



Q3-2019

QUARTERLY ECONOMIC REPORT

- third quarter 2019 -

Summary

- **Gross Domestic Product** in Q3 2019 compared to the same quarter in 2018 increased by 3.6% in real terms. Economic growth is broad based, amid positive performance at all activities;
- **Number of employed persons** in Q3 2019 increased by 5.3% compared to the same quarter in 2018. **Number of unemployed persons** dropped by 17.4%, which resulted in reduction of **unemployment rate** to 17.1% in Q3 2019;
- Average **gross wage** amounted to Denar 37,462 in Q3 2019, increasing by 5.3% in nominal terms, i.e. surging by 4.7% in real terms, compared to the gross wage in Q3 2018;
- Total **budget revenues** were higher by 11.0% in Q3 2019, while total **budget expenditures** surged by 7.6% compared to the same quarter in 2018;
- **Inflation rate** was 0.6% in Q3 2019 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 2.1% in Q3 2019 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q3 2019 declined by 0.5% on quarterly basis;
- In Q3 2019, increase of both **export of goods** by 11.5% and **import of goods** by 11.9% was registered on annual basis, whereby total **foreign trade**, expressed in euros, surged by 11.7%;



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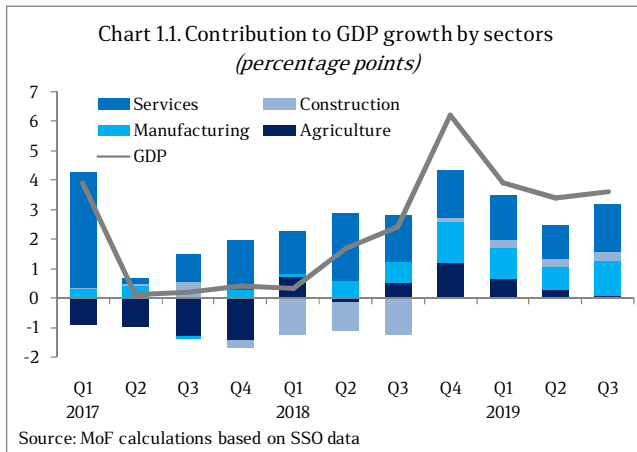
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1. Economic Activity

Gross Domestic Product (GDP) in Q3 2019, compared to the same quarter in 2018, increased by 3.6% in real terms, by which the total growth in the first three quarters in 2019 was kept at 3.6% (Chart 1.1)¹.

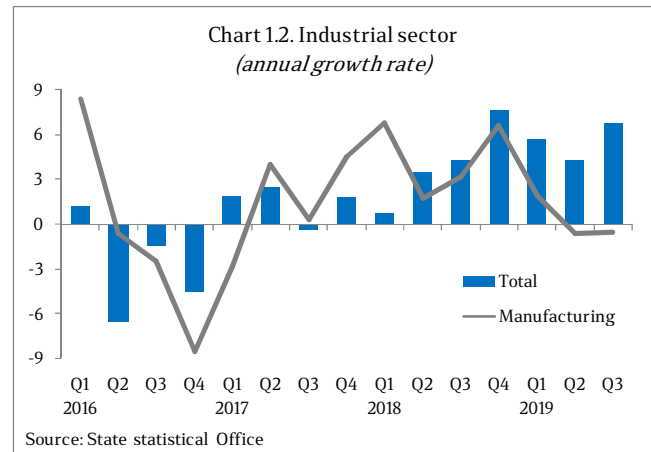
Analyzed by activity, economic growth in Q3 2019 was a result of the positive performance at all activities. Economic growth structure by production method is presented in Chart 1.1.



Growth in the **industrial sector** continued with intensified dynamics in Q3 2019, amounting to 6.8% in real terms, despite the slight drop in Manufacturing by 0.5% (Chart 1.2).

Based on the monthly data on industrial production, Manufacturing experienced 3.0% growth on annual basis in Q3 2019. Mining and Electricity supply had also

positive contribution to the industrial production growth. Growth in **Manufacturing** was mostly a result of increased production of tobacco products, motor vehicles, electrical equipment, fabricated metal products and beverages. On the other hand, manufacture of wearing apparel, base metals and leather and related products had the most negative contribution thereto.



Favourable trends in the **construction sector** continued in Q3 2019, i.e. it experienced 5.5% growth in real terms. According to the monthly data for completed construction works, such performance was a result of the growth of construction activity as regards buildings, while civil engineering construction works experienced drop.

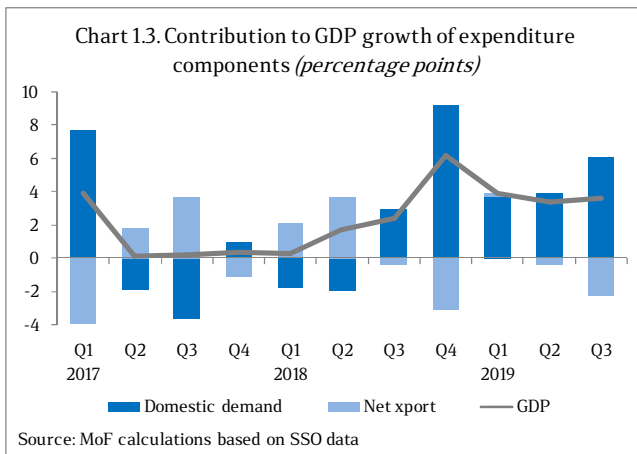
Services sector experienced 2.9% growth in Q3 2019, being mostly a result of the increased activity in Trade, transportation and accommodation and food services by 4.9%, followed by: Professional, scientific, technical and administrative activities by 4.5%, Real estate activities by 2.4%,

¹ At the same time, State Statistical Office revised upward the real GDP growth for the second quarter to 3.4% from the previous 3.1%, while it revised downward for the first quarter to 3.9% from the previous 4.1%. Revisions were also made at the quarterly rates for 2017 and 2018, in line with the revision of the annual rates for the respective years.



