



Q2-2020

QUARTERLY ECONOMIC REPORT

- second quarter 2020 -

Summary

- In Q2 2020, **drop of domestic economic activity** of 12.7% was recorded, reflecting the containment measures aimed at preventing the spread of Corona virus in the country, as well as the drop of production in the industrial capacities, as a result of the deteriorated international economic environment;
- **Number of employed persons** in Q2 2020 was almost unchanged compared to the same quarter in 2019. Downward trend in **unemployment rate** was interrupted in Q2 2020 and it amounted to 16.7%;
- Average **net wage** amounted to Denar 26,362 in Q2 2020, recording nominal growth of 5.1% and real growth of 4.1% on annual basis, which was a slowdown in the growth compared to the previous quarter;
- Total **budget revenues** were lower by 18.2% in Q2 2020, and total **budget expenditures** grew by 10.3% compared to the same quarter in 2019;
- **Inflation rate** was 0.5% in Q2 2020 on annual basis, measured according to CPI;
- Total **deposit potential** of banks increased by 2.4% in Q2 2020 on quarterly basis;
- **Credit activity** of banks to non-government sector in Q2 2020 grew by 2.6% on quarterly basis;
- In Q2 2020, decrease of both **export of goods** by 35.7% and **import of goods** by 31.9% was registered on annual basis, by which total **foreign trade**, expressed in euros, dropped by 33.6%;
- In line with the autumn projections, **economic activity** in 2020 is expected to decrease by 4.4%, while **inflation rate** is projected at 1%.



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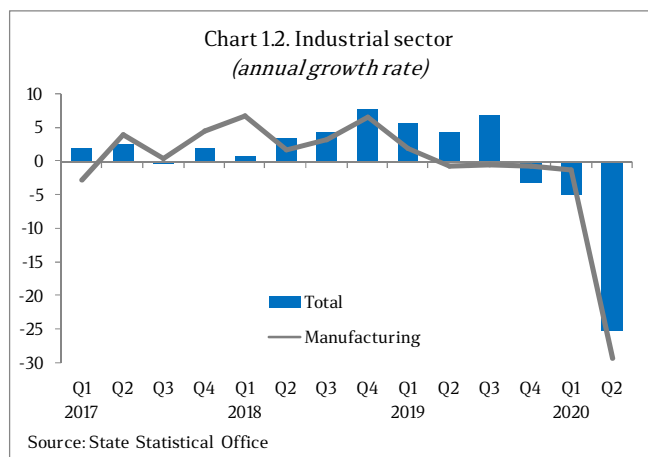
1. Economic Activity

In Q2 2020, **domestic economic activity** dropped by 12.7% on annual basis, following the growth of 0.2% in the first quarter, reflecting the containment measures aimed at preventing the spread of the COVID-19 pandemic in the country, as well as the drop of production in the industrial capacities, as a result of the deteriorated international economic environment and the significant drop of foreign demand. Hence, industrial production and certain services, such as trade, transport and hospitality industry sectors, were most severely hit thereby.

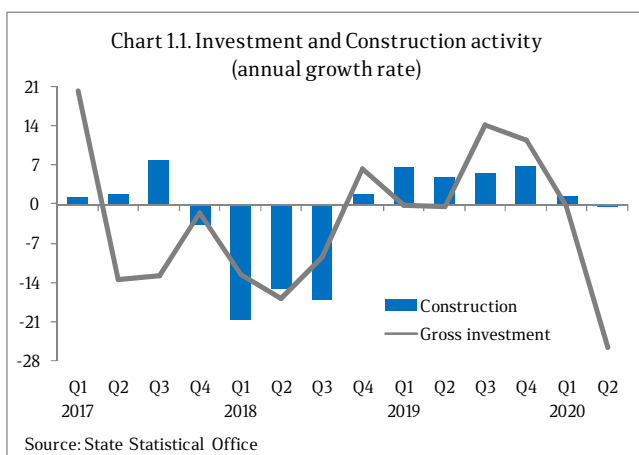
Activity in the service sector reduced by 7.7%, being mainly a result of the unfavourable trends in the Trade, transport and hospitality sector, experiencing a 23.4% drop, being mitigated by the favourable trends in the following sectors: Public administration, Defence, Education and Health (2.2% growth) and Information and communications (0.9% growth).

Construction sector surged by 0.5% in

real terms, which in line with high-frequency data was a result of the reduced construction activities as regards buildings, while construction activity for civil engineering structures had positive contribution to construction. **Agriculture sector** registered growth of 4.5% in real terms in this quarter.

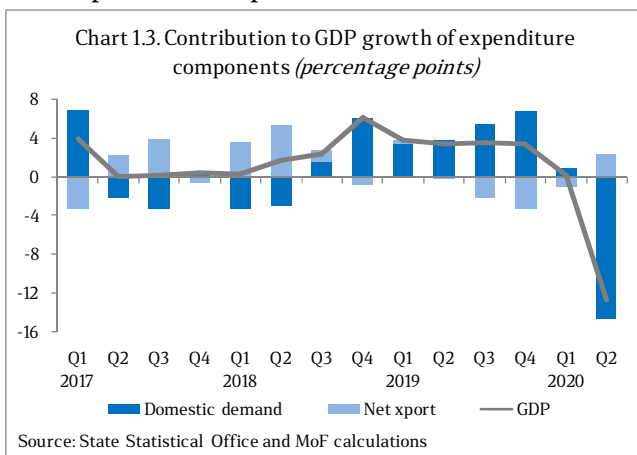


Activity in the **industrial sector** dropped by 25.2% in Q2 2020. In line with the monthly data, the industrial sector suffered the major consequences in April and May, when production experienced an average drop of 30.2%, followed by significant cushioning, more precisely industrial production in June reduced by 15.1%. As for industrial sector, biggest drop was observed at **Manufacturing**, mainly as a result of the reduced Manufacture of motor vehicles, machinery, devices and electrical equipment, i.e. sectors related to the activity of industrial capacities with foreign capital, in which global production chains are integrated to a great extent, as well as the drop of Manufacture of clothing and textiles.





