



QUARTERLY ECONOMIC REPORT

- first quarter of 2021
with 2021 macroeconomic projections -

Summary

- In Q1 2021, **economic activity** dropped by 1.9% on annual basis, under the influence of the adverse effects of COVID-19 pandemic;
- **Number of employed persons** in Q1 2021 was lower by 2.2% compared to the same quarter in 2020. **Number of unemployed persons** dropped by 3.7%, which resulted in reduction of **unemployment rate** to 16.0% in Q1 2021;
- Average **net wage** amounted to Denar 28,144 in Q1 2021, increasing by 4.0% in nominal terms, i.e. surging by 2.0% in real terms, compared to the net wage in Q1 2020;
- Total **budget revenues** were higher by 4.4% in Q1 2021, while total **budget expenditures** grew by 2.8% compared to the same quarter in 2020;
- **Inflation rate** in Q1 2021 accounted for 2.0% on annual basis;
- Total **deposit potential** of banks increased by 1.0% in Q1 2021 on quarterly basis;
- **Credit activity** of banks in Q1 2021 grew by 1.2% on quarterly basis;
- In Q1 2021, increase of both **export of goods** by 18.0% and **import of goods** by 14.1% was registered on annual basis, whereby total **foreign trade**, expressed in euros, surged by 15.7%;
- In line with the spring projections, **economic activity** in 2021 is expected to recover, whereby growth is projected at 4.1%, while **inflation rate** is projected at 2.1%.



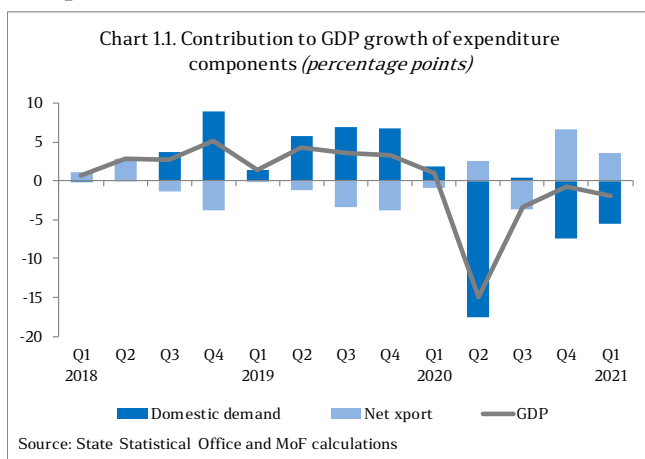
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1. Economic Activity

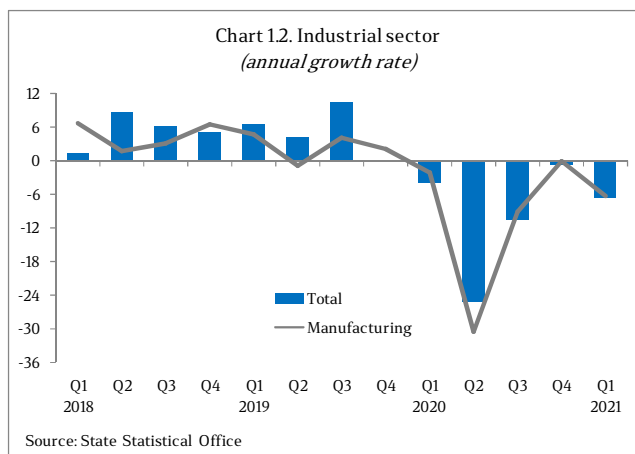
In Q1 2021, **economic activity** dropped by 1.9% on annual basis, under the influence of the adverse effects of the COVID-19 pandemic (Chart 1.1).



Analyzed according to the GDP by production method, activity in **the services sector** decreased by 1.0%. As for the service activities, drop was seen at Arts, entertainment and recreation by 3.8%, Public administration, Defense, Education and Health by 2.9%; Information and communications by 0.9%, Financial and insurance activities by 0.7%; Trade, Transport and Hospitality industry by 0.4% and Expert, scientific, technical and administrative activities by 0.3%. Growth was seen only at Real estate-related activities by 0.5%.

Industrial sector dropped by 6.7% amid reduced production in Manufacturing by 6.2% (Chart 1.2.). In line with the high-frequency data on the industry, in March, the drop of production was interrupted in the previous two months, i.e., annual growth of 7.6% was recorded, whereby in

addition to the intensification of the growth of Manufacture of machinery, equipment and electrical equipment compared to the first two months, Manufacture of textile, food products, motor vehicles etc.. shifted to the positive zone. Utilization of the capacities in Manufacturing continued to grow in the first quarter of 2021, reaching 71.1% in March, thus reaching the approximate level before the health and the economic crisis.

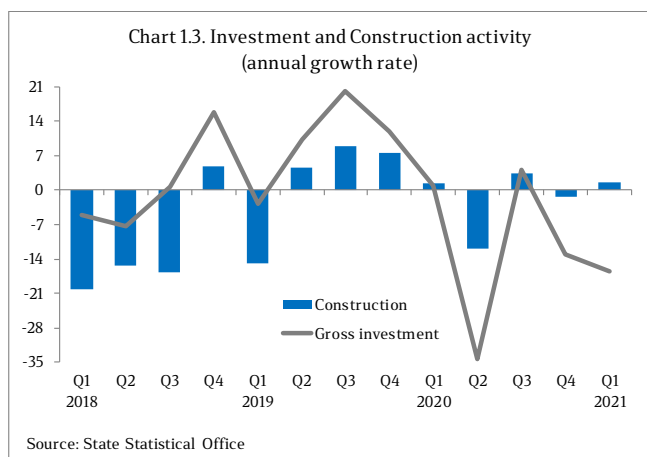


Construction picked up by 1.7%, being a result of the positive trends in the segment of buildings. As for agriculture sector, 0.3% growth was seen, thus restoring the positive trends in this sector upon the 3.2% drop in the previous quarter.