Information and communication by 2.2%, Public administration, defense, education and health activities by 1.2%, Arts, entertainment, recreation and other services by 1% and Financial and insurance activities by 0.4%.

Agricultural activity in Q3 2019 grew by 0.8% in real terms, following the high growth of around 6.5% in the previous two quarters.



Analyzed according to the **expenditure side of GDP**, economic activity growth in Q3 2019 was a result of the growth of domestic demand, stemming from both consumption and gross investment growth, while net export had a negative contribution to the economic growth, amid higher growth of imports than export. Economic growth structure by

expenditure method is presented in Chart 1.3.

Real growth of **gross investments** continued with more intensified dynamics in Q3 2019, amounting to 14.9%, being a result of growth of investments in construction works, as well as investments in machinery and equipment amid growth of import of investment goods.

Consumption surged by 2.8% in real terms, mostly as a result of the **private consumption**, which surged by 3.0%, being largely a result of the household income growth, amid employment gains and increase of wages in the economy, also underpinned by the increased crediting to households. **Public consumption** grew by 2.0% in real terms.

Growth of **export** of goods and services amounted to 8.3% in real terms, mostly as a result of export by the capacities in the free economic zones, i.e. export of machinery, transport equipment and chemical products, also supported by the sound performance of some of the other export segments, such as food and metal industries. **Import** of goods and services increased by 10.7% in real terms, driven by import of intermediary and capital goods, amid growth of investments and export.

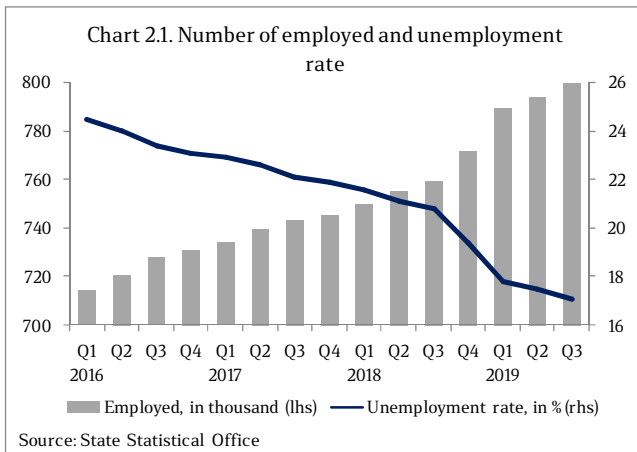
2. Labour Market

Positive trends on the labour market continued in Q3 2019, thus, according to the Labour Force Survey, **number of employed persons** was higher by 5.3%, i.e.

by 40.1 thousand persons compared to the same quarter in 2018, whereby employment gains were registered in the services sector (33.1 thousand or 8.4%),



followed by the construction sector (4.5 thousand or 8.4%) and the industrial sector (7.9 thousand or 4.3%). Employment in agriculture sector dropped by 4.5 thousand persons or 3.8%.



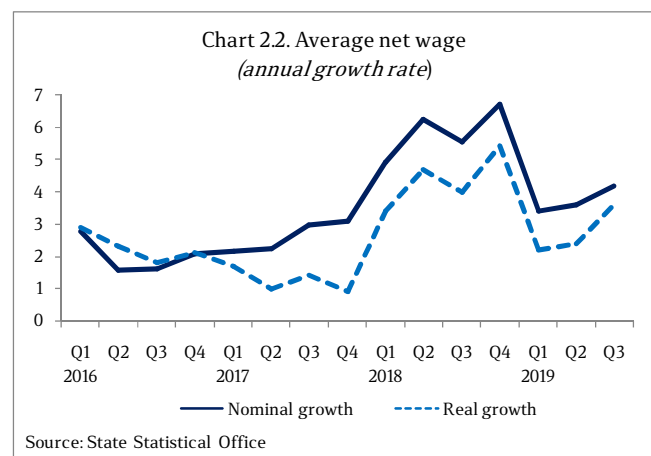
Analyzed according to the economic status, employment growth was registered in employed persons (wage earners) by 46.0 thousand or 8.0% and employers by 598 or 1.9%, while drop was seen in the number of self-employed by 5.6 thousand or 5.3%, and the number of family workers by 924 thousand or 2.1%. **Employment rate** in Q3 2019 amounted to 47.4%, being higher by 2.3 p.p. compared to the same quarter in 2018.

Employment growth was coupled with a decrease in the **number of unemployed persons**, decreasing by around 34.6 thousand persons, i.e. by 17.4% compared to the same quarter in 2018. Such trends caused for the **unemployment rate** in Q3 2019 to reduce to 17.1%, i.e. by 3.7 p.p. compared to the same quarter in 2018, being lower by 0.4 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment decreased at all groups compared to Q3

2018, whereby the most significant reduction was seen at the age group 50-64 years, accounting for 27.5%, while significant drop of 25.6% was also registered at the age group 15-24 years. Observed by gender, unemployment rate was reduced among the male population (by 5.6 p.p.), accounting for 15.4%, being lower by 4.1 p.p. compared to unemployment of women, which dropped by 1.0 p.p., accounting for 19.5%.

