

Q1 2014

Republic of Macedonia
Ministry of Finance

QUARTERLY ECONOMIC REPORT Q1/2014

Summary

- **GDP** in Q1 2014 compared to the same quarter in the previous year experienced **real growth** of 3.9%.
- **Number of employed persons** in Q1 2014 was higher by 2.6% compared to the same quarter in the previous year. **Number of unemployed persons** dropped by 4.5% on annual basis, which resulted in reduction of **unemployment rate** by 28.4% in Q1 2014;
- **Inflation rate** in Q1 2014 experienced growth of 0.6% compared to the same quarter in 2013, measured according to the Consumer Price Index;
- Average **gross salary** in Q1 2014 amounted to Denar 30,884 and compared to the gross salary in Q1 2013, it was lower by 0.3% in nominal terms, i.e. being lower by 0.9% in real terms;
- Total **budget revenues** were higher by 8% in Q1 2014 compared to the same quarter in 2013, while total **budget expenditures** surged by 5%;
- Total **deposit potential** of banks increased by 2.2% in Q1 2014 on quarterly basis.
- **Credit activity** of banks to non-government sector in Q1 2014 grew by 1.8% on quarterly basis;
- **Macedonian Stock Exchange Index MSEI-10** in March 2014 reduced by 0.8% compared to December 2013, while total turnover realized on the Stock Exchange grew by 3.4%;
- In Q1 2014, **growth of export** by 13% and growth of **import** by 9.1% was registered on annual basis, whereby total **foreign trade** expressed in euros surged by 10.6%;

1. Macroeconomic Trends and Real Sector

In Q1 2014 compared to the same quarter in 2013, GDP experienced **real growth** of 3.9%, being certain acceleration of the growth compared to the previous year. Nominal GDP growth in Q1 2014 accounted for 5.8% compared to the same quarter last year, implying that GDP deflator amounted to 1.8%.

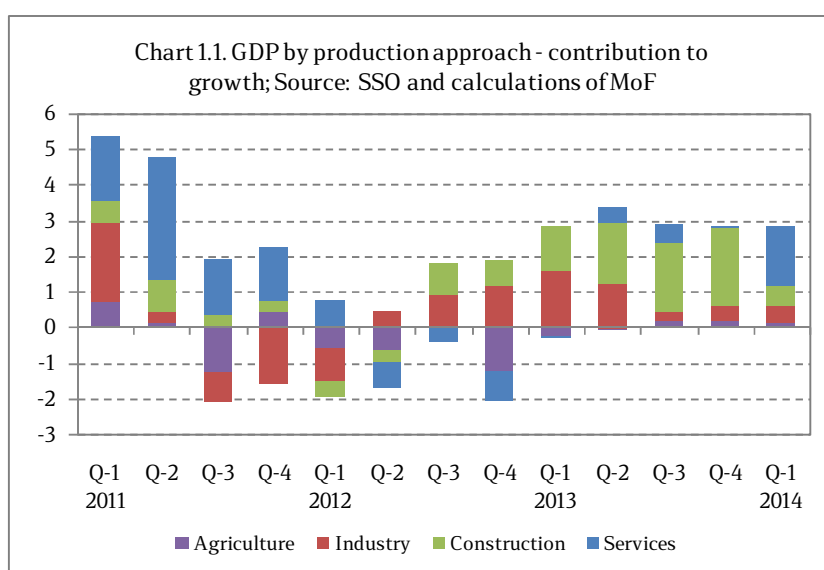
Analyzed according to the **GDP production side**, in Q1 2014, positive performance was observed in all sectors. Highest growth was seen in the construction sector – 13.7%, following the high growth rates realized in the previous year. Positive developments continued in the financial intermediation sector, experiencing 4.7% growth in Q1 2014.

Trade sector experienced growth of 3.3%, following the drop by 1.5% in the previous quarter mainly as a result of the positive trends in the wholesale trade.

Transport, storage and communications sector surged by 2.8%, following the stagnation in the previous two quarters. Industrial production continues with the positive trends this year

as well, increasing by 2.4% in Q1 2014. Agriculture sector grew by 1.6%. and hotels and restaurants sector increased by 1.3%. Growth in public administration sector accounted for 0.6%.

Growth in the **industrial production**¹ of 3% in Q1 2014 was mainly a result of the realized positive rates at: other mining and quarrying (20.9%), production of food products (0.5%), production of beverages (19%), production of textile (20.2%), production of clothing (7.7%), production of wood and wood products (8.1%), production of paper (0.4%), printing and production of recorded media (7%), production of chemicals and chemical products (34.5%), production of rubber products (69.6%), production of other non-metal products (35.9%), manufacture of electrical equipment (45.5%), production of machines and devices (19.9%), production of motor vehicles, trailers and semi-trailers (357.6%), production of furniture (3.5%) and other production industry (16.4%). Hence, annual positive growth was registered at 16, comprising 58.4% of the industrial production.



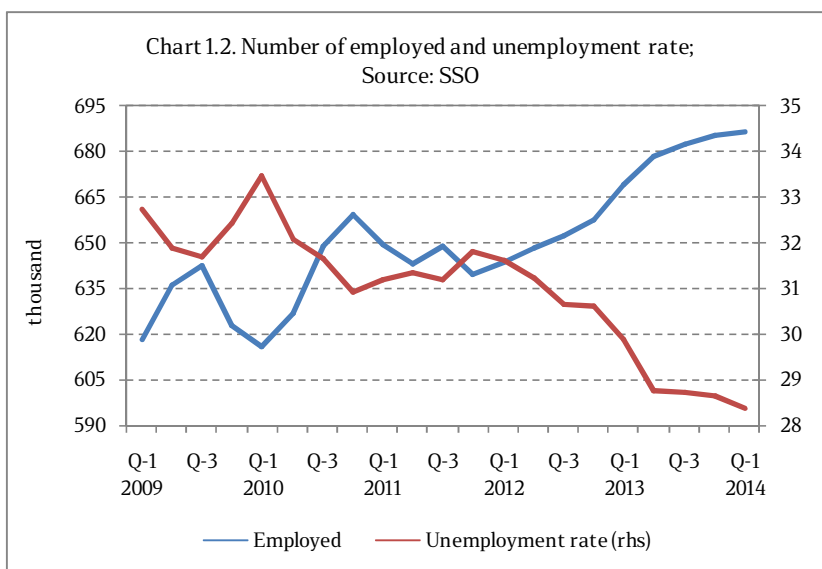
¹ Calculated on the basis of monthly release of Industrial Production Index.

