



Q3-2020

QUARTERLY ECONOMIC REPORT

- third quarter 2020 -

Summary

- Decline of domestic **economic activity** significantly slowed down in Q3 2020, when a decline of 3.3% was registered, in conditions of slowed down dynamics of the activity in the industrial and the services sectors, and growth registered at construction and agricultural sectors;
- **Number of employed persons** in Q3 2020 was lower by 1.7% compared to the same quarter in 2019. **Number of unemployed persons** dropped by 5.5%, which resulted in reduction of **unemployment rate** to 16.5% in Q3 2020;
- Average **net wage** in Q3 2020 amounted to Denar 27,390, increasing by 8.6% in nominal terms and 7.0% in real terms, on annual basis;
- Total **budget revenues** were lower by 4.7% in Q3 2020, while total **budget expenditures** grew by 12.4% compared to the same quarter in 2019;
- **Inflation rate** in Q3 2020 accounted for 1.5% on annual basis;
- Total **deposit potential** of banks decreased by 0.1% in Q3 2020 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q3 2020 remained unchanged on quarterly basis;
- In Q3 2020, decrease of both **export of goods** by 1.4% and **import of goods** by 3.5% was registered on annual basis, by which total **foreign trade**, expressed in euros, dropped by 2.6%;



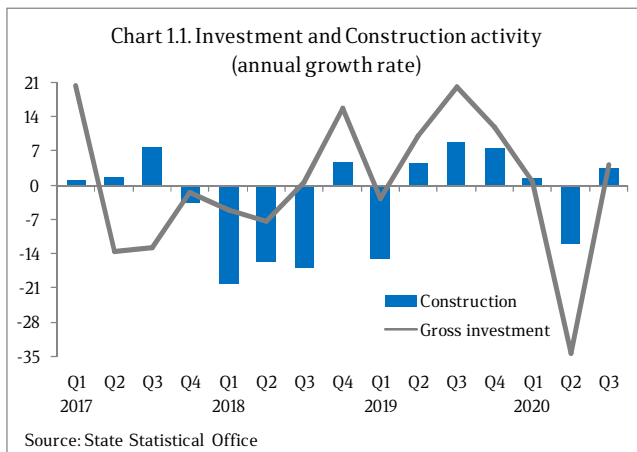
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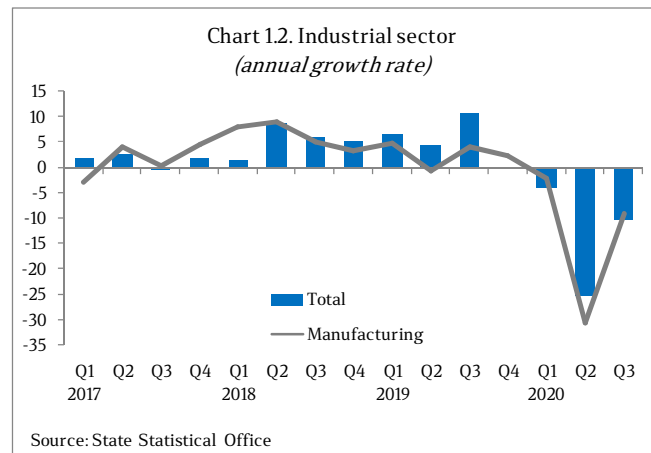
1. Economic Activity

In Q3 2020, **domestic economic activity** dropped by 3.3% on annual basis, following the drop by 14.9% in the second quarter, which led the economic activity to decrease for a second consecutive quarter as a result of the adverse effects from the COVID-19 pandemic, although with significantly slighter intensity. The drop of economic activity has come as a result of the unfavourable trends in the industry and certain service activities, such as trade, transport and hospitality industry.



Activity in the **services sector** was reduced by 1.6%, being mostly due to the declined activity in the Trade, transport and hospitality industry by 2.3%, as well as Arts, entertainment, recreation and other services by 6.6% and Expert, scientific, technical and administrative activities by 3.7%. Reduced activity was also recorded at the following: Real estate activities and Public administration, Defense, Education and Health by 1.3% each and Financial and insurance activities by 1.0%. Higher activity was seen at Information and communications by 3.3%.

Construction sector grew by 3.4% following the 12.0% drop in the previous quarter. **Agriculture** in this quarter increased by 5.2%, implying intensification compared to the growth in the previous two quarters.



In Q3 2020, the drop of **industrial sector**, although being double-digit accounting for 10.4%, significantly slowed down amidst reduced production in **manufacturing** by 9.1%. In line with the monthly data, Manufacturing recorded significant drop in July and August when production registered an average drop of 7.3%, followed by significant mitigation of the drop by 1.9% in September, being a result of the improvements at most of the industrial branches.

