



QUARTERLY ECONOMIC REPORT

- fourth quarter of 2020 -

Summary

- In Q4 2020, a 0.7% **drop of domestic economic activity** was recorded on annual basis, which is a further slowdown in the decline in activity after the strong drop in the second quarter, by which the average reduction of real GDP in 2020 was 4,5%, which is within the projected value;
- **Number of employed persons** in Q4 2020 was lower by 2.2% compared to the same quarter in 2019. **Number of unemployed persons** dropped by 5.7%, which resulted in reduction of **unemployment rate** to 16.1% in Q4 2020;
- Average **net wage** in Q4 2020 amounted to Denar 27,925, increasing by 6.9% in nominal terms and 4.7% in real terms, on annual basis;
- Total **budget revenues** were lower by 5.3% in Q4 2020, while total **budget expenditures** grew by 15.3% compared to the same quarter in 2019;
- **Inflation rate** in Q4 2020 accounted for 2.2% on annual basis;
- Total **deposit potential** of banks increased by 3.9% in Q4 2020 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q4 2020 grew by 1.3% on quarterly basis;
- In Q4 2020, increase of **export of goods** by 5.1% and drop of **import of goods** by 1.4% was registered on annual basis, whereby total **foreign trade**, expressed in euros, surged by 1.3%.



Contents:

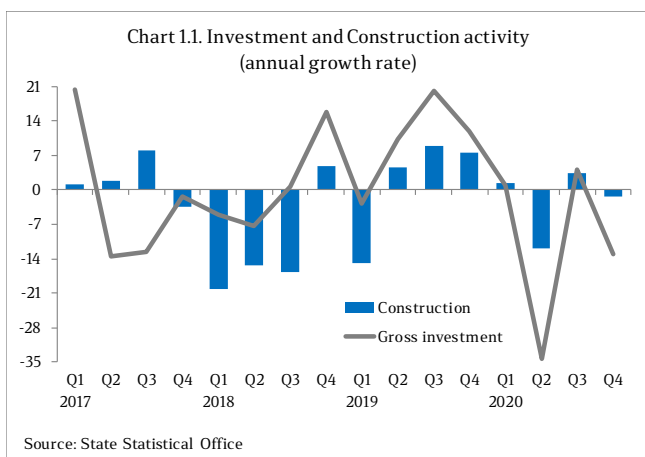
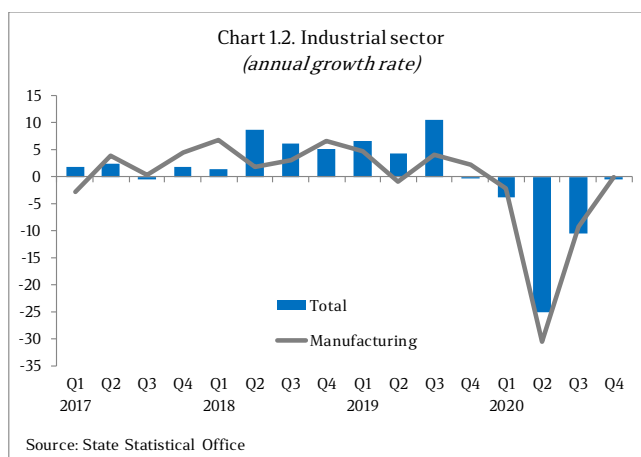
1. Economic Activity.....	3
2. Labour Market.....	4
3. Public Finances	5
3.1 Budget revenues according to the economic classification.....	5
3.2. Budget Expenditures according to the Economic Classification.....	6
3.3. Expenditures by Budget Users	7
3.4. Budget Deficit and Government Debt.....	9
4. Inflation and Monetary Trends.....	9
5. External Sector.....	12
5.1. Foreign Trade	12
5.2. Balance of Payments	15



1. Economic Activity

In Q4 2020, a 0.7% drop of **domestic economic activity** was recorded on annual basis, which is a further slowdown in the decline in activity after the strong drop in the second quarter, by which the average reduction of real GDP in 2020 was 4,5%, which is within the projected value (Chart 1.3). Analyzed by sectors, activity in the **services sector** decreased by 0.1%, being mostly due to the reduced activity in the following sectors: Arts, entertainment and recreation by 3.6%, Expert, scientific and technical activities by 1.6%; Information and communications

declined by 3.2% following the growth in the previous three quarters.



In Q4 2020, the **industrial sector** dropped by 0.6%, being a significant mitigation upon the double-digit drop rates in the previous two quarters, amidst unchanged production in **Manufacturing**. Monthly data show that industry dropped by around 4.6% in average in October and November, recording a 2.5% growth in December, being the first increase in production after February.

Such positive trends in the last month of the year are a result of the favourable performance in Mining sector and several activities within the Manufacturing.

Analyzed by the expenditure side of GDP, **private consumption** registered a 4.3% drop in real terms, amidst reduction of foreign remittances, which adversely affected the household income and consequently the consumption. However, significant drop was prevented by the measures aimed at supporting the affected citizens and enterprises. The drop

and Public administration, Defense, Education and Health by 0.4% each; and Trade, Transport and Hospitality industry by 0.1%. The increased activity was seen in: Real estate activities by 2.0% and Financial and insurance activities by 1.0%.