Number of active population increased by 5.5 thousand, persons i.e. by 0.6% on annual basis. Active population in Q3 2019 accounted for 57.2% of the total working age population, being higher by 0.2 p.p. compared to the same quarter in 2018.



Average monthly **net wage** amounted to Denar 25,221 in Q3 2019, being higher by 4.2% in nominal terms and by 3.6% in real terms compared to the same quarter in 2018. Average monthly **gross wage** amounted to Denar 37,462 in Q3 2019, increasing by 5.3% in nominal terms, i.e. surging by 4.7% in real terms (Chart 2.2).

Labour productivity in Q3 2019 decreased by 1.6%, as a result of the higher growth of employment than the production growth.



3. Public Finances

3.1. Budget revenues according to the economic classification

In Q3 2019, share of total budget revenues accounted for 29.2% of the quarterly GDP, being higher by 11.0% compared to the same quarter in 2018, due to the higher collection of tax revenues by 10.5%, social contributions by 11.1%, as well as higher performance of non-tax revenues by 20.6%. Thereby, as for tax revenues, higher collection was recorded at value added tax, personal income tax, excise duties, revenues on the basis of customs duties and revenues on the basis of other taxes, while revenues on the basis of profit tax decreased.

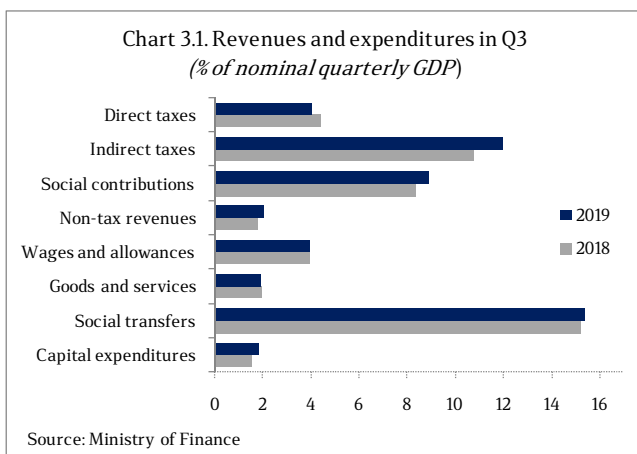
the basis of indirect taxes was higher by 1.2 p.p. compared to Q3 2018, accounting for 12.0% of GDP in Q3 2019.

With respect to **indirect taxes**, VAT revenues predominated, accounting for 46.3% of total tax revenues in Q3 2019, being higher by 23.2% compared to the same quarter of last year. As for VAT structure, VAT share was the biggest when importing, followed by VAT collected on the basis of sales in the country. Excise revenues were higher by 4.0% compared to the same quarter of 2018.

As for **direct taxes**, collection of revenues on the basis of personal income tax increased by 11.4%, while profit tax revenues declined by 22.8% compared to the same quarter of the previous year, as a result of the lower collection on the basis of monthly advance payments.

Collection of **social contributions** was higher by 11.1%, whereby higher collection was recorded at all contributions, i.e. pension and disability insurance by 11.5%, health insurance contributions by 10.5%, and employment contributions by 9.3%.

Collection of **non-tax revenues**, accounting for 2.1% of the quarterly GDP, was higher by 20.6% in Q3 2019 compared to the same quarter of 2018.



In Q3 2019, collection of indirect taxes was higher by 15.9%, while collection of direct taxes decreased by 3.9% compared to Q3 2018. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes dropped by 0.4 p.p., i.e. from 4.4% of quarterly GDP in Q3 2018 to 4.0% in Q3 2019, while share of revenues on



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 higher by 0.4% on annual basis in Q3 2019. Revenues on the basis of **foreign donations** picked up by 17.2%.

3.2. Revenues by budget users

Budget revenues, i.e. inflows to the Central Budget, are generated mainly through the **Ministry of Finance – Functions of the State**², which amounted to Denar 36,680 million in Q3 2019, i.e. 91.6% of the revenues of all budget users, accounting for 23.0% of the annual projections of this budget user. Within this unit, tax revenues accounted for the most – 79.8% of total revenues and inflows to this budget user, whereby their collection reached 24.6% of the annual projections in Q3 2019. Funds on the basis of domestic borrowing amounted to Denar 4,657 million, accounting for 12.7% of the total amount of this budget user.

inflows of all budget users, most of which were non-tax revenues, collected mainly on the basis of fees and charges.

Ministry of Transport and Communications collected revenues in the amount of Denar 539 million, or 1.3% of the revenues and inflows of all budget users. The remaining budget users collectively generated revenues, accounting for 5.0% of total revenues and inflows. Detailed data on each budget user are presented in the statistical annex attached at the following link (<https://finance.gov.mk/en/node/5618>).

Next budget user, having the highest revenues and inflows, is the **Ministry of Education and Science** that collected revenues in the amount of Denar 837 million, i.e. 2.1% of the revenues and

As for **budget funds**, Pension and Disability Insurance Fund of North Macedonia collected the most revenues, amounting to Denar 17,744 million in Q3 2019, accounting for 24.2% of the Fund's annual projections.

² As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities (interest and principal repayment) of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of North Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds for financing unforeseen costs in the course of the fiscal year.



3.3. Budget expenditures according to the economic classification

In Q3 2019, total budget expenditures, accounting for 29.8% of the quarterly GDP, were higher by 7.6% compared to the same quarter of 2018.

Current expenditures, accounting for 27.9% of the quarterly GDP, participated with 93.7% in the total expenditures and experienced 6.5% higher execution on annual basis. As for current expenditures, expenditures for goods and services were higher by 3.6%, while expenditures related to wages and allowances were higher by 4.6% compared to the same quarter in 2018.