GDP decomposition, according to the expenditure side, shows that private consumption and investments had negative contribution to the economic activity in Q2 2020, while contribution of public consumption was positive, as well as the net export amidst high drop of both export and import.



Private consumption registered 11.6% drop in real terms, amid significant reduction of foreign remittances, which adversely affected the household income and consequently the consumption. Thereby, more significant drop of consumption was prevented through the

measure for financial support of enterprises for wage payment. Additionally, total reduced consumption was mitigated by the 1.5% growth of **public consumption**, being a result of the expenditures related to the health crisis.

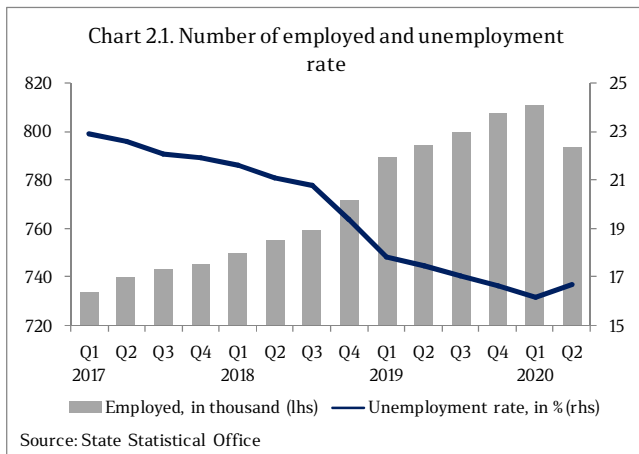
Gross investments decreased by 25.6% in real terms, which according to the high frequency data corresponds to the drop of production and import of capital goods, and the reduced construction activity to a lesser extent.

Export of goods and services dropped by 31.2% in real terms, being mainly a result of the deteriorated international environment, resulting mostly in drop of the export of machinery, transport equipment, chemical products, clothing, oil products, iron and steel. **Import of goods and services** dropped by 29.6%, conditioned mostly from the reduced import of intermediary goods.

2. Labour Market

In Q2 2020, interruption in the positive trends on the labor market was recorded as a consequence of the adverse effects from the COVID-19 pandemic, thus, according to the Labour Force Survey, **number of employed** persons was lower by 0.1%, i.e. by 867 persons, compared to the same quarter of 2019, and the decline is due to the reduced employment in the Agricultural sector (16.9 thousand or 14.9%), Industry (2.8 thousand or 14.9%) and Construction (825 thousand or 1.4%), while

the number of employees increased only in the Services sector (18.6 thousand or 4.3%). Of the services, a significant employment growth was recorded in the wholesale and retail trade, and human health and social work activities (13.6 thousand or 8.9%), while a drastically decreased employment was observed in the transportation and storage, and the accommodation and food service activities (6.1 thousand or 7.9%).



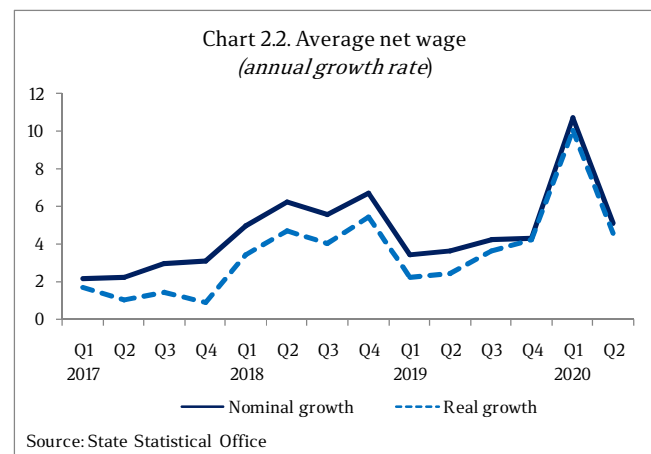
Analyzed according to the economic status, employment growth was registered in employed persons (wage earners) by 19.1 thousand or 3.1% while drop was seen in the number of self-employed persons (15 thousand or 15.2%) and family workers by (6.5 thousand or 15.4%). **Employment rate** in Q2 2020 accounted for 47.1%, being unchanged compared to the same quarter in 2019.

Insignificant employment drop was coupled with a decrease in the **number of unemployed persons**, decreasing by around 8.6 thousand persons, i.e. by 5.1% compared to the same quarter in 2019. Such trends caused for the **unemployment rate** in Q2 2020 to reduce to 16.7%, i.e. by 0.8 p.p. compared to the same quarter in 2019, being higher by 0.5 p.p. compared to the previous quarter. (Chart 2.1).

Observed by age groups, unemployment, compared to Q2 2019, was reduced at the group aged 15-24 years by 14.5% and the group aged 25-49 by 5.6%, while unemployment at the group aged 50-64 years, picked up by 5.5%. Observed by gender, unemployment rate was reduced

among the female population by 3.6 p.p., accounting for 16.7%, being lower by 0.1 p.p. compared to unemployment of men, which increased by 1.3 p.p., accounting for 16.8%.

Number of active population increased by 9.4 thousand, persons i.e. by 1.0% on annual basis. Active population in Q2 2020 accounted for 56.6% of the total working age population, being lower by 0.6 p.p. compared to the same quarter in 2019.



Average monthly **net wage** amounted to Denar 26,362 in Q2 2020, being higher by 5.1% in nominal terms compared to the same quarter in 2019, while net wage increased by 4.1% in real terms.

Average monthly **gross wage** amounted to Denar 39,357 in Q2 2020, increasing by 5.6% in nominal terms and by 5.1% in real terms. However, it is worth mentioning that both average net wage and average gross wage were lower compared to the previous quarter (Chart 2.2).

Labour productivity in Q2 2020 decreased by 12.6% as a result of the significantly lower drop of employment than the production growth.