On the other hand, drop was observed at the following: mining of coal and lignite (5.6%), mining of metal ore (2.6%), production of tobacco products (20.1%), production of leather (9.5%), production of coke and refined oil products (99.7%), production of pharmaceutical products (0.5%), production of metals (3.5%), production of fabricated metal products (29%), production of other transportation equipment (43.8%), repair and installation of machines and equipment (22%) and electricity, gas, steam and air conditioning supply (16.6%).

Analyzed according to the **expenditure side of GDP**, in Q1 2014, growth was instigated by gross investments, increasing by 26.5%. Growth of investments corresponds to the growth of capital budget expenditures and growth of construction activity, as well as to the growth of import of investment goods. Final consumption in Q1 2014 increased by 1.7%, being a result of the increase of public consumption (2.2%) and personal consumption (1.6%). Growth of personal consumption is mainly a result of the positive trends on the labour market, i.e. the increase of employment by 2.6% in Q1 2014.

Growth of economic activity in the EU countries and respectively of the external demand, as well as growth of export potential of the country, resulted in increase of foreign trade. Export and import of goods and services experienced identical growth rates of 12.5%. However, given the lower share of export in the total foreign trade, net export had negative contribution to the total economic growth.

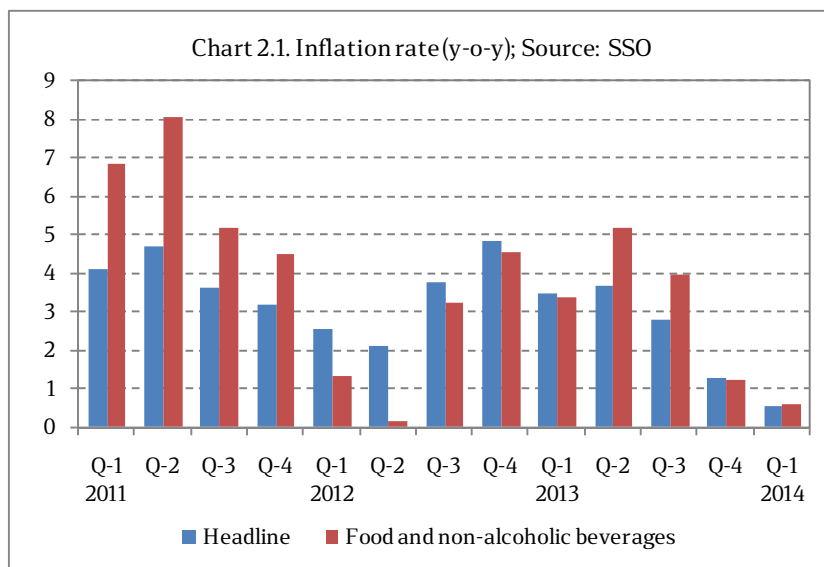
Positive trends continued on the labour market in Q1 2014. According to the **Labour Force Survey**, number of employed persons in Q1 2014 was higher by 2.6% compared to the same quarter in the previous year. Increase of employment was accompanied by the drop of the number of unemployed persons,



decreasing by 4.5% on annual basis. Number of active population in Q1 2014 was higher by 0.5% on annual basis. Such trends on the labour market caused for the unemployment rate in Q1 2014 to reduce to 28.4%, i.e. by 1.5 p.p. compared to the same quarter of the previous year. Employment rate in Q1 2014 amounted to 41%, being higher by 1 p.p. compared to the same quarter in the previous year. Active population in Q1 2014 accounted for 57.3% of total working-able population, increasing by 0.3 p.p. compared to the same quarter in the previous year.

2. Prices, Costs and Productivity

Inflation rate, measured according to CPI, was 0.6% in Q1 2014 compared to the same quarter in 2013, being slowed down growth intensity compared to the inflation rate of 1.3% registered in the previous quarter. Highest increase of prices was seen at the category health by 12.1%, followed by the increase at the category alcoholic beverages and tobacco and beverages by 5.4% and communications by 2.3%. As for goods and services category, prices surged by 1.9%, while the price increase in the category food and beverages, participating the most in the general price level, accounted for 0.6% compared to the same quarter in 2013. Increase of prices in the category food and beverages is more and more slowed down compared to the previous months, being mainly due to the increase of prices of vegetables. Prices in the categories clothing and footwear and education surged by 0.4% and 0.2% respectively.



