

**1.3.****Other macroeconomic developments**

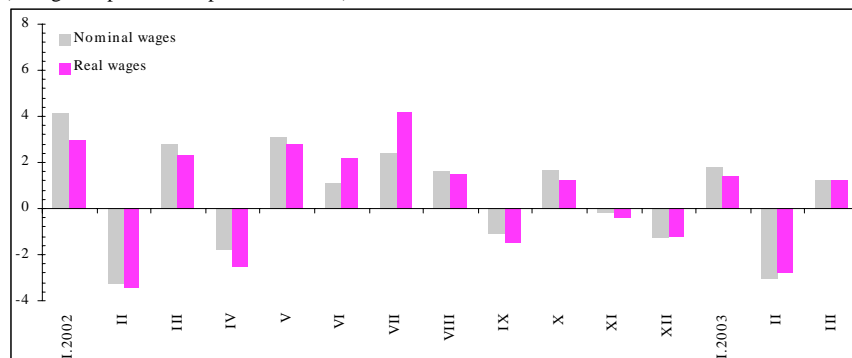
In March 2003, the average net paid wage per worker increased compared to the previous month by 1.2% both in nominal and real terms

In March 2003¹, the average net paid wage per worker in the Republic of Macedonia equaled Denar 11,545, which is a monthly increase of 1.2% in comparison with the previous month in nominal and real terms (in March 2003, the costs of living remained unchanged relative to the previous month). A monthly increase in the wages was registered in all three sectors: agriculture (11.4%), industry (2.9%) and services (0.8%). On annual level, the average net paid wage per worker registered an increase in nominal and real terms of 5.3% and 5.6%, respectively. Simultaneously, the average net paid wage in the January - March 2003 period compared to the same period in 2002 registered nominal and real increase of 6.3% (with the increase in the wages being registered in the industrial and services sector).

Chart 5

Average net wages

(changes in percent, on previous month)



In March 2003, 25.2% of the employees in the Republic of Macedonia did not receive wages for the respective month, which is by 0.2 percentage points less compared to the previous month.

In April 2003, small monthly decrease in the total budget revenues was registered...

After the high increase registered in the previous month, in April 2003 the total budget revenues of the Central Government reduced by 0.2% and equaled Denar 5,696 million. The small monthly decrease in the total budget revenue originates from the reduced primary revenues (by 2.5%), given the decreased tax revenues (by 1.1%). Regarding the more significant types of tax revenues, a decrease was registered in the revenues received from the profit tax (as a reflection of the high comparison base registered in the previous month) and the revenues received from duties.

¹ Last available data.



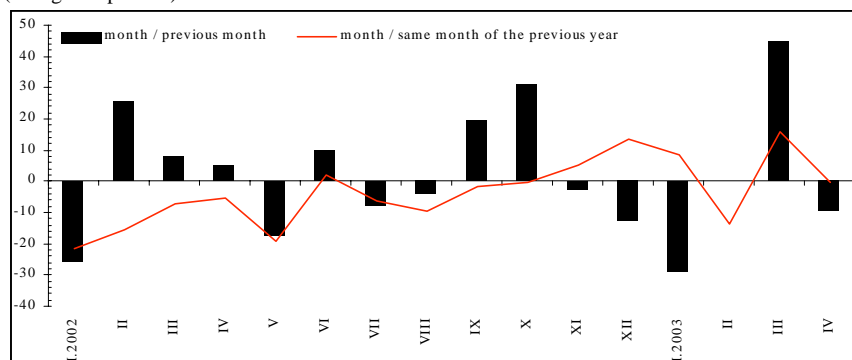
1.2.

Economic activity

In April 2003, monthly decrease in the volume of the industrial output of 9.7% was registered...

After the high monthly increase in the industrial output in March 2003, in April 2003 the volume of the industrial output declined by 9.7%. A decrease in the production was registered in all main industrial groups of products (except the increase in the production of non-durable consumption goods) and in three industrial sectors. Thus, in the processing industry, in the production in the sectors "mining and quarrying", and "supply of electricity, gas and water" a decrease of 9.2%, 18.2% and 14.2%, respectively, was registered. Among the industrial branches of higher importance, the most remarkable decrease was registered in the production of oil derivatives, followed by the production of electric machines and equipment, the production of textile products, the production of basic metals and the production of clothing; further processing and dyeing of fur.