Analyzed according to the expenditure side of GDP, contracted economic activity mostly arises from the drop of **gross investments** by 16.6% on real basis, in particular, drop of stocks, mitigated by the growth of investments in fixed assets, corresponding to the scaled-up



investments in construction works and strong import of investments goods (Chart 1.3).



Consumption observed minimum drop by 0.1%, under which **private consumption** surged by 0.4%, while **public consumption** decreased by 2.2%. Private consumption was supported by the measures aimed at

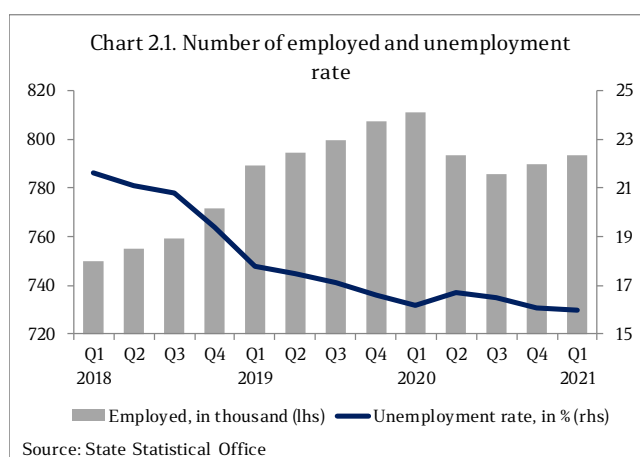
managing the consequences of the COVID-19 crisis, reflecting the growth of foreign remittances, while drop of public consumption was partially due to the high comparative basis, as well as the real drop of public expenditures for wages and allowances.

Export of goods and services surged by 8.6% in real terms, being mostly a result of the improved international economic environment, resulting primarily in growth of the export of machinery, transport equipment and chemical products. **Import of goods and services** grew by 2.0% in real terms, boosted by the import of Intermediary and capital goods, by which net export has positive contribution to the economic activity (Chart 1.1).

2. Labour Market

In Q1 2021, according to the Labour Force Survey, **number of employed persons** was lower by 2.2%, i.e. by 18 thousand persons compared to the same quarter in 2020, whereby the drop was due to the reduced employment in the services sector (10.6 thousand or 2.3%), agriculture sector (5 thousand or 5.0%) industry (2.3 thousand or 1.2%), and construction (176 persons or 0.3%). As for the services sector, evident employment drop was seen at Transport and storage, as well as Accommodation and food service activities, while increased employment was registered at some of the public sector activities, Expert, scientific and

technical activities and Information and communication activity.



Analyzed according to the economic status, employment growth was registered only at employers (1.1 thousand or 3.7%), while drop was seen in the



number of self-employed persons (9.5 thousand or 11.2%) family workers (3.8 thousand or 10.8%), as well as employed persons (wage earners) by 5.8 thousand or 0.9%.

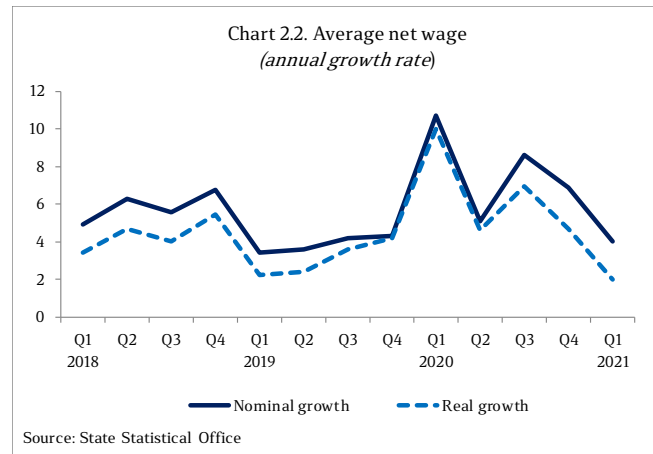
Employment rate in Q1 2021 accounted for 47.1%, being lower by 1.0 p.p. compared to the same quarter in 2020.

However, despite the employment drop, decline in the **number of unemployed persons** was also recorded, decreasing by 5.8 thousand persons, i.e. by 3.7% compared to the same quarter in 2020. Such trends caused for the **unemployment rate** in Q1 2021 to reduce to 16.0%, i.e. by 0.2 p.p. compared to the same quarter in 2020, being lower by 0.1 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment, compared to Q1 2020, was reduced at the group aged 25-49 years by 6.4% and at the group aged 15-24 years by 0.8%, while unemployment at the group aged 50-64 years picked up by 1.7%. Observed by gender, unemployment rate was reduced among the female population by 0.9 p.p., accounting for 14.7%, being lower by 2.2 p.p. compared to unemployment of men, which increased by 0.3 p.p., accounting for 16.9%.

Number of active population decreased by 23.8 thousand, persons i.e. by 2.5% on annual basis. Active population in Q1 2021 accounted for 56.0% of the total working age population, being lower by 1.4 p.p. compared to the same quarter in 2020.

Average monthly **net wage** amounted to Denar 28,144 in Q1 2021, being higher by 4.0% in nominal terms compared to the same quarter in 2020, while net wage increased by 2.0% in real terms (Chart 2.2).



Average monthly **gross wage** amounted to Denar 41,999 in Q1 2021, increasing by 4.0% in nominal terms and by 2.0% in real terms.

Labour productivity in Q1 2021 increased by 0.3%, as a result of the lower drop of production than the employment reduction.

3. Public Finances

3.1. Budget revenues according to the economic classification

In Q1 2021, share of **total budget revenues** accounted for 29.8% of the quarterly GDP, being higher by 4.4% compared to the same quarter in 2020,

amid higher collection of taxes by 6.2% and contributions by 3.3%, while non-tax revenues were reduced by 0.8%. Tax revenues recorded higher collection at



VAT, personal income tax, profit tax, import duties and other tax revenues, while drop was seen only at excise duties.