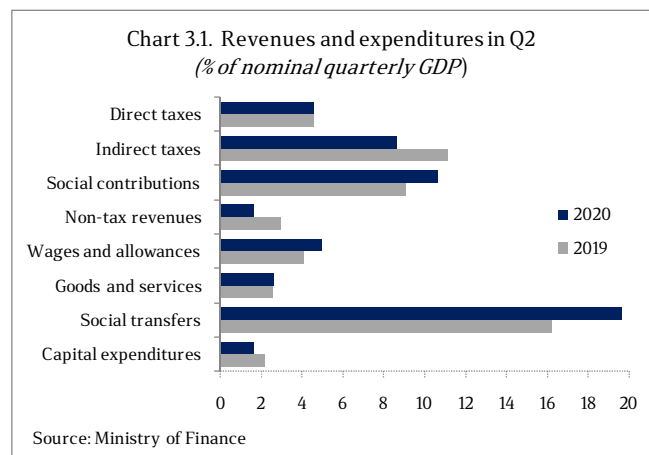
3. Public Finances

3.1 Budget revenues according to the economic classification

In Q2 2020, share of **total budget revenues** accounted for 27.3% of the quarterly GDP, being lower by 18.2% compared to the same quarter in 2019, due to the lower collection of tax and non-tax revenues by 24.9% and 52.2% respectively, while social contributions increased by 4.1%. The fall in revenues is due to the lowered economic activity as a consequence of the economic crisis. Certain tax measures, such as the deferral of profit tax payments for some sectors, were also reflected in the lower tax revenues. Thereby, as for tax revenues, lower collection was recorded at all taxes, i.e. value added tax, profit tax, personal income tax, excise duties, revenues on the basis of customs duties and revenues on the basis of other taxes. In the second quarter, the drop in revenues is more significant in April and especially May, while a gradual reduction of the fall is recorded in June.

In Q2 2020, collection of indirect taxes was lower by 31.4%, while collection of direct taxes decreased by 11.5% compared to Q2 2019. From the point of view of structural share in GDP, share of revenues on the basis of direct taxes remained unchanged, accounting for 4.6% of quarterly GDP in Q2 2019, as well as in Q2 2020, while share of revenues on the basis of indirect taxes was lower by 2.5 p.p.

compared to Q2 2019, accounting for 8.6% of GDP in Q2 2020.



With respect to **indirect taxes**, VAT revenues predominated, accounting for 39.4% of total tax revenues in Q2 2020, being lower by 30.1% 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 33.5% compared to the same quarter of 2019.

As for **direct taxes**, collection of revenues on the basis of personal income tax decreased by 12.6%, while profit tax revenues declined by 9.9% 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 4.1%, whereby higher collection was recorded at all contributions, i.e.



pension and disability insurance by 4.4%, health insurance contributions by 3.6%, and employment contributions by 2.2%.

Collection of **non-tax revenues**, accounting for 1.6% of the quarterly GDP, was lower by 52.2% in Q2 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 22.6% on annual basis in Q2 2020. Revenues on the basis of **foreign donations** picked up by 5.2%.

3.2. Budget Expenditures according to the Economic Classification

In Q2 2020, **total budget expenditures** participating with 39.7% in the quarterly GDP, were higher by 10.3% compared to the same quarter in 2019. The increase in expenditures in conditions of lowered economic activity is partly a result of the first two sets of measures implemented to combat the economic crisis, such as the financial assistance for job protection and the direct financial allowances to certain categories of people.

Current expenditures, accounting for 38.1% of the quarterly GDP, participated with 95.9% in the total expenditures and experienced 13.6% higher execution on annual basis. As for current expenditures, expenditures for goods and services dropped by 10.1%, while expenditures related to wages and allowances were higher by 7.5% compared to the same quarter in 2019.

Funds for transfers, which participated with 75.7% in the total expenditures, were higher by 17.6% on annual basis. Social

transfers surged by 6.6%, accounting for 49.4% in the total expenditures. Pension-related expenditures, accounting for the most of the social transfers, surged by 3.7%, accounting for 29.2% of the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 25.5% in the total expenditures, i.e. they surged by 46.4% compared to the second quarter in 2019. Block and earmarked grants to local government units surged by 13.9%, while subsidies and transfers were higher by 75.2%.

Interest-related expenditures grew by 0.5% on annual basis, whereby domestic debt interest-related expenditures surged by 12.7% and expenditures related to interest on foreign debt declined by 13.7%.

Capital expenditures accounting for 1.6% of quarterly GDP, compared to the same quarter in 2019, were lower by 34.1%, i.e. they participated with 4.1% in the total expenditures.



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 86.0% of the total budget of all budget users.

In the period April - June 2020, Denar 4,685 million was spent through the organizational code **Ministry of Finance – Functions of the State**¹ accounting for 8.2% of its annual Budget. Repayment of principal accounted for most of the expenditures or 53.3%, Denar 2.497 million being spent therefore, i.e. 6.0% of the funds projected for this purpose in 2020. As regards expenditures related to interest payments, they accounted for 16.9% of the total expenditures, Denar 792 million being spent therefore or accounting for 9.6% of the projected interest payments.

Ministry of Labour and Social Policy, in the second quarter of 2020, executed funds in the amount of Denar 12,805 million or 25.0% of its total budget for the current year. Thereby, most of the

expenditures (68.1%) in this period were allocated for current transfers to extra-budgetary funds, for which Denar 8.720 million was spent or 24.5% of the funds allocated for 2020. The second highest expenditure category was social benefits, participating with 23.6% in the total expenditures. As for this purpose, 27.8% (Denar 3,018 million) of the expenditures projected for 2020 were executed.

In the period April - June 2020, **Ministry of Education and Science** executed budget funds in the amount of Denar 6,109 million, i.e. 23.4% of the total 2020 budget. Current transfers to LGUs accounted for the most of the expenditures (66.4%), Denar 4,058 million being spent therefore or 25.1% of total projected funds. Wages and allowances were the second highest expenditure item, participating with 15.1%, Denar 923 million being spent therefore, i.e. 24.5% of the total funds projected for the current year.

During the analyzed period, **Ministry of Internal Affairs** executed expenditures in the total amount of Denar 2,552 million, accounting for 22.4% of its 2020 budget. Wages and allowances were the highest expenditure item, participating with 78.1%, Denar 1,994 million being spent therefore, or accounting for 24.7% of the projected ones. The second highest expenditure item was goods and services, participating with 18.9%, funds in the amount of Denar 483 million being spent therefore, or accounting for 24.0% of the annual projections.