Prices in category housing, water, electricity, gas and other fuels reduced by 2.2%, as a result of the drop in prices for electricity and heating by 3.2% and 12.3% respectively. Drop of prices was also seen in the categories transport by 1.2%, recreation and culture and restaurants and hotels by 0.8% and in the category furniture, household furnishings and maintenance of household furnishings by 0.4%

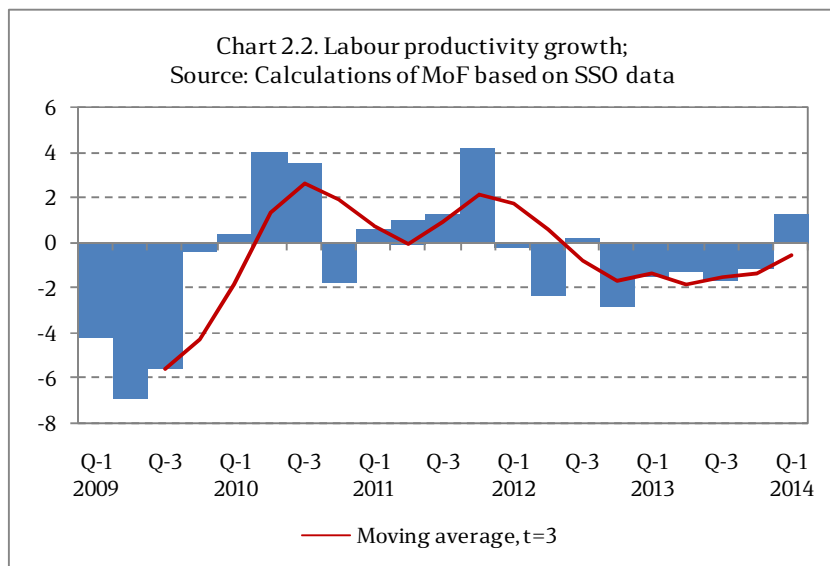
Retail prices continued with the trend of slowed down growth, surging by 0.2% in Q1 2014 compared to the same quarter in 2013, compared to the growth of 0.6% recorded in the previous quarter.

Prices of category goods, which surged by 0.3%, contributed the most with 0.2 p.p. to the total increase of retail prices. Increase of prices in this category is due to the increase of prices of agricultural products by 4.7%, while price of industrial goods dropped by 0.1%. Retail prices experienced growth, such as the ones of tobacco by 2.9%, beverages by 1%, while retail prices of food and non-food industrial products dropped by 0.2% and 0.4% respectively. Retail prices in the category services in Q1 2014 remained the same.

Average **net salary** in Q1 2014 amounted to Denar 21,091, being lower by 0.2% in nominal terms compared to net salary in Q1 2013. Net salary experienced a drop of 0.8% in real terms. Average **gross salary** amounted to Denar 30,884, decreasing by 0.3% in

nominal terms, i.e. dropping by 0.9% in real terms, compared to the gross salary in Q1 2013.

Growth of economic activity in Q1 2014 was also accompanied by the increase of the number of employees. Thereby, economic growth was higher than employment, resulting in growth of the **labour productivity** by 1.3%, followed by the decrease by 1.1% in the previous quarter. Chart 2.2 shows the annual labour productivity increase.



3. Fiscal Sector

Higher performance of total budget revenues by 8.0% was observed in the first quarter of 2014, compared to same quarter in 2013, accompanied by higher budget expenditures by 5.0%. **Budget deficit** was in the amount of Denar 11,126 million in Q1 2014, being 10.2% of GDP realized in this quarter (central budget deficit amounted to Denar 9,991 million, i.e. 9.2% of GDP).

Counter-cyclical fiscal policy continued to be implemented in the first quarter in 2014, aimed at mitigating the consequences from the global economic crisis on Macedonian economy and maintaining macroeconomic stability. Thereby, fiscal sustainability of public finances was not jeopardized.

Total **budget revenues** participated with 29.6% of the realized GDP, being higher by 8.0% compared to the same quarter in 2013, being mostly due to the higher performance of tax revenues by 10.4%, contributions by 5.1% while non-tax revenues increased insignificantly, by 0.8%. Thereby, as for tax revenues, higher collection was recorded at value added tax, personal income tax and customs duties, while profit tax and excise duties experienced lower collection. VAT revenues dominated, accounting for 54.7% of the total tax revenues, surging by record 34.0% in Q1 2014, compared to the same quarter in 2013. As for gross VAT revenues, gross collection was almost identical, it was lower by insignificant 0.05%, while VAT refund was lower by 38.0% compared to the same period in 2013.

As for VAT structure, VAT share was the biggest when importing, decreasing by 2.9%, while VAT on the basis of sales in the country decreased by 6.6%, share of VAT grants and interest was insignificant (0.9%). Excise revenues were lower by 2.3% compared to the same quarter in 2013. As for direct taxes, personal income tax increased by even 14.4%, revenues on the basis of profit tax dropped by 35.7% compared to the same quarter of the previous year, whereby one should take into account that the revenues for this tax is mainly a result of the tax collected on the basis of monthly advance payments and paid dividends and other distribution of profit and withheld tax paid to foreign legal entities.

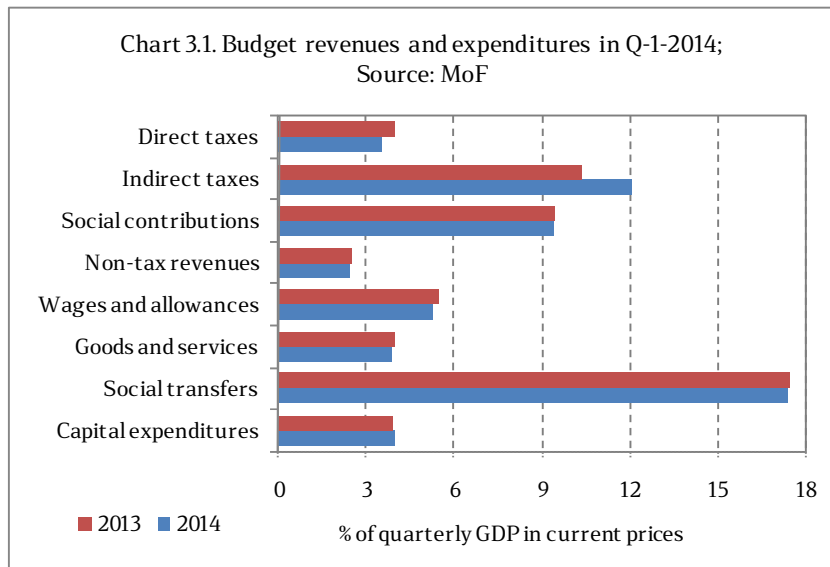
From the point of view of structural share in GDP, direct taxes on annual basis decreased their share in GDP by 0.4 p.p. (3.5% of GDP), while the share of indirect taxes increased by 1.7 p.p. (12.0% of GDP).