Chart 4
Industrial output
(changes in percent)

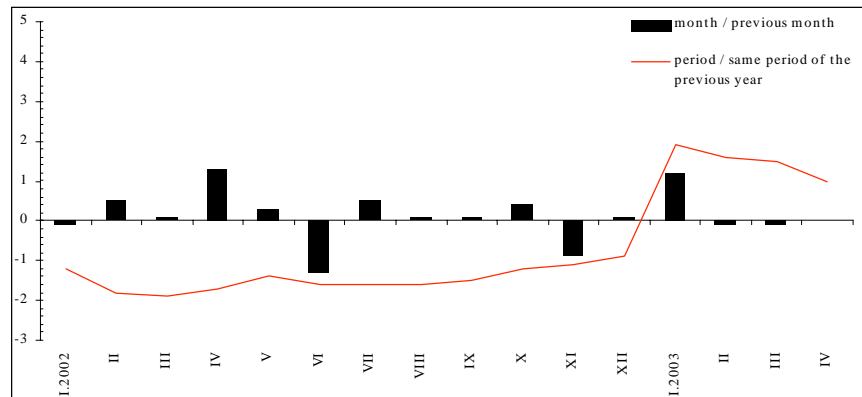


... while it increased by 2.4% on cumulative basis

Annually observed, the industrial output decreased by 0.5%, as a result of the decrease in the sector "mining and quarrying" (68.9%), although the processing industry and the sector "supply of electricity, gas and water" registered an increase (of 0.4% and 25.4%, respectively). In the January - April 2003 period, compared to the same period of the previous year, the industrial output increased by 2.4%, due to the increased production in the processing industry (due to the high increase in the production of basic metals of 99.8%) and the increased production in the sector "supply of electricity, gas and water".



Chart 3
Prices of producers of industrial products
(changes in percent)



...while on average, they were higher by 1.0%

Annually observed, the prices of the producers of industrial products dropped by 0.4%, while on average, they increased by 1.0% (due to the annual increase in the prices of energy of 6.2%, as a result of the higher prices of oil derivatives by 17.9%).



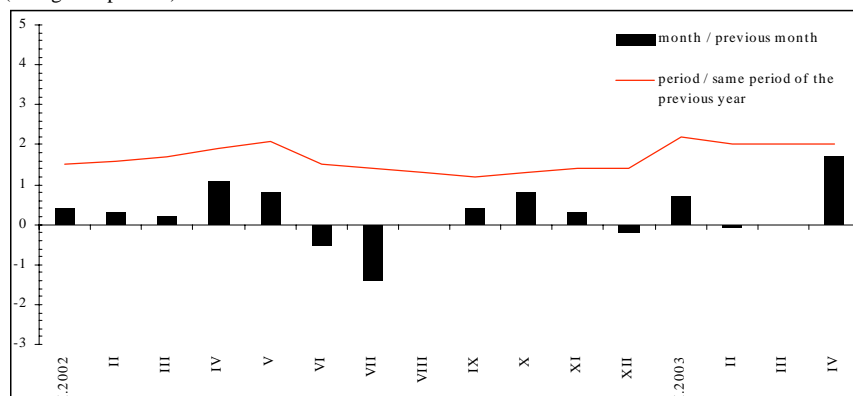
The preferred tax rate of 5% shall further be applied to the following product categories: 1) Food products for human consumption; 2) Drinking water from the public supply systems; and 3) Publications, books, newspapers and other periodical publications (except the publications primarily used for advertising).

* Taking into consideration the social aspect, the tax burden on the households' consumption of electricity is, to a lower extent, is born by households, which pay the VAT at the rate of 5%, as a difference to 18%, which the new tax rate for electricity, will be covered by the Macedonian electricity company Elektrostopanstvo. Regarding the consumption of electricity by legal entities, according to the new general rate of VAT the tax burden is completely born by the legal entities.

In April 2003, monthly increase in the retail prices of 1.7% was registered

Similar to the costs of living, in April 2003 a significant monthly increase of 1.7% was also registered in the retail prices. The highest increase was registered in the prices of agricultural products (3.4%), due to the higher prices of vegetables (5.6%), eggs (5.4%) and fruits (1.4%). Relative to the group of non-food industrial products, the registered increase in the prices of 0.9% is due to the increased prices of medicines (9.6%), means of production and chemicals for gardening (6.6%), hygienic items (5.2%) and footwear (1.6%). Analyzed by structure, the prices of services registered faster increase (3.1%) compared to the increase in the prices of goods (0.9%), primarily due to the increase in the prices of transportation and public utility services (11.1% and 3.7%, respectively). In addition, in April 2003, compared to the same month of the previous year, the retail prices increased by 2.3%, while the average growth rate of the retail prices pertains the level of 0.2% for the third month in a row.

Chart 2
Retail prices
(changes in percent)



In April 2003, the prices of the producers of industrial products retained the level registered in the previous month...

In April 2003, the prices of the producers of industrial products remained unchanged compared to the previous month. The unchanged level is a reflection of the divergent movements in the prices with the main groups of products. Thus, a decrease in the prices of producers of energy (0.7%) and capital goods (1.9%) was registered, while the prices of the producers of intermediary products (except energy) and non-durable consumption goods registered an increase (0.3% and 0.5%, respectively). Namely, in 18 out of 22 observed branches, the prices of the producers of industrial products retained the level of the previous month.