Funds for transfers, which participated with 66.8% in the total expenditures, were higher by 7.8% on annual basis. Social transfers surged by 5.5%, accounting for 51.5% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by

5.5%, accounting for 31.0% 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 17.2% compared to the third quarter in 2018. Block and earmarked grants to local government units surged by 6.4%, while subsidies and transfers were higher by 39.8%.

Interest-related expenditures grew by 1.1% on annual basis, whereby domestic debt interest-related expenditures surged by 8.5% and expenditures related to interest on foreign debt declined by 0.4%.

Capital expenditures accounting for 1.9% of quarterly GDP, compared to the same quarter in 2018, were higher by 27.1%, i.e. they participated with 6.3% in the total expenditures.

3.4. Expenditures by budget users

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

Ministry of Labour and Social Policy, in Q3 2019, executed funds in the amount of Denar 10,678 million or 24.0% of its total budget for the current year. Thereby, most

of the expenditures (68.5%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 7,311 million was spent or 24.0% of the funds allocated for 2019. The second highest expenditure category was social benefits, participating with 22.6% in the total expenditures. As for this purpose, 25.0% (Denar 2,412 million) of the expenditures projected for 2019 were executed.

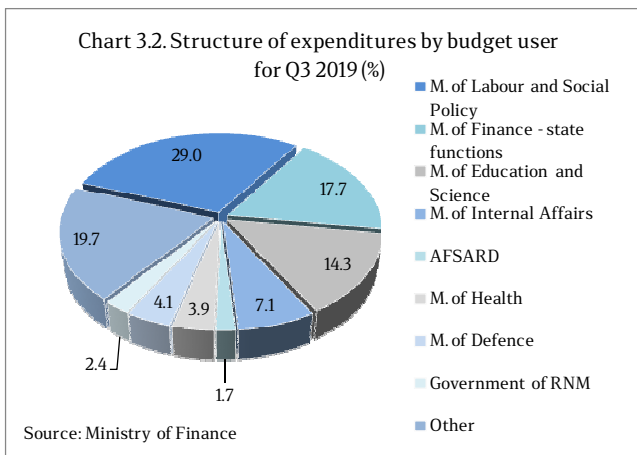
³ Data are not consolidated, also including the outflows.



In the third quarter of 2019, Denar 6,505 million was spent through the organizational code **Ministry of Finance - Functions of the State**⁴, accounting for 20.5% of its annual budget. Repayment of principal accounted for most of the expenditures or 58.4%, Denar 3,798 million being spent therefore, i.e. 46.1% of the funds projected for this purpose in 2019. Repayment of principal accounted for 18.5% of the total expenditures, Denar 1,206 billion being spent therefore or 7.5% of the projected funds.

amount of Denar 5,241 million, i.e. 20.6% of its total 2019 budget. Current transfers to LGUs accounted for the most of the expenditures (65.4%), Denar 3,430 million being spent therefore or 23.7% of total projected funds. Wages and allowances were the second highest expenditure item, participating with 16.4%, Denar 857 million being spent therefore, i.e. 23.8% of the total funds projected for the current year.

In the third quarter of 2019, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,627 million, accounting for 23.5% of its 2019 budget. Wages and allowances were the highest expenditure item, participating with 74.1%, Denar 1,946 million being spent therefore, or accounting for 24.8% of the projected ones. The second highest expenditure item was goods and services, participating with 16.4%, funds in the amount of Denar 430 million being spent therefore, or accounting for 21.1% of the annual projections.



In Q3 2019, **Ministry of Education and Science** executed budget funds in the

Ministry of Defense, in Q3 2019, spent budget funds in the amount of Denar 1,513 million, i.e. 18.2% of its total 2019 budget. Wages and allowances accounted for the most with 63.1%, for which Denar 955 million was spent, accounting for 24.3% of the total funds projected for the current year. Expenditures related to goods and services accounted for 20.3% of the total expenditures, Denar 307 million being spent therefore during the analyzed period, i.e. 16.5% execution of the total projected funds.

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

⁴ As regards the Organizational Code "Functions of the State", the following activities are included: timely servicing of liabilities (interest and principal repayment) of the state on the basis of domestic and foreign borrowing; regular payment of operating costs of the state upon prior submitted payment documentation; share in the capital of international financial institutions; payment of VAT on the basis of capital investments funded by donations, financing projects by individual IPA components (national co-financing and IPA funds from the EU). In addition, this organizational code, pursuant to the Law on Budgets of the Republic of North Macedonia and the Law on Budget Execution, envisages funds allocated for covering the damages caused by natural disasters and funds for financing unforeseen costs in the course of the fiscal year.



Denar 1,421 million, accounting for 22.4% of its total 2019 budget. Current transfers to extra-budgetary funds accounted for the most of the expenditures with 50.6%, for which Denar 719 million was spent or 23.5% of the funds projected for the current year. Expenditures related to goods and services were the second highest expenditure item, accounting for 40.0% of the total expenditures, funds in the amount of Denar 569 million being executed therefore in the analyzed period, i.e. 22.8% of total projected ones.

Government of the Republic of North Macedonia, in the third quarter of 2019, spent funds in the amount of Denar 889 million, accounting for 15.0% of the total

budget for the current year. Expenditures related to subsidies and transfers accounted for 69.4% in the total budget of this user, Denar 617 million being spent therefore, i.e. 22.8% of the projected ones.