Collection of social contributions was higher by 5.1%, whereby higher collection was recorded

at all contributions, i.e. pension insurance contributions - 5.2%, health insurance contributions - 4.8% and employment contributions - 4.8%. Non-tax revenues, accounting for 2.4% of total quarterly GDP, were higher by 0.8% compared to the same period in 2013.

Capital revenues in Q1 2014 were lower by 39.4% on annual basis (these revenues include revenues on the basis of lease of construction land, sale of flats, as well as revenues on the basis of dividends). Revenues on the basis of grants were higher by 34.2%, compared to Q1 2013.

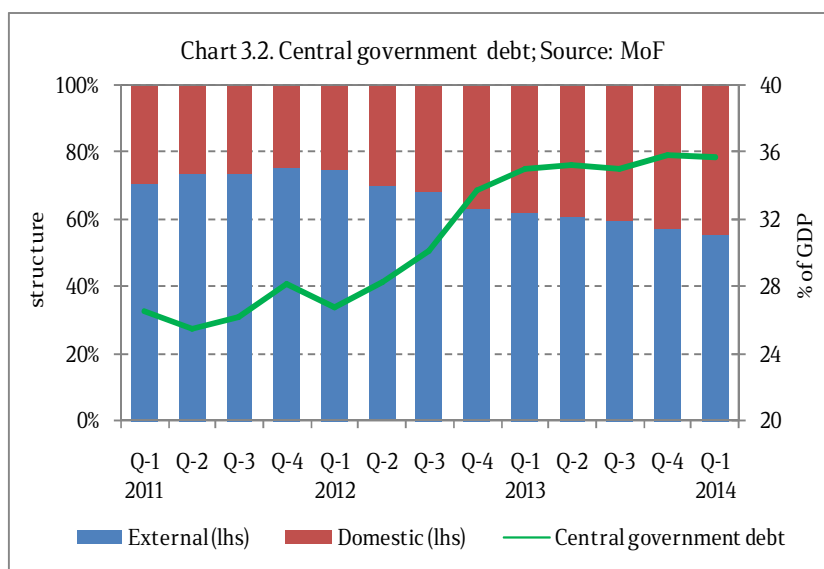
Total **budget expenditures** in Q1 2014 were higher by 5.0% compared to the same quarter in 2013. Current expenditures, accounting for 35.9% of quarterly GDP, were realized by 4.8% more on annual basis. Capital expenditures, accounting for 4.0% of quarterly GDP, were higher by 6.5% compared to the same quarter of 2013. As for current expenditures, expenditures for goods and services increased by 1.2%, while expenditures related to salaries and allowances surged by 1.5% compared to the same quarter last year. Funds for transfers, which participated with 2/3 in the total expenditures (65.0%), were higher by 6.8% on annual basis. Share of the category „Other Transfers“ in the total expenditures accounted for 20.8% (including transfers to local government - block and earmarked grants, as well as other subsidies and transfers).



Transfers to the Pension and Disability Insurance Fund were higher by 6.7% compared to the same quarter of 2013. Expenditures for interest payments decreased by 10.6% on annual basis, while compared to Q4 2013 they were lower by 0.1%. Expenditures on the basis of interests on domestic debt grew by 27.0% on annual basis, while interests on foreign debt reduced by 24.3% on annual basis, while compared to Q4 2013, they were lower by 18.8%.

Fiscal burden, measured as participation of the budget revenues² in relation to nominal GDP, was 26.5% in Q1 2014, surging by 0.7 p.p. in relation to Q4 2013. Total budget expenditures accounted for 39.9% of quarterly GDP, which was by around 8 p.p. higher compared to Q4 2013, decreasing by 0.3 p.p. on annual basis.

Total **central government debt** at the end of Q1 2014 experienced decrease of its share in GDP by 0.1 p.p., compared to Q4 2013. Share of central government external debt in the total central government debt decreased by 1.7 p.p. compared to Q4 2013, while share of central government domestic



debt in the total central government debt surged by the same amount of percentage points. Hence, share of central government domestic debt increased to 44.0% of the total central government debt.

4. Monetary and Financial Trends

In the first quarter of 2014, NBRM retained the reference interest rate at 3.25%, given the absence of more significant changes in conditions of implementing monetary policy. The National Bank reduced the interest rate on the available 7-day deposits, from 1.5% to 1.25%, by which it got closer to the interest rate on available overnight deposits, as an instrument for balancing the short-term liquidity fluctuations.

Primary money³ in Q1 2014 dropped by 0.4% on quarterly basis (2.3% growth in Q4 2013) in conditions of decline of total liquidity of banks by 1.1%. Ready money in circulation

² It included tax revenues, social contributions and administrative fees and duties.

³ It includes ready money 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).

increased by 0.5%. Compared to March 2013, primary money reduced by 3.6% as a result of the decrease of total liquidity of banks by 8.9%.

During the first quarter of 2014, narrowest money supply **M1** experienced quarterly growth of 2.7% compared to Q4 2013. **Monetary aggregate M2**, in Q1 2014 surged by 1.1%, while the widest **monetary aggregate M4** increased by 2.1%.