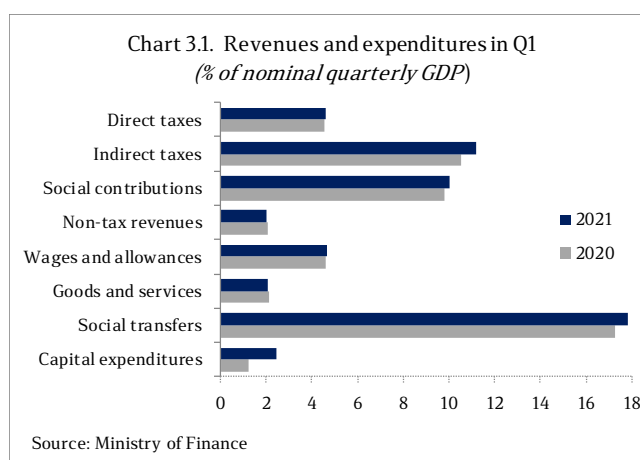
In Q1 2021, collection of indirect taxes was higher by 7.4%, while collection of direct taxes increased by 2.5% compared to Q1 2020. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes remained unchanged on annual basis and it accounts for 4.6% of the quarterly GDP, while share of revenues on the basis of indirect taxes was higher by 0.6 p.p., accounting for 11.2% of GDP in Q1 2021 compared to Q1 2019.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 47.2% of total tax revenues in Q1 2021, being higher by 11.4% compared to the same quarter of last year. As for VAT structure, VAT share was the biggest when importing, followed by VAT collected on the basis of sales in the country. Excise revenues were lower by 1.6% compared to the same quarter of 2020, while collection of customs duties grew by 10.4%.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 0.8%, while profit tax

revenues grew by 5.0% compared to the same quarter of the previous year.

Collection of **social contributions** was higher by 3.3%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 3.3%, health insurance contributions by 3.5%, and employment contributions by 2.3%.



Collection of non-tax revenues, accounting for 2.0% of the quarterly GDP, was lower by 0.8% in Q1 2021 compared to the same quarter of 2020.

Capital revenues, including revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends, were lower by 48.7% on annual basis in Q1 2021. Revenues on the basis of **foreign donations** picked up by 24.0%.

3.2. Budget expenditures according to the economic classification

In Q1 2020, **total budget expenditures** participating with 34.1% in the quarterly GDP, were higher by 2.8% compared to the same quarter in 2020.

Current expenditures, accounting for 31.6% of the quarterly GDP, participated

with 92.8% in the total expenditures and experienced lower execution by 0.9% on annual basis. As for current expenditures, expenditures for goods and services dropped by 2.8%, while expenditures related to wages and allowances were



higher by 2.9% compared to the same quarter last year.

Funds for transfers, which participated with 69.8% in the total expenditures, were lower by 1.1% on annual basis. Social transfers surged by 4.8%, accounting for 52.4% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 4.8%, accounting for 32.0% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 16.2% of the total expenditures, i.e. they dropped by 17.2% compared to the first quarter in 2020. Block and earmarked grants to local

government units surged by 1.6%, while subsidies and transfers recorded high drop by 34.4%, upon recording exceptionally high annual increase in Q1 2020.

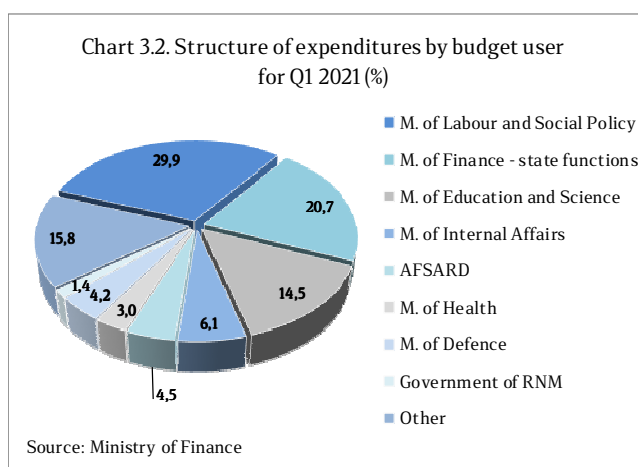
Interest-related expenditures decreased by 6.1% on annual basis, whereby domestic debt interest-related expenditures surged by 6.9% and expenditures related to interest on foreign debt dropped by 14.3%.

Capital expenditures execution, accounting for 2.4% of quarterly GDP, was almost twice the amount observed in the same quarter of 2020, i.e. they participated with 7.2% in the total expenditures.

3.3. Expenditures by budget users

Review of budget expenditures for the largest budget users is shown below with the total annual budget accounting for 85.0% of the total budget of all budget users.

In the period January - March 2021, Denar 9,037 million, i.e. 14.6% of the funds planned for 2021 was spent through the organizational code **Ministry of Finance - Functions of the State**¹. Principal repayment (Denar 3,255 million) is the main category in the total expenditures of



this budget user, accounting for 36.0% of its total expenditures. As for capital expenditures, Denar 2,910 million has been allocated (51.9% of the projections), i.e. 32.2% of the total expenditures of this budget user. As regards expenditures related to interest payments, they accounted for 19.8% of the total expenditures, Denar 1,790 million being

¹As 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..



spent therefore or accounting for 20.5% of the total budget for this purpose.

Ministry of Labour and Social Policy, in Q1 2021, executed funds in the amount of Denar 13,036 million or 24.4% of its total budget for the current year. Thereby, most of the expenditures (68.0%) in this period were allocated for current transfers to budgetary funds, for which Denar 8,867 million was spent or 24.4% of the funds allocated for 2021. The second highest expenditure category were the social benefits, participating with 21.7% in the total expenditures, whereby 23.8% (Denar 2,834 million) of the projected funds was spent for this purpose in 2021.

Ministry of Education and Science executed budget funds in the amount of Denar 6,320 million, i.e. 23.3% of its total 2021 budget. Current transfers to LGUs accounted for the most of the expenditures (64.3%) with Denar 4,062 million being spent therefore or 25.0% of total projected funds. Wages and allowances are the second highest expenditure category, participating with 15.7%, Denar 993 million being spent therefore, i.e. 23.2% of the total projected funds.

