



REPUBLIC OF MACEDONIA

MINISTRY OF FINANCE

QUARTERLY ECONOMIC REPORT

Q — 4 — 2009





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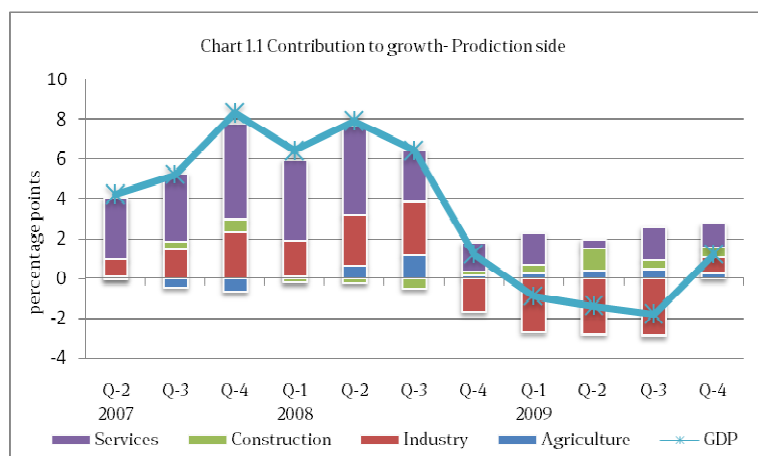


QUARTERLY ECONOMIC REPORT Q-4-2009

SUMMARY

- **Real GDP growth** was positive in Q4, amounting to 1.2% compared to the same quarter in 2008. Compared to previous three quarters, when GDP growth was negative, i.e. -0.9%, -1.4%, -1.8% respectively (Chart 1.1), GDP performance in Q4 indicated that Macedonian economy showed signs of recovery. **Industrial production** grew by 7.8% in Q4 2008, indicating the beginning of recovery of Macedonian economy.
- **Number of employees** continued to increase, showing positive growth rate. **Employment rate** in Q4 2009 was 37.9%, while unemployed accounted for 32.4% of the labour force.
- **Leading Composite Index** showed slight drop of 0.5 index points in Q4 2009 as well, compared to Q3 2009, following an increase of 3.5 index points in Q3.
- In Q4 2009, **inflation rate**, measured according to CPI, was negative like in Q3 and amounted to -2.1% (Q/Q-4).
- **Net salary** increased by 18.1% in nominal terms in Q4 2009, mainly due to methodological changes, while real increase of net salary amounted to 20.2%.
- **Budget deficit** at the end of Q4 was 2.7% of projected GDP in 2009, slightly deviating from the projected level. **Fiscal burden** in Q4 accounted for 28.6%, showing 0.9 p.p. drop compared to Q4 2008.
- **Credits to private sector** continued to increase, however with slowed down dynamics. In fact, they increased by only 3.5% in relation to Q4 2008. On the other hand, deposits surged by 7.1%.
- **Macedonian Stock Exchange Index** MSEI-10 increased by 23.4% compared to Q4 2008. At the same time, total turnover on the Macedonian Stock Exchange experienced 62.7% decline.
- **Observed annually**, what is characteristic for the fourth quarter is that both export and import of goods registered high negative rate, whereby export of goods, expressed in euros, dropped by 28.1% compared to the same quarter in 2008, while import of goods (f.o.b.), also expressed in euros, decreased by 21.2% in relation to Q4 2008.
- **Trade openness of the Republic of Macedonia** in Q4 2009 was 82.2%, showing an increase of 1.9 p.p. compared to the previous quarter. However, compared to 2008 quarters, it was still at low level, being at the levels realized prior to 2007.

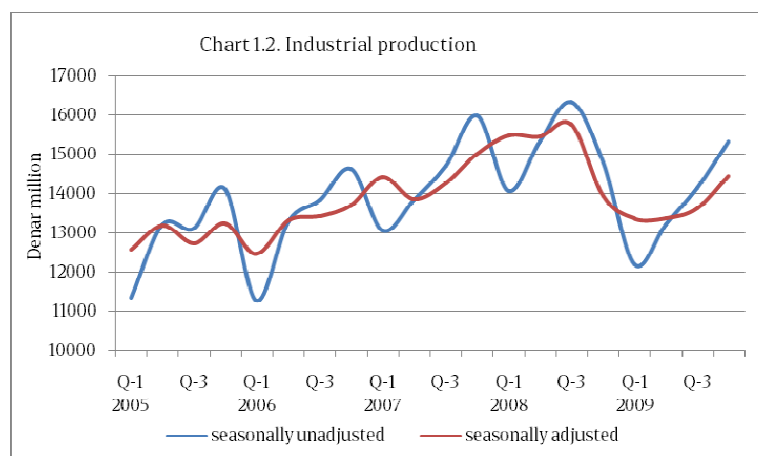
1. Macroeconomic Trends and Real Sector



In Q4 2009, gross domestic product (GDP) in current prices was Denar 108,772 million or Denar 53,095 per capita¹, which compared to Q3 was a nominal increase by around Denar 2,314. **Real GDP growth** in Q4 was positive, amounting to 1.2% compared to the same quarter in 2008. Compared to the previous three quarters,

when GDP growth was negative, i.e. -0.9%, -1.4%, -1.8% respectively (Chart 1.1), GDP performance in Q4 indicated that Macedonian economy showed signs of recovery. Cumulative GDP growth was -0.7% in 2009. Due to influence of seasonal factors, production was on the highest level in Q4 2009, therefore, compared to Q3, economic growth was 1.7%. If one abstracts the seasonal effects, GDP growth rate was -0.3%.