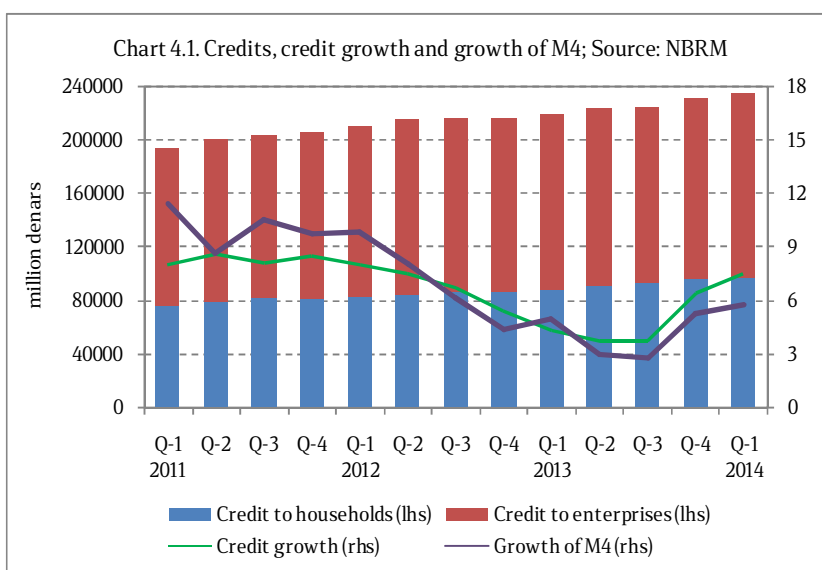
Total deposit potential of banks⁴ in Q1 2014 surged by 2.2% on quarterly basis, which from point of view of sectoral structure was mainly due to the increase of deposits of households by 2.4%. At the same time, deposits of private enterprises grew by 1.8% on quarterly basis.

From currency point of view, Denar deposits and foreign currency deposits had positive contribute thereto, increasing by 2.8% and 1.4%, respectively compared to the previous quarter. Level of euroization measured through the share of foreign currency deposits in the total deposit potential reduced by 0.3 p.p., i.e. by 42.8%.

From maturity point of view, in the past period, there was continuous growth of share of long-term deposits in total deposit potential, reaching 25.6% in Q1 2014, being in line with the quarterly increase of long-term deposits by 5.1% (4.7% in Q4 2013). Short-term deposits grew by 0.5% in the analyzed period.

Credit activity of banks to non-government sector

in Q1 2014 experienced growth of 1.8% on quarterly basis, in conditions of growth of credits to households by 2.1%, and growth of credits to private enterprises by 1.4%. From currency point of view, Denar credits which were driving force of the increase of total



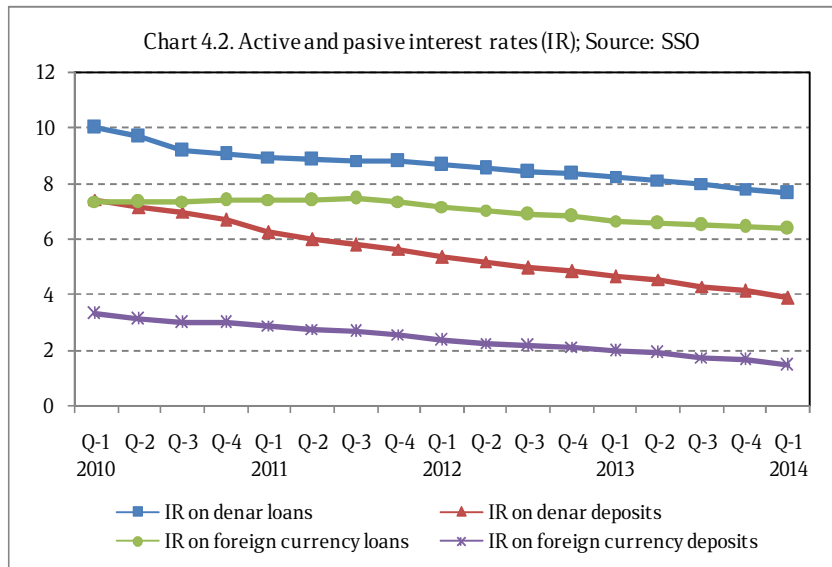
credits grew by 2.1% on quarterly basis, while foreign currency credits in Q1 2014 registered quarterly growth of 0.7%.

From maturity point of view, long-term credits in Q1 2014 experienced quarterly growth of 1.9%, while short-term credits were higher by 2.9%.

In the first quarter of 2014, NBRM retained the **interest rate on CB bills** at 3.25%. Interest rates of deposit banks in Q1 2014 experienced downward swings on quarterly

⁴ Deposits also include calculated interest.

basis. In fact, interest rate on Denar credits reduced by 0.2 p.p. compared to the previous quarter, amounting to 7.6%. Thus, the downward trend of this interest rate, which started at the beginning of 2010, continued. Interest rate on foreign currency credits remained at 6.4%.



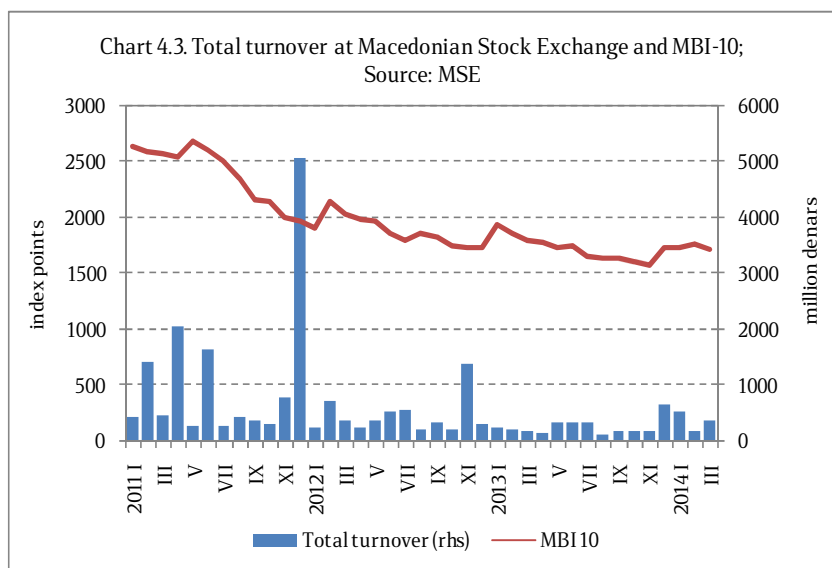
Interest rate on Denar deposits reduced from 4.1% in Q4 2013 to 3.9% in Q1 2014, while interest rate on foreign currency deposits reduced from 1.6% to 1.5% in the analyzed period.

