



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department

SHORT TERM ECONOMIC TRENDS

March 2009



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SHORT-TERM ECONOMIC TRENDS

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS

March 2009

- **Industrial production dropped by 4.8% on annual basis**
- **Average inflation rate was 0.2%**
- **Stock market prices of certain products, mainly nickel and steel sheets, slightly declined**
- **Annual decline of export of goods (euros) by 30.1% in March 2009, with simultaneous drop of import of goods by 16.5%**
- **In the period January - March 2009, total central budget revenues amounted to Denar 19,470 million (4.8% of GDP), being by 8.3% less compared to the same period previous year, while total expenditures accounted for Denar 21,792 million (5.3% of GDP), being by 25.1% more compared to the same period in 2008**
- **Slowed-down crediting in March 2009 by 25.4% on annual basis and reduced growth of total deposit potential of the non-government sector by 7.7%**
- **In March, 21,467 new employments were registered, whereby 25.9% of the new employments were from the unemployed records**

1. Real Sector

1.1 In March 2009, index of industrial production increased by 9.5% on monthly basis.

In March 2009, industrial production continued its declining trend, dropping by –4.8% annually as a result of the developments in the world economy, i.e. the global financial crisis.

Analysis of the physical production index on annual basis shows that negative results in March were due to the reduced activity in even 13 out of total of 24 industrial branches. As one of the main reasons for such dynamics in the production was the weak activity in the base metals sector, experiencing annual drop of 53.8%, followed by the drop in the production of clothing by 28.3%, production of products from other non-metal minerals by 22.5%, food industry by 4.1%, etc.

Index of industrial production registered increase by 9.5% on monthly basis. On monthly basis, positive results in March were due to the increased activity in 18 out of total of 24 industrial branches.

According to the expectations of the enterprise managers, economic situation present in the enterprises in March 2009 was still estimated as much unfavourable compared to the previous months. Stocks of raw materials and intermediate goods, as well as on-going procurement of raw materials and intermediate goods were below the production quota, while stocks of finished goods in March 2009 continued to drop in relation to the previous months. Following factors limited the most the production volume in March 2009: insufficient foreign demand – 24.4%, insufficient domestic demand – 18.1%, uncertain economic surrounding – 13.3% and financial problems – 12.3%.

In March 2009, number of employees in the industry dropped by 5.4% in relation to the same month last year. In March 2009, number of employees in the sector for extraction of ore and stone dropped by 7.4% in relation to the same month last year, and it dropped by 5.7% in the processing industry.

1.2. In March 2009, prices of personal consumption goods, measures through CPI index, grew by 0.2% compared to the same month last year.

Growth was mainly due to better performance by restaurants and hotels by 4.6%, services by 0.9%, tobacco and beverages by 4.1%, housing by 7.2%, flats (rents, water and other services) by 2.7%, fuel and lighting by 10.0%, etc.

CPI index in March 2009, compared to February 2009, was higher by 0.3%.

Value of the consumer basket of food and beverages for a four-member household in March 2009, calculated on the basis of retail prices, was Denar 12,813, and compared to the previous month, it was by 0.5% higher.

Retail price index in March 2009, in relation to March 2008, declined by 0.7%. Retail prices were higher by 0.2% on monthly basis. Price increase of 4.8% was evident in the group of agricultural products.

1.3. In March 2009, global stock markets experienced slight increase in oil price, and slight decline at the main metals – nickel and gold.

In March, oil price on world stock markets increased by 8.3% compared to the previous month, reaching the price of US\$ 46.84 per barrel. Compared to March last year, oil price declined by 54.6%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, dropped by 6.8% on monthly basis, reaching US\$ 9.696 for a metric ton (\$/mt). Price of copper surged by 13.1% in March compared to February, reaching US\$ 3.750 for a metric ton (\$/mt).

Despite such trends, March will be remembered due to changes in the prices of steel and steel sheets, which followed after a nine-month period when there were no price changes on the stock markets. Thereby, the highest reduction of 20% was registered at cold-rolled steel sheets, while at hot-rolled steel sheets, the reduction was 18.1%.