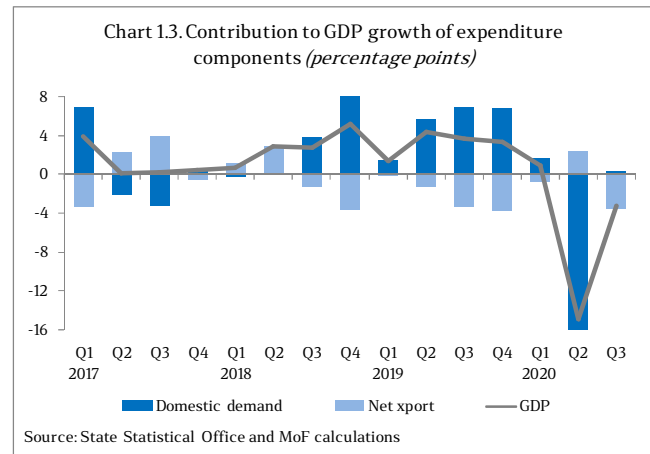
Analyzed according to the expenditure side of GDP, domestic demand had slight positive contribution as result of the growth of gross investments, while net export had negative contribution.

Private consumption registered a 4.1% drop in real terms amidst reduction of



foreign remittances, which adversely affected the household income and consequently the consumption. Thereby, a more significant drop of consumption was prevented through the measure for financial support to the vulnerable groups. Reduction of total consumption was mitigated by the increase of **public consumption** by 13.5%, being a result of the expenditures related to the measures aimed at protecting the health sector.

Gross investments increased by 4.2% following the high drop of 34.4% in the previous quarter, being a result of the growth of investments in construction works, as well as machinery and equipment.



Export of goods and services dropped by 8.4% in real terms, while **import of goods and services** decreased by 2.4%. Thus, net export had negative contribution of 3.7 p.p.

2. Labour Market

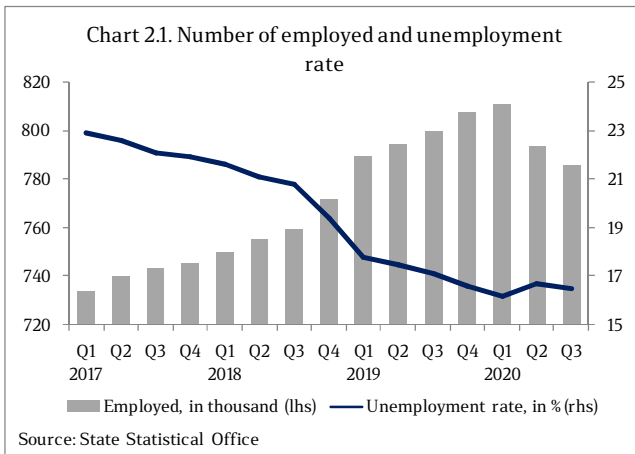
In Q3 2020, according to the Labour Force Survey, **number of employed persons** was lower by 1.7%, i.e. by 14 thousand persons compared to the same quarter in 2019, whereby the drop was due to the reduced employment in the agricultural sector (22.6 thousand or 19.5%), industry (9.2 thousand or 4.7%), and construction (3.4 thousand or 5.8%), while increased number of employed persons was recorded in the services sector (22.7 thousand or 5.3%). As regards the services sector, evident growth of employment was seen at Information and communication activity (7.3 thousand or 57.9%) and Health and social protection activities (4.5 thousand or 10.3%).

Analyzed according to the economic status, employment growth was registered only at employed persons (wage

earners) by 20.4 thousand or 3.3%, while drop was seen in the number of self-employed persons (23.5 thousand or 23.8%) family workers (10 thousand or 22.9%), as well as employers (861 or 2.7%). **Employment rate** in Q3 2018 accounted for 46.6%, being lower by 0.8 p.p. compared to the same quarter in 2019.

However, despite the employment drop, decrease in the **number of unemployed persons** was also recorded by around 9.1 thousand persons, i.e. by 5.5% compared to the same quarter in 2019. Such trends caused for the **unemployment rate** in Q3 2020 to reduce to 16.5%, i.e. by 0.6 p.p. compared to the same quarter in 2019, being lower by 0.2 p.p. compared to the previous quarter. (Chart 2.1).

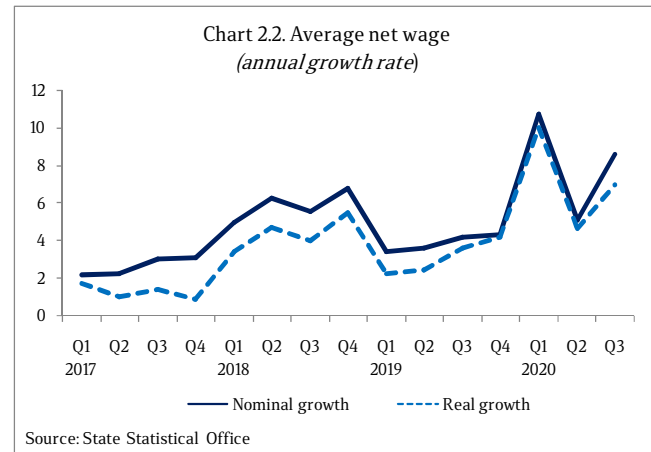
Observed by age groups, unemployment rate on annual basis was reduced at the



group aged 15-24 years by 7.4% and the group aged 25-49 by 7.8%, while unemployment at the group aged 50-64 years, picked up by 4.4%. Observed by gender, unemployment rate was reduced among the female population by 3.6 p.p., accounting for 15.9%, being lower by 1.1 p.p. compared to unemployment of men, which increased by 1.6 p.p., accounting for 17.0%.