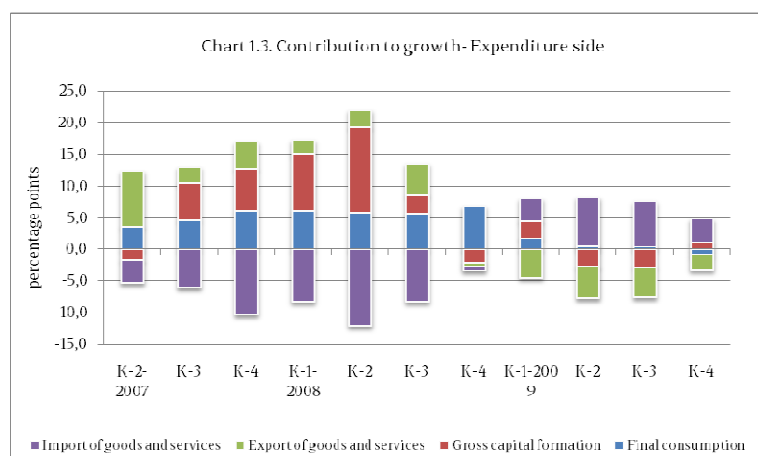
In Q4, negative growth was registered in the following sectors: transport and communications (-3.8%) and hotels and restaurants (-4.8%). On the other hand, sectors like industry (3.5%), financial mediation (5.9%), construction (7.4%), agriculture (3.7%), retail and wholesale (2.4%), public administration (3.3%), experienced positive growth, thus contributing to positive growth of GDP in Q4 and preventing further decline of GDP in 2009 (Chart 1.1).



Industrial production grew by 7.8% in Q4 2009, indicating the beginning of recovery of Macedonian economy. One third of industrial branches showed increase in their activity, whereby industrial production growth in Q4 was mainly a result of realized positive growth rates at the

following: production of metal products in metal processing stage (189.2%), production of coke, oil derivatives and nuclear fuel (61.3%), production of base metals (19.7%), production of other means of transport (20%), production of machines and devices (0.9%) and recycling (244.7%).

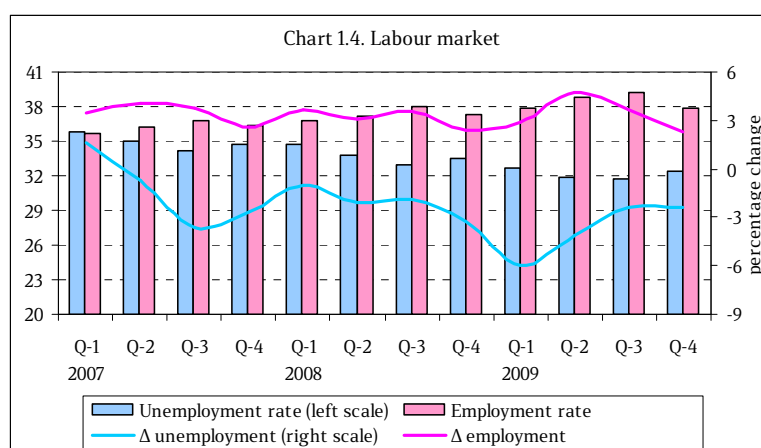
¹ Evaluation of the population on 31 December 2008 according to SSO.



Observing **GDP from the expenditure side**, in Q4 2009, final consumption realized drop of 2.0% in real terms, export and import dropped by 14.5% and by 13.5% respectively, while gross investments increased by 8.4%. Nominal contribution of final consumption to growth was -0.9 p.p., while gross

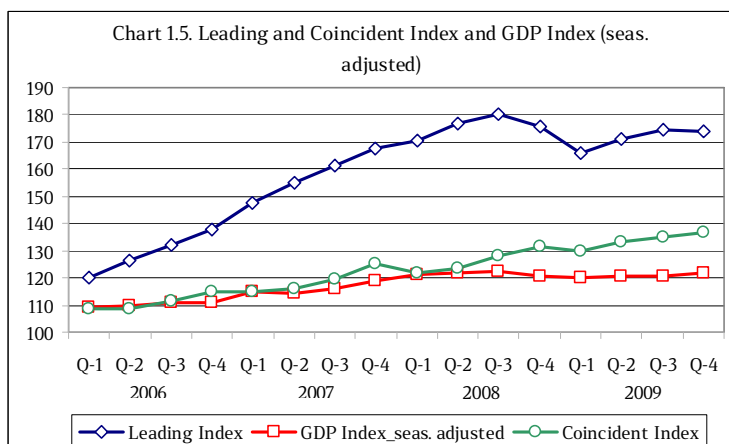
investments contributed with 1.0 p.p. On the other hand, contribution of trade balance was positive, amounting to 1.3 p.p.