Construction sector dropped by 1.4% following the 3.4% growth in the previous quarter, by which variable trends in this sector continued (Chart 1.1). **Agriculture**

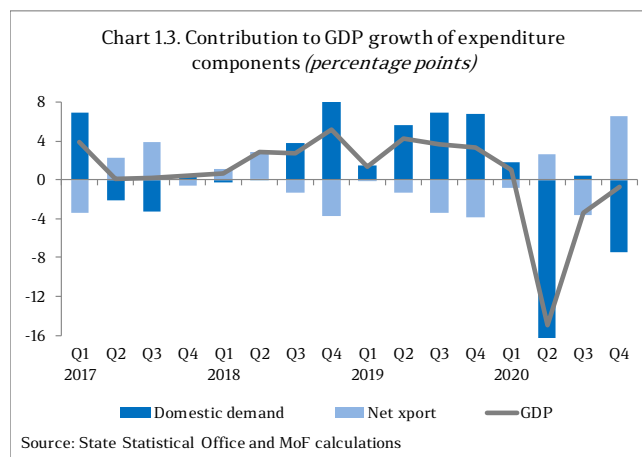


of total consumption was mitigated by the **public consumption** growth of 6.6%, although slowed down growth rate was observed, compared to the previous quarter.

Gross investments reduced by 13.0% following the 4.2% growth in the previous quarter, by which variable trends in this category continued.

Export of goods and services grew by 1.3% in real terms, while **import of goods and services** reduced by 7.2%. Thus, net

export had positive contribution of 6.6 percentage points (p.p.).



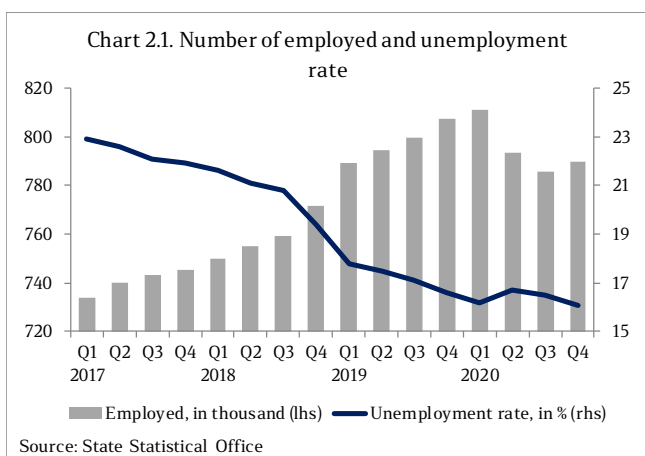
2. Labour Market

In Q4 2020, according to the Labour Force Survey, **number of employed persons** was lower by 2.2%, i.e. by 17.8 thousand persons compared to the same quarter in 2019, whereby the drop was due to the reduced employment in the agricultural sector (10.9 thousand or 10.5%) services sector (6.4 thousand or 1.4%) and industry (2.2 thousand or 1.1%), while increased number of employees was only seen at construction (3.2 thousand or 6.2%). As for services sector, particular drop was recorded at administrative and auxiliary services (4.5 thousand or 19.3%) and transport and storage (3.8 thousand or 7.7%), while significant increase of employment was seen at health and social protection (3.3 thousand or 6.9%) and retail and whole sale (2.6 thousand or 2.3%).

Analyzed according to the economic status, employment growth was

registered only at employed persons (wage earners) by 7.5 thousand or 1.2%, while drop was seen in the number of self-employed persons (12.6 thousand or 14.2%) family workers (7.2 thousand or 19.0%), as well as employers (5.5 thousand or 17.1%). **Employment rate** in Q4 2020 accounted for 46.8%, being lower by 1.1 p.p. compared to the same quarter in 2019.

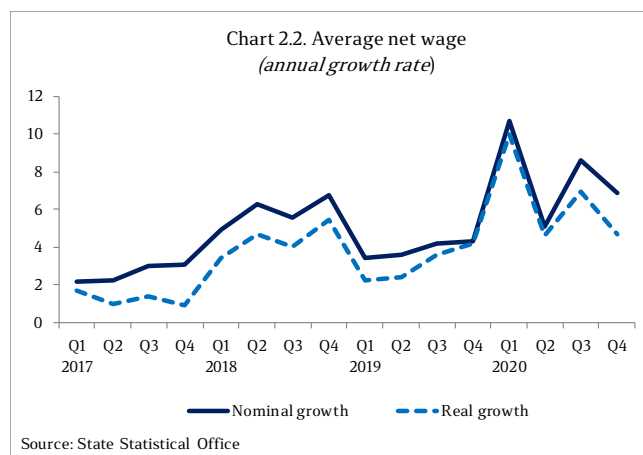
However, despite the employment drop, decrease in the **number of unemployed persons** was also recorded, decreasing by around 9.3 thousand persons, i.e. by 5.7% compared to the same quarter in 2019. Such trends caused for the **unemployment rate** in Q4 2020 to reduce to 16.1%, i.e. by 0.5 p.p. compared 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, compared to Q4 2019, was reduced at the group aged 25-49 years by 8.9% and the group aged 50-64 by 2.8%, while unemployment at the group aged 15-24 years, picked up by 3.0%. Observed by gender, unemployment rate was reduced among the female population by 1.5 p.p., accounting for 15.5%, being lower by 1.1 p.p. compared to unemployment of men, which increased by 0.2 p.p., accounting for 16.6%.