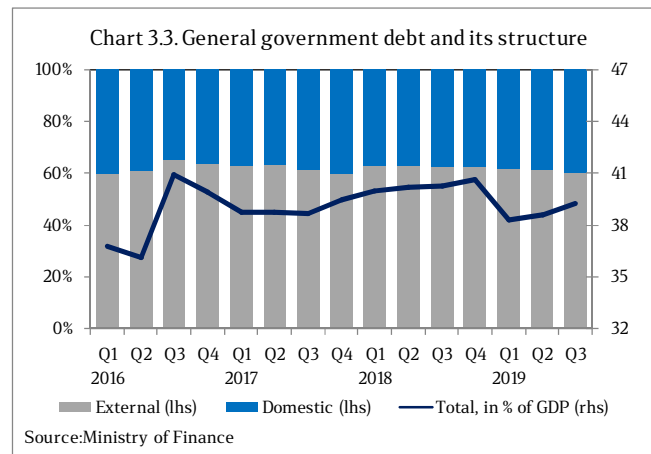
In Q3 2019, **Agency for Financial Support in Agriculture and Rural Development** executed expenditures in the amount of Denar 640 million, accounting for 7.7% of the funds projected for the current year. As for subsidies and transfers, accounting for 72.1% of the total expenditures, Denar 462 million was spent therefore.

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

3.5. Budget deficit and government debt

In the third quarter of 2019, the **consolidated budget deficit** amounted to Denar 1,098 million or 0.6% of GDP realized in this quarter, while central budget deficit amounted to Denar 746 million, i.e. 0.4% of quarterly GDP.

Total **government debt** at the end of Q3 2019 accounted for 39.2% of GDP, increasing by 0.64. p.p. compared to Q2 2019. Share of external debt in the total government debt decreased by 1.0 p.p. compared to Q2 2019, accounting for 60.1%.



Share of domestic debt respectively grew by 1.0 p.p., accounting for 39.9% of the total government debt.

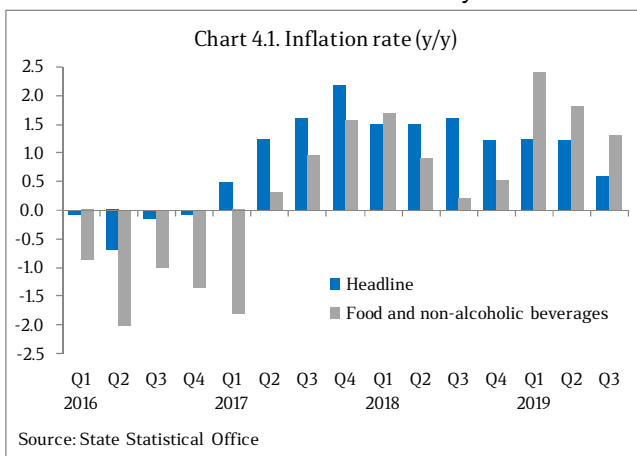
4. Inflation and Monetary Trends

Inflation rate, measured according to CPI index, in Q3 2019, amounted to 0.6% on

annual basis, being lower by 0.6 p.p. compared to Q2 2019.



Growth of consumer prices in Q3 2019 was a result of the higher prices in the following categories: Alcoholic beverages, tobacco and narcotics by 4.8%, Health by 3.1%, Recreation and culture by 1.5%, Food and non-alcoholic beverages by 1.3%, Furnishings, household equipment and routine maintenance of the house by 1.2% and Restaurants and hotels by 0.5%.



Price decline in Q3 2019 was recorded at the following categories: Clothing and footwear by 1.9%, Communication by 1.8%, Transport by 1.4%, Education by 0.5%, Miscellaneous goods and services by 0.3% and Housing, water, electricity, gas and other fuels by 0.2%.

In the third quarter⁵ of 2019, NBRNM kept the **reference interest rate** at 2.25%, after reducing it by 0.25 p.p. in Q1 2019, as a result of the continuous favourable trends on the forex market, indicating absence of pressures in the external sector and stable perceptions of domestic entities, as well as absence of price pressures. Interest rate on available 7-day deposits amounted to

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

0.3% in September 2019 and, compared to the previous quarter, it remained unchanged.

In Q3 2019, **primary money**⁶ increased by 27.8% on quarterly basis (6.7% growth was recorded in the previous quarter) as a result of the increase of both total liquidity of banks by 59.0% and currency in circulation by 3.1%. Compared to Q3 2018, primary money surged by 38.1% (10.1% growth was registered in Q2 2019), as a result of the increase of total liquidity of banks by 70.7% and currency in circulation by 12.1%.

In Q3 2019, the narrowest money supply M1⁷ experienced 5.8% increase compared to the previous quarter. Monetary aggregate M2 surged by 3.0%, while the widest monetary aggregate M4 increased by 2.7%.

Total **deposit potential**⁸ of banks in Q3 2019 grew by 2.1% on quarterly basis, following the 2.3% growth in the previous quarter. Analyzed by sectors, deposits of enterprises increased by 5.5%, while deposits of households grew by 1.7%. From currency point of view, compared to the previous quarter, Denar deposits grew by 2.4%, while foreign currency deposits

⁶ It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the excess of liquid assets over the reserve requirement (in denars).