Number of employees in Q4 2009 increased by 2.3% compared to the same quarter 2008, thus **employment rate** accounted for 32.4%, being a drop by 0.7 p.p. compared to Q4 2008. **Number of unemployed** declined by 2.4% in Q4 2009.



Thereby, increase in working-able population led to surge in both labour force and inactive population, most of which were newcomers on the labour market. Such developments led to decline of **unemployment rate** by 1 p.p. (to 32.4%). In fact, working

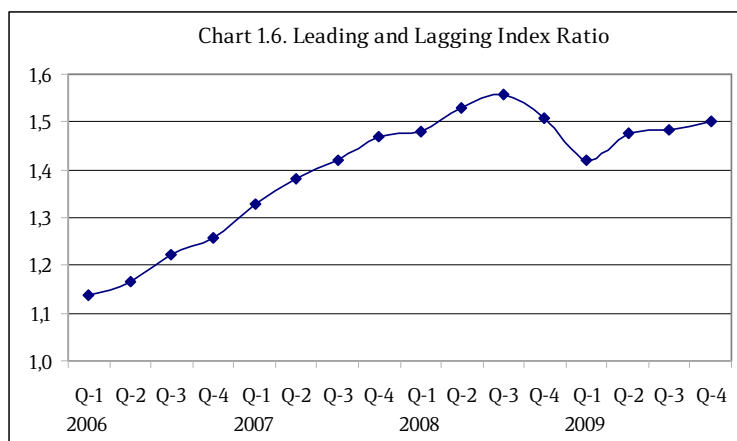
positions on net basis were created by the private sector, where the number of employees increased by 4.4%, while in the other parts of the economy, employment declined by 2.8%. If seasonal effects are excluded, unemployment rate was lower by 0.2 p.p. than the actual one. De-seasoned unemployment rate was 32.2% in Q4 2009, pointing out that seasonal factor was present on the labour market in the concerned quarter.



Leading Composite Index

MakLead² showed slight drop of 0.5 index points in Q4 2009 compared to Q3 2009, following an increase of 3.5 index points in Q3. Compared to the same quarter 2008, leading composite index was lower by 2.1 index points. Such trends registered at MakLead

index showed that increase in economic activity in the last quarter in 2009 will resume, although with a slower pace, in the first half in 2010. In Q4 2009, leading diffusion index registered positive trends at 56.3% of the components of the composite index, showing lower performance compared to the previous quarter, however, twice higher compared to the same quarter in 2008.



Ratio between leading and

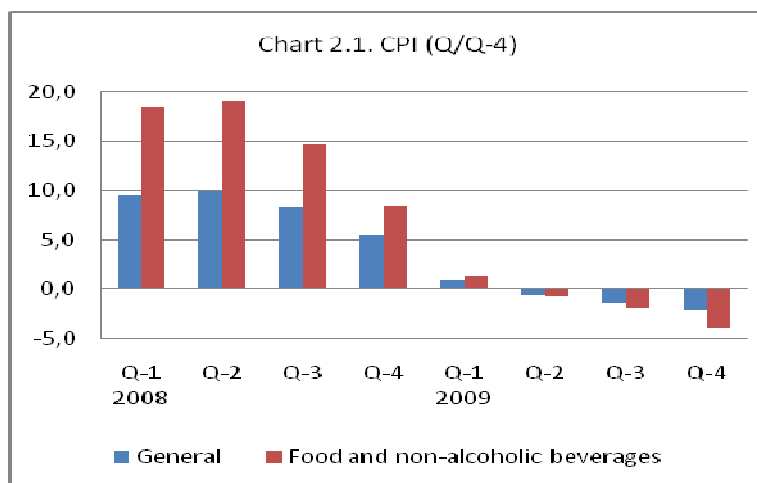
lagging index in Q4 2009 slightly increased to 1.50, showing that leading index was higher by 50% compared to the lagging index. Ratio between leading and lagging constantly surged up to Q4 2008, when this indicator started to drop, being stopped in Q2 2009.

2. Prices, costs and productivity

In Q4 2009, inflation rate, measured according to CPI, was negative and amounted to -2.1% compared to the same quarter in 2008. Highest price decline of 6.9% was seen at culture and entertainment category, due to the decline of prices of education means

² MakLead is aggregate indicator leading/preceding the economic cycle and it comprises eight leading indicators of the economic cycle, as follows: average salary in processing industry; average number of persons - beneficiaries of pecuniary allowance; assessment of the producers for their production stock for new orders; index of agreed construction works; MSEI-10 stock exchange index; M2 money supply; interest differential (weighted interest on debit balance at the commercial banks minus the primary rate); and capital goods and production materials.

