

## **SHORT-TERM ECONOMIC TRENDS**

**August 2008**

### **SUMMARY OF THE MOST IMPORTANT SHORT-TERM**

### **ECONOMIC TRENDS IN AUGUST 2008**

- **Industrial production increased by 8.7% on annual basis**
- **Inflation stabilized at 8.6% on annual level, experiencing 0.2% monthly decline**
- **Increased export of goods (Euros) by 12.1% in the period January-August 2008, with simultaneous growth of import of goods by 36.9%**
- **Increase of central budget revenues by 9.8% in the period January-August 2008, with simultaneous increase of expenditures by 16.3% (strong increase of capital expenditures by 87.6%)**
- **Slowed down dynamics of crediting in August 2008, however, there was a strong surge by 39.9% on annual basis  
Strong increase of total deposits by 22.3% as well**
- **Continuous declining trend in the number of registered unemployed persons in the Employment Agency, reaching 344,323 persons in August**

## 1. Real Sector

### **1.1. Cumulative index of industrial production in the period January - August 2008, compared to the same period last year, increased by 9.7%.**

Thereby, in August 2008, industrial production index grew by 8.6% in relation to August 2007.

Analyzed by sectors, cumulative increase in the industrial production during the analyzed period was due to the increase in the ore and stone extraction sector by 10.0% and in the processing industry by 10.9%.

Regarding the processing industry, having the largest share in the total index (83.94%), main growth drivers were the production of food products and beverages which grew by 5.3%, tobacco industry by 12.4%, oil industry by 18.4%, publishing activity, printing and reproduction of recorded media by 46.0%, chemical industry by 11.3%, production of base metals by 9.3%, production of metal products in the metal-processing phase by 72.3%, recycling by 232.4%, as well as production of machines and devices, not mentioned elsewhere, by 18.2%.

### **1.2. In the period January-August 2008, prices of producers of industrial products increased by 12.9% in relation to the same period last year, following the upward trend of costs of living.**

Growth was mainly due to increased prices of producers of industrial products in the processing industry by 15.4%, in particular food industry by 11.4%, oil industry by 35.6%, production of base metals by 23.6% and production of electrical machines and devices, not mentioned elsewhere, by 21.7%.

Compared to the previous month, prices of producers of industrial products dropped by 2.2% in August. Thus, one can also expect in the coming period for the prices of final goods to experience certain decline.

### **1.3. In the period January - August 2008, prices of personal consumption goods, measured through CPI index, grew by 9.5% compared to the same period last year.**

Costs of living in August 2008, compared to August 2007, increased by 8.6%. This increase was mainly due to the higher costs for food by 14.7%, restaurants and hotels by 14.1%, services by 7.4%, traffic means and services by 5.2%, tobacco and beverages by 4.3%, housing by 7.3%, flats (rents, water and other services) by 5.7%, etc.

CPI index in August 2008, compared to July 2008, was lower by 0.2%.

Value of the consumer basket of food and beverages for a four-member household in June 2008, calculated on the basis of retail prices, was Denar 11,957, and compared to the previous month, it was lower by 0.6%.

### **1.4. In August 2008, global stock markets experienced decline in the prices of most metal and food products.**

In August, oil price on world stock markets dropped by 14.9% compared to the previous month, reaching the price of US\$ 113.85 per barrel. Compared to August last year, oil price grew by 60.8%.

Regarding metal products, price of nickel, as a product having high share in Macedonian export, dropped by 6.1% on monthly basis, reaching US\$ 18.928 for a metric ton (\$/mt).

During this period, prices of steel and steel sheets remained stable four months in a row. It is about a seasonal several-month stable stock exchange index, which occurs after the price of these products surges on the stock exchange.