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.



In the second quarter of 2020, **Ministry of Defense** executed budget funds in the amount of Denar 1,732 million, i.e. 20.3% of its total 2020 budget. Wages and allowances accounted for the most with 58.9%, for which Denar 1,020 million was spent, accounting for 25.0% of the total funds projected for the current year. Expenditures related to goods and services accounted for 24.8% of the total expenditures, Denar 430 million being spent therefore during the analyzed period, i.e. 18.6% execution of the total projected funds.

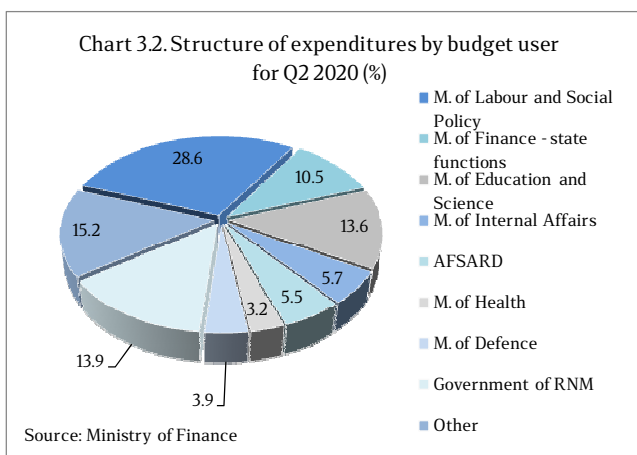
and services is related to the higher costs of battling the health crisis.

Agency for Financial Support in Agriculture and Rural Development spent funds in the amount of Denar 2,474 million, accounting for 33.2% of the funds projected for the current year. As for subsidies and transfers, accounting for 90.1% of the total expenditures, 35.2% or Denar 2,229 million of the projected funds were spent therefore.

Government of the Republic of North Macedonia spent Denar 6,210 million, i.e. 49.9% of the funds projected for 2020. Thereby, subsidies and transfers amounted to Denar 6,017 million (52.8%), participating with 96.9% in the total expenditures.

In the period April - June, **Ministry of Transport and Communications** executed funds in the amount of Denar 782 million, i.e. 16.3% of its total budget for the current year. Capital expenditure execution accounted for 16.0% of the projected amount (Denar 632 million), participating with 80.8% in the total expenditures of this budget user.

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



In the period April - June 2020, **Ministry of Health** executed budget funds in the amount of Denar 1,423 million, accounting for 18.2% of its total 2020 budget. Expenditures related to goods and services accounted for the most in the expenditures with 47.5%, Denar 675 million being executed therefore or 25.6% of the funds projected for the current year. The higher amount of expenditures in goods

3.4. Budget Deficit and Government Debt

In the second quarter of 2020, **consolidated budget deficit** amounted to Denar 18,540 million or 12.4% of GDP

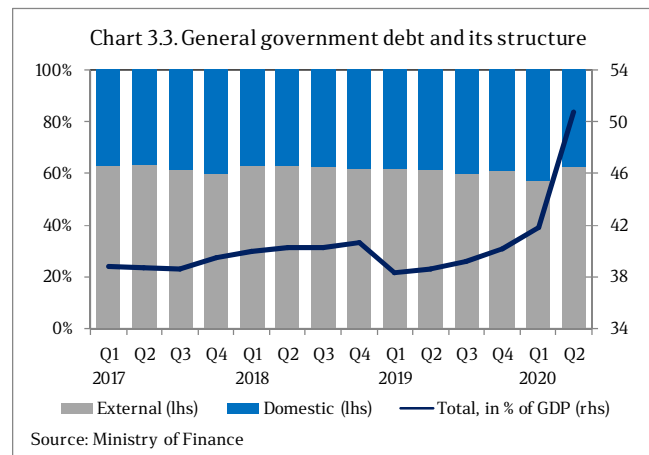
realized in this quarter, while central budget deficit amounted to Denar 17,772 million, i.e. 11.9% of quarterly GDP. The



deficit is a result of the high drop in revenues as a consequence of the economic crisis accompanied with a growth in expenditures due to the measures taken to mitigate the crisis.

Total **government debt** at the end of Q2 2020 accounted for 50.7% of GDP, increasing its share in GDP by 8.9 p.p. compared to Q1 2020. Share of external debt in the total government debt increased by 5.4 p.p. compared to Q1 2020, accounting for 62.4%, while share of domestic debt decreased respectively, accounting for 37.6% of the total government debt. The increase of the government debt is due to the funds borrowed through the Eurobond and the IMF loan in the second quarter, to the end of providing liquidity in conditions of

Covid-19 crisis, providing funds for the measures taken to mitigate the crisis and covering the increased deficit due to the loss of revenues as a result of the health and economic crisis.

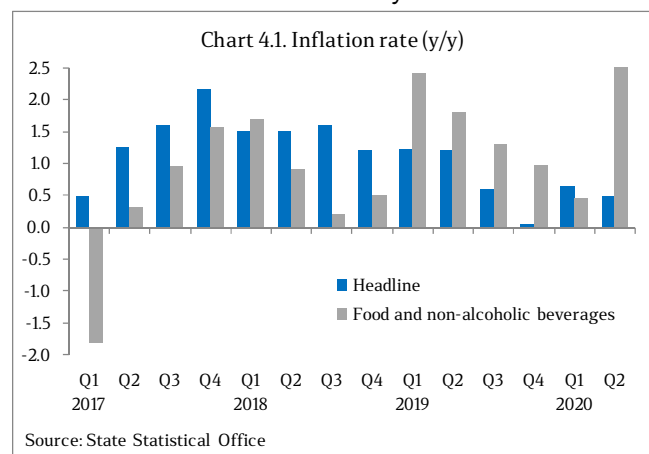


4. Inflation and Monetary Trends

Inflation rate, measured according to CPI index, in Q2 2020, amounted to 0.5% on annual basis, being lower by 0.1 p.p. compared to Q1 2020.

