



**REPUBLIC OF MACEDONIA  
MINISTRY OF FINANCE  
Macroeconomic Policy Department**

**SHORT-TERM ECONOMIC TRENDS**

**June 2009**



**Skopje, August 2009**

**SUMMARY**  
**OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS**

**June 2009**

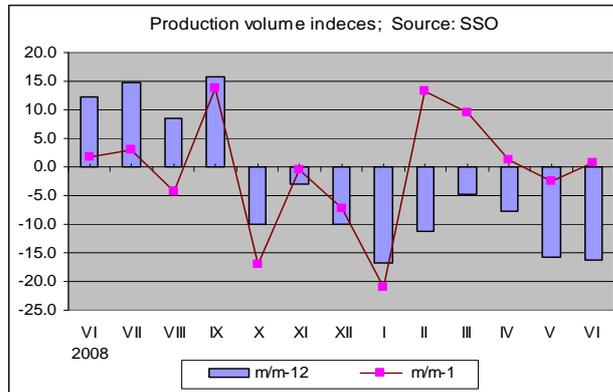
- **Industrial production dropped by 16.2% in June 2009 on annual basis**
- **Annual inflation rate was 1.7%**
- **Increase of prices of nickel and oil derivatives by 18.4% in relation to May**
- **Annual decline of export of goods (euros) by 33.8% in the first half in 2009, with simultaneous drop of import of goods by 24%**
- **In the first half in 2009, compared to last year, total central government budget revenues dropped by 5.3%, while total expenditures increased by 23.6%**
- **Increase of foreign exchange reserves on monthly basis by 3.2% or by EUR 36.8 million**
- **Declining trend of unemployment continues, dropping by 1,441 persons compared to May, with 347,622 persons registered at end-June**

## 1. Real Sector

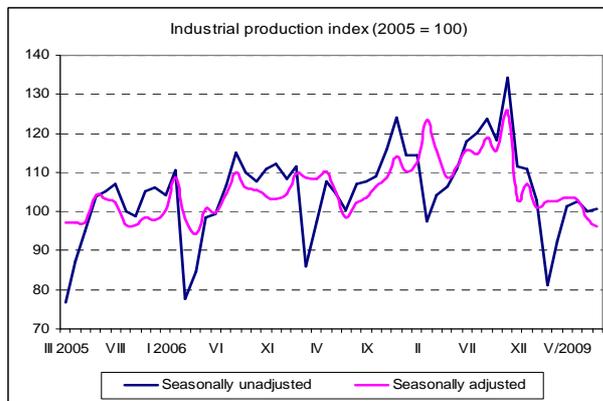
### 1.1. Index of industrial production in the first half in 2009, compared to the same month last year, dropped by 12.1%.

Compared to the previous month, industrial production experienced improvement by 0.7% in June. However, on annual basis (compared to June 2008), there was high decline by 16.2%. The industrial production cycle, as well as the high comparative basis, were the reasons for such trend. Thereby, seasonal effects are excluded as a factor for the production decline in June.

Analysis of the physical production index on annual basis by sector and branch shows that negative results in June were due to the reduced activity in even 18 out of the 24 industrial branches. Highest negative impact on the decline of industrial production (6 percentage points of the total decline of 16.2%) was registered in the reduced production in the base metals sector by 51.8%. Mining experienced 30.8% decline. Decline was also registered especially in the branches with high value added of finished goods, such as production of other means of transport (-76.8%), production of furniture (-50.6%), production of machines and devices (-45.7%), production of electrical machines and devices (-31.8%), etc. Highest production growth on annual basis was registered in the electricity, gas and water supply sector by 25.5%.



According to the expectations of the enterprise managers, economic situation present in the enterprises in June 2009 was estimated as more favourable compared to the previous months. Estimate of the current situation and the on-going procurement of raw materials and intermediate goods in June was better compared to the one in May. Accordingly, rate of utilization of capacities was higher in June.



According to the managers, following factors limited the most the production volume in June 2009: insufficient foreign demand (23.5%), insufficient domestic demand (17.1%), financial problems (13.1%) and uncertain economic surrounding (11.6%). Estimate of the expected production volume in the coming period is more favourable, as well as the estimate of the number of employees in the coming period.

**In June 2009, number of employees in the industry dropped by 6.3% in relation to the same month last year.** Number of employees in the sector for extraction of ore and stone was lower by 10.5% on annual basis, while employment in the processing industry dropped by 6.2%.