## 2. External Sector

### **2.1. In the period January-August 2008, total foreign trade (expressed in euros), experienced increase by 26.6% in relation to the same period last year.**

Thereby, physical volume of export grew by 6.3%, while its value reached EUR 1,809.4 million, being an increase by 12.1%. Increase in the imported quantity of goods was 12%, and its value was EUR 3,141.2 million, being a rise by 36.9%. In conditions of such trends, mainly due to the more intensive value increase of the import compared to the export, trade deficit in this period grew by 95.8% (EUR 651.6 million) in relation to the deficit realized by end-August 2007, amounting to EUR 1,332.8 million. Higher deficit in the period January-August 2008 was mainly result of the increase in the negative balance regarding energy trade (EUR 227.3 million), i.e. the increased import of oil and oil products (76.2%) and electricity (150.5%). Decrease in the positive trade balance of iron and steel by EUR 142.1 million in the eight months this year, compared to the same period in 2007, also accounted for significant share (21.8%) in deepening the trade deficit. At the same time, 10.4% of the increased deficit was due to the increase in the import of road vehicles by 50.3%.

### **2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following: iron and steel – 34.2%, clothing – 17.7%, oil and oil products – 7.9%, metal ore and metal scrap – 6.1%, beverages and tobacco – 5.3%, fruit and vegetables – 3.7%. These six groups of products comprise 75% of the total export of goods.**

The following participated the most in the import of goods in the period January-August: oil and oil products (EUR 479.4 million), iron and steel (EUR 384.3 million), road vehicles (EUR 204.8 million), textile yarns and similar (EUR 203.4 million), electricity (EUR 162.6 million), metal ore and metal scrap (EUR 125.6 million), industrial machines and spare parts (EUR 94.2 million), etc.

**2.3.** Analysed by regions, during the eight months in 2008, European Union (EU 27) participated the most in the total foreign trade with 51.8% (60.5% export of goods and 46.8% import of goods). Export to the European Union was higher by 3.7%, while the import experienced more intensive growth by 29.5% compared to the same period in 2007. During the analyzed period January-August 2008, 82.7% of the trade deficit of the country was realized in the trade with Russia, China, Switzerland, Poland, Turkey, Ukraine and Slovenia.

**2.4.** Observed by currency structure, EURO is becoming more and more dominant, whereby 73.3% of foreign trade is realized in euros, and compared to the same period last year, it increased by 3.9 percentage points (p.p.). On export and import side, EURO accounted for 77.8% and 70.8% respectively, and in relation to the same period last year, more intensive increase was evidenced at export by 8.6 p.p., while import increased by 1.1 p.p..

## 3. Fiscal Sector

**3.1. In the period January-August 2008, total central government budget revenues reached an amount of Denar 54,581 million (13.9% of GDP), which was 9.8% increase in relation to the same period last year. Such increase of revenues was due to the intensified economic activity and improved collection**

**of tax revenues, and partially to the increased consumption, especially evident at revenues on the basis of indirect taxes.**

Tax revenues in this period were in the amount of Denar 50,542 million, which was 14.3% growth in relation to same period

last year.

Share of VAT in total tax revenues in the first eight months in 2008 amounted to 48.3%, while excises accounted for 17.4%, whereby revenues in the amount of Denar 33,209 million were realized on the basis of these two taxes, i.e. almost 2/3 the total tax revenues (8.5% of GDP). Analyzed by categories, VAT revenues significantly increased by 13.6%, excise revenues by 7.0%, profit tax revenues increased by 45.3%, i.e. so-far realized 66.2% in relation to supplementary budget (although with 10% decreased rate), customs revenues surged by 11.5%, while PIT revenues increased by 3.1% compared to the same period last year, despite the reduced and unified 10% tax rate. Non-tax revenues dropped by 35.4% compared to the same period last year.

**3.2. In the period January - August 2008, total central budget expenditures amounted to Denar 47,037 million (12.0% of GDP), being by 16.3% more compared to the same period in 2007.**

With respect to the structure of realized total expenditures, current expenditures (Denar 41,949 million) accounted for 89.2%, while capital expenditures participated with 10.8%.