Increase of consumer prices in Q2 2020 was registered in the following categories: Alcoholic beverages, tobacco and narcotics by 4.1%, Miscellaneous goods and services and Food and non-alcoholic beverages by 2.8% each, Restaurants and Hotels by 1.4%, Recreation and culture by 0.8%, Health protection by 0.5%, Education and Housing, water, electricity, gas and other fuels by 0.2% each. Drop of prices was registered at the following categories:

Transport by 10.8%, Clothing and footwear by 1.8%, Furnishings, household equipment and routine maintenance of the house by 0.5% and Communications by 0.3%.





In the second quarter² of 2020, the National Bank of the Republic of North Macedonia, reduced the **reference interest rate** by 0.5 p.p., i.e. from 2.0% to 1.5%, due to the conditions arising from the COVID-19 pandemic, as well as the measures aimed at preventing the virus, adversely affecting both global and domestic economy. Purpose of the reference interest rate reduction up to 1.5%, as well as the so-far 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 accounted for 0.3% in June 2020 and, compared to the previous quarter, it remained unchanged.

Primary money³ in Q2 2020 surged by 10.5% on quarterly basis (0.6% growth was registered in the previous quarter), amid increased total liquidity of banks by 14.2% and increase of currency in circulation by 6.7%. Compared to Q2 2019, primary money surged by 43.2% (38.2% growth was registered in Q1 2020), as a result of the increase of both total liquidity of banks by 71.1% and currency in circulation by 21.2%.

In Q2 2020, the narrowest money supply M1⁴ experienced 5.9% increase compared to the previous quarter. Monetary aggregate M2 surged by 4.2%, while the widest monetary aggregate M4 increased by 2.9%.

Total **deposit potential**⁵ of banks in Q2 2020 grew by 2.4% on quarterly basis, following the 0.4% drop in the previous quarter. From the point of view of sectors, deposits of enterprises increased by 3.8%, while deposits of households experienced 1.8% growth. From currency point of view, compared to the previous quarter, Denar deposits grew by 2.2%, while foreign currency deposits surged by 2.7%. Level of euroization grew by 0.1 p.p. compared to the previous quarter, accounting for 39.7%, measured through the share of foreign currency deposits in the total deposit potential.

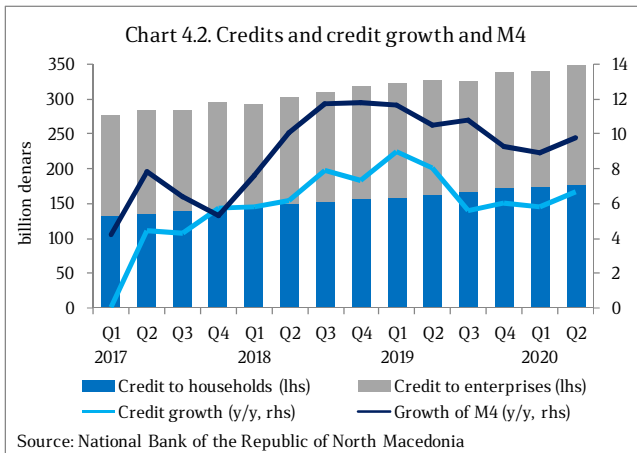
As regards maturity, in Q2 2020 share of long-term deposits in total deposit potential decreased by 1.0 p.p. compared to the previous quarter, reaching 25.6% (accounting for 26.6% in Q1 2020). During the analyzed period, short-term deposits grew by 2.5%.

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

³ It includes currency in circulation (including cash in hand of banks), denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

⁴ 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.

⁵ Deposits also include calculated interest.

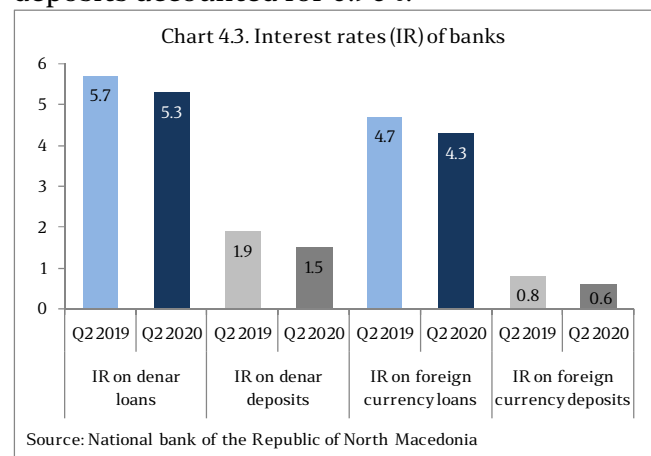


Credit activity of banks in Q2 2020 increased by 2.6% on quarterly basis (compared to 0.7% growth in the previous quarter), in conditions of growth of credits to enterprises by 3.2%, while credits to households surged by 2.1%. From currency point of view, in Q2 2020, foreign currency credits picked up by 2.2%, while Denar credits experienced 2.9% growth compared to the previous quarter. From maturity point of view, in Q2 2020, long-term credits experienced 3.5% growth, while short-term credits dropped by 2.2%, compared to the previous quarter.

In Q2 2020, **interest rate**⁶ on Denar credits accounted for 5.25%, decreasing by 0.08 p.p. compared to the previous quarter. Interest rate on foreign currency credits was 4.33% in Q2 2020, dropping by 0.08 p.p. compared to the previous quarter. Interest rate on Denar deposits dropped by 0.06 p.p., accounting for 1.53% in Q2 2020 compared to the previous month, while interest rate on foreign currency deposits

decreased by 0.06 p.p. compared to the previous quarter, accounting for 0.62%.

In Q2 2020 interest rate on newly granted Denar credits accounted for 4.05%, while interest rate on newly approved foreign currency credits accounted for 3.51%. Interest rates on newly received Denar deposits accounted for 0.96%.