Number of active population decreased by 27.1 thousand, persons i.e. by 2.8% on annual basis. Active population in Q4 2020 accounted for 55.9% of the total working

age population, being lower by 1.6 p.p. compared to the same quarter in 2019.



Average monthly **net wage** amounted to Denar 27,925 in Q4 2020, being higher by 6.9% in nominal terms compared to the same quarter in 2019, while net wage increased by 4.7% in real terms (Chart 2.2).

Average monthly **gross wage** amounted to Denar 41,671 in Q4 2020, increasing by 7.4% in nominal terms and by 5.1% in real terms.

Labour productivity in Q4 2020 increased by 1.5%, 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

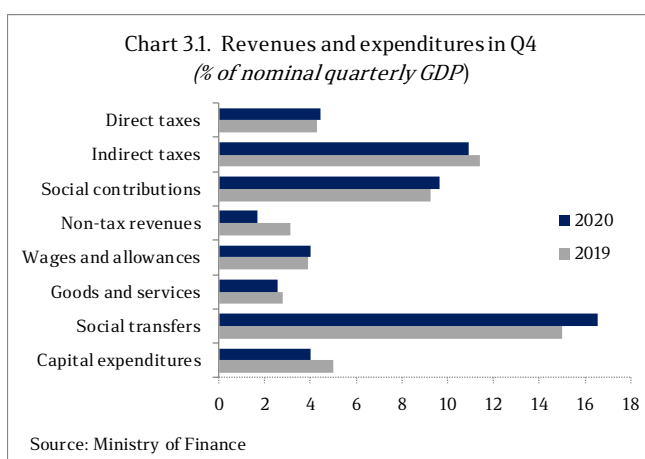
In Q4 2020, share of **total budget revenues** accounted for 28.6% of the quarterly GDP, being lower by 5.3% compared to the same quarter in 2019, mostly as a result of the high drop of non-tax revenues by 45.0%, while social contributions increased by 5.8%, and taxes

remained unchanged. As for tax revenues, lower collection was recorded at VAT, excise duties and other tax revenues, while growth was seen at personal income tax, profit tax and customs duties.

In Q4 2020, collection of indirect taxes was lower by 3.0%, while collection of



direct taxes increased by 5.4% compared to Q4 2019. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes grew by 0.2 p.p., accounting for 4.5% of quarterly GDP, while share of revenues on the basis of indirect taxes was lower by 0.5 p.p. in Q4 2020 compared to Q4 2019, accounting for 10.9% of GDP.



With respect to **indirect taxes**, VAT revenues predominated, accounting for 45.1% of total tax revenues in Q4 2020, being lower by 2.0% compared to the same quarter of last year. As for VAT structure, VAT share was the biggest when importing, followed by VAT collected on the basis of sales in the country. Excise revenues were lower by 5.2% compared to

3.2. Budget Expenditures according to the Economic Classification

In Q4 2020, **total budget expenditures** participating with 38.2% in the quarterly GDP, were higher by 15.3% compared to the same quarter in 2019. Increase of expenditures amid reduced economic activity was, among the other, a result of the measures undertaken so as to cope

the same quarter of 2020, while collection of customs duties grew by 17.8%.

As for **direct taxes**, collection of revenues on the basis of personal income tax surged by 4.5%, while profit tax revenues increased by 7.3% compared to the same quarter of the previous year, mostly as a result of the higher collection on the basis of monthly advance payments.

Collection of **social contributions** was higher by 5.8%, and collection of all types of social contributions increased, i.e. pension and disability insurance contributions by 6.0%, health insurance contributions by 5.5% and employment contributions by 4.3%.

Collection of **non-tax revenues**, accounting for 1.7% of the quarterly GDP, was lower by 45.0% in Q4 2020 compared to the same quarter of 2019.

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 69.3% on annual basis in Q4 2020. Revenues on the basis of **foreign donations** dropped by 44.9%.

with the health crisis and support the domestic economic activity.

Current expenditures, accounting for 34.2% of the quarterly GDP, participated with 89.5% in the total expenditures and experienced 21.3% higher execution on annual basis. As for current expenditures, expenditures for goods and services



dropped by 6.8%, while expenditures related to wages and allowances were higher by 4.4% compared to the same quarter in 2019.

Funds for transfers, which participated with 70.1% in the total expenditures, were higher by 28.9% on annual basis. Social transfers surged by 11.8%, accounting for 43.3% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 5.7%, accounting for 24.0% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 24.3% in the total expenditures, i.e. they surged by

3.3. 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% of the total budget of all budget users.

In the period October - December 2020, Denar 30,393 million was spent through the organizational code **Ministry of Finance - Functions of the State**¹,

¹As 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.

68.5% compared to the fourth quarter in 2019. Block and earmarked grants to local government units surged by 7.8%, while subsidies and transfers were higher by 124.6%.