During the analyzed period, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,658 million, accounting for 22.2% of its 2021 budget. Wages and allowances were the highest expenditure item, participating with 76.3%, Denar 2,028 million being spent therefore, or accounting for 25.1% of the projected ones. The second highest expenditure

category was goods and services, participating with 15.0%, funds in the amount of Denar 399 million being spent therefore, or accounting for 16.1% of the annual projections.

In the period January - March 2021, **Ministry of Defence** executed budget funds in the amount of Denar 1,842 million, accounting for 16.6% of this year's total budget. Expenditures related to wages and allowances accounted for the most with 55.7% with Denar 1,026 million being spent therefore in this period, (accounting for 24.2% of the total funds projected for the current year). Expenditures related to goods and services accounted for 27.9% of total expenditures with Denar 514 million being spent therefore in the analyzed period, i.e. 19.2% execution of the total projected funds.

Government of the Republic of North Macedonia in Q1 2021 spent total of Denar 593 million, i.e. 8.5% of the funds projected for 2021. Thereby, subsidies and transfers accounted for 55.9% of total expenditures of this budget user with Denar 332 million (5.9% of the projected funds) being spent therefore.

In the period January - March 2021, **Ministry of Health** executed budget funds in the amount of Denar 1,292 million, i.e. 19.3% of its total 2021 budget. Expenditures related to goods and services accounted for the most in the expenditures with 46.7% or Denar 603 million being executed therefore, which is 19.4% of the funds projected for 2021.



During the analyzed period, **Ministry of Transport and Communications** executed funds in the amount of Denar 613 million, i.e. 11.5% of its total budget for the current year. Capital expenditure execution, as the main item, accounted for 10.5% of the projections (Denar 462 million).

In the January - March 2021 period, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 1,965 million, accounting for 36.9% of the funds projected for the current year.

3.4. Budget deficit and government debt

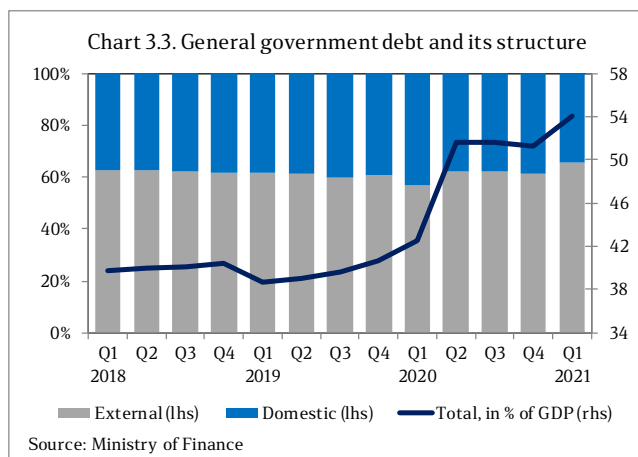
In the first quarter of 2021, the **consolidated budget deficit** amounted to Denar 6,863 million or 4.2% of GDP realized in this quarter, while central budget deficit amounted to Denar 6,750 million, i.e. 4.1% of quarterly GDP.

Total **general government debt** at the end of Q1 2021 accounted for 54.1% of GDP, increasing its share in GDP by 2.9 p.p. compared to Q4 2020. Share of external debt in the total government debt increased by 4.5 p.p. compared to Q4 2020, accounting for 65.8%, while share of domestic debt decreased respectively,

As for subsidies and transfers, accounting for 74.9% of the total expenditures with 34.4% or Denar 1,472 million of the projected funds were spent therefore. Second important item were the capital expenditures with Denar 466 million being spent therefore (50.9% of the projections), accounting for 23.7% of the total expenditures of this budget user.

Detailed data on each budget user are presented in the statistical annex attached at the following link (<https://finance.gov.mk/quarterly-economic-report-2/?lang=en>).

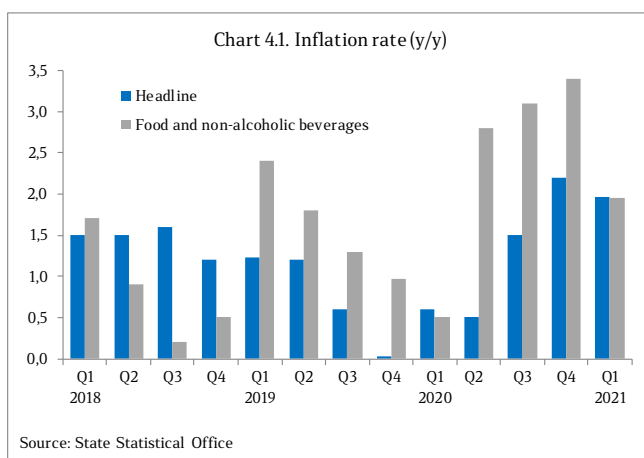
accounting for 34.2% of the total general government debt.



4. Inflation and Monetary Trends

Inflation rate, measured according to the CPI index, accounted for 2.0% in Q1 2021 annually, being reduced by 0.2 p.p. compared to Q4 2020. Compared to the previous quarter, slowdown of increase of prices was recorded, being mostly a result

of the food prices, having the highest contribution to the inflation rate. The slow growth of food prices was a result of the lower rates of growth of prices of fruit and vegetables, while prices of oil and cereals had positive contribution.



Increase of consumer prices in Q1 2021 was registered in the following categories: Alcoholic beverages, tobacco and narcotics by 6.7%, Restaurants and hotels by 5.4%, Housing, water, electricity, gas and other fuels by 4.5%, Health protection by 2.6%, Food and non-alcoholic beverages by 2.0%, Miscellaneous goods and services by 1.4%, Recreation and culture by 1.3%, Furnishings, household equipment and routine maintenance of the house by 1.0% and Education by 0.2%. Drop of prices was registered at the following categories: Transport by 2.6%, Clothing and footwear by 0.9% and Communications by 0.2%.