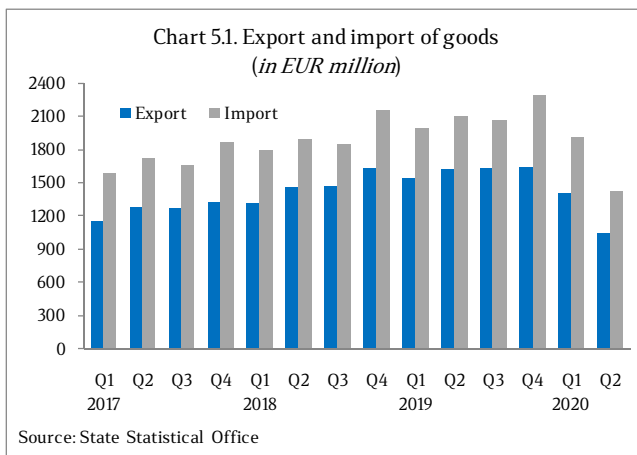
⁶Denar credits and deposits with a forex clause are included in foreign currency credits and deposits.



5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office, total foreign trade amounted to EUR 2,469.1 million in Q2 2020, decreasing by 33.6% compared to the same quarter in 2019, indicating unfavorable developments in foreign trade following its single-digit decline in the first quarter (5.6%). The decline was more pronounced in the second quarter due to the global spread of the pandemic, which particularly affected the EU, which is our main trading partner, and in which strict quarantine and containment measures were introduced to prevent the spread of the Coronavirus.



Export of goods in Q2 2020 amounted to EUR 1,042.6 million, decreasing by 35.7% compared to Q2 2019, indicating unfavourable trends in the export of our country following its single-digit drop in the first quarter (8.2%) as result of the pandemic caused by the Coronavirus. In Q2 2020, export of goods dropped by 25.9% in relation to the previous quarter.

Analyzed **by sectors** of SITC (Standard International Trade Classification), in Q2 2020, drop of export on annual basis, was recorded at all sectors:

- chemical products by 47.3% (wherein highest drop was seen at the category: chemical materials and products by EUR 189.1 million or 55.7%);
- machinery and transport equipment, by 43.8% (electrical machinery, apparatus and appliances by EUR 120.0 million or 49.2%; general industrial machinery and equipment by EUR 73.0 million or 39.1%; road vehicles by EUR 36.9 million or 49.8%);
- miscellaneous manufactured articles by 37.0% (furniture and parts thereof, bedding and similar products, mattresses, mattress holders, cushions and similar stuffed articles by EUR 33.7 million or 48.8%; clothing by EUR 33.6 million or 31.3%);
- mineral fuels and lubricants by 50.9% (petroleum and petroleum products by EUR 21.0 million or 78.1%);
- manufactured goods classified chiefly by material by 8.0% (iron and steel by EUR 20.1 million or 14.1%);
- crude materials, inedible, except fuels by 28.8% (metalliferous ores and metal scrap by EUR 16.7 million or 27.2%);
- beverages and tobacco by 20.5% (tobacco and tobacco manufactures by EUR 13.4 million or 26.3%);
- food products by 17.6% (vegetables and fruit by EUR 9.9 million or 19.4%; cereals



and cereal preparations by EUR 4.2 million or 20.5%) and

- animal and vegetable oils by 56.5% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 1.8 million or 58.4%).

Observed by **economic purpose**, in Q2 2020, drop of export was recorded at all groups of products:

- goods for industrial supplies by EUR 295.9 million or 37.9%;
- transport equipment by EUR 118.4 million or 49.9%;
- investment products without transport equipment by EUR 99.6 million or 37.6%;
- consumer goods by EUR 30.8 million or 16.7%;
- food and beverages by EUR 18.9 million or 15.1%, and
- fuels and lubricants by EUR 17.1 million or 56.1%.

Import of goods in Q2 2020 amounted to EUR 1,426.5 million, decreasing by 31.9% compared to Q2 2019, indicating unfavourable trends in the import of our country following its single-digit drop in the first quarter (3.6%) as result of the pandemic caused by the Coronavirus. In Q2 2020, export of goods dropped by 25.7% in relation to the previous quarter.

Analyzed by SITC **sectors**, decrease of import in Q2 2020, compared to Q2 2019, was seen at:

- manufactured goods classified chiefly by material by 42.7% (wherein highest drop was seen at the following categories: non-ferrous metals by EUR 211.9 million or 63.2%; items from non-

metallic mineral manufactures by EUR 54.8 million or 43.6%);

- machinery and transport equipment by 33.9% (electrical machines, apparatus and appliances by EUR 91.4 million or 47.0%; road vehicles by EUR 27.7 million or 28.9%);
- mineral fuels and lubricants by 43.1% (petroleum and petroleum products by EUR 85.6 million or 56.4%);
- chemical products by 11.7% (chemical materials and products by EUR 21.8 million or 39.9%; plastics in non-primary forms by EUR 8.3 million or 26.3%);
- crude materials, inedible, except fuel by 17.6% (metalliferous ores and metal scrap by EUR 9.5 million or 23.7%);
- miscellaneous manufactured articles by 30.2% (furniture and parts thereof, bedding and similar products, mattresses, mattress holders, cushions and similar stuffed articles by EUR 8.3 million or 36.6%; clothing by EUR 5.8 million or 29.5%);
- beverages and tobacco by 24.5% (beverages by EUR 3.0 million or 24.5%) and
- food products by 0.7% (coffee, tea, cocoa, spices and manufactures thereof by EUR 2.5 million or 13.5%).

