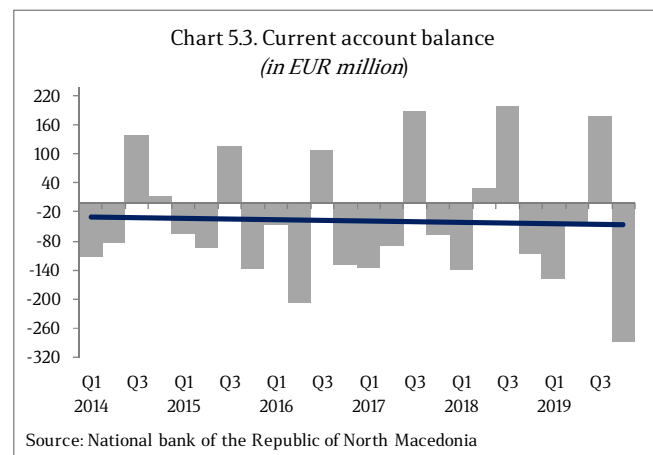
decreased by 1.8 p.p. compared to the fourth quarter in 2018, accounting for 68.1%. Thereby, in Q4 2019, export of goods accounted for 79.6%, while share of import of goods was 59.9%.

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 286.9 million was recorded on the balance of payments **current account** in Q4 2019, accounting for 9.4% of quarterly GDP, as opposed to the deficit of 3.6% of GDP registered in the same quarter in 2018.

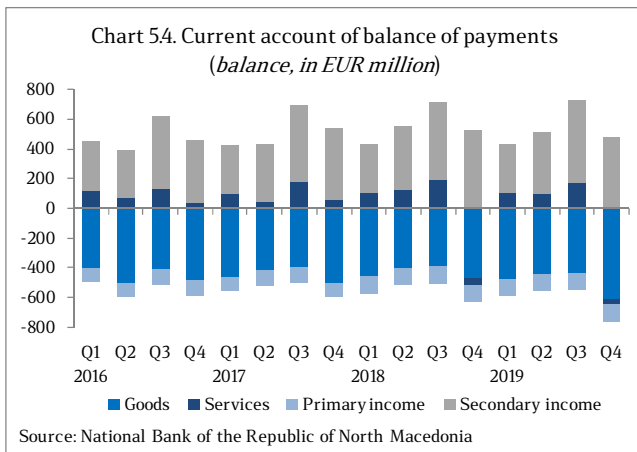
Analyzed on annual basis, the current account deficit in Q4 2019 increased by EUR 182.2 million, i.e. by more than 2 times, as a result of the widening of the goods account deficit by 29.6%, as well as the increase of the deficit on the primary account by 6.2%, as well as the reduction of

the positive balance on the secondary income account by 9.3%. Reduction of the deficit on the services account by 28.5% had the opposite effect.





In Q4 2019, **trade deficit** increased by EUR 140.1 million on annual basis, widening by 3.7 p.p., i.e. accounting for 20.1% of quarterly GDP.



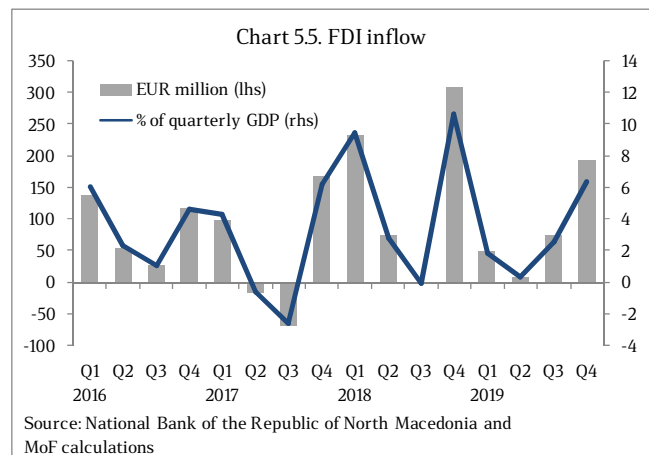
Deficit on **services account** amounted to EUR 33.0 million in Q4 2019 and, compared to the same quarter of 2018, it declined by EUR 13.1 million. **Trade openness** of the Republic of North Macedonia in Q4 2019 amounted to 138.0% of quarterly GDP, being lower by 3.9 p.p. compared to Q4 2018.

Primary income account experienced EUR 114.6 million deficit in Q4 2019, increasing by EUR 6.7 million on annual basis.

Surplus on the **secondary income** account amounted to EUR 474.4 million in Q4 2019, decreasing by EUR 48.6 million on annual basis. Decrease was a result of the decrease of official transfers by EUR 58.0 million, participating with 5.9% in the secondary income account. Private transfers increased by EUR 9.4 million, participating with 94.1% in the secondary income account.

Deficit on the **capital account** amounted to EUR 1.9 million in Q4 2019 compared to the surplus of EUR 7.7 million realized in Q4 2018. Deterioration of the balance on the capital account was a result of the outflow of non-produced non-financial assets, as well as the reduction of the inflow of capital transfers.

Foreign direct investments (FDIs) in the country amounted to EUR 193.7 million in Q4 2019, and when compared to Q4 2018, they decreased by EUR 114.4 million. Such decrease was a result of the reduced inflow on the basis of equity, as well as the outflow on the basis of reinvestment of earnings.



Portfolio investments in Q4 2019 amounted to EUR 36.3 million and, compared to the same quarter in 2018, they increased by EUR 24.4 million. In Q4 2019, **Other investments** were negative, amounting to EUR 270.3 million. Within the category other investments, negative balance was seen at the following accounts: currency and deposits (EUR 28.7 million), loans (EUR 129.8 million) and trade credit and advances (EUR 164.4 million).