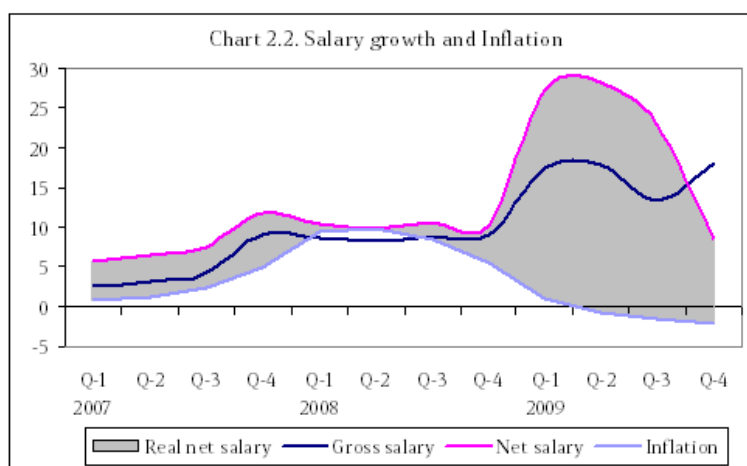
and decline of prices of education and development services. Price decline of 4.2% was registered at food category, mostly due to drop of prices of oil by 19%. Costs for means of transport and services also dropped by 2.1%. On the other hand, increase in prices was seen at the following categories: tobacco and beverages (by 3.3%), hygiene and health (by 1.4%) and housing (by 0.25%).



Core inflation (which includes the effect of food and energy) also experienced a declining trend. It was negative and amounted to -0.7% in Q4 2009 compared to -0.1% in the previous quarter.

In Q4 2009, **retail prices** decreased by 1.8% compared to the same quarter in 2008.

Higher price decline was registered at agricultural products category (-9.2%), while prices of services dropped by 2.5%. As for industrial products category, prices declined by 0.8%, whereby such decline

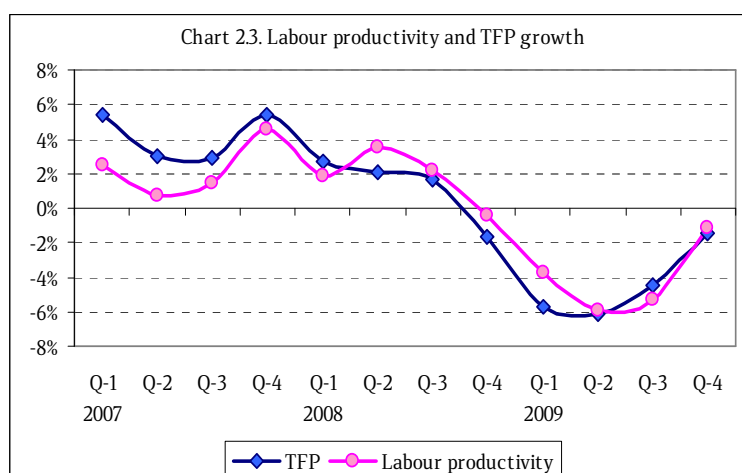


was the highest at industrial and food products (by 2.6%). Prices of beverages and tobacco surged by 5.3% and by 0.52% respectively. Value of the consumer basket of food and beverages for a four-member household, calculated on the basis of retail prices, remained almost unchanged compared

to Q3 (increased by 0.1%), while compared to Q4 2008, it dropped by 4.2%. Value of consumer basket in Q4 2009 accounted for 58.6% of average net salary.

Average **net salary** in Q4 2009, compared to same quarter 2008, was higher by 18.1%. Such increase was largely due to methodological changes, i.e. starting January 2009, net/gross salary includes food and travel allowances. Average **gross salary** experienced slower growth compared to net salary, by 8.3%, as a result of the reduced rates of social contributions and the two-fold increase of personal tax exemption. Decline of general price level caused for real growth of net and gross salary to be

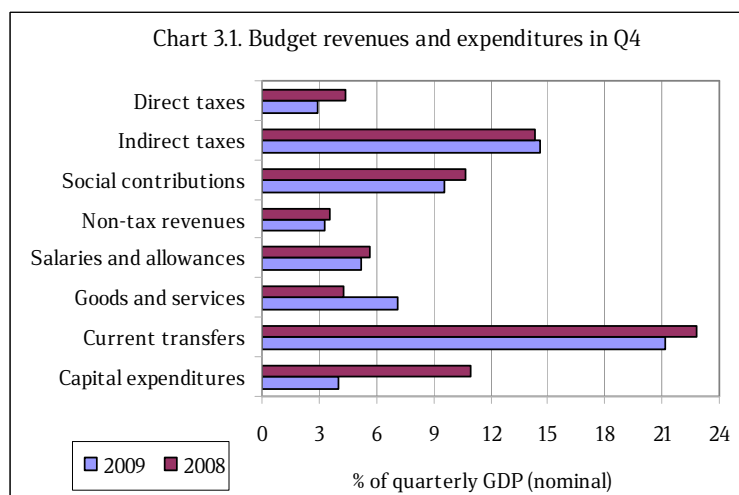
higher than nominal growth, amounting to 20.2% and 10.4% respectively (see shaded field in Chart 2.2).