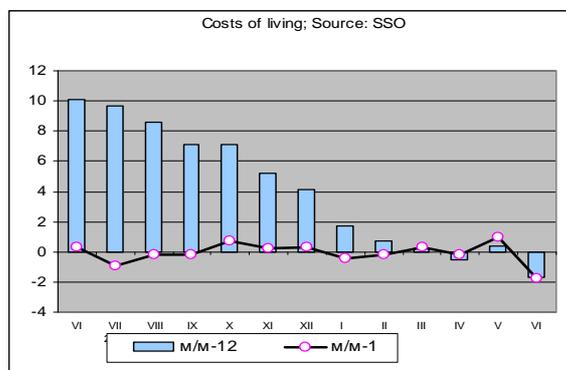
**1.2. In June 2009, prices of personal consumption goods, measured through the CPI index, declined by 1.7% compared to the same month last year.**

The decline was mainly due to the decline registered at means of transport and services by 12.1%, food by 3%, and clothing and footwear by 1.2%.

CPI index in June 2009, compared to May 2009, was lower by 1.8%.

Value of the consumer basket of food and beverages for a four-member household in June 2009, calculated on the basis of retail prices, was Denar 11,986, and compared to the previous month, it was lower by 7.7%.

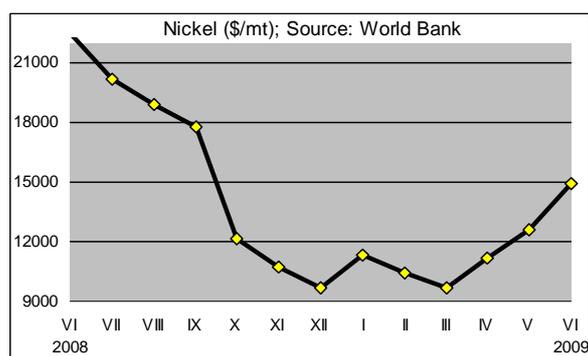
Retail price index in June 2009, in relation to June 2008, declined by 2.4%. Retail prices were lower by 0.5% on monthly basis. Reduction of prices by 14.9% was most evident in the group of agricultural products.



### 1.3. In June 2009, global stock markets experienced increase in oil prices and prices of most metal products.

In June, oil price on world stock markets increased by 18.4% compared to the previous month, reaching the price of US\$ 68.62 per barrel. Compared to June last year, oil price declined by 48.4%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 18.4% on monthly basis, reaching US\$ 14,960 for a metric ton (\$/mt). Price of copper surged by 9.7% in June compared to May, reaching US\$ 5,014 for a metric ton (\$/mt), while price of gold remained almost unchanged in relation to the previous month. Prices of steel and steel sheets remained stable.

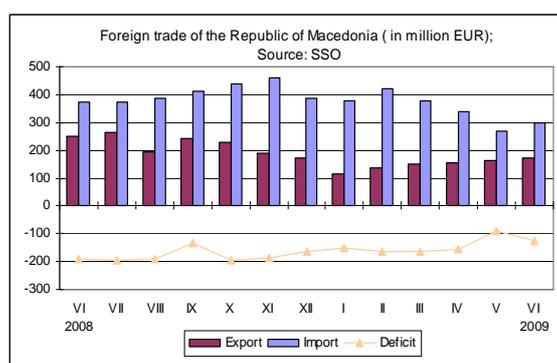


## 2. External Sector

### 2.1. In the first half in 2009, total foreign trade (expressed in euros) dropped by 27.7% in relation to the same period last year.

Thereby, physical output of export declined by 39.5%, while its value reached EUR 892.6 million, being a drop by 33.8%. Imported quantity of goods declined by 30.7%, and it amounted to EUR 1,742 million, being a drop by 24%.

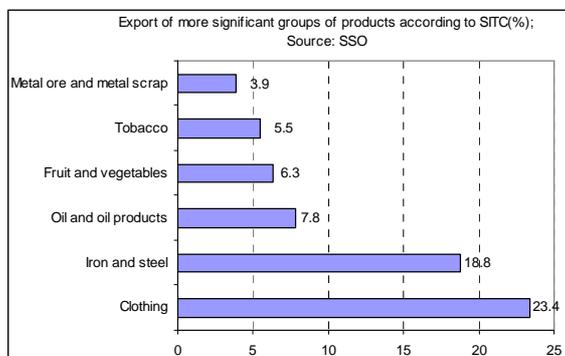
In conditions of such trends at the import and export of goods, trade deficit in the first six months in 2009 amounted to EUR 849.4 million, declining by 10% on annual basis (EUR 94.5 million), whereby reduced import of iron and steel and their products



accounted for the most. This resulted in drop of the import coverage by 7.6 percentage points compared to the same period in 2008, amounting to 51.2%.