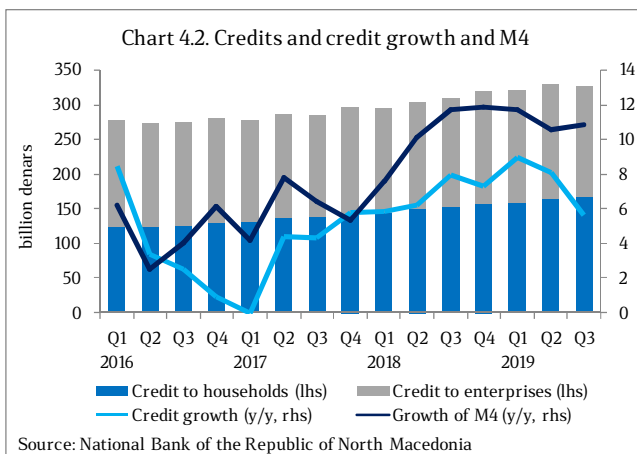
⁷ Monetary aggregate M1 comprises currency in circulation and deposit money. Monetary aggregate M2 comprises monetary aggregate M1 and short-term deposits, while monetary aggregate M4 includes monetary aggregate M2 and long-term deposits.

⁸ Deposits also include calculated interest.

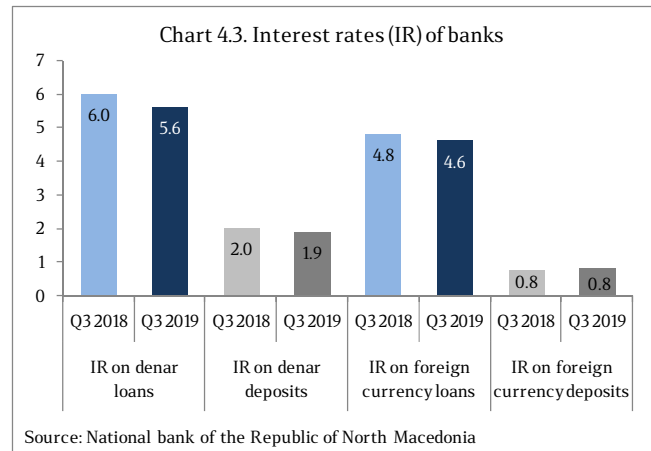


surged by 1.5%. Level of euroization dropped by 0.2 p.p. compared to the previous quarter, accounting for 39.5%, measured through the share of foreign currency deposits in the total deposit potential.

As regards maturity, in Q3 2019, share of long-term deposits in total deposit potential decreased by 0.1 p.p. compared to the previous quarter, reaching 27.7% (accounting for 27.8% in Q2 2019). During the analyzed period, short-term deposits grew by 0.4%.



Credit activity of banks to non-government sector in Q3 2019 declined by 0.5% on quarterly basis (compared to 1.8% growth in the previous quarter), in conditions of growth of credits to households by 2.2%, while credits to enterprises dropped by 3.1%. From currency point of view, in Q3 2019, Denar credits dropped by 1.4%, while foreign currency credits registered 0.7% growth, compared to the previous quarter. From maturity point of view, in Q3 2019, long-term credits experienced 1.6% growth, while short-term credits dropped by 5.1%, compared to the previous quarter.



In Q3 2019, **interest rate**⁹ on Denar credits amounted to 5.58%, decreasing by 0.09 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.58% in Q3 2019, dropping by 0.07 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.07 p.p., compared to the previous month amounting to 1.87% in Q3 2019, while interest rate on foreign currency deposits decreased by 0.01 p.p. compared to the previous quarter, amounting to 0.79%. In Q3 2019, interest rate on newly granted Denar credits amounted to 4.9%, while interest rate on newly approved foreign currency credits accounted for 4.0%. Interest rates on newly received Denar and foreign currency deposits amounted to 1.5% and 0.7%, respectively.

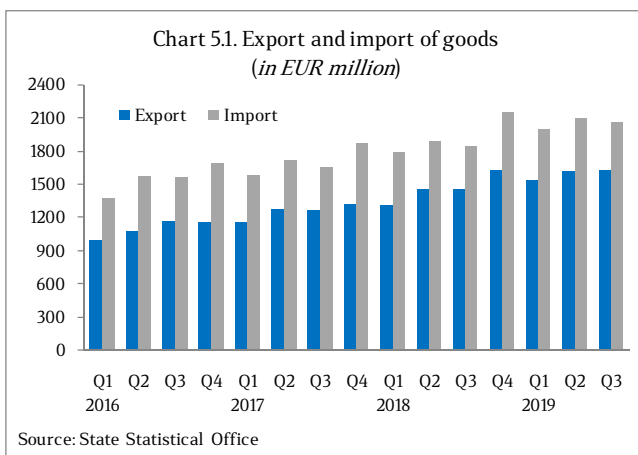
⁹ Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.



5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 3,695.8 million in Q3 2019, surging by 11.7% compared to the same quarter in 2018.



In Q3 2019, **export of goods** amounted to EUR 1,631.2 million, whereby, compared to Q3 2018, it surged by 11.5%, while compared to the previous quarter, it increased by 0.5%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive trends in the export in Q3 2019, compared to the same quarter in 2018, were registered at all sectors:

- machinery and transport equipment by 16.8% (wherein the highest growth was seen at the categories: electrical machinery, apparatus and appliances by EUR 40.5 million or 21.4%; industrial machines and spare parts by EUR 24.0 million or 15.4%);

- chemical products, by 9.7% (chemical materials and products by EUR 21.3 million or 6.7%);
- miscellaneous manufactured articles by 7.7% (furniture and parts thereof, bedding, mattresses, cushions and similar articles by EUR 17.1 million or 33.0%);
- food products by 10.2% (fruit and vegetables by EUR 5.6 million or 12.1%; dairy products and eggs by EUR 2.5 million or 66.1%);
- crude materials, except fuel, by 10.9% (metalliferous ore and metal scrap by EUR 5.6 million or 9.8%);
- beverages and tobacco by 7.9% (beverages by EUR 5.0 million or 34.8%);
- manufactured goods classified chiefly by material by 3.7% (iron and steel by EUR 4.3 million or 3.0%; non-metallic mineral manufactures by EUR 3.5 million or 23.0%) and
- animal and vegetable oils by 25.9% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.5 million or 25.4%).