In Q4 2009, downward trend of **productivity**, which commenced in the last quarter in 2008 (see Chart 2.3), continued, taking into account that slowdown and decline of economic activity was accompanied by employment growth. Productivity in Q4 2009 showed improvement as a

result of growth of economic activity in the same quarter, thus productivity decline was only 1.1%. Total factor productivity (TFP) registered higher decline than labour productivity, i.e. -1.5% (see Chart 2.3). TFP decline was mainly due to the higher growth of physical capital, in particular the real growth rate of investments of 3.2%, while growth rate of human capital was 2.3%.

3. Fiscal Sector



Data in last quarter in 2009 showed that real GDP increased by 1.2%, confirming that economic policies set prior to the crisis and the packages of anti-crisis measures adopted by the Government and implemented in 2009 helped the Macedonian economy cope with the crisis suffering least possible consequences. However, negative growth in Q2 and Q3,

as well as the lower performance of budget revenues, were the reason for adopting second Supplementary Budget in October. Lower performance of budget revenues (96.3% performance) in Q4 2009, accompanied by relatively higher budget expenditure, led to **central government budget deficit**³ in the amount of Denar 4.2 billion or 3.8% of

³ It covers central government budget and budgets of the Funds.

the projected GDP in Q4 (1.0% of total annual GDP). Counter-cyclical fiscal policy continued to be implemented in the fourth quarter, aimed at mitigating the consequences from the global economic crisis on our economy and maintaining macroeconomic stability. Thereby, it can be concluded that fiscal sustainability of the country was not deteriorated, neither was the monetary stability as a result of issue of treasury bills.

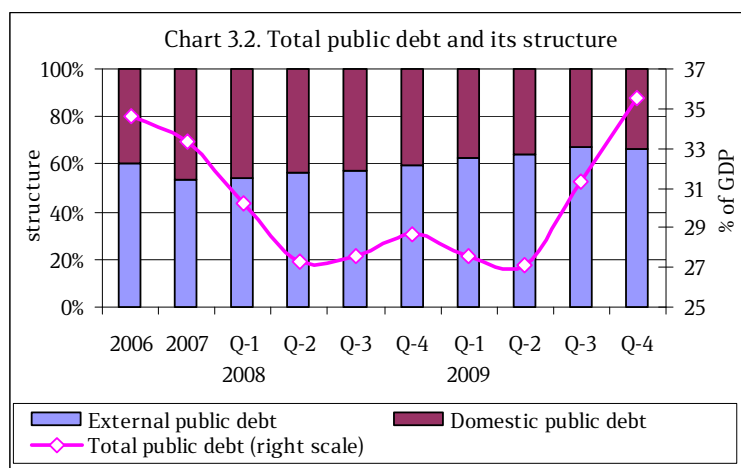
Total **general government budget revenues** (Government and Funds) were lower by 2.5% compared to the same quarter 2008, mainly due to the lower performance of tax revenues by 3.4%, social contributions by 3.2%, while non-tax revenues were lower by 50.9%. Slowdown in personal consumption and import decline, followed by tax reforms undertaken to mitigate the consequences from the economic crisis, resulted in slightly lower collection at all types of tax revenues, which, inter alia, was a reason for supplementary budget. It is important that **VAT revenues**, accounting for more than half (52.4%) of total tax revenues, were higher by 2.9% in Q4 2009 compared to the same quarter in 2008. Regarding the structure of gross VAT revenues, there was an increase in VAT collection on the basis of trading in the country in line with the increased trade sales, while realized VAT revenues on the basis of import dropped by 17.6%. Performance of revenues on the basis of VAT in Q4 2009, compared to the projections, accounted for 96.1%. Excise revenues were higher by 0.8% compared to the same quarter in 2008. Import decline led to lower collection of customs duties (by 17.5%). With respect to direct taxes, significant decline of 52.7% was expectedly registered at the profit tax, taking into account that starting January 2009, only profit distributed for dividend was taxed. Personal income tax revenues were higher by 17.8% despite the lower base and the high decline of revenues on the basis of capital gain. Collection of social contributions was lower by 3.2%, and collection of all types of social contributions increased. In Q4 2009, non-tax revenues, accounting for 10.5% of the total budget revenues, showed almost the same performance (lower by only 0.9%) on annual basis.