**2.2. Main import goods (according to SITC) having the biggest share in export** in the first half in 2009 are the following: clothing – 23.4%, iron and steel – 18.8%, beverages and tobacco – 7.8%, oil and oil products – 6.3%, fruit and vegetables – 5.5%, metal ore and metal scrap – 3.9%. These six groups of products comprised 65.7% of the total export of goods.

The following participated the most in the import of goods in the first half in 2008 on cumulative basis: oil and oil products (EUR 190.9 million, 13.2%), textile yarns and similar (EUR 138.8 million, 9.6%), road vehicles (EUR 108.3 million, 7.5%), iron and steel (EUR 93.4 million, 6.5%), industrial machines and spare parts (EUR 66.9 million, 4.6%) telecommunication devices (EUR 56.5 million, 3.9%), etc.



**2.3.** Analysed by regions, during the first half in 2009, European Union (EU 27) participated with 53,3% in the total foreign trade (55.6% export of goods and 52.1% import of goods). Export to the European Union was significantly lower by 38.1%, while the import experienced slower decline by 15.5% compared to the same period in 2008.

During the analysed period, 74.2% of the trade deficit of the country was realized in the trade with Russia, China, Turkey, Italy, Slovenia, Switzerland, Greece, Poland and Austria.

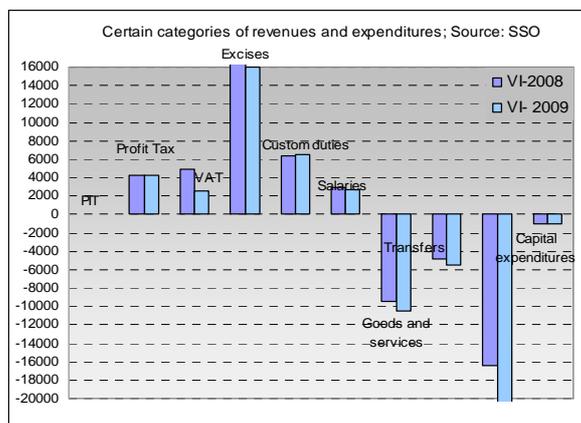
**2.4.** Observed by currency structure, 78.3% of the foreign trade in the period January-June 2009 was realized in euros, and compared to the same period last year, it increased by 4.7 percentage points. On export and import side, EURO accounted for 83.7% and 75.5% respectively, and in relation to the first six months last year, increase was evidenced at export by 6.5 percentage points, while import increased by 4.1 percentage points.

### 3. Fiscal Sector

**3.1. During the first half in 2009, total central budget revenues reached the amount of Denar 38,955 million (9.5% of GDP), dropping by 5.3% in relation to the same period last year.**

Tax revenues in this period were realized in the amount of Denar 33,232 million, being lower by 11.9% in relation to same period last year.

Share of VAT in total tax revenues in the first six months in 2009 was dominant and it amounted to 48.1%, while excises accounted for 19.4%, whereby revenues in the amount of Denar 22,435 million were realized on the basis of these two taxes, i.e. 67.5% (or 2/3) of the total tax revenues. Analyzed by categories, VAT revenues dropped by 11.2%, profit tax revenues declined by 46.7% (partly due to changes in the regulations - starting 2009, no undistributed profit tax is paid),



customs revenues decreased by 12.5%, while excises surged by 1.5%, and PIT revenues experienced increase by 0.4%, compared to the same period last year. Non-tax revenues increased by 83.6% in relation to the same period last year, due to the payment of Telecom dividend in May in the amount of Denar 2,383 million.

**3.2. In this period, total central budget expenditures amounted to Denar 44,566 million (10.9% of GDP), being by 23.6% more compared to the same period in 2008.**

With respect to the structure of total realized expenditures, current expenditures (Denar 39,368 million) accounted for 88.3% and were higher by 23.8% compared to the same period last year, while capital expenditures participated with 11.7%.

The biggest expenditure items were transfers (Denar 22,338 million), followed by salaries and allowances (Denar 10,453 million). With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 23.4% in June, which was 10.5% increase in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 5,533 million, i.e. by 14.1% more compared to 2008.