Observed by **economic purpose**, in Q3 2019, increase of export was recorded at the following groups of products:

- goods for industrial supplies by EUR 76.2 million or 10.6%;
- investment products without transport equipment by EUR 41.9 million or 19.6%;
- transport equipment by EUR 24.8 million or 12.3%;



- o food and beverages by EUR 14.3 million or 13.7%, and
- o fuels and lubricants by EUR 14.2 million or 46.0%.

Decline of export was seen only at consumer goods by EUR 3.3 million or 1.7%.

Import of goods in Q3 2019 amounted to EUR 2,064.7 million, growing by 11.9% compared to Q3 2018, while in relation to the previous quarter, it dropped by 1.5%.

Analyzed by **SITC sectors**, increase of import in Q3 2019, compared to Q3 2018, was seen at:

- o manufactured goods classified chiefly by material by 15.6% (wherein the highest growth was seen at the following categories: non-ferrous metals by EUR 61.8 million or 25.6%; non-metallic mineral manufactures by EUR 16.0 million or 14.2%);
- o machinery and transport equipment by 12.9% (electrical machines, devices and spare parts by EUR 18.5 million or 11.0%; road vehicles by EUR 10.7 million or 13.3%);
- o chemical products by 11.7% (inorganic chemical products by EUR 12.8 million or 86.9%; plastics in primary forms by EUR 4.7 million or 20.0%);
- o mineral fuels and lubricants by 3.1% (natural and manufactured gas by EUR 8.3 million or 43.3%; petroleum and petroleum products by EUR 4.9 million or 3.0%);
- o miscellaneous manufactured articles by 15.2% (furniture and parts thereof, bedding, mattresses, cushions and similar articles by EUR 7.3 million or

4.6%; clothing by EUR 3.9 million or 18.6%);

- o food products by 9.1% (cereals and cereal preparations by EUR 6.0 million or 28.0%; dairy products and eggs by EUR 3.4 million or 22.7%), and
- o crude materials, except fuel, by 5.2% (metalliferous ore and metal scrap by EUR 3.8 million or 11.2%).

Decline of import was seen at the following:

- o beverages and tobacco by 2.8% (as a result of the reduced import of tobacco and tobacco manufactures by EUR 2.6 million or 29.1%) and
- o animal and vegetable oils by 8.9% (fixed vegetable fats and oils, crude, refined or fractioned by EUR 1.0 million or 9.6%).

Observed by **economic purpose**, in Q3 2019, increase of import was recorded at all groups of products, as follows:

- o goods for industrial supplies picking up by EUR 131.4 million or 14.3%;
- o investment products without transport equipment by EUR 37.9 million or 15.1%;
- o food and beverages increasing by EUR 14.8 million or 8.8%;
- o transport equipment by EUR 14.3 million or 13.7%;
- o consumer goods by EUR 12.2 million or 6.5%, and
- o fuels and lubricants increasing by EUR 8.4 million or 4.0%.

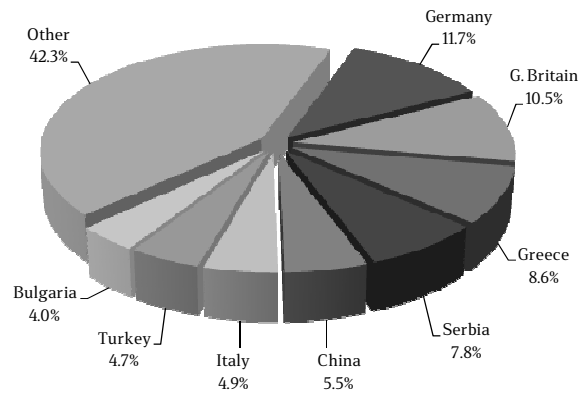
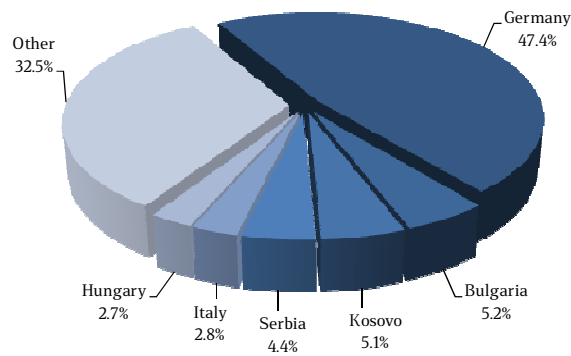
In Q3 2019, foreign trade of the Republic of North Macedonia with the European Union (EU 28), in relation to Q3 2018, surged by 10.9%, whereby share of trade with the EU in the total foreign trade



remained unchanged compared to the third quarter in 2018, accounting for 69.7%. Thereby, in Q3 2019, export of goods

accounted for 79.0%, while share of import of goods was 62.4%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q3 2019