Interest-related expenditures decreased by 1.9% on annual basis, whereby domestic debt interest-related expenditures surged by 7.8% and expenditures related to interest on foreign debt dropped by 2.7%.

Capital expenditures accounting for 4.0% of quarterly GDP, compared to the same quarter in 2019, were lower by 19.0%, i.e. they participated with 10.5% in the total expenditures.

accounting for 52.0% of the annual Budget. Repayment of principal accounted for most of the expenditures or 88.0%, Denar 26,742 million being spent therefore.

Ministry of Labour and Social Policy, in Q4 2020, executed funds in the amount of Denar 12,253 million or 23.9% of its total budget for the current year. Thereby, most of the expenditures (65.9%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 8,070 million was spent or 22.9% of the funds allocated for 2020. The second highest expenditure category was social benefits, participating with 23.7% in the total expenditures. As for this purpose, 25.4% or Denar 2,902 million of the expenditures projected for 2020, were executed.

In the period October - December 2020, **Ministry of Education and Science**



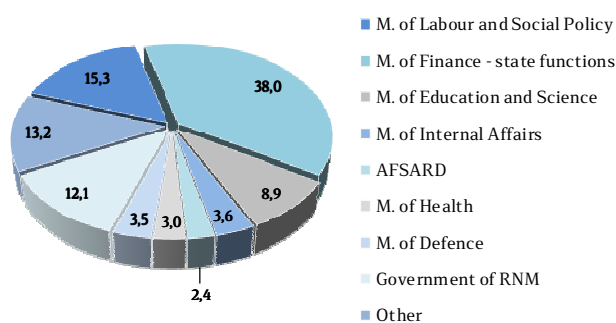
executed budget funds in the amount of Denar 7,111 million, i.e. 27.6% of its total 2020 budget. Current transfers to LGUs accounted for the most of the expenditures (58.9%), Denar 4,188 million being spent therefore or 25.8% of total projected funds. Wages and allowances were the second highest expenditure item, participating with 15.4%, Denar 1,098 million being spent therefore, i.e. 34.9% of the total funds projected for the current year.

In Q4 2020, **Government of the Republic of North Macedonia** spent Denar 9,676 million, i.e. 50.8% of the funds projected for 2020. Thereby, subsidies and transfers amounted to Denar 8,916 million (50.7% of the total projected ones), participating with 92.1% in the total expenditures.

category was goods and services, participating with 16.0%, funds in the amount of Denar 455 million being spent therefore, or accounting for 23.1% of the annual projections.

In Q4 2020, Agency for Financial Support in Agriculture and Rural Development spent funds in the amount of Denar 1,945 million, accounting for 21.7% of the funds projected for the current year. As for subsidies and transfers, accounting for 51.8% of the total expenditures, 14.0% or Denar 1,007 million of the projected funds were spent therefore. Second most important item were capital expenditures, accounting for 46.7% thereof, Denar 909 million being executed therefore, i.e. 54.1% of the projected ones.

Chart 3.2. Structure of expenditures by budget user for Q4 2020 (%)



Source: Ministry of Finance

During the analyzed period, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,851 million, accounting for 25.2% of its 2020 budget. Wages and allowances were the highest expenditure item, participating with 71.2%, Denar 2,030 million being spent therefore, or accounting for 25.2% of the projected ones. The second highest expenditure

In the fourth quarter of 2020, **Ministry of Defense** executed budget funds in the amount of Denar 2,766 million, i.e. 33.3% of its total 2020 budget. Wages and allowances accounted for the most with 37.0%, for which Denar 1,022 million was spent, accounting for 25.1% of the total funds projected for the current year. Expenditures related to goods and services accounted for 23.5% of the total expenditures, Denar 649 million being spent therefore during the analyzed period, i.e. 32.1% execution of the total projected funds.

In the period October - December 2020, **Ministry of Defense** executed budget funds in the amount of Denar 2,420 million, i.e. 31.6% of its total 2020 budget. Current transfers to extra-budgetary funds accounted for the most of the



expenditures with 73.8%, for which Denar 1,786 million was spent or 44.8% of the funds projected for the current year. Goods and services were the second most important item, accounting for 23.0% of the total expenditures, whereby Denar 556 million (19.1% of the projected ones) were spent therefore.

In the period October - December, **Ministry of Transport and Communications** executed funds in the amount of Denar 886 million, i.e. 27.1% of its total budget for the current year.

Capital expenditure execution accounted for 28.1% of the projected amount (Denar 689 million), participating with 77.8% in the total expenditures of this budget user. Subsidies and transfers accounted for 14.6% of total expenditures, whereby EUR 130 million was executed for this purpose, i.e. 23.5% of the projected ones.

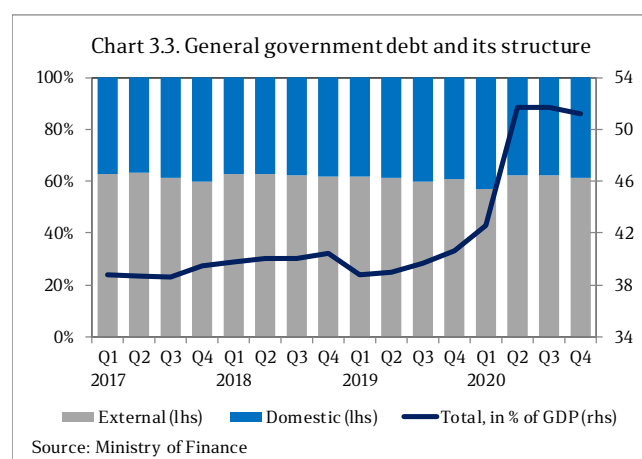
Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/692>).