With regard to transfers, 36.0% more resources (Denar 5,909 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 50.1%. 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). In addition, significant portion of the transfers were intended for agricultural subsidies. Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 7,282 million or by Denar 2,396 million higher (49.0% increase). Interest was collected in the amount of Denar 1,044 million, being by 1.6% less compared to the same period in 2008.

During the analysed period, capital expenditures amounted to Denar 5,198 million, being an increase by 21.9% compared to the same period in 2008, accounting for 1.3% of GDP.

**3.3. Thus, in the period January-June 2009, central government budget deficit reached the amount of Denar 5,611 million (1.4% of GDP), while consolidated budget deficit amounted to Denar 5.527 million (1.4% of GDP).**

#### 4. Monetary Sector

**4.1. In June 2009, primary money<sup>1</sup> dropped by 4.7% on annual basis (compared to the increase by 0.6% in May), in conditions of decline of total liquid assets of the banks by 0.9% and decline of the demand for ready money in circulation by 8.8%.**

On monthly basis, primary money increased by 4.9%, due to the increase of the total liquid assets of the banks by 11.1% and the lower demand for ready money in circulation by 1.9%.

In June 2009, with respect to the requirements for volume tenders, interest rate on central bank bills was the same as in May, amounting to 9%.

Interest rates on government securities were as follows: 9.3% on three-month treasury bills and 8.99% on six-month government bonds.

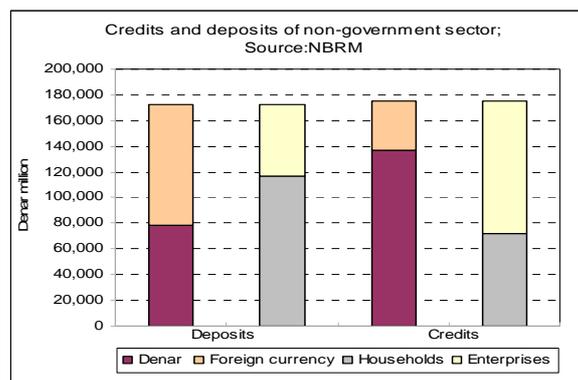
<sup>1</sup> Primary money is calculated as a sum of ready money in circulation, cash in hand and on the accounts of the bank, including the reserve requirement of foreign currency deposits.

Total of 3 auctions were held by applying interest rate tender for three- and six-month government bonds, as follows: two auctions of three-month treasury bills and one auction of six-month treasury bills.

**4.2. Total deposit potential of non-government sector<sup>2</sup> in June continued to decline, experiencing only 2.1% increase on annual basis, compared to 2.9% in May. Total deposits experienced slight increase by 0.8% on monthly basis, due to the increase of both the Denar and the foreign currency deposits.**

In June 2009, despite the decline in the previous month, Denar deposits increased by 0.7% on monthly basis, while foreign currency deposits surged by 0.8%. On annual basis, Denar deposits declined by 12.1%, while foreign currency deposits increased by 19.5%.<sup>3</sup>

From the point of view of sector structure, deposits of the corporate sector increased by 0.6% on monthly basis, while savings of the households were higher by 0.8%. With respect to last year, household deposits were higher by 10.7%, while deposits of enterprises were lower by 22.2%.



**4.3. In June 2009, downward trend, i.e. negative growth of credits to private sector continued. Monthly decline of credits by 0.6% was mainly due to decline of credits to enterprises. With respect to last year, credit growth further slowed down, reaching only 14.3%.**

Monthly decline of credits to enterprises in June was 1.1% (compared to 0.7% in April), while credits to households increased by 0.2% (compared to 0.4% increase in May). Annually, credits to households and enterprises surged by 16.3% and 12.9% respectively.

From currency point of view, Denar credits (including credits with foreign currency clause), increased by 15.5% annually, continued to register slow down in their dynamics. Foreign currency credits experienced slower growth by 10.4% annually. Compared to the May, Denar credits were lower by 0.3%, while foreign currency credits declined by 1.7%.

