



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

SHORT-TERM ECONOMIC TRENDS

August 2009



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SUMMARY
OF THE MOST IMPORTANT SHORT-TERM ECONOMIC
DEVELOPMENTS

August 2009

- **Industrial production increased by 7.5% on monthly basis**
- **Annual inflation rate was -1.4%**
- **Annual decline of export of goods (euros) by 33% in the first eight months in 2009, with simultaneous drop of import of goods by 25.1%**
- **Lower realization of central budget revenues by 5.1% (13.1% of GDP), and increase of total expenditures by 24.1% (14.7% of GDP) in the period January-August 2009 compared to the same period last year**
- **Increase of gross foreign exchange reserves by 0.7% (EUR 1,505.0 million) in August 2009 compared to December 2008, with a simultaneous monthly increased by 8.0% or EUR 111.6 million, in conditions of net purchase on the foreign exchange market in the amount of EUR 25,0 million**
- **Increase in the number of newly employed persons by 16% in the period January-August 2009**

1. Real Sector

1.1. Index of industrial production in the period January-August 2009, compared to the same period last year, dropped by 12.8%.

Index of industrial production in August 2009, compared to the same month last year, increased by 7.5%.

Analysis of the index by sectors of industrial production in August 2009, in relation to the previous month, showed that positive results were due to the increase in the ore and stone extraction sector by 7.0%, processing industry by 6.4%, as well as electricity, gas and water supply sector by 21.2%.

As for the processing industry, growth was seen in several branches, the highest one observed at production of base metals by 12.2%, and production of non-metal minerals by 8.4%.

Index of industrial production dropped by 9.9% on annual basis, i.e. it was halved compared to last year.

De-seasoned growth of industrial production was 8.7%, showing that if seasonal component is excluded, growth was by 1.7 percentage points higher.

According to the expectations of enterprise managers, economic situation present in the enterprises in August 2009 was estimated as more favourable compared to the previous two months, and compared to the August 2008, it was much unfavourable.

According to the managers, following factors limited the most the production volume in August 2009: insufficient foreign demand (25.0%), insufficient domestic demand (17.1%), uncertain economic surrounding (13.5%) and financial problems (11.6%).

In August 2009, number of employees in the industry dropped by 9.8% in relation to the same month last year. Number of employees in the sector for extraction of ore and stone was lower by 12.9% on annual basis, while employment in the processing industry dropped by 10.2%.

1.2. In August 2009, prices of personal consumption goods, measured through the CPI index, declined by 1.4% compared to the same month last year.

The decline was mainly due to the decline registered at means of transport and services by 9.6%, food by 2.0% and services by 2.7%.

CPI index in August 2009, compared to July 2009, was lower by 0.3%.

Value of the consumer basket of food and beverages for a four-member household in August 2009, calculated on the basis of retail prices, was Denar 11,825, and compared to the previous month, it was lower by 0.5%.

Retail price index in August 2009, in relation to August 2008, declined by 2.1%.

1.3. In August 2009, prices of most of metals and energy sources on the world stock markets increased, while prices of food products experienced slight drop.

In August, oil price on world stock markets increased by 11.6% compared to the previous month, reaching the price of US\$ 72.50 per barrel. Compared to August last year, oil price declined by 36.3%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 22.9% on monthly basis, reaching US\$ 19.642 for a metric ton (\$/mt). Price of copper surged by 18.1% in August compared to July, reaching US\$ 6.165 for a metric ton (\$/mt), while price of gold remained almost

unchanged in August in relation to the previous month. Prices of steel and steel sheets remained stable.

2. External Sector

2.1. In the first eight months in 2009, total foreign trade, expressed in euros, dropped by 28% in relation to the same period last year.

Thereby, physical output of export declined by 25.3%, while its value reached EUR 1,242.3 million, being a drop by 33%. Decline in the imported quantity of goods was 19.2%, and its value was EUR 2,350.4 million, being a drop by 25.1%. In conditions of such developments of export and import of goods, trade deficit in this period declined by EUR 177.8 million (13.8%) in relation to the deficit realized by end-August 2008, amounting to EUR 1,108 million, whereby reduced import of oil and oil products, as well as iron and steel and their products, contributed the most to such decline.

Trade deficit realized in the first eight months in 2009 accounted for 17.1% of estimated GDP (EUR 6,467 million) in 2009.

In the period January-August 2009 oil and oil derivatives were imported in the amount of EUR 288.4 million, and there was EUR 190 million (40%) decline of the value compared to the same period last year. Increase in the imported quantity by 1.2% speak in favour of the fact that reduced value of import of oil and oil derivatives was mainly due to the decline of their price on global stock markets. As a result of such developments, trade deficit with respect to this product alone reduced by EUR 125.4 million in the first eight months 2009.