3.4. Budget Deficit and Government Debt

In the fourth quarter of 2020, the **consolidated budget deficit** amounted to Denar 17,996 million or 9.6% of GDP realized in this quarter, while central budget deficit amounted to Denar 18,324 million, i.e. 9.8% of quarterly GDP. Deficit was a result of the increased expenditures due to the undertaken measures aimed at coping with the crisis.

Total **government debt** at the end of Q4 2020 accounted for 51.2% of GDP, decreasing its share in GDP by 0.6 p.p. compared to Q3 2020. Share of external debt in the total general government debt decreased by 1.0 p.p. compared to Q3 2020, accounting for 61.3%, while share of

domestic debt increased respectively, accounting for 38.7% of the total general government debt.



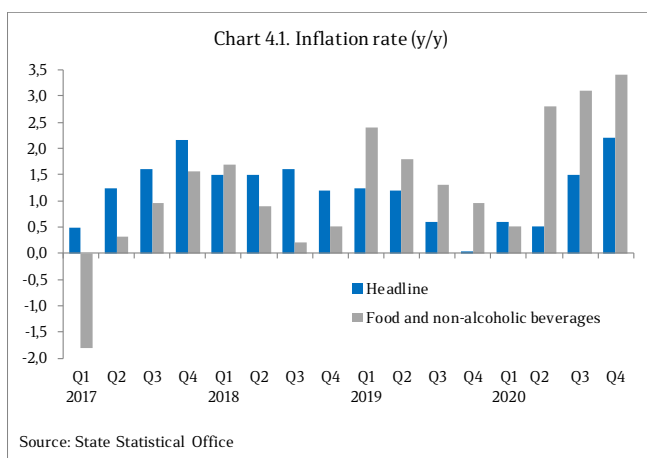
4. Inflation and Monetary Trends

Inflation rate, measured according to CPI index, in Q4 2020, accounted for 2.2% on annual basis, being higher by 0.7 p.p. compared to Q3 2020. Accelerated increase of prices in the fourth quarter was a result of the increase of prices of

food and alcohol and tobacco, as well as the reduced negative contribution of energy, being a result of the slowing down of the drop in prices of oil derivatives and the regulatory increase of prices of electricity in August.



Increase of consumer prices in Q4 2020 was registered in the following categories: Alcoholic beverages, tobacco and narcotics by 7.9%, Housing, water, electricity, gas and other fuels by 4.6%, Restaurants and hotels by 3.8%, Food and non-alcoholic beverages by 3.4%, Miscellaneous goods and services by 2.7%, Health protection by 1.7%, Furnishings, household equipment and routine maintenance of the house by 1.2%, Education by 0.5% and Recreation and culture by 0.2%. Drop of prices was registered at the following categories: Transport by 7.1% and Clothing and footwear by 0.8%. Prices at the category Communications remained the same.



During the fourth quarter² of 2020, the National Bank of the Republic of North Macedonia retained the **policy rate** at 1.5%, upon previously reducing it at three occasions since the beginning of the year, due to COVID-19 pandemic and the measures aimed at preventing

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

Coronavirus spread, adversely affecting both the global and the national economy. Purpose of the policy rate reduction up to 1.5%, as well as the significant reduction of the offered amount of CB bills, contributed to increase of the liquidity of the banking system and support of the credit flows in the economy, i.e. maintaining the credit cycle and mitigating the effects of the negative shock on the domestic economy.

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

Primary money³ in Q4 2020 dropped by 14.9% on quarterly basis (0.9% drop was registered in the previous quarter), amid reduced total liquidity of banks by 31.2% and increase of currency in circulation by 2.7%. Compared to Q4 2019, primary money reduced by 6.1% (11.1% growth was registered in Q3 2020), as a result of the decrease of total liquidity of banks by 25.4% while currency in circulation grew by 15.5%.

In Q4 2019, the narrowest money supply M1⁴ experienced increase by 7.2% compared to the previous quarter.

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).

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.

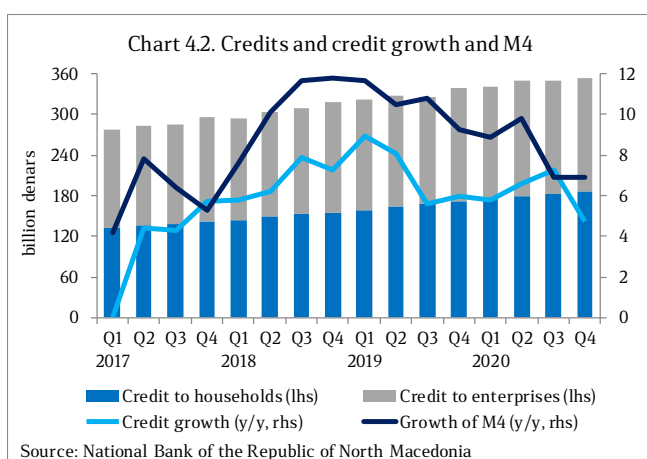
⁵ Deposits also include calculated interest.