Number of active population decreased by 23.1 thousand, persons i.e. by 2.4% on annual basis. Active population in Q3 2020 accounted for 55.8% of the total working age population, being lower by 1.4 p.p. compared to the same quarter in 2019.

Average monthly **net wage** amounted to Denar 27,390 in Q3 2020, being higher by 8.6% in nominal terms compared to the same quarter in 2019, while net wage increased by 7.0% in real terms (Chart 2.2).



Average monthly **gross wage** amounted to Denar 40,874 in Q3 2020, increasing by 9.1% in nominal terms and by 7.5% in real terms.

Labour productivity in Q3 2020 decreased by 1.6% as a result of the lower drop of employment than the production drop.

3. Public Finances

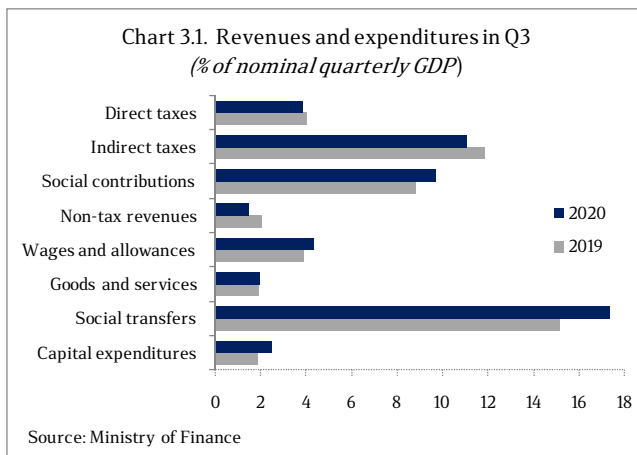
3.1. Budget revenues according to the economic classification

In Q3 2020, share of **total budget revenues** accounted for 28.3% of the quarterly GDP, being lower by 4.7% compared to the same quarter in 2019, due to the lower collection of tax and non-tax revenues by 7.6% and 30.8% respectively, while social contributions increased by 6.8%. Drop of revenues was a result of the

reduced economic activity due to the health and economic crisis. As for tax revenues, lower collection was observed at all taxes, except for customs duties. Within the third quarter, high drop of revenues was registered in August, while revenues recorded slight decrease in July and September.



In Q3 2020, collection of indirect taxes was lower by 9.3%, while collection of direct taxes decreased by 7.5% compared to Q3 2019. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes dropped by 0.2 p.p., accounting for 3.8% of quarterly GDP, while share of revenues on the basis of indirect taxes was lower by 0.7 p.p. in Q3 2020 compared to Q3 2019, accounting for 11.1% of GDP.



With respect to **indirect taxes**, VAT revenues predominated, accounting for 46.7% of total tax revenues in Q3 2020, being lower by 6.6% 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

3.2. Budget expenditures according to the economic classification

In Q3 2020, **total budget expenditures** participating with 34.1% in the quarterly GDP, were higher by 12.4% 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

revenues were lower by 14.4% compared to the same quarter of 2020, while collection of customs duties grew by 18.1%.

As for **direct taxes**, collection of revenues on the basis of personal income tax decreased by 1.9%, while profit tax revenues declined by 17.4% 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 6.8%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 7.2%, health insurance contributions by 6.1%, and employment contributions by 4.4%.

Collection of **non-tax revenues**, accounting for 1.4% of the quarterly GDP, was lower by 52.2% in Q3 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 8.4% on annual basis in Q3 2020. Revenues on the basis of **foreign donations** picked up by 3.4%.

with the health crisis and support the domestic economic activity.

Current expenditures, accounting for 31.7% of the quarterly GDP, participated with 92.8% in the total expenditures and experienced 11.3% higher execution on annual basis. As for current expenditures,



expenditures for goods and services dropped by 0.8%, while expenditures related to wages and allowances were higher by 8.2% compared to the same quarter in 2019.

Funds for transfers, which participated with 68.1% in the total expenditures, were higher by 14.6% on annual basis. Social transfers surged by 11.4%, accounting for 51.0% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 8.6%, accounting for 29.9% of the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 14.6% 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 July - September 2020, Denar 6,926 million was spent through the organizational code **Ministry of Finance – Functions of the State**¹, accounting for

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

12.1% compared to the third quarter in 2019. Block and earmarked grants to local government units surged by 16.2%, while subsidies and transfers were higher by 8.6%.

Interest-related expenditures decreased by 2.0% on annual basis, whereby domestic debt interest-related expenditures surged by 16.0% and expenditures related to interest on foreign debt dropped by 5.9%.

Capital expenditures, accounting for 2.4% of quarterly GDP, compared to the same quarter in 2019, were higher by 27.8%, i.e. they participated with 7.2% in the total expenditures.

11.9% of the annual Budget. Repayment of principal accounted for most of the expenditures or 53.8%, Denar 3,725 million being spent therefore, i.e. 44.9% of the funds projected for this purpose in 2020. As regards capital expenditures, they accounted for 22.0% of the total expenditures, Denar 1,523 million being spent therefore or accounting for 35.1% of the projected interest payments.