According to data expressed in euros, lower export, in euro terms, realized in the period January-August (EUR 611.2 million) was mostly due to the declined export of the following products: iron and steel by EUR 400 million (70%), oil and oil products by EUR 65 million (10.7%), metal ore and metal scrap by EUR 51 million (9.6%), clothing by EUR 43.7 million (7%). Export of tobacco and tobacco processed goods and industrial machines and spare parts showed an increase.

2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following: clothing – 22.2%, iron and steel – 18.7%, oil and oil products – 7.1%%, fruit and vegetables – 5.2%, tobacco and tobacco processed goods – 4.9% and metal ore and metal scrap – 4.2%. These six groups of products comprised 62.6% of the total export of goods.

Compared to January-August 2008, decline in the import in the first eight months in 2009 was mainly due to the lower import of the following: iron and steel by EUR 254 million (32%), oil and oil products by EUR 192 million (24%), electricity by EUR 192 million (24%), electricity by EUR 89 million (11%), raw materials – metal ore and metal scrap by EUR 78 million (10%). Observed by import structure in the first eight months, the following account for the most: oil and oil products (EUR 288 million), textile yarns and similar (EUR 178 million), road vehicles (EUR 140 million), iron and steel (EUR 130 million), industrial machines and spare parts (EUR 86 million), etc.

2.3. Analyzed by regions, during the first eight months in 2009, European Union (EU 27) participated the most in the total foreign trade with 58.3% (56.4% export of goods and 51.2% import of goods). Export to the European Union declined by 44.5%, and the import dropped by 27.2% compared to the same period in 2008.

Analyzed by countries, during the first eight months, compared to the same period last year, export to the following countries declined: Greece, Bulgaria, Germany, Italy (due to less exported raw materials, iron and steel, etc.), as well as the import from Russia, Poland, Ukraine, Serbia, Switzerland, Greece (reduced import of energy sources).

During the analyzed period January-August 2009, around 70% of the trade deficit of the country was realized with Russia, China, Turkey, Italy, Slovenia, Switzerland, Greece and the USA.

2.4. Observed by currency structure, EURO was dominant in the first eight months, whereby 77.3% of foreign trade was 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 82.5% and 74.5% respectively and, in relation to the same period last year, more intensive increase was seen at export by 4.8 percentage points, while import increased by 3.7 percentage points.

3. Fiscal Sector

3.1. In the period January-August 2009, the total central government budget revenues reached an amount of Denar 51,804 million (13.1% of GDP), which was 5.1% less in relation to the same period last year.

Tax revenues in this period were realized in the amount of Denar 45,434 million, which was lower by 10.3% in relation to same period last year. Tax revenues in August 2009, compared to August 2008, were higher by 13.5%.

Share of VAT in total tax revenues in the first eight months in 2009 was dominant and it amounted to 48.7%, whereby revenues in the amount of Denar 31,172 million were realized on the basis of these two taxes, i.e. 68.6% (more than 2/3) of total tax revenues (7.9% of GDP).

Analyzed by categories, VAT revenues dropped by 9.5%, profit tax revenues declined by 42.8% (partially due to changes in the regulations - starting 2009, no undistributed profit tax is paid), customs revenues decreased by 17.8%, while PIT revenues surged by 2.8%, and excises experienced increased by 3.2% compared to the same period last year.

Non-tax revenues increased by 74.9% in relation to the same period last year, mostly 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 58,351 million (14.7% of GDP), being by 24.1% more compared to the same period in 2008.

With respect to the structure of total realized expenditures, current expenditures (Denar 51,947 million) accounted for 89.0% and were higher by 24.1% compared to the same period last year, while capital expenditures participated with 11.0%.

Biggest expenditure items were transfers (Denar 29,502 million) and salaries and allowances (Denar 13,972 million). With respect to the total central government budget expenditures, expenditures related to wages and salaries and allowances accounted for 24.0% in this period, which was 12.3% increase in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 7,216 million, i.e. by 11.0% more compared to 2008.

With regard to transfers, 35.2% more resources (Denar 7,781 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 50.6% (7.4% 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). 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 9,643 million or by Denar 3,032 million higher (45.9% increase).

Interest was collected in the amount of Denar 1,257 million, being by 1.6% less compared to the same period in 2008.

During the analyzed period, capital expenditures amounted to Denar 6,404 million, being an increase by 25.9% compared to the same period in 2008, accounting for 1.6% of GDP.

3.3. Thus, in the period January-August 2009, central government budget deficit reached the amount of Denar 6,547 million (1.7% of GDP), while consolidated budget deficit amounted to Denar 6,342 million (1.6% of GDP).

4. Monetary Sector

4.1. In August 2009, primary money¹ dropped by 13.7% on annual basis (increase by 4.3% in July), in conditions of growth of total liquid assets of banks by 33.7% and decline of demand for ready money in circulation by 6.3%.

On monthly basis, primary money slightly increased by 1.2%, due to increase of total liquid assets of banks by 4.2% and lower demand for ready money by 2.7%.