The biggest expenditure items were transfers (Denar 21,721 million) and salaries and allowances (Denar 12,447 million). With respect to the total central government budget expenditures, expenditures related to wages and salaries and allowances accounted for 26.5% in this period, which was 18.2% decline in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 6,503 million, i.e. by 33.6% more compared to 2007.

With regard to transfers, 34.7% more resources were spent compared to the same period in 2007, and were the largest expenditure item, i.e. their share in total expenditures was 46.2% (5.5% of GDP). Such results were 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 62 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 6,546 million or by Denar 212 million lower (3.1% drop). Interest was collected in the amount of Denar 1,278 million, being by 17.5% less compared 2007.

During the analyzed period, capital expenditures amounted to Denar 5,088 million, being an increase by 87.6% compared to the same period in 2007.

**3.3. Thus, in the period January-August 2008, central government budget surplus reached the amount of Denar 7,544 million (1.9% of GDP), while consolidated budget surplus amounted to Denar 6,847 million (1.7% of GDP).**

#### **4. Monetary Sector**

4.1. In August 2008, primary money<sup>1</sup> increased by 11.8% on annual basis (9.1% in July), which, in conditions of unchanged level of ready money in circulation, was fully due to the stronger increased of total liquid assets of the banks by 23.2%.

<sup>1</sup> Примарните пари се пресметани како збир од готовите пари во оптек, готовината во благајна и сметките на банките вклучително задолжителната резерва на девизните депозити.

**On monthly basis, primary money dropped by 7.2%, due to the more intensive decrease of the total liquid assets of the banks by 10.8% and the decrease of ready money in circulation by 2.3%.**

**In August 2008, 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: 7.39% on three-month treasury bills, 7.76% on six-month and 8.25% on twelve-month treasury bills.

Two auctions of three-month treasury bills, one auction of six-month treasury bills and one auction of two-year treasury bills were held in August.

**4.2. Total deposit potential of non-government sector surged by 22.3% in relation to last year (compared to 19.5% in July 2008). Total deposits were higher by 2.1% on monthly basis, fully due to the increased saving in foreign currency.**

In August 2008, Denar deposits remained unchanged on monthly basis, while foreign currency deposits realized strong increase by 3.1%. Denar and foreign currency deposits increased by 23.7% and 21.2% respectively on annual basis.

From the point of view of sector structure, increased savings of the population had dominant share (54.8%) in the monthly increase of total deposits. Savings of the corporate sector grew by 2.8% on monthly basis, while savings of the population increased by 1.8%. With respect to last year, deposits of citizens and of enterprises were higher by 19.6% and 25.9% respectively.

Analysis of the maturity structure showed strong increase of short- and long-term deposits in August on annual basis by 19.2% and 60.7% respectively. Short-term deposits increased by 1.6% on monthly basis, while long-term deposits grew by 7.0%.

**4.3. In August 2008, credits to private sector experienced slowdown. Monthly increase of credits by 1.4% was mainly due to increased credits to citizens (64.5%). With respect to last year, credit growth also slowed down and it was 39.9% (compared to 41.9% in July).**

Monthly increase of credits to citizens in August was lower, amounting to 2.3%, while credits to enterprises experienced increase by only 0.8% (compared to 3.0% previous month). Annually, credits to citizens and enterprises surged by 49.5% and 34.2%, respectively.

With respect to credits to enterprises, short- and long-term credits to enterprises increased by 31.6% and 36.4% respectively on annual basis. Monthly, short-term credits to enterprises grew by 0.2%, while long-term ones were higher by 1.3%.

From currency point of view, Denar credits (including credits with foreign currency clause) increased by 42.8% annually. Foreign currency credits increased by 31.5% annually. Compared to the previous month, Denar credits grew by 1.2%, having dominant share in total credit growth. Foreign currency credits were higher by 2.1%.