In the first quarter² of 2021, the National Bank of the Republic of North Macedonia reduced the **policy rate** by additional 0.25 p.p., i.e. from 1.5% to 1.25%, upon previously reducing the interest rate on CB bills at three occasions due to the conditions arising from the measures aimed at preventing the spread of the virus, which adversely affect both the global and the

national economy. Decision on further monetary relaxation is reached amid stable developments on the foreign exchange market and moderate inflation dynamics, as long as there is uncertainty as regards the pandemic and the impact on the recovery of the economy. The objective of reducing the policy rate to 1.25% is expected to contribute to reducing the financing costs through loans from the banks and further credit support to the private sector, to the end of mitigating the effects from the still ongoing pandemic on the domestic economy.

Interest rate on available 7-day deposits accounted for 0.3% in March 2021 and, compared to the previous quarter, it remained unchanged.

Primary money³ in Q1 2021 grew by 27.6% on quarterly basis (14.9% drop was registered in the previous quarter), as a result of increased total liquidity of banks by 66.2%, while currency in circulation declined by 0.3%. Compared to Q1 2020, primary money surged by 19.0% (6.1% drop was registered in Q4 2020), as a result of the increase of both total liquidity of banks by 27.4% and currency in circulation by 10.2%.

² Data from the monetary statistics, the statistics of other financial corporations and the statistics of interest rates are according to the new methodology.

³It 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).

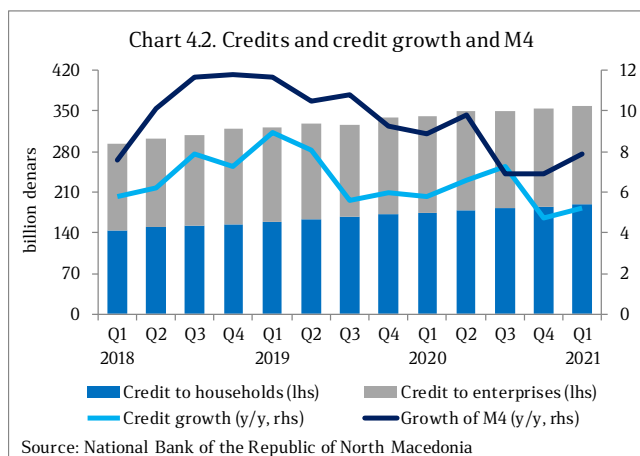


In Q1 2021, the narrowest money supply M1⁴ experienced 0.9% increase compared to the previous quarter. Monetary aggregate M2 surged by 1.4%, while the widest monetary aggregate M4 increased by 1.0% on quarterly basis.

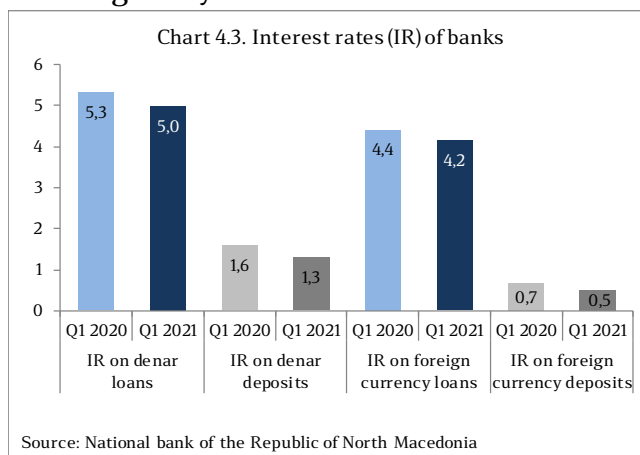
Total **deposit potential**⁵ of banks in Q1 2021 grew by 1.0% on quarterly basis, following the 3.9% growth in the previous quarter. Analyzed by sectors, deposits of enterprises decreased by 0.8%, while deposits of households grew by 1.7%. From currency point of view, compared to the previous quarter, Denar deposits grew by 0.4%, while foreign currency deposits surged by 2.0%. Level of euroization grew by 0.4 p.p. compared to the previous quarter, accounting for 40.2%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q1 2021, share of long-term deposits in total deposit potential decreased by 0.3 p.p. compared to the previous quarter, reaching 23.5% (accounting for 23.8% in Q4 2020). During the analyzed period, short-term deposits grew by 1.8%.

Credit activity of banks in Q1 2021 picked up by 1.2% on quarterly basis (recording 1.3% growth in the previous quarter), in conditions of growth of credits to enterprises by 0.6%, while credits to



households surged by 1.6%. From currency point of view, in Q1 2021, foreign currency credits increased by 1.3%, while Denar credits grew by 1.1%. From maturity point of view, long-term credits in Q1 2021 experienced 0.7% growth compared to the previous quarter, while short-term credits were higher by 3.4%.



In Q1 2021, **interest rate**⁶ on Denar credits accounted for 4.99%, decreasing by 0.07 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.15% in Q1 2021, dropping by 0.04 p.p. compared to the previous quarter.

⁶Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.

⁴Monetary 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.

⁵Deposits also include calculated interest.



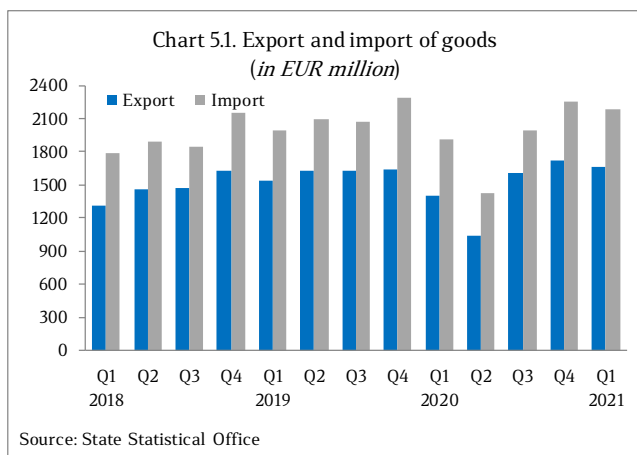
Interest rate on Denar deposits dropped by 0.05 p.p., accounting for 1.30% in Q1 2021 compared to the previous quarter, while interest rate on foreign currency deposits decreased by 0.04 p.p., accounting for 0.52% compared to the previous quarter.