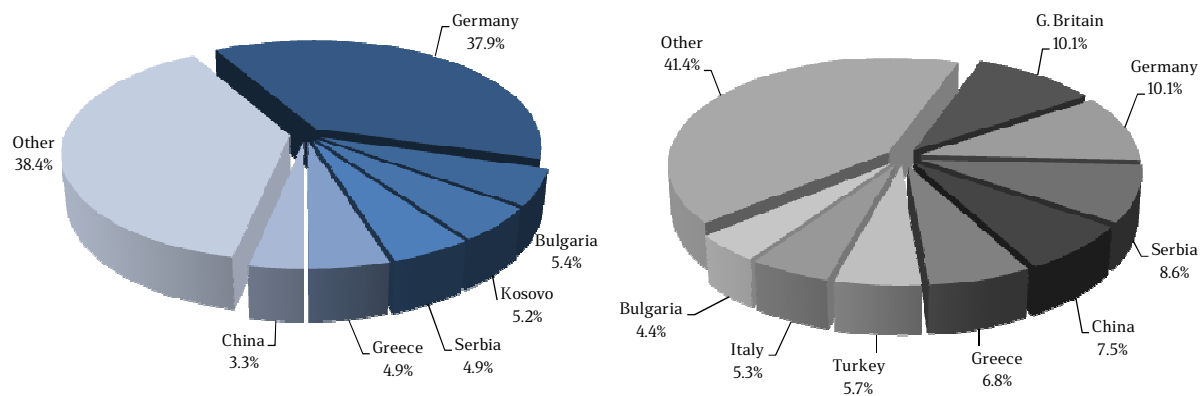
Growth of import was only seen at animal and vegetable oils by 5.5% (fixed vegetable fats and oils, crude, refined or fractionated by EUR 0.4 million or 4.0%).

Observed by **economic purpose**, in Q2 2020, drop of export was recorded at all groups of products:



- goods for industrial supplies by EUR 426.2 million or 38.3%;
- fuels and lubricants by EUR 84.5 million or 43.1%;
- investment products without transport equipment by EUR 80.5 million or 28.3%.
- transport equipment by EUR 44.7 million or 35.3%;
- consumer goods by EUR 27.9 million or 14.4% and
- food and beverages by EUR 5.3 million or 2.9%.

Chart 5.2 Countries having the highest share in export (left) and import (right) in Q2 2020



Source: MoF calculations based on SSO data

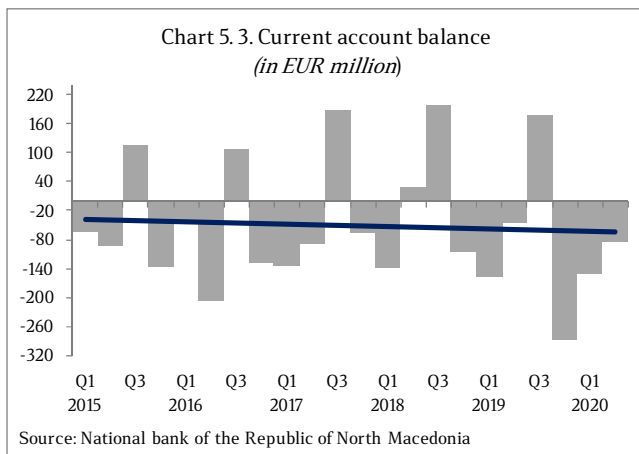
In Q2 2020, foreign trade of the Republic of North Macedonia with the European Union (EU 27⁷), in relation to Q2 2019, decreased by 46.6%, whereby share of trade with the EU in the total foreign trade decreased by 14.0 p.p. compared to the second quarter in 2019, accounting for 58.2%. Thereby, in Q2 2020 export of goods accounted for 71.1%, while share of import of goods was 48.7%.

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



5.2. Balance of Payments

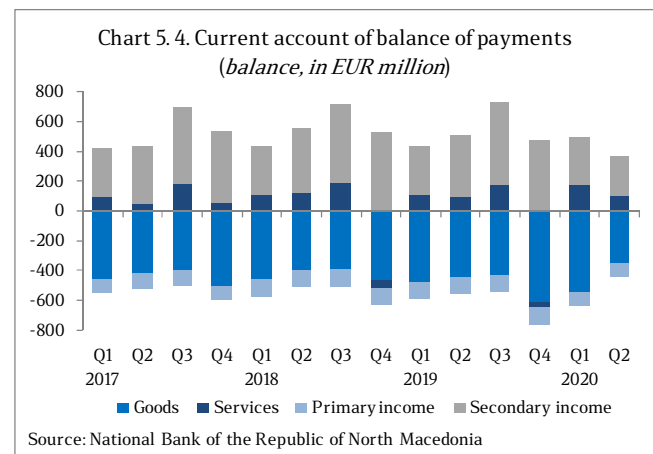
According to the data from the National Bank of the Republic of North Macedonia, deficit in the amount of EUR 85.9 million was recorded on the balance of payments **current account** in Q2 200, accounting for 3.5% of quarterly GDP, as opposed to the deficit of 2.4% of GDP registered in the same quarter of 2019.



Analyzed on annual basis, current account deficit increased by EUR 20.3 million, i.e. by 30.9%, in Q2 2020, being a result of the decrease of the surplus on the secondary income account by 62.2%. Reduction of the deficit on the goods account by 28.4%, and the primary income account by 28.1%, as well as the increase of the positive balance of the services account by 10.2%, had opposite effect thereon.

In Q2 2020, **trade deficit** dropped by EUR 88.4 million on annual basis, due to the larger decrease in the import of goods than the export of goods in absolute terms. The trade deficit as a percentage of quarterly GDP narrowing by 1.5 p.p. on annual basis and accounting for 14.6%.

Surplus on **services account** amounted to EUR 106.7 million in Q2 2020 and, compared to the same quarter of 2019, it surged by EUR 9.9 million. The surplus growth on the services account is mostly due to the increase of the surplus in the following categories of services: Manufacturing services on physical inputs owned by others (35.8%) and Telecommunications, computer and information services (21.8%). The share of these two categories of services accounting for 78.4% of total services. **Trade openness** of the Republic of North Macedonia in Q2 2020 accounted or 106.5% of quarterly GDP, being lower by 29.5 p.p. compared to Q2 2019.



Primary income account experienced EUR 91.8 million deficit in Q2 2020, reducing by EUR 35.9 million on annual basis.

Surplus on the **secondary income** account in Q2 2020 amounted to EUR 254.3 million, decreasing by EUR 154.5 million on annual basis. Drop was due to the reduction of private transfers by EUR



163.1 million, participating with 96.0% in the secondary income account. Official transfers increased by EUR 9.8 million, accounting for 4.0% in the secondary income account.