2. External Sector

2.1. In the first quarter in 2009, total foreign trade (expressed in euros) dropped by 23.3% in relation to the same period last year.

Thereby, physical output of export declined by 35.7%, while its value reached EUR 401.2 million, being a drop by 34.5%. Imported quantity of goods declined by 19.8%, and it amounted to EUR 877.6 million, being a drop by 16.7%. In conditions of such trends at the import and export of goods, trade deficit in the first quarter 2009 amounted to EUR 476.4 million, growing by 7.8% on annual basis (EUR 34,6 million), due to the reduced positive balance in trading iron and steel and their products. Import to export coverage in the first three months was 45.7%, which was a significant annual decline by 12.4 percentage points.

2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following: clothing – 28.4%, iron and steel – 18%, oil and oil products - 5,8%, beverages and tobacco – 5.1%, metal ore and metal scrap – 3.8%, fruit and vegetables – 3.5%. These six groups of products comprise 64.5% of the total export of goods. The following participated the most in the import of goods in the first three months in 2009 on cumulative basis: oil and oil products (EUR 102.3 million, 12%), textile yarns and similar (EUR 60.3 million, 7%), road vehicles (EUR 55.3 million, 6%), iron and steel (EUR 47.7 million, 5%), electricity (EUR 46.8 million, 5%), other transport equipment (EUR 33.6 million, 4%), etc.

2.3. Analysed by regions, during the first quarter in 2009, despite the reduced intensity of the trade with the European Union (EU 27), trade share with EU participated with 53% in the total trade (60.1% export of goods and 49.8% import of goods). Export to the European Union was significantly lower by 45.7%, while the import experienced slower decline by 19.1% compared to the same period in 2008. During the analyzed period January-March 2009, 68.5% of the trade deficit of the country was realized in the trade with Russia, China, Switzerland, Turkey, Slovenia, Italy, Greece, Finland, the USA and Lithuania.

2.4. Observed by currency structure, 76.3% of the foreign trade was realized in euros, and compared to the same period last year, it increased by 2.7 percentage points. On export and import side, EURO accounted for 84.7% and 72.4% respectively, and in relation to the same period last year, increase was evidenced at export by 5.7 percentage points, while import increased by 2.6 percentage points.

3. Fiscal Sector

3.1. In the first three months of 2009, total central government budget revenues amount to Denar 19,470 million (4.8% of GDP), which was 8.3% decline compared to the same period last year.

Tax revenues in this period were realized in the amount of Denar 17,167 million, which was lower by 9.1% in relation to same period last year.

Share of VAT in total tax revenues in the first quarter in 2009 was dominant and it amounted to 47.6%, while excises accounted for 17.3%, whereby revenues in the amount of Denar 11,139 million were realized on the basis of these two taxes, i.e. 64.9% the total tax revenues (almost 2/3 of GDP). Analyzed by categories, VAT revenues declined by 7.7%, excises by 5.4%, profit tax revenues dropped by 29.3%, customs revenues decreased by 1.2%, while PIT revenues dropped by 2.2% compared to the same period last year. Non-tax revenues dropped by 6.1% compared to the same period last year.

3.2. In this period, total central budget expenditures amounted to Denar 21,792 million (5.3% of GDP), being by 25.1% more compared to the same period in 2008.

With respect to the structure of total realized expenditures, current expenditures (Denar 19,510 million) accounted for 89.5% and were higher by 24.2% compared to the same period last year, while capital expenditures participated with 10.5%.

The biggest expenditure items were transfers (Denar 11,369 million), followed by salaries and allowances (Denar 5,128 million). With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 23.5% in March, which was 5.6% increase in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 2,605 million, i.e. by 23.6% more compared to 2008.

With regard to transfers, 36.1% more resources (Denar 3,017 million) were spent in this period compared to the same period 2008, and were the largest expenditure item, i.e. their share in total expenditures was 52.2% (2.8% of GDP). Such performance was partially due to the fact that grants transferred to LGUs included part of VAT, number of LGUs moving to the second phase of decentralization also rose, whereby block grants were paid to 68 municipalities for financing the transferred competences (funds for payment of salaries and allowances to the employees in local public institutions and operating costs). Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 3,617 million or by Denar 744 million higher (25.9% growth). Interest was collected in the amount of Denar 408 million, being by 3.8% more compared to the same period in 2008.