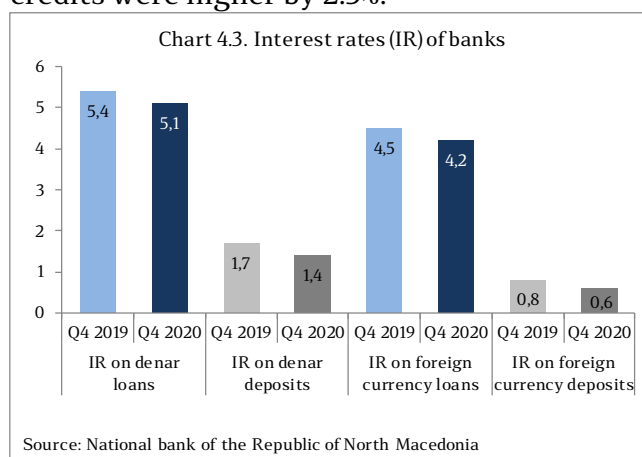
Monetary aggregate M2 surged by 4.5%, while the widest monetary aggregate M4 increased by 3.8% on quarterly basis.

Total **deposit potential**⁵ of banks in Q4 2020 grew by 3.9% on quarterly basis, following the 0.1% drop in the previous quarter. Analyzed by sectors, deposits of enterprises increased by 11.9%, while deposits of households grew by 2.4%. From currency point of view, compared to the previous quarter, Denar deposits grew by 4.1% and foreign currency deposits surged by 3.5%. Level of euroization dropped by 0.2 p.p. compared to the previous quarter, accounting for 39.8%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q4 2020 share of long-term deposits in total deposit potential decreased by 0.6 p.p. compared to the previous quarter, reaching 23.8% (accounting for 24.4% in Q3 2020). During the analyzed period, short-term deposits grew by 1.7%.



Credit activity of banks in Q4 2020 grew by 1.3% on quarterly basis (being unchanged in the previous quarter), amid growth of credits to enterprises and credits to households by 1.3% each. From currency point of view, in Q4 2020, foreign currency credits picked up by 1.5%, while Denar credits grew by 1.1%. From maturity point of view, long-term credits in Q4 2020 experienced 1.2% growth compared to the previous quarter, while short-term credits were higher by 2.3%.



In Q4 2020, **interest rate**⁶ on Denar credits accounted for 5.06%, decreasing by 0.06 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.19% in Q4 2020, dropping by 0.06 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.07 p.p., accounting for 1.35% in Q4 2020 compared to the previous quarter, while interest rate on foreign currency deposits decreased by 0.02 p.p., accounting for 0.56% compared to the previous quarter. In Q4 2020 interest rate on newly granted Denar credits accounted for 4.26%, while

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



interest rate on newly approved foreign currency credits accounted for 3.54%. Interest rates on newly received Denar and foreign currency deposits accounted for 0.88% and 0.55%, respectively.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,973.4 million in Q4 2020, surging by 1.3% compared to the same quarter in 2019. This point out to more favourable trends in the foreign trade with abroad after its drop in the first three quarters of 2020, as a result of the pandemic spread caused by Coronavirus.

Analyzed **by sectors** of SITC (Standard International Trade Classification), in Q4 2020, growth of export on annual basis, was recorded at the following sectors:

- machinery and transport equipment by 12.8% (wherein the highest growth was seen at the categories: electrical machinery, apparatus and appliances by EUR 38.4 million or 16.5%; general industrial machinery and equipment by EUR 34.3 million or 15.6%);
- chemical products, by 8.3% (chemical materials and products by EUR 26.2 million or 7.7%);
- manufactured goods classified chiefly by material by 7.3% (items from non-metallic mineral manufactures by EUR 11.9 million or 81.2%; iron and steel by EUR 4.5 million or 3.1%) and
- food products by 6.1% (fruit and vegetables by EUR 9.2 million or 20.9%).

Decline of export was seen at the following sectors:

- miscellaneous manufactured articles by 6.8% (wherein the highest drop was recorded at the category Clothing by EUR 18.9 million or 18.2%);



Export of goods in Q4 2020 amounted to EUR 1,721.4 million, increasing by 5.1% compared to Q4 2019, indicating more favourable trends in the export of our country after its drop in the first three quarters of 2020, as a result of the COVID-19-induced pandemic. In Q4 2020, export of goods grew by 7.2% in relation to the previous quarter.



- beverages and tobacco by 28.8% (tobacco and tobacco manufactures by EUR 13.4 million or 39.8%);
- mineral fuels and lubricants by 23.9% (petroleum and petroleum products by EUR 10.7 million or 49.8%);
- crude materials, inedible, except fuel by 3.5% (crude fertilizers and crude minerals, excluding coal, petroleum and precious stones by EUR 6.8 million or 33.6%) and
- animal and vegetable oils by 34.7% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 1.3 million or 37.2%).