Ministry of Labour and Social Policy, in the third quarter of 2020, executed funds in the amount of Denar 13,647 million or 26.6% of its total budget for the current year. Thereby, most of the expenditures (71.4%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 9,740 million was

course of the fiscal year.



spent or 27.6% of the funds allocated for 2020. The second highest expenditure category was social benefits, participating with 21.2% in the total expenditures. As for this purpose, 25.3% (Denar 2,886 million) of the expenditures projected for 2020, were executed.

In the period July - September 2020, **Ministry of Education and Science** executed budget funds in the amount of Denar 5,719 million, i.e. 22.2% of its total 2020 budget. Current transfers to LGUs accounted for the most of the expenditures (69.9%), Denar 3,995 million being spent therefore or 24.6% of total projected funds. Wages and allowances were the second highest expenditure item, participating with 16.1%, Denar 922 million being spent therefore, i.e. 24.6% of the total funds projected for the current year.

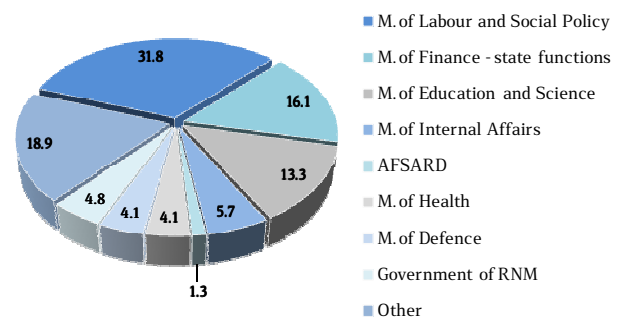
Government of the Republic of North Macedonia spent Denar 2,052 million, i.e. 10.8% of the funds projected for 2020. Thereby, subsidies and transfers amounted to Denar 1,834 million (10.5%), participating with 89.3% in the total expenditures.

During the analyzed period, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,436 million, accounting for 21.5% of its 2020 budget. Wages and allowances were the highest expenditure item, participating with 83.5%, Denar 2,033 million being spent therefore, or accounting for 25.2% of the projected ones. The second highest expenditure category was goods and services, participating with 13.2%, funds in the amount of Denar 321 million being

spent therefore, or accounting for 16.3% of the annual projections.

Agency for Financial Support in Agriculture and Rural Development spent funds in the amount of Denar 538 million, accounting for 6.0% of the funds projected for the current year. As for subsidies and transfers, accounting for 65.9% of the total expenditures, 4.9% of the projected funds or Denar 354 million were spent therefore. Second most important item were capital expenditures, accounting for 29.1% thereof, Denar 156 million being executed therefore, i.e. 9.3% of the projected ones.

Chart 3.2. Structure of expenditures by budget user for Q3 2020 (%)



Source: Ministry of Finance

In the second quarter of 2020, **Ministry of Defense** executed budget funds in the amount of Denar 1,745 million, i.e. 21.0% of its total 2020 budget. Wages and allowances accounted for the most with 58.3%, for which Denar 1,018 million was spent, accounting for 25.0% of the total funds projected for the current year. Expenditures related to goods and services accounted for 23.3% of the total expenditures, Denar 406 million being spent therefore during the analyzed



period, i.e. 20.1% execution of the total projected funds.

In the period July - September 2020, **Ministry of Health** executed budget funds in the amount of Denar 1,749 million, accounting for 22.9% of its total 2020 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 52.8%, for which Denar 924 million was spent or 23.2% of the funds projected for the current year. Goods and services were the second most important item, accounting for 41.6% of the total expenditures, whereby Denar 727 million (24.9% of the projected ones) were spent therefore. Higher amount of goods and services was, among the other, also related to the higher costs aimed at managing the health crisis.

In the period July - September, **Ministry of Transport and Communications** executed funds in the amount of Denar 462 million, i.e. 14.1% of its total budget for the current year. Capital expenditure execution accounted for 10.0% of the projected amount (Denar 245 million), participating with 53.1% in the total expenditures of this budget user. Subsidies and transfers accounted for 35.2% of total expenditures, whereby EUR 163 million was executed for this purpose, i.e. 29.4% of the projected ones.

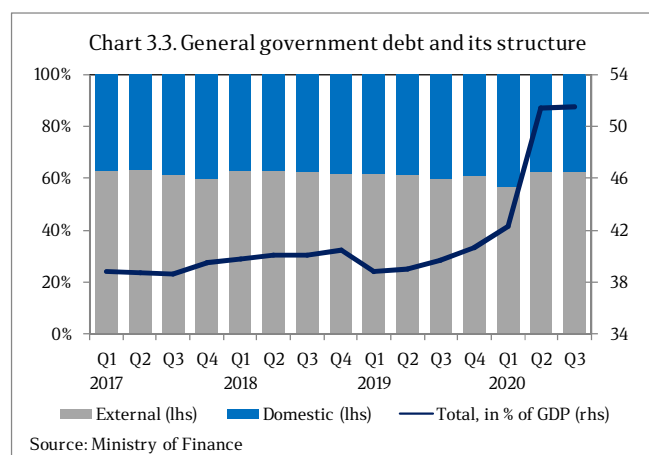
Detailed data on each budget user are presented in the statistical annex attached at the following link (<http://finance.gov.mk/mk/node/692>).