In Q1 2021 interest rate on newly granted Denar credits accounted for 4.32%, while interest rate on newly approved foreign currency credits accounted for 3.44%. Interest rates on newly received Denar and foreign currency deposits accounted for 0.89% and 0.40%, respectively.

5. External Sector

5.1. Foreign trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,850,2 million in Q1 2021, surging by 15.7% compared to the same quarter in 2020.



In Q1 2021, **export of goods** amounted to EUR 1,661.2 million, whereby compared to Q1 2020, it increased by 18.0%, while compared to the previous quarter, it decreased by 3.5%.

Analyzed by SITC **sectors** (Standard International Trade Classification), positive trends in the export in Q1 2021, compared to the same quarter in 2020 were registered at the following sectors:

- machinery and transport equipment surging by 26.3% (wherein the highest growth was seen at the categories: general industrial machinery and equipment by EUR 112.3 million or 73.7%; electrical machinery, apparatus and appliances by EUR 34.6 million or 15.8%);
- chemical products by 34.3% (chemical materials and products by EUR 108.6 million or 39.0%);
- manufactured goods classified chiefly by material by 11.7% (iron and steel by EUR 17.3 million or 12.2%; non-ferrous metals by EUR 4.7 million or 3.6 times);
- crude materials, except fuel by 15.6% (metalliferous ores and metal scrap by EUR 5.6 million or 10.0%);
- food products by 9.4% (meat and meat preparations by EUR 4.9 million or 83.7%; fruit and vegetables by EUR 1.7 million or 5.0%) and
- mineral fuels and lubricants by 10.4% (petroleum and petroleum products by EUR 2.6 million or 25.0%).

Decline of export was seen at the following:



- miscellaneous manufactured articles by 9.7% (wherein the highest drop was recorded at the category clothing by EUR 21.2 million or 19.8%);
- beverages and tobacco by 20.5% (tobacco and tobacco manufactures by EUR 6.3 million or 34.9%) and
- animal and vegetable oils by 5.0% (fixed vegetable fats and oil, crude, refined or fractionated by EUR 0.2 million or 5.8%).

Observed by **economic purpose**, in Q1 2021, increase of export was recorded at the following groups of products:

- goods for industrial supplies by EUR 150.1 million or 22.5%;
- investment products without transport equipment by EUR 121.3 million or 52.8%;
- food and beverages by EUR 6.6 million or 7.0%, and
- fuels and lubricants by EUR 2.3 million or 11.8%.

Decline of export was seen at the following groups of products:

- consumer goods by EUR 23.7 million or 12.9% and
- transport equipment by EUR 3.6 million or 1.7%.

Import of goods in Q1 2021 amounted to EUR 2,189.0 million, growing by 14.1% compared to Q1 2020, while in relation to the previous quarter, it dropped by 2.8%.

Analyzed by SITC **sectors**, increase of import in Q1 2021, compared to Q1 2020, was seen at the following sectors:

- chemical products by 53.2% (wherein highest growth was seen at the

- category: inorganic chemicals by EUR 113.4 million or import higher by approximately 4 times);
- manufactured goods classified chiefly by material by 12.2% (non-ferrous metals by EUR 41.7 million or 15.4%; non-metallic mineral manufactures by EUR 35.7 million or 36.4%);
- machinery and transport equipment by 13.0% (electrical machinery, apparatus and appliances by EUR 17.7 million or 9.7%; metal working machinery by EUR 10.0 million or 3.3 times);
- crude materials, except fuel by 8.7% (metalliferous ores and metal scrap by EUR 3.0 million or 8.7%);
- miscellaneous manufactured articles by 2.4% (professional, scientific and controlling instruments and apparatus by EUR 2.8 million or 19.7%; clothing by EUR 2.6 million or 11.5%);
- beverages and tobacco by 7.7% (beverages by EUR 0.8 million or 9.2%) and
- animal and vegetable oils by 3.8% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.4 million or 3.6%).

Decline of import was seen at the following:

- mineral oils and lubricants by 6.0% (within which highest drop was seen at the category: petroleum and petroleum products by EUR 10.8 million or 10.2%) and
- food products by 0.7% (cereals and cereal preparations by EUR 2.1 million or 8.5%).



Observed by **economic purpose**, in Q1 2021, growth of import was recorded at the following groups of products:

- goods for industrial supplies by EUR 220.8 million or 23.0%;
- investment products without transport equipment by EUR 48.7 million or 18.7% and
- consumer goods by EUR 16.0 million or 7.7%.

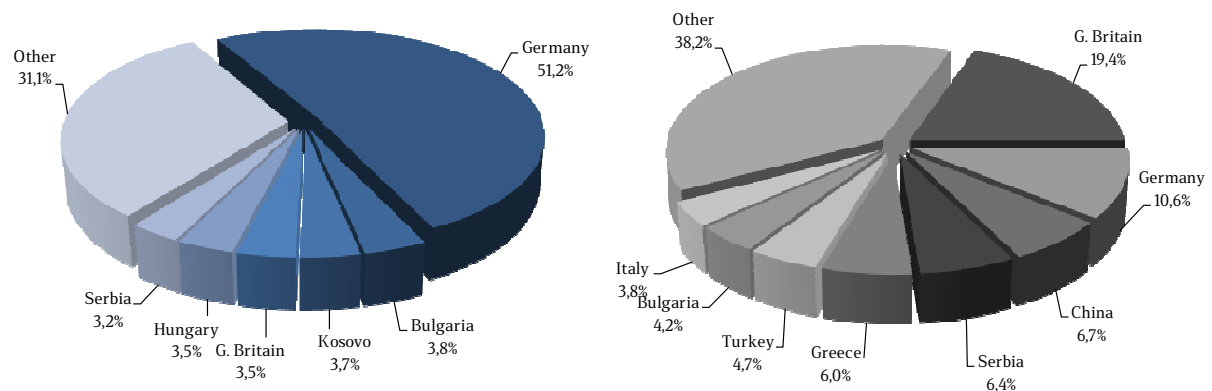
Decline of export was seen at the following groups of products:

- fuels and lubricants by EUR 8.7 million or 4.5%;

- transport equipment by EUR 5.5 million or 4.9% and
- food and beverages by EUR 2.1 million or 1.2%.