Reserve assets amounted to EUR 3.3 billion at the end of the fourth quarter in 2019, surging by 13.8% compared to Q4 2018. At the end of Q4 2019, reserve assets

provided for 4.6-month coverage of import of goods and services in the previous 12-month period.

6. Macroeconomic projections for 2020

6.1. International environment

The world faces one of the greatest economic crisis, being more severe than the global financial crisis a decade ago. Globally, there is huge uncertainty related to the duration and the intensity of this non-economic shock and, accordingly, its implications on the global economy. According to the IMF's baseline scenario, the **global economic activity** is expected to decline by 3% in 2020 (being a downward adjustment of 36.3 percentage points compared to the January projections), assuming the peak of the pandemic and the government measures of the countries aimed at preventing the spread of the coronavirus is in the second quarter, after which the situation is expected to improve.

According to this assumption, the economic activity in the United States is projected to decline by 5.9%, by 7.1% in the

EU, within which the **German economy** would experience a 7% drop, while growth in China is expected to remain within the positive zone (1.2%). Hence, the consequences on the global trade of goods and services will be significant, i.e. an 11% drop in real terms, is envisaged.

The **inflation rate for the euro zone** is projected at 0.2% for this year, which is a downward adjustment of 1.2 percentage points compared to the January projection. As for the primary products, the **oil price** on the global stock markets is expected to decrease by 42% on average throughout 2020. General decrease of prices is also projected for the other primary products (1.1%).

6.2. Projection of the economic activity in the country

Observations for significant deterioration of the international economic environment indicate significant drop of the foreign demand in the country in 2020.

This assumption corresponds to the shock on the supply side, i.e. more serious interruption of the global supply chain, mainly in the second quarter, which will

spill over to the domestic economy by reducing the export demand of products from the respective industrial branches, as well as the services related to the Manufacturing. Hence, the **export of goods and services** is expected to decrease by 16.8% in real terms.



In addition, the economic implications on the domestic economy deriving from the implementation of measures aimed at preventing the spread of the coronavirus in the country, will be reflected in the services sector, primarily transportation, accommodation and food services, tourism, the activity Arts, entertainment and recreation, the turnover of durable goods, as well as in some of the industrial facilities and the construction activity, mainly in the second quarter.

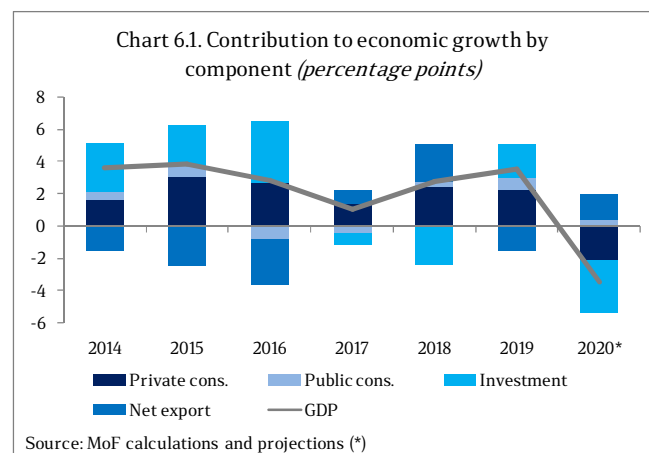
Such development will affect the labour market and, accordingly, the disposable household income and their consumption and investments, as well as the investment activity of business entities, which corresponds to the shock on the demand side. Projected decrease of private transfers from abroad and the foreign direct investments lead to additional downward adjustment of both consumption and investments. Thereby, fiscal anti-crisis measures are expected to mitigate the consequences on the labour market and the income of households as a whole, and thus their consumption as well. As a result, the **private consumption** is projected to decline by 3.3%, while **gross investments** are expected to decrease by 9.6% in real terms.

Public consumption is expected to have a positive contribution on the economic growth, mainly as a result of the increased expenditures (goods, services and wages) for the health sector, i.e. it is projected to record a 2.7% growth in real terms.

Import demand, amid expected decline in export activity, investments in

capital/permanent goods, both by business entities and households, is projected to decrease, by which the **import of goods and services** is projected to fall by 15.8% in real terms. Hence, net export demand, in conditions of greater absolute reduction of import in relation to export of goods and services, partially neutralizes the negative contribution of domestic demand to the economic activity.

According to such forecasts, the **economic activity** is expected to decline by 3.4% in 2020. The effects of the coronavirus pandemic on the economy, in line with the baseline scenario, are expected to be the largest in the second quarter of the year. In the third quarter, the contraction of economic activity is expected to slow down, while in the fourth quarter, economic activity is expected to gradually recover.



These projections are accompanied by significant **risks**, depending on the duration of the coronavirus pandemic, the intensity of the effects on the economy and the results of fiscal measures aimed at its mitigation. In fact, if the duration of



the pandemic protracts in the second half of this year, it will result in retaining the restrictive measures related to the coronavirus, as well as in further negative effects caused by the international environment and the global supply chains

6.3. Projection of the inflation rate

Inflation rate in the country in the first quarter of 2020 amounted to 0.6%, pointing out to a somewhat downward deviation in relation to the projected inflation.

The projection for foreign effective inflation in 2020 has been revised downwards. At the same time, price trends on global stock markets, i.e. imported prices are expected to cause downward pressure on domestic prices.

By taking this into account, as well as the expected negative production gap, the country's **inflation rate** for 2020 is projected at -0.2%.

and, hence stronger decline in export activity, consumption and investments in the country, and accordingly the overall economic activity.