3.4. Budget deficit and government debt

In the third quarter of 2020, **consolidated budget deficit** amounted to Denar 9,923 million or 5.8% of GDP realized in this quarter, while central budget deficit amounted to Denar 10,646 million, i.e. 6.2% of quarterly GDP. Deficit was a result of the drop of revenues as a result of the economic crisis, accompanied by increased expenditures due to the undertaken measures.

Total **government debt** at the end of Q3 2020 accounted for 51.5% of GDP, increasing its share in GDP by 0.1 p.p. compared to Q2 2020. Share of external debt in the total government debt decreased by 0.1 p.p. compared to Q2 2020, accounting for 62.3%, while share of

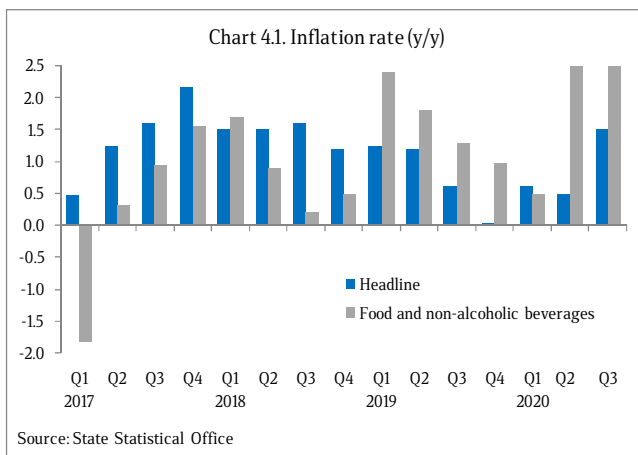
domestic debt increased respectively, accounting for 37.7% of the total government debt.





4. Inflation and Monetary Trends

Inflation rate, measured according to CPI index, in Q3 2020, amounted to 1.5% on annual basis, being higher by 1.0 p.p. compared to Q2 2020. Accelerated increase of prices in the third quarter was a result of the increase of prices of food and 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, as well as the increase of prices in many categories.



Increase of consumer prices in Q3 2020 was registered in the following categories: Alcoholic beverages, tobacco and narcotics by 4.4%, Miscellaneous goods and services by 3.3%, Food and non-alcoholic beverages and Housing, water, electricity, gas and other fuels by 3.1% each, Restaurants and Hotels by 2.3%, Health protection by 1.0%, Recreation and culture by 0.8%, Furnishings, household equipment and routine maintenance of the house by 0.7% and Education by 0.3%. Drop of prices was registered at the following categories: Transport by 6.9%

and Clothing and footwear by 1.0%. Prices at the category Communications remained the same.

During the third quarter² of 2020, the National Bank of the Republic of North Macedonia retained the **reference interest 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 Coronavirus spread, adversely affecting both the global and the national economy. Purpose of the reference interest rate reduction up to 1.5%, as well as the significant reduction of the offered amount of CB bills, contributed to further 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 amounted to 0.3% in September 2020 and, compared to the previous quarter, it remained unchanged.

Primary money³ in Q3 2020 dropped by 0.9% on quarterly basis (10.5% growth was registered in the previous quarter), amid reduced total liquidity of banks by 2.5% and increase of currency in circulation by

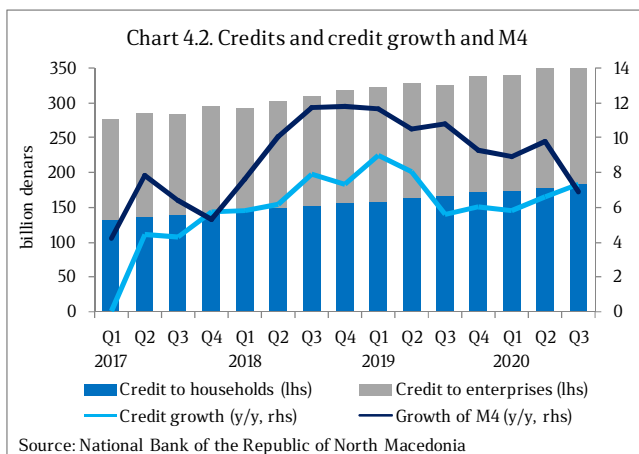
²Data from the monetary statistics, the statistics of other financial corporations and the statistics of interest rates are according to the new methodology.

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).



0.9%. Compared to Q3 2019, primary money surged by 11.1% (43.2% growth was registered in Q2 2020), as a result of the increase of both total liquidity of banks by 4.9% and currency in circulation by 18.6%.

In Q3 2020, the narrowest money supply M1⁴ experienced an increase of 2.8% compared to the previous quarter. Monetary aggregate M2 grew by 1.4%, while the widest monetary aggregate M4 remained unchanged on quarterly basis.



Total **deposit potential**⁵ of banks in Q3 2020 declined by 0.1% on quarterly basis, following the growth of 2.4% in the previous quarter. From the point of view of sectors, deposits of enterprises increased by 2.5%, while deposits of households declined by 0.7%. From currency point of view, compared to the previous quarter, Denar deposits decreased by 0.5%, while foreign currency

deposits grew by 0.7%. Level of euroization grew by 0.3 p.p. compared to the previous quarter, accounting for 40.0%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q3 2020 share of long-term deposits in total deposit potential decreased by 1.2 p.p. compared to the previous quarter, reaching 24.4% (accounting for 25.6% in Q2 2020). During the analyzed period, short-term deposits grew by 0.1%.