In Q1 2021, foreign trade of the Republic of North Macedonia with the European Union (EU 27) in relation to Q1 2020, surged by 13.8%, whereby share of trade with the EU in the total foreign trade decreased by 1.0 p.p. compared to the first quarter in 2020, accounting for 60.5%. Thereby, in Q1 2021, export of goods accounted for 80.1%, while share of import of goods was 45.6%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q1 2021



Source: MoF calculations based on SSO data

5.2. Balance of payments

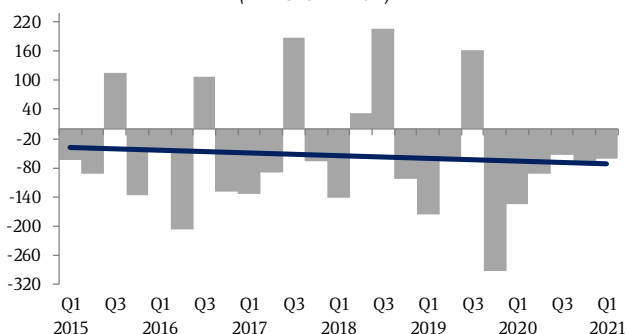
According to the data from the National Bank of the Republic of North Macedonia, deficit in the amount of EUR 61.2 million was recorded on the balance of payments **current account** in Q1 2021, accounting for 2.3% of quarterly GDP, as opposed to

the deficit of 6.0% of GDP registered in the same quarter of 2020.

Analyzed on annual basis, the current account deficit in Q1 2021 decreased by EUR 94.9 million, i.e. by 60.8%, being a result of the reduced deficit on the goods



Chart 5.3. Current account balance
(in EUR million)

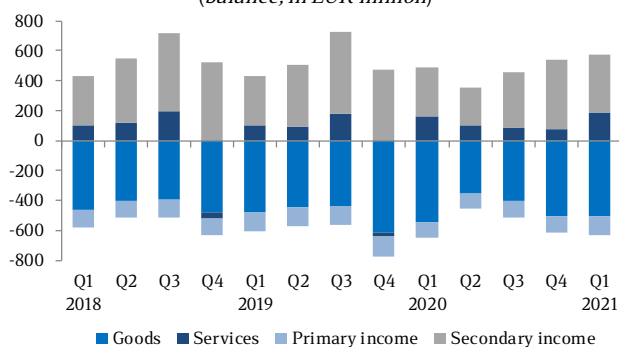


Source: National bank of the Republic of North Macedonia

account by 7.7%, as well as the increased surplus on the services account by 14.2% and the surplus on the secondary income account by 17.7%. Widened deficit on the primary income account by 28.1% had the opposite effect.

In Q1 2021, **trade deficit** dropped by EUR 42.2 million on annual basis, while trade deficit as a percentage of quarterly GDP narrowing by 1.8 p.p. on annual basis and accounting for 19.1%.

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



Source: National Bank of the Republic of North Macedonia

Surplus on **services account** amounted to EUR 188.2 million in Q1 2021 and, compared to the same quarter in 2020, it surged by EUR 23.4 million. **Trade openness** of the Republic of North Macedonia in Q1 2021 accounted for 147.8%

of quarterly GDP, being higher by 17.1 p.p. compared to Q1 2020.

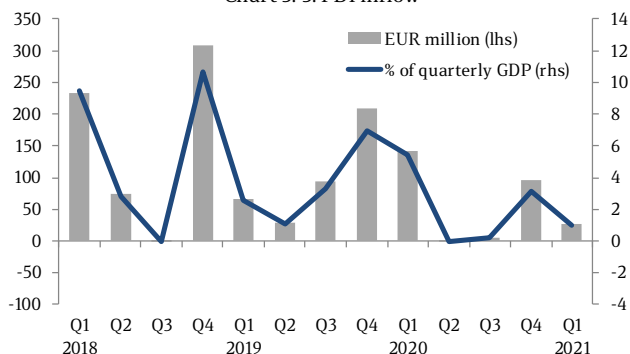
Primary income account experienced EUR 128.6 million deficit in Q1 2021, increasing by EUR 28.2 million on annual basis.

Surplus on the **secondary income** account in Q1 2021 amounted to EUR 383.4 million, increasing by EUR 57.5 million on annual basis. Growth was a result of the increase of private transfers by EUR 32.5 million, participating with 90.4% in the secondary income account, as well as official transfers growing by EUR 25.1 million, accounting for 9.6% of the secondary income account.

Deficit on the **capital account** in Q1 2021 amounted to EUR 3.7 million, as opposed to the surplus of EUR 0.3 million generated in Q1 2020. Deterioration of the balance on the capital account is a result of the outflow of capital transfers.

Foreign Direct Investments (FDIs) in the country in Q1 2021 amounted to EUR 25.7 million, decreasing by EUR 115.1 million compared to Q1 2020. Decline was a result of the debt instruments, recording an

Chart 5.5. FDI inflow



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



outflow in the amount of EUR 103.7 million, while on the basis of reinvestment of earnings, as well as equity, inflow of EUR 95.5 million and EUR 33.9 million, respectively, was recorded.

Portfolio investments in Q1 2021 were negative, amounting to EUR 636.9 million, being worsened balance compared to Q1 2020. Such trends were a result of the issuance of the long-term debt instrument by the general government in March.

Other investments in Q1 2021 were negative, amounting to EUR 31.0 million. As regards the category other

investments, currencies and deposits amounted to EUR 28.0 million, while accounts of the loans and trade credits and advance payments experienced a negative balance in the amount of EUR 20.6 million and EUR 39.5 million, respectively.