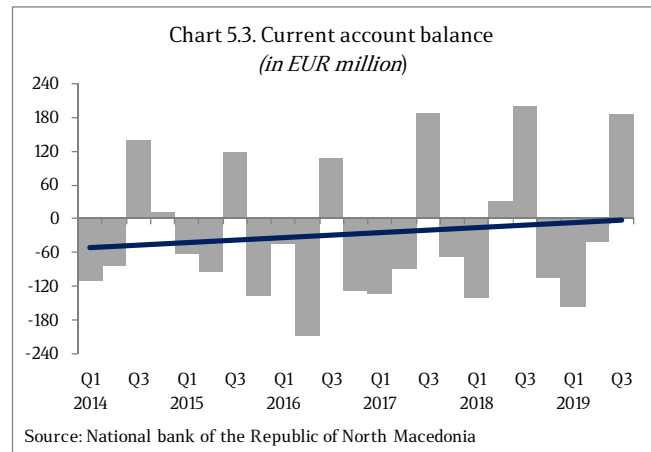


Source: MoF calculations based on SSO data

5.2. Balance of Payments

According to the data from the National Bank of the Republic of North Macedonia, surplus in the amount of EUR 184.0 million was recorded on the balance of payments **current account** in Q3 2019, accounting for 6.5% of quarterly GDP, as opposed to the surplus of 7.3% of GDP registered in the same quarter in 2018.

Analyzed on annual basis, the current account surplus in Q3 2019 decreased by EUR 15.9 million, i.e. by 8.0%, as a result of the widening of the goods account deficit by 9.4%, as well as the reduction of the positive balance on the services account by 3.8%. Reduction of the deficit on the primary income account by 1.8%, as well as the increase of the surplus on the



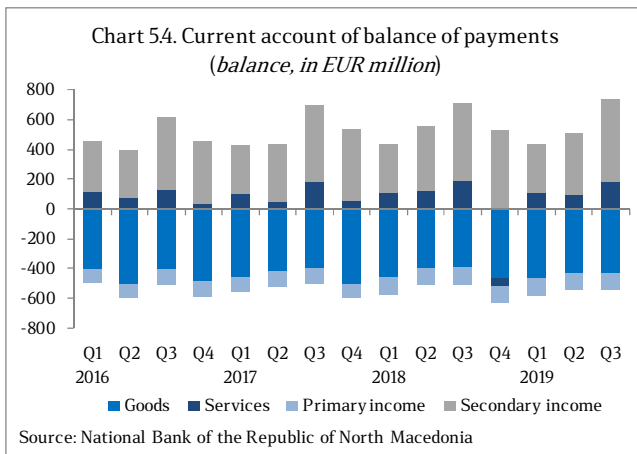
Source: National bank of the Republic of North Macedonia

secondary income account by 5.0%, had the opposite effect.

In Q3 2019, **trade deficit** increased by EUR 37.2 million on annual basis, widening by 0.7 p.p., i.e. accounting for 15.2% of quarterly GDP.



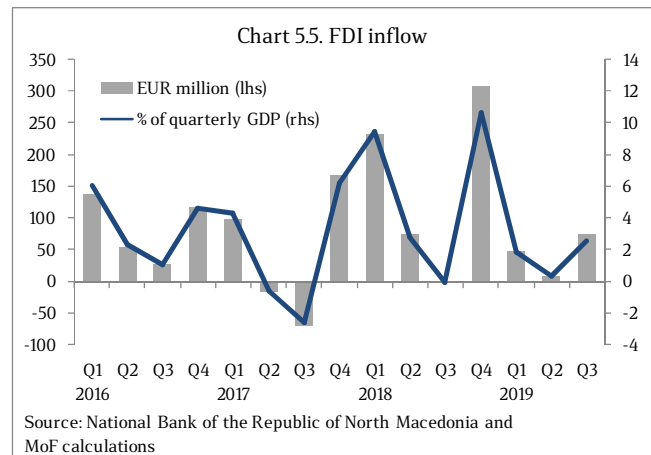
Surplus on **services account** amounted to EUR 180.0 million in Q3 2019, and compared to the same quarter of 2018, it declined by EUR 7.1 million. **Trade openness** of the Republic of North Macedonia in Q3 2019 amounted to 139.2% of quarterly GDP, being higher by 7.5 p.p. compared to Q3 2018.



Primary income account experienced EUR 115.5 million deficit in Q3 2019, narrowing by EUR 2.2 million on annual basis.

Surplus on the **secondary income** account amounted to EUR 552.1 million in Q3 2019, picking up by EUR 26.2 million on annual basis. Increase was a result of the increase of private transfers by EUR 32.2 million, participating with 99.3% in the secondary income account, while official transfers decreased by EUR 6.0 million.

Balance on the **capital account** amounted to EUR 5.9 million in Q3 2019 and, compared to the same quarter of last year, it grew by EUR 4.7 million, which is fully due to the increased inflow of capital transfers.



Foreign direct investments (FDIs) in the country amounted to EUR 73.6 million in Q3 2019, unlike in Q3 2018, when they were negative, amounting to EUR 2.1 million. Such increase was a result of the inflows on the basis of debt instruments (EUR 39.2 million) and equity (EUR 35.5 million).

Portfolio investments in Q3 2019 amounted to EUR 72.2 million and, compared to the same quarter in 2018, they increased by EUR 37.3 million. In Q3 2019, **Other investments** amounted to EUR 33.0 million, being lower by EUR 40.9 million compared to the same quarter in 2018. Within this category, currencies and deposits amounted to EUR 98.8 million, trade credits and advances amounted to EUR 41.0 million, while loans account experienced a negative balance in the amount of EUR 54.3 million.

Reserve assets amounted to EUR 3.1 billion at the end of the third quarter in 2019, surging by 15.4% compared to Q3 2018. At the end of Q3 2019, reserve assets provided for 4.4-month coverage of import of goods and services in the previous 12-month period.