Total **budget expenditures** in Q4 2009 were lower by 22.4% compared to the same quarter in 2008. **Current expenditures**, accounting for 88.4% of total expenditures, dropped by 11.3% (30.7% of GDP). **Capital expenditures**, participating with 11.6% in total expenditures, were lower by 60.4% on annual basis, accounting for 4.0% of projected GDP in this quarter. Execution of capital expenditures, as of December inclusive, accounted for 90.7% of the projected ones for this quarter. Regarding capital expenditures, transfers were lower by 16.5% on annual basis, whereby the category Other Transfers (16.5% decline), including transfers to local government, contributed the most to this decline. Expenditures for goods and services dropped by 44.1%, while expenditures related to salaries and allowances were lower by only 1.0%.

Interest-related expenditures declined by 24.3%, whereby domestic debt interest-related expenditures dropped by 32.9% and expenditures related to interest on foreign debt declined by 20.6%. In the coming period, budget revenues are expected to be realized with improved dynamics compared to the previous period, since 1.2% growth leads to intensification of economic activity, as well as the new fourth package of anti-crisis measures. All this is expected to also reflect on increase in tax revenues. On the other hand, public investments are expected to intensify in the coming period so as to instigate the economic growth. Hence, projected deficit of 2.5% of GDP in 2010 seems feasible.

Fiscal burden, measured as share of budget revenues⁴ in relation to nominal GDP, was 28.6% in Q4 2009, dropping by 0.9 p.p. in relation to Q4 2008. Total budget expenditures accounted for 34.7% of GDP, which was by 11.7 p.p. lower compared to Q4 2008.

Total public debt⁵ at the end of Q4 2009 was 32.9% of GDP, being an increase by 1.6 p.p. in relation to Q3 2009. Such increase was due to the increase of domestic public debt by 13.8%, while external public debt increased by only 0.7% in relation to Q3 2009. Thus, share of external public debt dropped by 35.5% (Chart 3.2). Such trends point out that additional borrowing, which is inevitable for conducting more expansive fiscal policy in conditions of slowed down economic growth, whether externally or internally, would not jeopardize fiscal sustainability, whereby coordination with the monetary policy is



necessary. Sound fiscal policy is one of the Maastricht Criteria, having the limits set at budget deficit of 3% of GDP and general government debt of 60% of GDP.

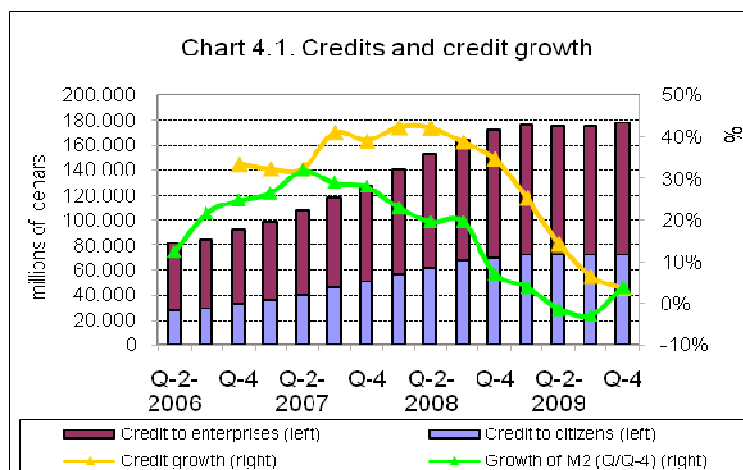
General government debt, which does not include the debt of NBRM and the public enterprises, increased to 24.7% at the end of Q4 2009, i.e. it

increased by 0.7 p.p. in relation to Q3 2009. Such phenomenon was a result of the increase of central government debt (by 3.0%) through the issue of continuous government securities. On the other hand, NBRM debt experienced an increase of 19.1%, leading to decline of the share of general government debt in the total public debt by 1.8 p.p. (the share in Q4 was 75.0%).

⁴ Includes tax revenues, social contributions and part of non-tax revenues.

⁵ According to GFS Methodology.

4. Monetary-Financial Trends⁶



At the end of Q4 2009, **primary money** surged by 6.4% in relation to Q3, experiencing an increase by 12.4% on annual level. In Q4 2009, **M1 monetary aggregate** increased by 9% compared to Q3 2009, while on annual basis, a decline was registered by 3.5%, as a result of the drop of ready money in

circulation by 7.6% and drop of deposit money by 1.5%. In Q4 2009, broader monetary aggregates **M2 and M4** moderately increased in relation to the previous quarter (4.1% and 5.9% respectively), while M2 and M4 registered an increase by 4% and 6% respectively on annual basis.