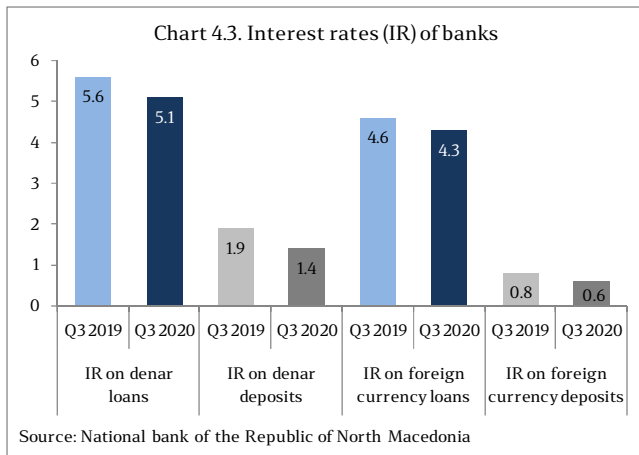
Credit activity of banks in Q3 2020 experienced insignificant change on quarterly basis (recording a growth of 2.6% in the previous quarter), in conditions of drop of credits to enterprises by 3.0%, while credits to households surged by 2.8%. From currency point of view, in Q3 2020, foreign currency credits picked up by 0.3%, while Denar credits experienced 0.1% drop compared to the previous quarter. From maturity point of view, in Q3 2020, long-term credits experienced a growth of 2.8%, while short-term credits dropped by 6.6%, compared to the previous quarter.

In Q3 2020, **interest rate**⁶ on Denar credits accounted for 5.12%, decreasing by 0.13 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.25% in Q3 2020, dropping by 0.08 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.11 p.p., accounting for 1.42% in Q3 2020 compared to the previous quarter, while interest rate

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.

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



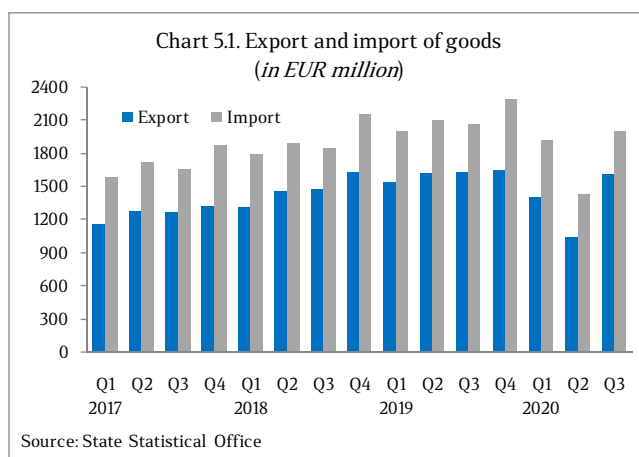
on foreign currency deposits decreased by 0.04 p.p. compared to the previous quarter, accounting for 0.58%.

In Q3 2020 interest rate on newly granted Denar credits accounted for 4.23%, while interest rate on newly approved foreign currency credits accounted for 3.56%. Interest rates on newly received Denar and foreign currency deposits accounted for 1.07% and 0.35%, respectively.

5. External Sector

5.1. Foreign trade

According to the data of the State Statistical Office, in Q3 2020, total foreign trade amounted to EUR 3,600.0 million, decreasing by 2.6% compared to the same quarter in 2019. This point out to more favourable trends in the foreign trade with abroad upon its double-digit drop in the second quarter (33.6%), as a result of the pandemic spread caused by Coronavirus.



Export of goods in Q3 2020 amounted to EUR 1,606.2 million decreasing by 1.4% compared to Q3 2019, indicating more favourable trends in the export of our

country upon its double-digit drop in the second quarter (35.7%). In Q3 2020, export of goods grew by 54.1% in relation to the previous quarter.

Analyzed **by sectors** of SITC (Standard International Trade Classification), in Q3 2020, drop of export on annual basis, was recorded at the following sectors:

- mineral fuels and lubricants by 48.5% (within which highest drop was seen at the category: petroleum and petroleum products declining by EUR 18.6 million or 69.8%);
- miscellaneous manufactured articles, by 9.3% (clothing by EUR 9.5 million or 9.0%; footwear by EUR 3.6 million or 32.2%);
- crude materials, inedible, except fuels by 14.7% (metalliferous ores and metal scrap by EUR 9.0 million or 14.3%);
- manufactured goods classified chiefly by material by 2.0% (manufactures of metals by EUR 4.7 million or 20.0%; iron



- and steel by EUR 4.5 million or 3.0%); and
- animal and vegetable oils by 38.8% (fixed vegetable fats and oils, crude, refined or fractioned by EUR 1.1 million or 41.6%).

Growth of export was seen at the following sectors:

- machinery and transport equipment by 3.4% (wherein the highest growth was seen at the categories: general industrial machinery and equipment by EUR 26.0 million or 14.5%; electrical machinery, apparatus and appliances by EUR 11.2 million or 4.9%);
- chemical products by 3.5% (chemical materials and products by EUR 20.9 million or 6.2%);
- beverages and tobacco by 4.7% (tobacco and tobacco manufactures by EUR 4.8 million or 10.7%) and
- food products by 3.4% (fruit and vegetables by EUR 4.4 million or 8.4%).