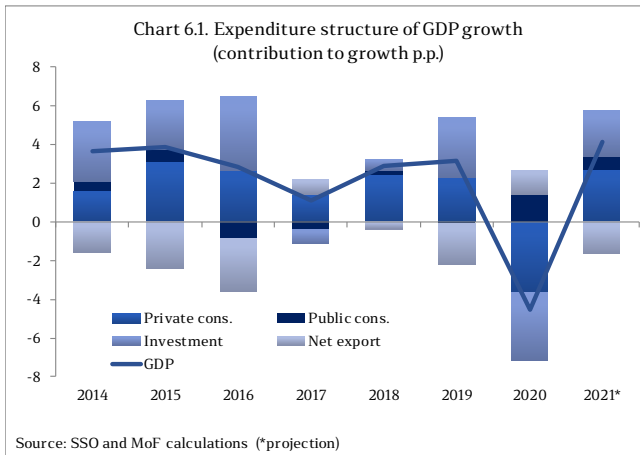
Reserve assets amounted to EUR 3.9 billion at the end of the first quarter of 2021, increasing by 30.6% compared to Q1 2020. At the end of Q1 2021, reserve assets provided for 6-month coverage of import of goods and services in the previous 12-month period.

6. Macroeconomic projections for 2021

The global economy in 2021 is expected to be continue to be affected by the coronavirus pandemic. However, after the economic contraction in 2020, which was unprecedented in living memory in its speed and synchronized nature, the global economy is expected to recover in 2021, which will largely depend on additional fiscal support in major economies, as well as of the vaccination rate throughout the year. Global economic activity is expected to grow by 6% in 2021, according to the latest International Monetary Fund forecast, while the EU economic growth is projected at 4.4%, after the 6.1% decrease last year. In Germany, as the largest economy within the EU and our most important trading partner, the economic activity growth is projected at 3.6%.

As a result, gradual stabilization of the global supply chains is expected and an increase of foreign demand, which when compared to the Autumn projections is expected to be somewhat lower. Such expectations, coupled by reduced pressures from pandemic globally, amid intensification of the vaccination process, is expected to have a positive impact on domestic economic trends, both on export activity, as well as investment and consumption.

The favorable international environment and the mass process of immunization in the country are expected to have a positive impact on the expectations and confidence of domestic economic entities and the propensity to invest and consume. Fiscal policy and redesigning of the public expenditures, with emphasis on



strengthening the public investment cycle and measures aimed at achieving accelerated, inclusive and sustainable economic growth, will have a significant impact on investment demand, but also on potential growth.

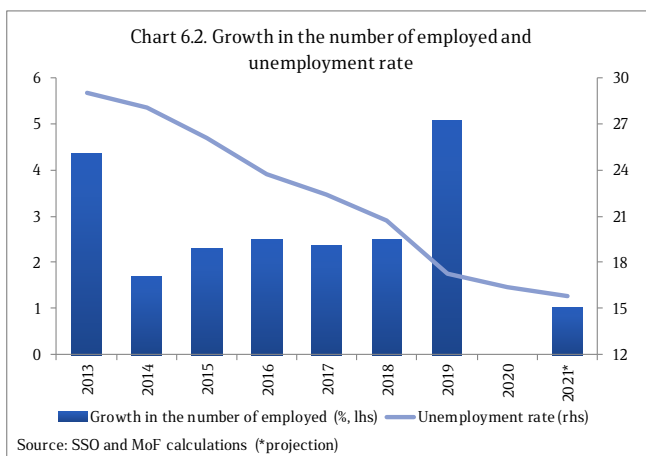
State aid through various economic measures will continue in 2021, both through measures that were taken last year and continued to be implemented during this year and through new sets of measures, also including the announced credit lines as support for enterprises, aimed at mitigating the effects of the pandemic on the most vulnerable and support the faster recovery of domestic economy.

After the fall in 2020, the economy is expected to recover in 2021, with growth projected at 4.1%, as it was under the initial Budget, but with certain adjustment as regards the growth structure, i.e. higher positive contribution of domestic demand, amid upward revision of projections on consumption and investment growth, as well as higher negative contribution of net export on the economic growth.

Decomposition of economic growth shows that investments will play a significant role in the recovery of the economy and its gradual intensification. Real investment growth is projected at 8% in 2021, with both private and public investment expected to contribute positively. Consumption is also envisaged to support domestic demand growth. Private consumption is expected to grow by 4% in real terms, amid a gradual return of confidence and optimism with the start of mass vaccination, the recovery of remittances, also supported by the fiscal measures undertaken to deal with the economic repercussions of the pandemic. Positive effects on private consumption are also expected by the credit support of banks. Growth of public consumption is projected at 4.3% in real terms in 2021, being partially a result of the higher expenditures for coping with the health crisis.

Export of goods and services is projected to grow by 10.6% in real terms, amid exhaustion of the unfavorable economic effects of the pandemic, recovery of global value chains and external demand, and therefore higher utilization of production facilities in the country. The growth of the export activity and the recovery of the domestic demand in 2021 imply an increase of import of goods and services, which is projected at 11% on a real basis.

Following the reduced pressures from pandemic, the gradual return of investor confidence and improving of business entities' expectations, resumption of labor demand growth is projected, encouraged



related to the high uncertainty regarding the price developments of commodities on the world market.

through active employment measures and programs, as well as the state support for creating new jobs. In 2021, the number of employed is projected to increase by 1%, which will contribute for the average employment rate to increase to 47.5% and bring the unemployment rate down to 15.8%.

Inflation rate in 2021 is projected at 2.1%, which represents a certain intensification of inflation compared to 2020 and has been revised upwards compared to the initial projection (1.5%), amid upward revision of the commodity prices forecast on world markets, such as oil, wheat and maize, and upward movement of foreign effective inflation.

The current account deficit is expected to narrow to 3% of GDP in 2021, mainly due to the projected increase of private transfers from abroad, amid a gradual reduction of the adverse impact of the pandemic.

Baseline macroeconomic scenario is accompanied by risks, which are mainly related to the duration and consequences of the health crisis. Risks in relation to the projected inflation dynamics, are mainly