



Macroeconomic Developments in the Republic of Macedonia in August 2003

The conduct of consistent macroeconomic policy supported by the IMF (as well as by other international financial institutions and the European Union), constitutes solid base for further maintenance of macroeconomic stability and acceleration of the economic development in the Macedonian economy. Given the restrictive fiscal policy (reduced budget revenues and considerably lower expenditures compared to the same period of the previous year), as well as by maintaining a policy of stable exchange rate of the Denar against the Euro by the monetary authority, the inflation, reflected through the increase in the costs of living, in August remained almost unchanged relative to the previous month and equaled 0.1%. In the first eight months of 2003, the average inflation rate of 0.8% remains within the framework of the projected inflation rate (of 1.8%) for 2003. In August, the exchange rate of the Denar against the Euro on the foreign exchange market was stable and it was preserved at a level of Denar 61.21 per one Euro, with the NBRM making a net purchase of foreign assets on the foreign exchange market.

In August 2003, the industrial output as an indicator of the economic activity registered significant fall of 22.7% on monthly basis caused by seasonal factors, that is the lower activity in the summer period. Thus notwithstanding the monthly decrease, in the January – August 2003 period, compared to the same period of 2002, the volume of the industrial output is by 3.7% higher.

After a three-month downward trend of the banks' interest rates, in August 2003 their level remained almost unchanged. In August, the average weighted Denar lending interest rate equaled 15.5%, while the average weighted Denar deposit interest rate amounted to 7.4%, with the interest rate margin remaining the same as in the previous month (8.1 percentage points). The average weighted interest rate on the Money Market equaled 8.5% (reduction of 0.8 percentage points), with lower activity on the Money Market being registered. The interest rate on the CB bills auctions remained fixed in August and equaled 7%. In conformity with the higher level of liquidity in the banking sector in this month, the amount of sold CB bills went up.

In August 2003, the total deposits of the non-government sector with the banks registered monthly increase of 1.8%, as a basis for strengthening their credit activity. The increase in the total deposit potential of the banks is initiated by the higher savings of both the households and the enterprises. In August, the total banks' placements registered an increase on monthly and annual basis of 1.3% and 3.5%, respectively, thus continuing the tendency of long-term lending to households.

In August 2003, the monetary growth was under the influence of the more intensive increase in the enterprises' transaction deposits and the more evident preference for short-term saving. Consequently, the money supply M1 was by 1.0% higher. The higher short-term foreign exchange saving resulted in an increase in the broader monetary aggregates M2 and M4, which registered monthly increase of 1.8% and 1.5%, respectively. Taking into account the monthly increase in the monetary aggregates and the decrease in the currency in circulation (0.9%), the money multipliers picked up compared to the previous month. On annual basis, except for the money supply M1 which dropped due to the lower level of currency in circulation and the demand deposits, the monetary aggregates M2 and M4 registered considerable growth (13.8% and 9.6%, respectively), in line with the substantially higher level of short-term Denar and foreign exchange saving.

Revised Macroeconomic Program for 2003

From July 23 to August 8, 2003, the International Monetary Fund (IMF) Mission visited the Republic of Macedonia in order to assess the fulfillment of the criteria established by the Stand-By Arrangement. On the basis of the analysis of the latest available data, the initial macroeconomic program was subjected to a revision. The arrangement is further focused on ensuring sustainable fiscal and external position on a medium run and stimulating economic growth and employment.

Given the gradual recovery of the economic activity and the registered real growth of the GDP in the first two quarters of 2003 (of 2.2% and 3%, respectively), insignificant revision of the projected GDP real growth rate for 2003 from 3% to 2.8% was made. Thus the expected intensive growth of the production of



metals, the lower country risk and the anticipated capital expenditures of the country are regarded as major presumptions for such projection.

In the first seven months of 2003, the inflation rate was considerably lower compared to the one expected. Notwithstanding the changes in the structure of the value-added tax, the higher oil prices, the phone impulses and the heating, the average inflation rate was low and stable. In line with such developments, the revised average inflation rate for 2003 equals 1.8% (unlike the 3% in the initial projection).

In the first half of 2003, the fiscal performances were exceptionally favorable. The lagged adoption of the budget for 2003, as well as the undertaken measures for higher budget spending transparency resulted in low budget spending. Still, considering the expected realization of the anticipated capital expenditures by the end of 2003, the projection of the budget deficit of the central government and the total budget deficit (including the funds) for 2003 equaled 1.4% and 2.5% of the GDP, respectively (1.6% and 2.7% of the GDP, respectively in the initial projection).

In the external sector, the projected deficit in the current account of the balance of payments for 2003 equals 8.5% of the GDP (9.3% in the previous projection), while the gross foreign exchange reserves should continue ensuring approximately four-month imports coverage.

The monetary program was revised on the basis of the above revised projections. Thus based on the expected further strengthening of the propensity to short-term saving in Denars, an annual growth in the money supply M2 – Denar component of 12.4% (9.6% in the initial projection) is anticipated. The revised projection is expected to result in an increase in the money supply M4 of 15% (unlike the initial projection of 7%) due to the expected increase in the short-term saving in foreign exchange.

The projected annual growth rate of the total banks' credits extended to the non-government sector remained unchanged (9.5%). The anticipated positive annual dynamics is based on the presumptions for stable economic environment and lower risk, higher demand for credits (given the diversified supply of credits and the relatively lower interest rates) as well as the liberalization of the foreign exchange credit extension (since August 2003, when the amendments to the Law on Foreign Exchange Operations were enforced, the banks have been allowed to extend foreign exchange credits to all interested entities). The projected increase in the total credits of the banks corresponds with the expected budget spending and the presumption for further propensity of the banks to maintain high foreign exchange position abroad.