Observed **by economic purpose**, in Q4 2020, increase of export was recorded at the following groups of products:

- investment products without transport equipment by EUR 48.2 million or 15.8%;
- goods for industrial supplies by EUR 40.8 million or 5.4%;
- transport equipment by EUR 19.9 million or 8.3% and
- food and beverages by EUR 2.3 million or 1.9%.

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

- consumer goods by EUR 19.0 million or 10.0% and
- fuels and lubricants by EUR 7.0 million or 24.3%.

Import of goods in Q4 2020 amounted to EUR 2,252.0 million, dropping by 1.4% compared to Q4 2019. In Q4 2020, import of goods grew by 12.8% compared to the previous quarter.

Analyzed by SITC **sectors**, decrease of import in Q4 2020, compared to Q4 2019, was seen at the following sectors:

- mineral fuels and lubricants by 29.3% (within which highest drop was seen at the category: petroleum and petroleum products by EUR 70.0 million or 44.0%);
- crude materials, inedible, except fuel by 22.4% (metalliferous ore and metal scrap by EUR 16.0 million or 34.3%);
- manufactured goods classified chiefly by material by 1.6% (iron and steel by EUR 13.6 million or 12.7%);
- food products by 4.9% (meat and meat preparations by EUR 7.9 million or 19.1%) and
- beverages and tobacco by 15.2% (tobacco and tobacco manufactures by EUR 2.0 million or 24.1%).

Increase of import was seen at the following sectors:

- chemical products by 25.3% (wherein highest growth was seen at the category inorganic chemicals by EUR 69.8 million or 173.9%);
- machinery and transport equipment by 1.5% (electrical machinery, apparatus and appliances by EUR 25.9 million or 13.4%);
- miscellaneous manufactured articles by 2.0% (furniture and parts thereof, bedding and similar products, mattresses, mattress holders, cushions and similar stuffed articles by EUR 3.3 million or 15.0%; clothing by EUR 2.1 million or 7.8%) and
- animal and vegetable oils by 6.2% (fixed vegetable fats and oils, crude,



refined or fractioned by EUR 1.0 million or 7.4%).

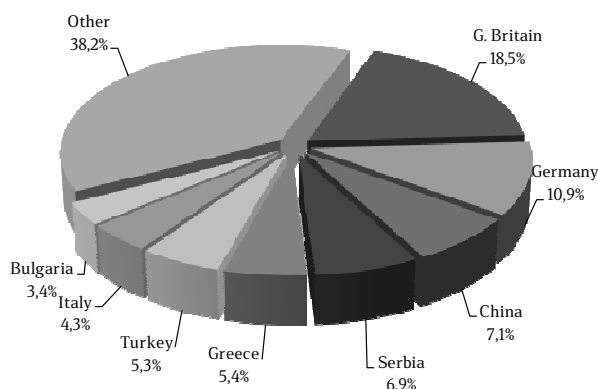
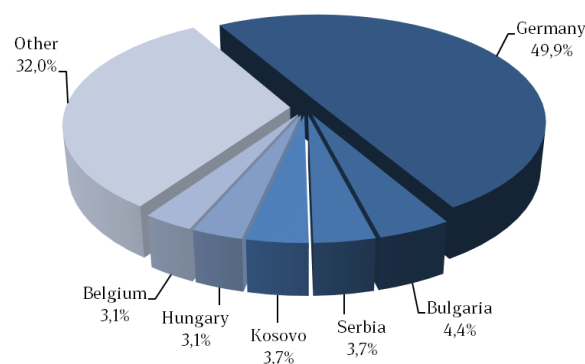
Observed by **economic purpose**, in Q4 2020, drop of import was recorded at the following groups of products:

- o fuels and lubricants by EUR 71.4 million or 32.0%;
- o transport equipment by EUR 17.3 million or 12.4% and
- o food and beverages by EUR 12.0 million or 5.8%.

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

- o goods for industrial supplies by EUR 25.0 million or 2.1%.
- o investment products without transport equipment by EUR 17.8 million or 5.4% and
- o consumer goods by EUR 0.3 million or 0.1%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q4 2020



Source: MoF calculations based on SSO data

In Q4 2020, foreign trade of the Republic of North Macedonia with the European Union (EU 27⁷), in relation to Q4 2019, decreased by 2.1%, whereby share of trade with the EU in the total foreign trade decreased by 2.1 p.p. compared to the fourth quarter in 2019, accounting for 59.6%. Thereby, in Q4

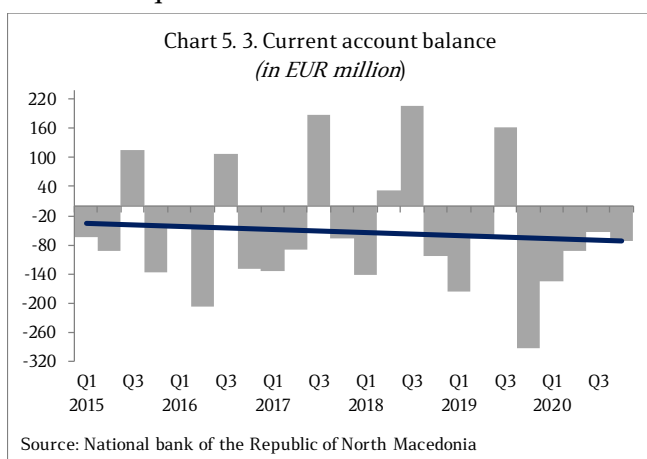
2020 export of goods accounted for 79.1%, while share of import of goods was 44.8%.