**4.4. In August 2008, average weighted interest rate on Denar credits remained unchanged, amounting to 9.6%.** Average interest rate on foreign currency credits dropped by 0.1 p.p. compared to the previous month, being at the level of 8.0%. With respect to last year, interest requirements of the banks were loosed, i.e. average interest rate on Denar and foreign currency credits dropped by 0.5 p.p.. When analyzing the banks on the basis of their size, large banks had the lowest weighted interest on debit balance, 8.7% on Denar credits and 8% on foreign currency credits. Interest rate on credit balance on Denar deposits also increased by 0.1 p.p. in August 2008 on monthly basis, amounting to 6.0%, and it surged by 0.9 p.p. on annual basis.

Average interest rate on foreign currency deposits increased by 0.1 p.p. compared to the previous month, amounting to 2.4%, and it increased by 0.5 p.p. on annual basis.

**4.5. Gross foreign exchange reserves amounted to EUR 1,599.6 million in August 2008, and compared to December 2007, they increased by 4.9%. On monthly basis, they experienced strong increase by 2.7% in conditions of net purchase on the foreign exchange market in the amount of EUR 36.0 million.** In fact, EUR 36.0 million was purchased on the foreign exchange market in August, and no sale was recorded. NBRM created liquidity through transaction on the foreign exchange market.

## 5. Social Sector

**5.1. In the period January-August 2008, Employment Agency of the Republic of Macedonia registered total of 133,302 new employments. In fact, 43,3% out of the total number 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 12.9%.**

Thereby, in August, 11,899 new employments were registered, whereby 25.3% of the new employments were from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 8,003 persons in August, 39% out of which were new employments. As inflow to the Agency, 6,819 persons were registered, 48.8% of which were persons that terminated their employment.

**As a result, unemployment declined by 1,184 persons, i.e. 0.34% compared to the previous month. There were 344,323 unemployed persons in August 2008.** Thereby, 72,381 (21%) out of which declared that they applied only to exercise the right to health insurance, and the remaining persons actively sought job. Compared to the same period last year, number of unemployed persons declined by 4.8%.

Major percentage of the unemployed, i.e. 66.7%, came from urban areas (cities), whereby 58.1% were men. According to the education structure, major part, i.e. 52.6% of the unemployed persons were unskilled or semi-skilled, while 7% were with community college or higher education level. Observed by age, majority of the unemployed (60.7%) fall in the category of 25-49 years of age. According to the time they waited for a job, 52.1% of the unemployed persons sought job from one to eight years, while 30.9% sought job for more than eight years.

**5.2. In August 2008, PDF registered 273,030 pensioners, being an increase by 1% on annual level. Compared to the previous month, number of pension beneficiaries declined by 149 persons.**

This month, Denar 2,530.9 million was spent for payment of pensions.

Average pension in August 2008 amounted to Denar 9,475, being an increase by 21% on annual level. Ratio between the average pension and the average net paid salary in July 2008 (last available data) amounted to 59.9%.

**5.3. Number of social welfare beneficiaries in July 2008 (the most recent available data) was 58,138 households, which was a slight decline compared to previous month.**

Thereby, around Denar 135.7 million was spent for payment of social welfare, i.e. 56.6% of payments under all bases. Around Denar 81.1 million was spent on the basis of third person care for 19,485 persons in July, i.e. 33.8% of payments under all bases. In July, 5,314 persons were registered as beneficiaries of permanent pecuniary allowance, for which Denar 18.5 million was spent, while 5,128 persons used healthcare for which around Denar 4.2 million were spent. These welfare-related payments accounted for 4.2% of the total social transfers realized in July.

**5.4. In the period January–July 2008 (last available data), compared to the same period in 2007, there was an increase in the average nominal and real net salary by 10.2%, i.e. by 0.5%.**

In July 2008, average net salary per employee amounted to Denar 15,808, being an increase by 10.5% on annual basis in nominal terms, while average salary was higher by 1% in real terms.

Percentage of unemployed receiving no salary was 8.8% in July. Compared to the same period last year, it was lower by 3.1 p.p.