Interest rate on newly approved Denar credits in Q1 2014 reduced by 0.3 p.p., on quarterly basis, amounting to 6.6%, while interest rate on newly approved foreign currency credits reduced from 0.1 p.p. to 6.2%. Interest rates on newly received Denar and foreign currency deposits remained unchanged at quarterly level, accounting for 2.4% and 0.5% respectively.

On the **capital market** in the first quarter of the year, total turnover of the Stock Exchange experienced growth of 3.4% compared to the previous quarter, being a result of the growth of 35.3% registered at traditional trading, as well as the growth of turnover from the public stock market auctions.

Compared to the same quarter in the previous year, total turnover grew by 72.9% in conditions of increased turnover from traditional trading by 39.2%, block transactions by 86.5% and public stock market auctions.

Macedonian Stock Exchange Index MSEI - 10, as aggregate indicator of stock exchange trends at the



end of the first quarter, amounted to 1,724.51 index points, decreasing by 0.8% compared to December 2013, while compared to March 2013, the index was lower by 3.8%.

5. External Sector

5.1. Foreign Trade

According to the data of the State Statistical Office in Q1 2014, total foreign trade amounted to EUR 2,054.7 million, increasing by 10.6% compared to the same quarter in 2013.

In Q1 2014, **export of goods** amounted to EUR 814.3 million and, compared to the same quarter in the previous year, it surged by 13.0%, while compared to the previous quarter, it contracted by 5.5%.

Analyzed by **SITC sectors** (Standard International Trade Classification), positive

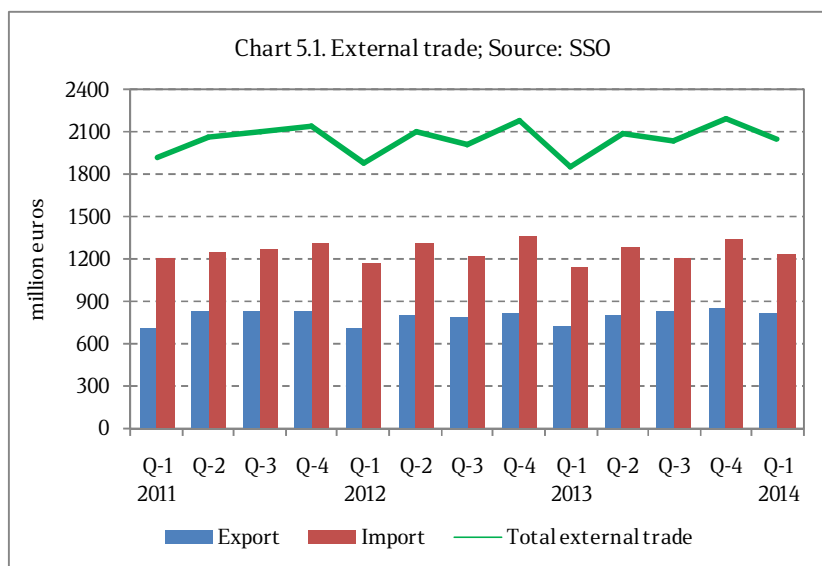
trends in the **export** in Q1 2014 compared to the same quarter in 2013 were registered at the following:

- machines and transport equipment by 92.3% (within which the following categories experienced increase: electrical machines, devices and spare parts by 2.5 times or EUR 40.4 million; industrial machines and spare parts by 54.8% or EUR 24.3 million; e);
- chemical products by 28.7% (chemical materials and products increased by 33.6% or EUR 38.1 million);
- food products by 2.1% (fruit and vegetables by 28.1% or EUR 5.2 million);
- products classified according to the material by 0.2% (within which the category items from non-metal minerals grew by 40.4% or EUR 2.2 million).

On the other hand, negative export trends are seen at:

- mineral oils and lubricants by 51.1% (within which category oil and oil products reduced by 50.7% or EUR 9.9 million);
- beverages and tobacco by 27.1% (tobacco and tobacco products by 39.5% or EUR 9.2 million); and
- raw materials, except fuel, by 12.5% (metal ore and metal scrap surged by 16.8% or EUR 7.5 million).

In Q1 2014, observed by **economic purpose**, the following products were most exported: goods for industrial procurement (49.9%), followed by consumer goods (22.1%), products



for investments without transport equipment (12.3%), food and beverages (8.3%), transport equipment (6.4%) and fuels and lubricants (1.1%).