**4.4. In June 2009, average weighted interest rate on Denar credits remained at the same level as in the previous month, amounting to 10.1%. Average interest rate on foreign currency credits was higher by 0.2 p.p. compared to the one in May, amounting to 7.7%. With respect to last year, interest requirements of the banks were tightened, i.e. average interest rate on Denar credits grew by 0.5 p.p.. On the other hand, interest rate on foreign currency credits declined by 0.5 p.p. on annual basis.**

Interest rate on credit balance on Denar deposits remained unchanged in June 2008 on monthly basis, amounting to 6.8%, and it surged by 1 percentage point on annual basis. Average interest rate on foreign currency deposits increased by 0.3 p.p. compared to May, amounting to 3.5%, and it increased by 1.2 p.p. on annual basis.

Thereby, large banks had the lowest weighted interest on debit balance, 9.7% on Denar credits and 7.2% on foreign currency credits.

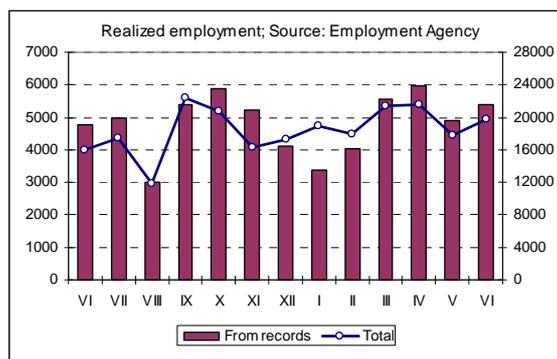
<sup>2</sup> Total deposit potential includes non-monetary and quasi-deposits  
<sup>3</sup> Starting January 2009, deposits include calculated interest

4.5. Gross foreign exchange reserves amounted to EUR 1,201.6 million in June 2009, and compared to December 2008, they declined by 19.5% (EUR 291.3 million). However, on monthly basis, they experienced increase by 3.2% or EUR 36.8 million in conditions of net purchase on the foreign exchange market in the amount of EUR 20 million. NBRM, through foreign currency transactions, created liquid assets.

## 5. Social Sector

5.1. In the period January-June 2009, Employment Agency of the Republic of Macedonia registered total of 117,584 new employments. In fact, 43.3% 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 13.1%.

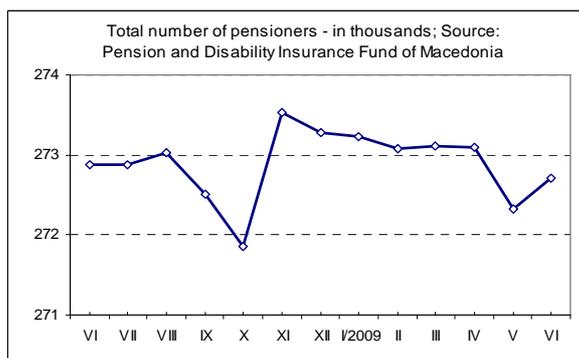
In June alone, 19,772 new employments were registered, whereby 27.3% of the new employments were from the unemployed records. Outflow of persons from the



Employment Agency Registry amounted to 8,966 persons in June, 57.5% out of which were new employments. 7,525 persons were registered as inflow to the Agency, 51.5% of which were persons whose employment was terminated. **As a result, unemployment reduced by 1,441 persons, i.e. 0.4% compared to the previous month. Thus, there were 347,622 unemployed persons in June 2009.**

Thereby, 70,179 persons (20.2%) 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 0.2%.

Major percentage of the unemployed, i.e. 66%, came from urban areas (cities), whereby 57.8% were men. According to the education structure, major part, i.e. 52.9% of the unemployed persons were unskilled or semi-skilled, while only 7.3% 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, 50.1% of the unemployed persons sought job from one to seven years, while 29.8% sought job for eight years and more.



5.2. In June 2009, PDF registered 272,717 pensioners, being an increase by 0.02% on annual level. Number of pension beneficiaries increased by 387 persons in relation to the previous month.

In June, Denar 2,651.39 million was spent for payment of pensions, being 49.7% of the total social transfers in the state Budget.

Average pension in June 2009 amounted to Denar 9,875, being an increase by 11.3% on annual level. Ratio between the average pension and the average paid salary in May 2009 (the most recent available data) amounted to 49.1%.

**5.3. In the period January-May 2009 (the most recent available data), compared to the same period in 2008, there was an increase of the average nominal and real monthly net salary by 27.8% and by 27.2% respectively.**

In May 2009, average net salary per employee amounted to Denar 20,112, which was an increase by 27.9% on annual basis in nominal terms, and by 27.4% in real terms. Percentage of employees who did not receive salary in May 2009 was 3.8%, being lower by 5.2% compared to the same period previous year.