Observed by **economic purpose**, in Q3 2020, drop of export was recorded at all groups of products:

- fuels and lubricants by EUR 21.8 million or 48.5%;
- transport equipment by EUR 18.6 million or 8.2%;
- consumer goods by EUR 13.4 million or 7.1% and
- goods for industrial supplies by EUR 4.4 million or 0.6%.

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

- investment products without transport equipment by EUR 35.2 million or 13.8% and
- food and beverages by EUR 0.6 million or 0.5%.

Import of goods in Q3 2020 amounted to EUR 1,993.8 million, dropping by 3.5% compared to Q3 2019. In Q3 2020, import of goods grew by 39.7% compared to the previous quarter.

Analyzed by SITC **sectors**, decrease of import in Q3 2020, compared to Q3 2019, was seen at:

- mineral fuels and lubricants by 44.2% (within which highest drop was seen at the category: petroleum and petroleum products by EUR 87.0 million or 52.1%);
- food products by 7.5% (meat and meat preparations by EUR 6.0 million or 15.7%; cereals and cereal preparations by EUR 3.8 million or 13.7%);
- machinery and transport equipment by 1.0% (general industrial machinery and equipment by EUR 5.1 million or 7.8%; electrical machinery, apparatus and appliances by EUR 3.7 million or 2.0%);
- miscellaneous manufactured articles by 0.9% (footwear by EUR 1.8 million or 17.9%) and
- beverages and tobacco by 15.3% (beverages by EUR 1.6 million or 11.6%).

Increase of import was seen at the following sectors:

- chemical products by 11.7% (wherein highest growth was seen at the category: inorganic chemicals by EUR 51.3 million or 187.0%);



- o products classified chiefly by material by 0.9% (non-ferrous metals by EUR 26.1 million or 8.6%);
- o crude materials, except fuel by 3.8% (wood and cork by EUR 1.7 million or 21.4%; metalliferous ores and metal scrap by EUR 1.6 million or 4.3%) and
- o animal and vegetable oils by 13.7% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 1.7 million or 18.1%).
- o food and beverages by EUR 15.3 million or 8.3%;
- o consumer goods by EUR 0.7 million or 0.4% and
- o transport equipment by EUR 0.1 million or 0.1%.

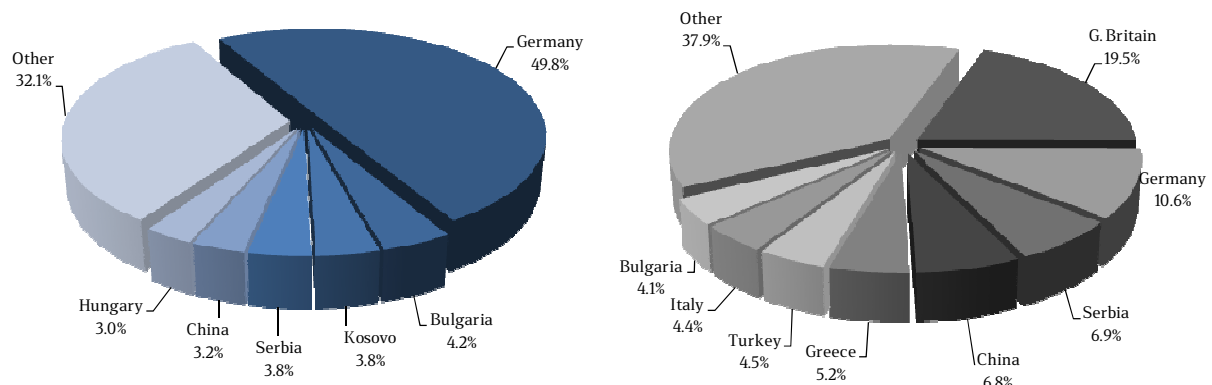
Growth of import was recorded at the following groups of products:

Observed by **economic purpose**, in Q3 2020, drop of import was recorded at the following groups of products:

- o fuels and lubricants by EUR 100.4 million or 45.6%;

- o investment products without transport equipment by EUR 3.4 million or 1.2% and
- o goods for industrial supplies by EUR 41.2 million or 3.9%;

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q3 2020



Source: MoF calculations based on SSO data

In Q3 2020, foreign trade of the Republic of North Macedonia with the European Union (EU 27⁷), in relation to Q3 2019, decreased by 16.9%, whereby share of trade with the EU in the total

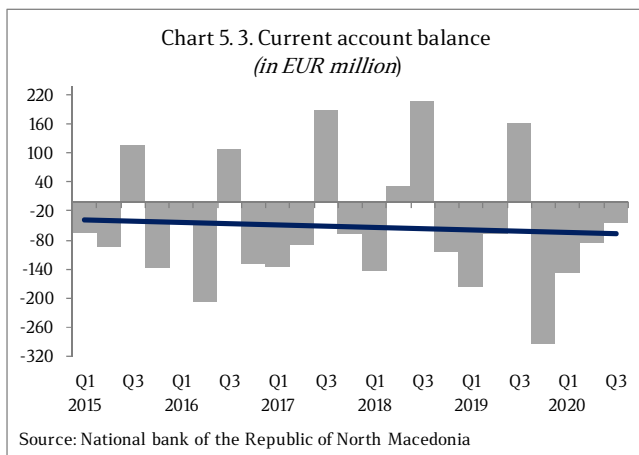
foreign trade decreased by 10.2 p.p. compared to the third quarter in 2019, accounting for 59.5%. Thereby, in Q3 2020 export of goods accounted for 77.8%, while share of import of goods was 44.7%.