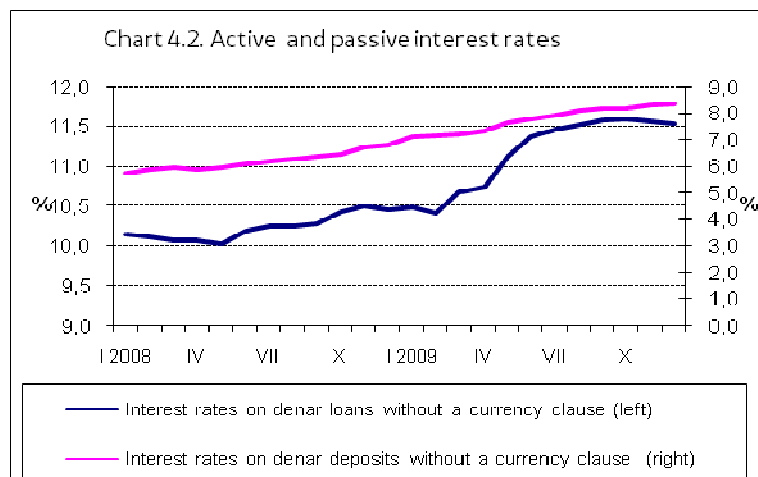
Credits to private sector continued increasing, however with lower dynamics. Thus, in Q4 2009, credits to the private sector registered slower growth of 3.5% in relation to Q4 2008 (compared to 25.3%, 14.3% and 6.5% respectively in the first three quarters in 2009). Sector analysis shows lower growth of credits to enterprises in Q4 2009 to only 3.4% compared to Q4 2008, and similar trend was registered at credits to households, growth of which was more than halved compared to the previous quarter, amounting to 3.5% (7.9% in Q3 2009). Credits to private sector, compared to nominal GDP⁷, amounted to 43.8% in Q4 2009, being an increase by 0.4 p.p. in relation to Q3 2009.

Total **deposit potential**⁸ of private sector, following negative annual growth, increased by 7.1% in Q4 2009. Thereby, growth of deposit potential was fully due to foreign currency deposits registering 19.9% increase in relation to Q4 2008. On the other hand, Denar deposits dropped by 4.6%. Analysed by sectors, in Q4 2009, deposits to households increased by 15.4% in relation to Q4 2008, while deposits to enterprises continued experiencing strong decline (by 16.4%), although it was lower compared to the previous quarter (-26.4% in Q3 2009). In relation to Q3 2009, deposits to households were higher by 6.5%, while deposits to enterprises showed positive trends, i.e. 3.3% growth.

⁶ Starting Q1 2009, analyses are made on the basis of data harmonized with the new accounting plan for the banks, in force from January 2009.

⁷ Estimation.

As a result of decreased pressures on the foreign exchange market, as well as better expectations of NBRM, **interest on central bank bills** in Q4 2009 dropped by 0.5 p.p., i.e. from 9% to 8.5%. During the same period, European Central Bank made no changes in the reference interest rate, keeping it at the level of 1% at the end of the quarter.

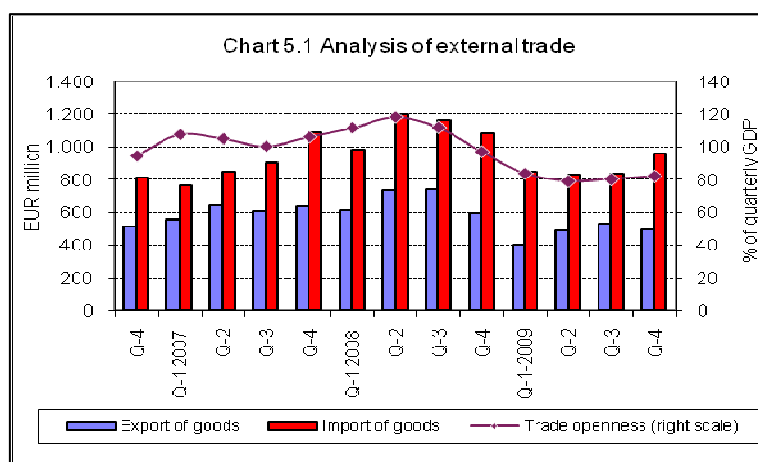


At the end of Q4 2009, **average weighted interest rate** on Denar credits remained unchanged in relation to the previous quarter, amounting to 10.3%. In relation to end-2008, it increased by 0.5 p.p. To the end of increasing the deposit potential, banks continuously increased interest rates on

deposits. Thus, at the end of Q4 2009, interest on credit balance on Denar deposits grew by 0.9 p.p. in relation to 2008, amounting to 7.5%, being by 0.1 p.p. higher than at the end of Q3 2009.

Macedonian stock exchange index MSEI-10, as aggregate indicator of stock exchange trends, increased by 13.1% in relation to Q4 2009. However, data for end of the quarter showed drop in MSEI-10. In relation to Q4 2008, MSEI-10 showed high growth of 23.6%. Total trading on Macedonian Stock Exchange declined by 62.7% in Q4 2009 in relation to Q4 2008, as well as an increase by 3.1% compared to Q3 2009.