During the analyzed period, capital expenditures amounted to Denar 2,282 million, being an increase by 33.4% compared to the same period in 2008.

3.3. Thus, in this period, central government budget deficit reached the amount of Denar 2,322 million (0.6% of GDP), while consolidated budget deficit amounted to Denar 1,817 million (0.4% of GDP).

4. Monetary Sector

4.1. In March 2009, primary money¹ increased by 6.4% on annual basis (8.7% in February), in conditions of growth of total liquid assets of the banks by 16.3% and decline of the demand for ready money in circulation by 3.0%.

¹ Primary money are calculated as a sum of cash in circulation, cash in hand and on the accounts of the bank, including the reserve requirement of foreign currency deposits.

On monthly basis, primary money dropped by 6.0%, due to the decrease of the total liquid assets of the banks by 8.2% and the lower demand for decrease of ready money in circulation by 3.3%.

In March 2009, with respect to the requirements for volume tenders, interest rate on central bank bills kept the level of 7%.

Interest rates on government securities were as follows: 8.58% on one-month treasury bills, 8.73% on three-month treasury bills and 7.69% on six-month government bonds.

Total of 6 auctions were held by applying volume tender for one-, interest rate tender for three- and six-month government bonds, as follows: two auctions of one-month three-month treasury bills, two auctions of three-month treasury bills, one auction of six-month treasury bills and one auction of twelve-month government bonds, which instigated no interest by the investors and no offers were submitted.

4.2. Total deposit potential of non-government sector² in March slightly increased by 7.7% on annual basis (8.8% in February 2009). Total deposits experienced decline by 1.0% on monthly basis, due to the decrease of the deposits of enterprises.

In March 2009, Denar deposits declined by 5.5% on monthly basis, largely due to the declined deposits of the citizens in national currency by 6.6%, while foreign currency deposits grew by 3.6% (almost fully as a result of the 4.3% increase of foreign currency savings of the citizens). On annual basis, Denar deposits declined by 5.1%, while foreign currency deposits increased by 23.3%.³

From the point of view of sector structure, deposits of the corporate sector declined by 3.2% on monthly basis, while savings of the population increased by 0.1%. With respect to last year, deposits of citizens were higher by 12.6%, while deposits of enterprises were lower by 11.9%.

We would like to point out that starting January 2009, data from the National Bank of the Republic of Macedonia on the monetary sector were compiled on the basis of the new accounting plan of the banks.

4.3. In March 2009, slowdown of credits to private sector continued.

Monthly increase of credits by 0.5% was mainly due to increased credits to enterprises. With respect to last year, credit growth further slowed down and it was 25.4% (compared to 29.0% in February 2009).

Monthly increase of credits to enterprises in March experienced weaker intensity, amounting to 0.5% (compared to 2.0% in February), while credits to enterprises experienced increase by 0.3% (compared to 0.1% decline in February). Annually, credits to citizens and enterprises surged by 27.6% and 23.7%, respectively.

From currency point of view, Denar credits (including credits with foreign currency clause) increased by 26.1% annually. Foreign currency credits increased by 22.9% annually. Compared to the previous month, Denar credits grew by 0.7%, while foreign currency credits remained almost unchanged, experiencing 0.02% decline.

4.4. In March 2009, average weighted interest rate on Denar credits was higher by 0.2 p.p., amounting to 9.9%. Average interest rate on foreign currency credits increased by 0.4 p.p. compared to February, being at the level of 7.4%. With respect to last year, interest requirements of the banks were tightened, i.e. average interest rate on Denar credits grew by 0.2 p.p.. On the other hand, interest rate on foreign

² Total deposit potential includes non-monetary and quasi-deposits.