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 43.3 million was recorded on the balance of payments **current account** in Q3 2020, accounting for 1.6% of quarterly GDP, as opposed to the surplus of 5.6% of GDP registered in the same quarter of 2019.



Analyzed on annual basis, the current account deficit in Q3 2020, compared to the surplus in the same quarter in the previous year was a result of the decrease of surplus on the secondary income account by 32.7% and the services account by 51.4%. Reduction of the deficit on the goods account by 7.7%, as well as the primary income account by 24.2% had the opposite effect.

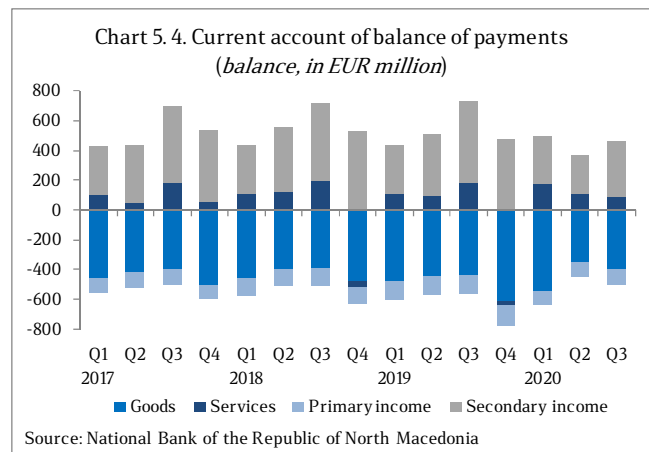
In Q3 2020, **trade deficit** dropped by EUR 33.8 million on annual basis, while trade deficit as a percentage of quarterly GDP narrowing by 0.7 p.p. on annual basis and accounting for 14.5%.

Surplus on **services account** amounted to EUR 84.7 million in Q3 2020 and, compared to the same quarter of 2019, it

declined by EUR 89.8 million. **Trade openness** of the Republic of North Macedonia in Q3 2020 accounted for 134.9% of quarterly GDP, being lower by 2.8 p.p. compared to Q3 2019.

Primary income account experienced EUR 98.7 million deficit in Q3 2020, reducing by EUR 31.5 million on annual basis.

Surplus on the **secondary income** account in Q3 2020 amounted to EUR 373.2 million, decreasing by EUR 180.9 million on annual basis. Drop was due to the reduction of private transfers by EUR 197.1 million, participating with 94.2% in the secondary income account. Official transfers increased by EUR 16.2 million, accounting for 5.8% in the secondary income account.

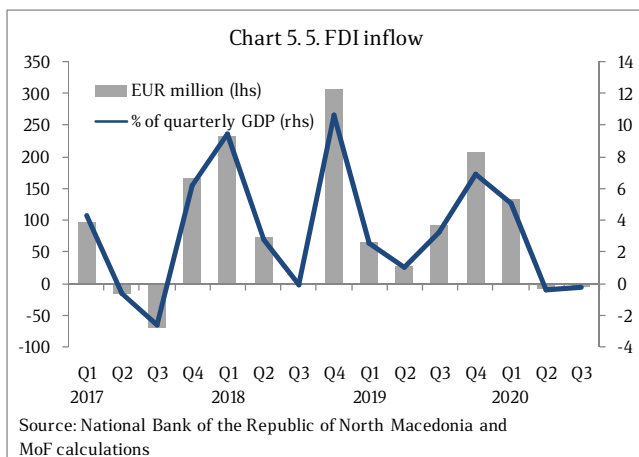


Balance on the **capital account** amounted to EUR 0.9 million in Q3 2020 and, compared to the same quarter of last year, it dropped by EUR 5.0 million, which was mainly due to the decreased inflow of capital transfers.



Foreign direct investments (FDIs) in the country in Q3 2020 were negative, amounting to EUR 5.4 million, mostly as a result of the reinvestment of earnings, where outflow of EUR 37.7 million was recorded, while on the basis of debt instruments, as well as equity, inflow of EUR 24.1 million and EUR 8.2 million, was recorded, respectively.

provided for 5.4-month coverage of import of goods and services in the previous 12-month period.



Portfolio investments in Q3 2020 amounted to EUR 77.5 million and, compared to the same quarter in 2019, they grew by EUR 4.9 million.

In Q3 2020, **other investments** amounted to EUR 34.5 million, being lower by EUR 11.0 million compared to the same quarter in the previous year. As regards the category other investments, currencies and deposits amounted to EUR 176.1 million, while accounts of the loans and trade credits and advance payments experienced a negative balance in the amount of EUR 83.4 million and EUR 57.4 million, respectively.

Reserve assets amounted to EUR 3.5 billion at the end of the third quarter in 2020, surging by 11.3% compared to Q3 2019. At the end of Q3 2020, reserve assets