5. External Sector and Balance of Payments



According to statistical data expressed in euros, increase in export of goods in Q2 and Q3 2009 was interrupted in the last quarter, while import of goods continued the upward trend. Thereby, in Q4 2009, export declined by 6.6%, and import experienced significant growth of 15.3% in relation to Q3. Such trends in export of goods in this

⁸ Deposits include calculated interest.

quarter was due to the significant decline in export of tobacco and tobacco products, oil and oil products, footwear, iron and steel, etc., while export of medical and pharmaceutical products, metal ore and metal scrap, chemical materials and metal products, etc., increased. Increase in import of goods in this quarter was mainly due to higher import of oil and oil products (18%), telecommunication devices (16%), textile yarns and similar (15%), office supplies and IT machines (7%), road vehicles (7%), etc., while import of sugar and sugar processings, transport equipment, products from non-metal minerals, etc., declined. Such trend indicated the beginning of foreign trade recovery.

Observed annually, what is characteristic for this quarter is that both export and import of goods registered high negative rate, whereby export of goods, expressed in euros, dropped by 28.1% compared to the same quarter in 2008, while import of goods (f.o.b.), also expressed in euros, decreased by 21.2% in Q4 2009 in relation to Q4 2008.

As for export of goods, in Q4 2009, negative growth rate was realized at almost each group of products according to SITC. Thereby, highest import decline was recorded at the categories of products classified by material, which was almost fully due to decline in export of steel and iron by EUR 47 million (31%), beverages and tobacco (decline in export of tobacco and tobacco products by 52% and beverages by 23%), various finished goods (drop in export of clothing by 11% or EUR 13 million), etc.

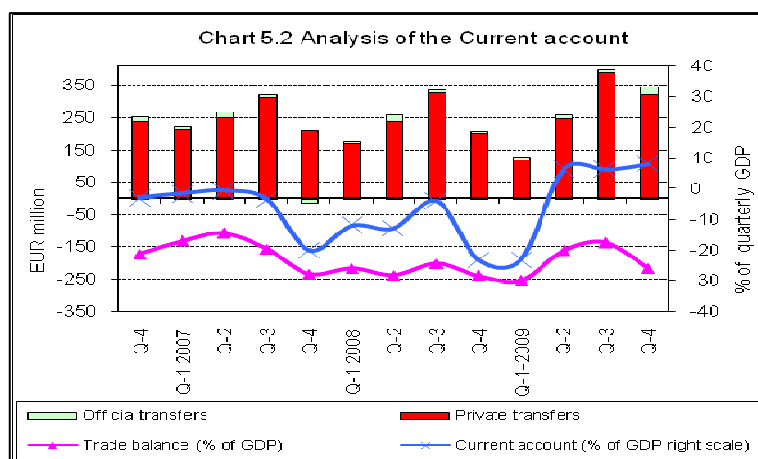
Analyzed by SITC, import of goods at most of the groups of products registered negative growth rate in Q4 2009. Thereby, highest import decline was seen at the following categories: machines and transport equipment (as a result of reduced import of operating machines by EUR 42 million - 86% and road vehicles by EUR 17 million - 23%), products classified by material (reduced import of steel and iron by EUR 9 million or 12% and textile yarns by EUR 10 million or 11%). Disadvantage was the decline of import of inputs used by export-oriented sectors, i.e. part of the so called import component of the export in metal and textile industries, having negative effects on the recovery of their overall production.

Trade openness of the Republic of Macedonia in Q4 2009 was 82.2%, showing an increase of 1.9 p.p. compared to the previous quarter. However, compared to 2008 quarters, it was still at low level, being at the levels realized prior to 2007. This was mainly due to the decline in the overall volume of the foreign trade by 13% in relation to the same quarter in 2008.

Observed by regions, in Q4 2009, positive trend in the volume of trade with the European Union (EU 27), commenced in the first quarter, continued, amounting to EUR 799.2 million, showing growth of 4.7% compared to Q3. Analyzed annually, volume of trade with the EU declined by 14% compared to Q4 2008. Thereby, import from the European Union was lower by 11%, and the export intensively dropped by 19%. Despite

such developments, volume of trade with the EU continued to be dominant in the overall foreign trade of the country, accounting for 53.3% (56.2% export of goods and 52.2% import of goods). In Q4 2009, 76% of export to and 60% of import from the European Union was with Germany, Greece, Italy and Bulgaria.

Due to export decline and fast increase of import of goods, in Q4 2009, negative results



of **trade balance** (EUR - 464.3 million) increased by EUR 164 million compared to Q3, accounting for -26.2% of quarterly GDP. Positive trends in current account balance, which commenced in the second quarter, continued in the fourth quarter in 2009, realizing surplus in the

amount of EUR 140 million, showing an increase by 37% in relation to Q3.

Upward trend of **net current transfers**, which commenced in Q1 2009, was interrupted in Q4 2009 and amounted to EUR 343,6 million, showing 13% drop compared to the previous quarter. Analyzed annually, net current transfers surged by 63% compared to Q4 2008, mainly due to the increased private transfers, being the dominant and driving component of current transfers (93%).

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