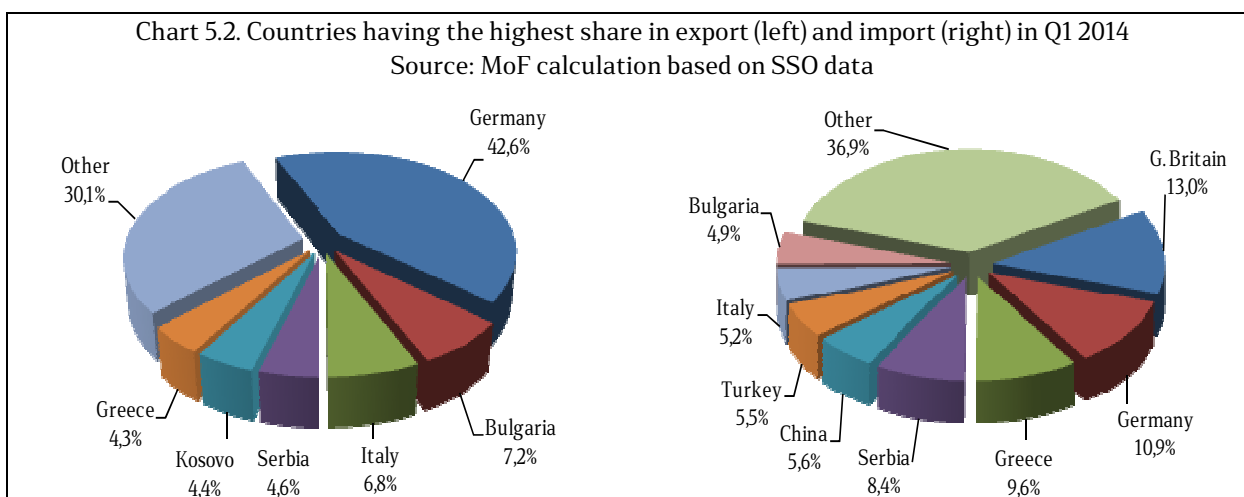
Import of goods in Q1 2014 amounted to EUR 1,240.4 million, increasing by 9.1% compared to Q1 2013, while in relation to the previous quarter, it decreased by 6.9%.

Analyzed by SITC sectors, most positive movement of import in Q1 2014, compared to Q1 2013, was seen at:

- machines and transport equipment by 18.9% (electrical machines, devices and spare parts by 41.0% or EUR 16.9 million; and operating machines and devices by more than 3.5 times or EUR 15.7 million);
- products classified according to the material by 15.3% (whereby increase was seen at the following categories: non-ferrous metals by 35.9% or EUR 39.3 million);
- mineral oils and lubricants by 7.1% (whereby increase was seen at the following categories: electricity by 16.9% or EUR 7.1 million; and oil and oil products by 5.3% or EUR 6.2 million);
- food products by 4.6% (within which increase was seen at the following categories: fruit and vegetables by 16.2% or EUR 2.8 million; cereals and cereal preparations by 13.4% or EUR 2.3 million; and milky products and eggs by 23.4% or EUR 1.9 million); and
- raw materials except fuel by 4.2% (oil seed and fruits increased by 74.4% or EUR 1.6 million).

Highest decline of import was seen at the following:

- chemical products by 3.6% (inorganic chemical products by 49.0% or EUR 9.0 million; and products for colouring and tanning by 29.7% or EUR 7.2 million); and
- beverages and tobacco by 32.8% (tobacco by 46.9% or EUR 3.9 million).



Observed by **economic purpose** in Q1 2014, the following products were most imported: goods for industrial procurement (45.7%), followed by fuels and lubricants (16.7%)

investment goods without transport equipment (12.5%), food and beverages (10.3%), consumer goods (9.8%) and transport equipment (4.9%).

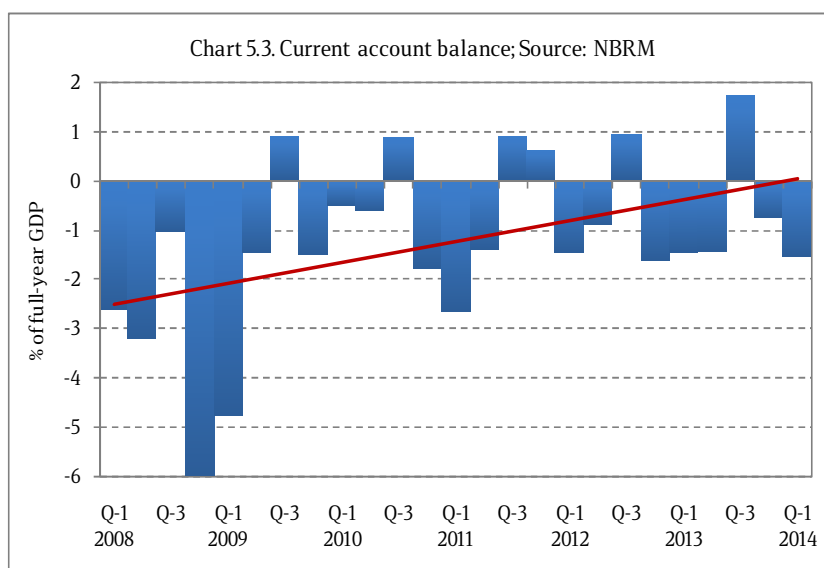
In Q1 2014, foreign trade of the Republic of Macedonia with the European Union (EU 27), in relation to Q1 2013, surged by 24.3%, whereby share of trade with EU in the total foreign trade increased by 5.5 p.p. compared to the first quarter in 2013, accounting for 69.9%, whereby export of goods participated with 80.1% and import of goods accounted for 63.2%.

As a result of the structural changes in the trade with abroad, in the first quarter of 2014, 85.0% of the trade deficit of the country was a result of the trade deficit with Great Britain, Greece, Serbia and China, while the rest of the deficit was a result of the trade with: Turkey, Russia, Romania, Slovenia, Austria, etc. Surplus was realized in the trade with Germany, Kosovo, Belgium, Bosnia and Herzegovina and the Netherlands.

5.2. Balance of payments

In the first quarter of 2014, BOP current account recorded deficit of EUR 123 million or 1.5% of projected GDP, deepening by 0.8 p.p. compared to the previous quarter.

Analyzed on annual basis, **current account** deficit deepened by 8.8%, to which the decrease of inflows on the basis of net current transfers by 5.8% (-15.5%) and increase of trade deficit by 2.6% (contribution of -8.7%) had the biggest contribution. Increased inflows of net services (13.4%) and narrowing of deficit on the net income account by 4.6% acted in opposite direction.