⁷Starting February 2020, Great Britain is included in the economic group of countries - Miscellaneous-countries.



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 72.4 million was recorded on the balance of payments **current account** in Q4 2020, accounting for 2.4% of quarterly GDP, as opposed to the deficit of 9.7% of GDP registered in the same quarter of 2019.

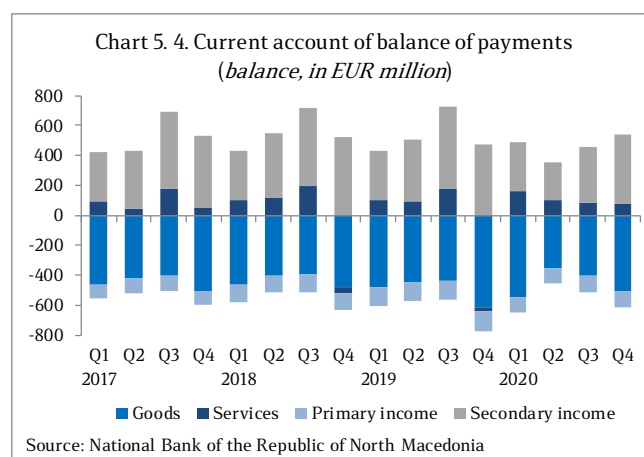


Analyzed on annual basis, the current account deficit in Q4 2020 decreased by EUR 221.5 million, i.e. by 75.4%, being a result of the reduced deficit on the goods account by 17.6% and the primary income account by 18.9%, as well as the realized surplus on the services account as opposed to the deficit in Q4 2019. Reduction of the surplus on the secondary income account by 2.9% had opposite effect.

In Q4 2020, **trade deficit** dropped by EUR 108.1 million on annual basis, narrowing by 3.8 p.p. on annual basis, i.e. accounting for 16.6% of quarterly GDP.

Surplus on **services account** amounted to EUR 78.9 million in Q4 2020 compared to the deficit of EUR 23.5 million in the

fourth quarter of 2019. **Trade openness** of the Republic of North Macedonia in Q4 2020 accounted for 137.5% of quarterly GDP, being lower by 0.5 p.p. compared to Q4 2019.



Primary income account experienced EUR 107.0 million deficit in Q4 2020, reducing by EUR 24.9 million on annual basis.

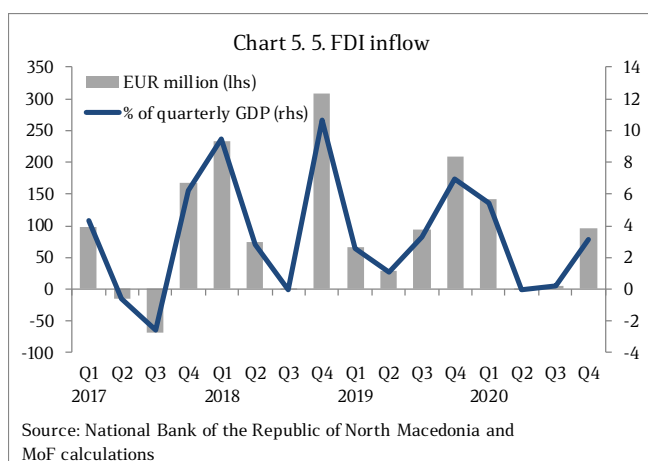
Surplus on the **secondary income** account in Q4 2020 amounted to EUR 462.3 million, decreasing by EUR 13.9 million on annual basis. Drop was due to the reduction of private transfers by EUR 44.6 million, participating with 87.0% in the secondary income account. Official transfers increased by EUR 30.7 million, accounting for 13.0% in the secondary income account.

Balance on the **capital account** amounted to EUR 3.6 million in Q4 2020 and, compared to the same quarter of 2019, it grew by EUR 2.0 million, which is fully due to the increased inflow of capital transfers and non-produced nonfinancial assets.



Foreign Direct Investments (FDIs) in the country in Q4 2020 amounted to EUR 95.3 million, decreasing by EUR 114.7 million compared to Q4 2019. Reduction was a result of the reinvested earnings, where outflow of EUR 69.9 million was recorded, while on the basis of debt instruments, as well as equity, inflow of EUR 145.7 million and EUR 19.5 million, respectively, was recorded.

2019. At the end of Q4 2020, reserve assets provided for 5.3-month coverage of import of goods and services in the previous 12-month period.



Portfolio investments in Q4 2020 amounted to EUR 239.5 million and, compared to the same quarter in 2019, they grew by EUR 230.3 million.

Other investments in Q4 2020 were negative, amounting to EUR 122.9 million. As regards the category other investments, currencies and deposits amounted to EUR 111.4 million, while accounts of the loans and trade credits and advance payments experienced a negative balance in the amount of EUR 132.8 million and EUR 100.4 million, respectively.

Reserve assets amounted to EUR 3.4 billion at the end of the fourth quarter in 2020, surging by 3.0% compared to Q4