³ Starting January 2009, deposits include calculated interest.

currency credits declined by 0.8 p.p. on annual basis. When analyzing the banks on the basis of their size, large banks had the lowest weighted interest on debit balance, 9.2% on Denar credits and 7.1% on foreign currency credits. In March, interest rate on credit balance on Denar deposits was lower by 0.2 percentage point compared to the previous month, amounting to 6.6%, and it surged by 1.0 percentage point on annual basis. Average interest rate on foreign currency deposits remained at the same level as in the previous month, amounting to 3.2%, and it increased by 1.0 p.p. on annual basis.

4.5. Gross foreign exchange reserves amounted to EUR 1,267.8 million in March 2009, and compared to December 2008, they declined by 15.2% (EUR 227.2 million). On monthly basis, they decreased by 10.3%, i.e. EUR 145.8 million, in conditions of net purchase on the foreign exchange market in the amount of EUR 130.1 million. NBRM, through foreign currency transactions, mopped up liquid assets. Increased demand for foreign assets was registered on the foreign exchange market, leading to sale of foreign assets by NBRM.

5. Social Sector

5.1. In the period January-March 2009, Employment Agency of the Republic of Macedonia registered total of 58,397 new employments. In fact, 42.7% out of the total number of newly employed was full-time employees, while the rest was temporary employment and seasonal works. Compared to the same period last year, number of newly employed persons increased by 8.3%.

In March, 21,467 new employments were registered, whereby 25.9% of the new employments were from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 9,819 persons in March, 55.6% out of which were new employments. As inflow to the Agency, 9,982 persons were registered, 54.7% of which were persons that terminated their employment.

As a result, unemployment increased by 163 persons, i.e. 0.05% compared to the previous month. There were 351,278 unemployed persons in March 2009.

Thereby, 71,421 persons (20.3%) out of the persons registered as unemployed declared that they applied only to exercise the right to health insurance, and the remaining persons actively sought job. Number of unemployed persons, compared to the same month in the previous year, declined by 1.8%.

Major percentage of the unemployed, i.e. 66.2%, came from urban areas (cities), whereby 57.7% were men. According to the education structure, major part, i.e. 52.7% of the unemployed persons were unskilled or semi-skilled, while only 7.1% were with community college or higher education level. Observed by age, majority of the unemployed or 59.7% fall in the category of 25-49 years of age. According to the time they waited for a job, 50.2% of the unemployed persons sought job from one to seven years, while 30% sought job for eight years and more.

5.2. In March 2009, PDF registered 273,115 pensioners, being an increase by 0.17% on annual level. Number of pension beneficiaries increased by 29 persons in relation to the previous month.

In March, Denar 2,650.13 million was spent for payment of pensions, being 49.3% of the total social transfers in the state Budget.

Average pension in March 2009 amounted to Denar 9,865, being an increase by 11.2% on annual level. Ratio between the average pension and the average paid salary in February 2009 (the most recent available data) amounted to 50.3%.

5.3. Number of social welfare beneficiaries in March 2009 was 53,053 households, which was a slight decline by 149 beneficiaries compared to previous month.

Thereby, around Denar 133.8 million was spent for payment of social welfare, i.e. 52% of social welfare payments under all bases. Around Denar 83 million was spent on the basis of third person care for 19,484 persons in March, i.e. 32.2% of payments under all bases. In March, 5,352 persons were registered as beneficiaries of permanent pecuniary allowance, for which around Denar 20.8 million was spent, while 5,497 persons used healthcare for which Denar 8.1 million was spent. Thereby, around Denar 11.7 million was spent for payment of other rights, i.e. 4.5% of social welfare payments under all bases. These welfare-related payments accounted for 4.6% of the total social transfers realized in March.

5.4. In the period January-February 2009 (the most recent available data), compared to the same period in 2008, there was an increase of the average nominal and real net salary by 27.5% and 26% respectively.

In February 2009, average net salary per employee amounted to Denar 19,598, which was an increase by 28.9% on monthly basis in nominal terms, while on annual basis, there was 28% increase recorded. Percentage of employees who did not receive salary in February 2009 was 2.8%, being lower by 6.7% compared to the same period previous year.