In conditions of deepening of the negative balance of import by 9.2% despite the increased export by 12.7%, **trade account** in Q1 2014 widened by 2.6% on annual basis, accounting for 4.8% of GDP. Thereby, export had positive contribution with 24.4%, while import had negative contribution of 27% to the trade account balance.

In Q1 2014, within increased export of services by 21.1% and deepening of the balance of import of services by 12.7%, surplus of EUR 23.2 million on the **balance of net services** was recorded, being almost three-fold increase on annual basis.

Deficit of **net income account** in Q1 2014 amounted to EUR 47.9 million, narrowing by 4.6% on annual basis, acting in opposite direction on the movement of the current account.

Trade openness of the Republic of Macedonia in Q1 2014 amounted to 113.3%, being higher by 4.8 p.p. compared to the same quarter in 2013.

Net current transfers in Q1 2014 amounted to EUR 286.7 million, being lower by EUR 5.8 million compared to Q1 2013. Drop is due to the private transfers, which

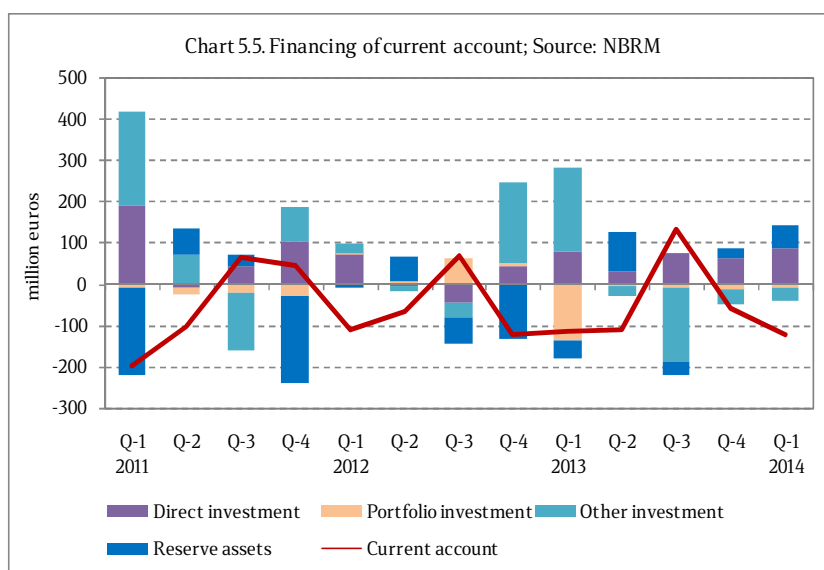
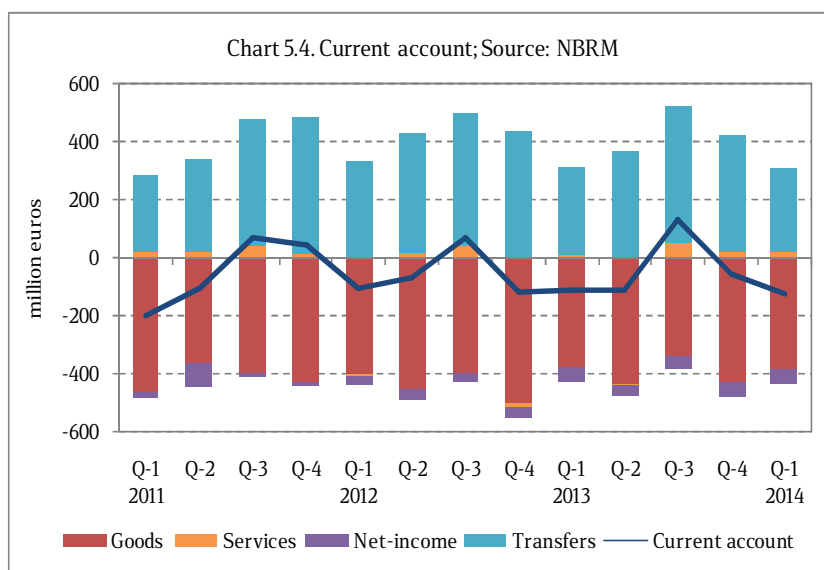
decreased by 5.6% and participated with 98% in the total net transfers. Private transfers in Q1 2014 amounted to EUR 280.7 million, and according to their structure, other transfers (86%) had dominant share in the private transfers, declining by 7.6% on annual basis and amounting to EUR 240.3 million, while remittances from employees grew by 8% compared to Q1 2013, amounting to EUR 40.4 million.

Coverage of trade deficit with private transfers in Q1 2014 accounted for 72.9%, decreasing by 6.4 p.p. on annual basis.

As for **capital and financial accounts**, in Q1 2014, there were inflows amounting to EUR 107.5 million, being the same compared to Q1 2013. Inflows on the financial account mostly arise from inflow of direct investments.

As for direct investments in the country, positive trends were recorded, whereby in Q1 2014, they amounted to EUR 86.9 million, increasing by 10% on annual basis.

Significant change in the financial account was recorded at investment portfolio, amounting to EUR 9.9 million



in Q1 2014, decreasing by EUR 127 million on annual basis, being mostly due to the reduced investments in government securities.

Other investments recorded significant changes on annual basis, whereby in Q1 2014, net inflow of EUR 30.4 million was realized, in conditions of increase of foreign borrowing on the basis of loans.

At the same time, gross official reserves decreased, from EUR 58.9 million in Q1 2014, compared to the increase in the same quarter of the previous year (from EUR 43.9 million). However, stock of **gross foreign exchange reserves** is maintained at adequate level, amounting to EUR 1,941.2 in Q1 2014.

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Macroeconomic Policy Department

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