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

Interest rates on government securities were 5.50% on six-month treasury bills with foreign exchange clause. Only one auction was held by applying volume tender (with predetermined price) for six-month treasury bills.

4.2. Total deposit potential of non-government sector in August² increased by 0.5% on annual basis (0.1% drop in July 2009, when decline was seen for the first time after six years of continuous growth). Total deposits experienced growth by 2.8% on monthly basis (10% decline in the previous month), due to the increase of total deposits of households, while foreign currency deposits of enterprises grew (8.0% on monthly basis).

In August 2009, Denar deposits grew by 3.1% on monthly basis, while foreign currency deposits surged by 2.5%. On annual basis, Denar deposits declined by 15.5%, while foreign currency deposits increased by 19.1%³

From the point of view of sector structure, deposits of the corporate sector grew by 7.7% on monthly basis, while savings of households increased by 0.6%. With respect to last year, household deposits were higher by 10.0%, while deposits of enterprises were lower by 20.3%.

4.3. In August 2009, credit contraction continued despite the favourable signs of credit market stabilization following the contraction of banks' total credit portfolio (in May and June), thus total crediting to private sector decreased (0.2%). Monthly drop of credits was mainly due to decreased crediting to corporate sector by 0.3%, as well as slight increased of foreign currency credits by 0.02%. With respect to last year, credit growth further slowed down and it was 9.3% (compared to 11.2% in July 2009). Credits realized one-digit growth rate for the first time in September 2009. Annually, credits to households and enterprises surged by 10.2% and 8.9% respectively.

¹ Primary money is 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.

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

³ Starting January 2009, deposits include calculated interest.

From currency point of view, Denar credits (including credits with foreign exchange clause) registered slower increase by 11.2% annually, while foreign currency credits increased by 3.1%.

Compared to the previous month, Denar credits declined by 0.2%, while foreign currency credits dropped by 0.3%.

4.4. In August 2009, average weighted interest rate on Denar credits was identical with the rate in July, amounting to 10.2%. Average interest rate on foreign currency credits was same as the rate in the previous month, being at the level of 7.6%. With respect to last year, interest requirements of banks were tightened, i.e. average interest rate on Denar credits grew by 0.6 p.p. On the other hand, interest rate on foreign currency credits declined by 0.5 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, 9.8% on Denar credits and 7.1% on foreign currency credits. In August 2009, interest rate on credit balance on Denar deposits was the same as in the previous month, amounting to 7.2%, and it surged by 1.3 p.p. on annual basis. Average interest rate on foreign currency deposits remained at the same level as in the previous month, amounting to 3.3%, and it increased by 0.9 p.p. on annual basis.

4.5. Gross foreign exchange reserves amounted to EUR 1,505.0 million in August 2009, and compared to December 2008, they increased by 0.7% (EUR 10.1 million). On monthly basis, they increased by 8.0%, i.e. EUR 111.6 million, in conditions of net purchase on the foreign exchange market in the amount of EUR 25.0 million. NBRM, through foreign currency transactions, created liquid assets.

5. Social Sector

5.1. In the period January-August 2009, Employment Agency of the Republic of Macedonia registered total of 154,599 new employments. In fact, 43.7% 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 16%.

In August, 13,420 new employments were registered, whereby 22.9% of the new employments were from the unemployed records. Outflow of persons from Employment Agency Registry amounted to 7,482 persons in August, 39.4% out of which were new employments. 9,224 persons were registered as inflow to the Agency, 59.2% of which was persons whose employment was terminated.

As a result, unemployment increased by 1,742 persons, i.e. 0.5% compared to the previous month. There were 342,518 unemployed persons in August 2009.

Number of unemployed persons, compared to the same month in the previous year, declined by 0.5%.

Major percentage of the unemployed, i.e. 66.1%, came from urban areas (cities), whereby 57.3% were men. Analyzed by education structure, major part, i.e. 52.7% of unemployed persons were unskilled or semi-skilled, while only 7.6% was with community college or higher education level. Observed by age, majority of 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 August 2009, PDF registered 273,146 pensioners, being an increase by 0.04% on annual level. Number of pension beneficiaries increased by 68 persons in relation to the previous month.

In August, Denar 2,736.72 million was spent for payment of pensions, being 56.2% of total social transfers in the state Budget.

Average pension in August 2009 amounted to Denar 10,042, being an increase by 6% on annual level. Ratio between average pension and average paid salary in July 2009 (most recent available data) amounted to 49.9%.

5.3. In the period January-July 2009 (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 27.4% and by 27.5% respectively.

In July 2009, average net salary per employee amounted to Denar 19,763, which was an increase by 25% on annual basis in nominal terms, and by 26.7% in real terms.

Percentage of employees who did not receive salary in July 2009 was 3.4%, being lower by 5.4% compared to the same period previous year.