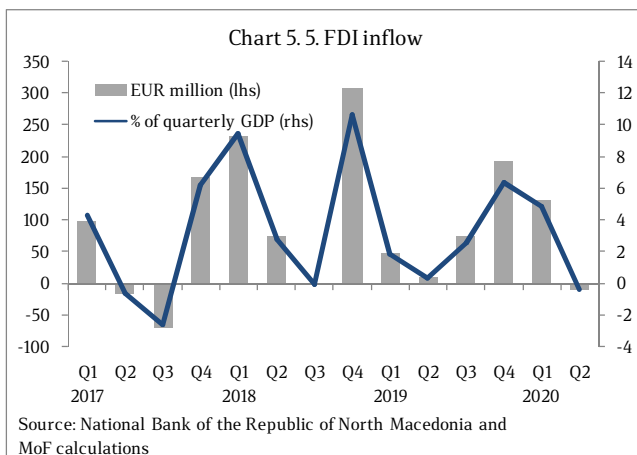
Balance on the **capital account** amounted to EUR 1.1 million in Q2 2020 and, compared to the same quarter of last year, it grew by EUR 1.0 million, which is fully due to the increased inflow of capital transfers.

Foreign direct investments (FDIs) in the country in Q2 2020 were negative, amounting to EUR 9.3 million, mostly as a result of the debt instruments, through which, outflow of EUR 78.6 million was recorded on net basis, while on the basis of equity, as well as reinvested earnings, inflow of EUR 48.3 million and EUR 21.0 million, respectively, was registered.

Portfolio investments in Q2 2020 were negative, amounting to EUR 632.5 million, being worsened balance compared to Q2 2020. Such trends were a result of the issuance of the long-term debt instrument by the general government in June.

Other investments in Q2 2020 were negative, amounting to EUR 49.9 million. As regards the category other investments, currencies and deposits amounted to EUR 130.9 million, while accounts of the loans and trade credits and advance payments experienced a negative balance in the amount of EUR 168.1 million and EUR 12.9 million, respectively.

Reserve assets amounted to EUR 3.6 billion at the end of the second quarter in 2020, surging by 24.3% compared to Q2 2019. In Q2 2020, reserve assets increased by 20.6% compared to the previous quarter due to the government borrowing from the IMF in April 2020 and the issuance of Eurobond on the international financial markets. At the end of Q2 2020, reserve assets provided for 5.6-month coverage of import of goods and services in the previous 12-month period.





6. Revised Macroeconomic Forecasts for 2020

Global economy in 2020 is strongly adversely affected by the pandemic, which deteriorated the global demand, the supply chains and the industrial production, hitting a blow on the labour market, leading to sharp decline of consumption, investments and services sector, substantial drop of prices of oil and other primary products, also resulting in significant changes in the economic behavior and the mobility of the population. As a consequence therefrom, autumn forecasts for the global economic activity, i.e. the economic activity of our trade partners, have been worsened compared to the spring forecasts.

The prolongation of the health crisis in the country and internationally, as well as the greater uncertainty related to the duration and intensity of this non-economic shock, imply worsened expectations for the economic activity in 2020, i.e. greater and longer impact of the pandemic on the economic flows, through both the channel of domestic demand and the deteriorated international environment, given the involvement of the domestic economy in the global production chains, and the substantial decline in private transfers from abroad.

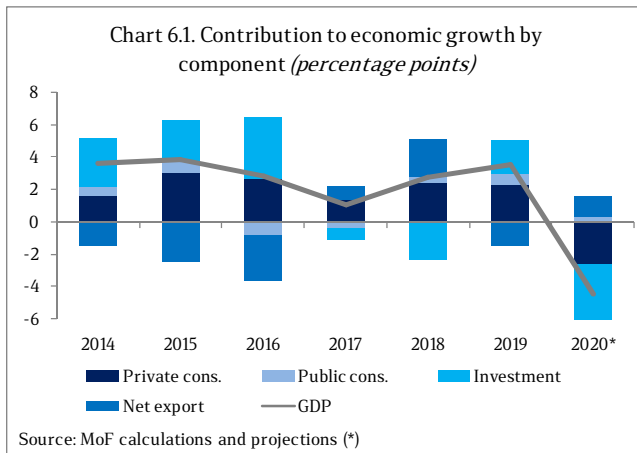
Such forecasts are expected to reflect on the export activity of domestic companies, the industrial production, as well as the Manufacturing and the services sectors,

mostly trade, transport, hospitality industry and tourism.

As a result of such assumptions, the return to the path of economic growth is expected to be slower compared to the previous projections, which means an expected decline in economic activity in the third and the fourth quarter, although at a slower pace in relation to the decline in the second quarter, as a result, to a certain extent, of the Government's support aimed at overcoming the health and the economic crisis.

The responsiveness of the fiscal policy to the pandemic in the country was rapid and significant in supporting companies and employees in the most affected industries. Government's support, through various measures, contributed to mitigating the consequences of the pandemic on the labor market, the liquidity of enterprises, the support for the vulnerable groups of citizens, which will also continue in the coming period, for the purpose of further recovery of the domestic economy.

In fact, in response to the prolongation of the health and the economic crisis, the Government adopted a new set of measures aimed at supporting households and their consumption, providing assistance to companies so as to keep the jobs and boost their liquidity, as well as their support for investments and export.



Economic activity in the country, according to the revised forecasts, is expected to decline by 4.4% in 2020, due to the projected decline in private consumption by 4% and gross investments by 10.2% in real terms, amid projected decline in disposable household income, increased uncertainty and deteriorated confidence of business entities. Public consumption is expected to increase by 2.4% in real terms, as a result of the higher expenditures for coping with the health crisis, amid drop of export of goods and services by 17%, as well as import of goods and services by 15.5% in real terms, net export demand is expected to have positive contribution to the economic activity. Revised projection on the **inflation rate** accounts for 1%, whereby such adjustment arises from the positive deviations in the last several months.

Risks with respect to economic growth projections are downwards, whereby the main risk is the high uncertainty related to the pandemic evolution, being crucial in shaping the economic forecasts.