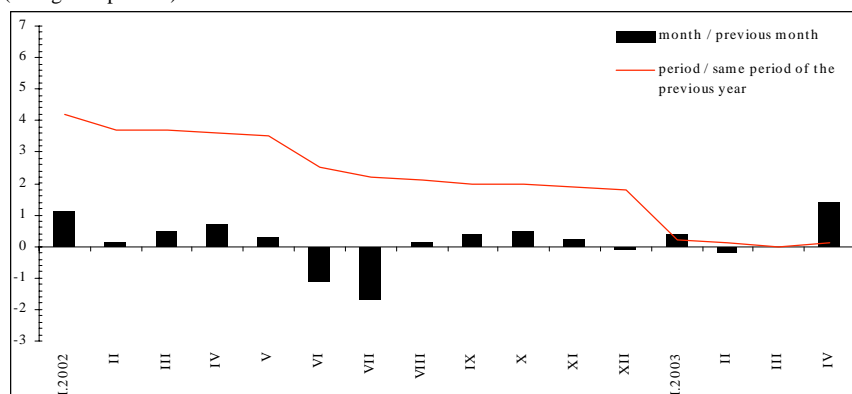
**1.1.****Prices**

In April 2003, the monthly rate of inflation equaled 1.4%...

...but the average rate of inflation was minimal (0.1%)

In April 2003, the monthly rate of inflation, measured by the movement in the costs of living, equaled 1.4%, which is the highest monthly increase in the last almost two years. The monthly increase in the costs of living is mainly due to the implementation of the amendments in the Law on the Value Added Tax. Namely, the implementation of the new rates of the value added tax started on April 1, 2003, with the general rate of 19% being decreased to 18%, while part of the products which were taxed at the preferred rate of 5%, since this month are taxed according to the new general rate of 18%. This resulted in a one-time increase in the costs of the products transferred from the preferred to the general tax rate. Thus the costs of hygiene and health, the means of transportation and services, and the costs of housing increased on a monthly basis by 5.8%, 1.8% and 1.1%, respectively. The structural analysis indicates that the costs of services registered faster increase (2.3%) compared to the increase in the costs of goods (1.2%). In April 2003, compared to the previous year, the costs of living increased by 0.4%. Despite the high monthly increase, given the higher comparison base, in the January - April 2003 period compared to the same period of the previous year, the average rate of inflation was minimal and equaled 0.1%.

Chart 1
Costs of living
(changes in percent)

**A review of the changes in the value added tax**

The implementation of the Law on the Value Added Tax started on April 1, 2003 ("Official Gazette of the Republic of Macedonia" no. 21/2003). The changes refer to the application of the general rate of the value added tax (a reduction from 19% to 18%), as well as to the change in the categories of products and services, which are taxed at the general rate of the value added tax. In accordance with the changes, the following products and services were transferred from the preferred tax rate of 5% to the general tax rate of 18%: 1) The main agricultural, fishing and apiculture products; 2) Animal food; 3) Electricity*, coal, fire-wood, crude oil, gas, cooling and heating; 4) Medicines, orthopedic devices and appliances; 5) Hygienic items; 6) Transportation of persons; 7) Public utility services; 8) Services of lawyers, notaries, accountants and auditors.



I. Economic Developments in the Republic of Macedonia

Basic indicators for the economic developments

Basic indicators for the economic development					
		Amount	Month / previous month	Month / same month of the previous year in %	Period / same period of the previous year
Costs of living	IV.2003	-	1.4	0.4	0.1
Retail prices	IV.2003	-	1.7	2.3	2.0
Prices of producers of industrial products	IV.2003	-	0.0	-0.4	1.0
Industrial output	IV.2003	- in denars	-9.7	-0.5	2.4
Nominal average net paid wage	III.2003	11,545	1.2	5.3	6.3
Real average net paid wage	III.2003	- in million denars	1.2	5.6	6.3
Budget revenues	IV.2003	5,696	-0.2	-2.7	-17.6
Budget expenditures	IV.2003	5,928	23.5	-0.6	-12.3

Source: State Statistical Office of the Republic of Macedonia and Ministry of Finance



Important economic events and amendments to the legal regulations in April 2003

- ❖ *On April 1, 2003, the implementation of the Law on Amendments to the Law on the Value Added Tax started, according to which the general VAT rate of 19% was reduced to 18%, and a larger portion of the products taxed at the preferred rate of 5% will, from now on, be taxed at the general rate of 18% ("Official Gazette of the Republic of Macedonia" no. 21/2003).*
- ❖ *On April 1, 2003 the payment of the third installment and interest on the bonds for old foreign exchange savings commenced.*
- ❖ *On April 4, 2003, the Republic of Macedonia officially became a member of the World Trade Organization (WTO), after the completion of all legal procedures provided for in the WTO rules according to which the membership will become official. The Agreement for Admission of the Republic of Macedonia to the WTO was signed in October 2002.*
- ❖ *On April 8, 2003, the NBRM Council adopted a Decision on further reduction of the NBRM interest rates, according to which the discount rate was reduced from 8% to 6.5% ("Official Gazette of the Republic of Macedonia" no. 27/2003, date of enforcement April 15, 2003), as well as a Decision according to which the CB bills volume tender auctions with an interest rate of 7% shall be applied as of April 11, 2003.*
- ❖ *On April 29, 2003, the successor-countries received the funds deposited by the former SFRY in the commercial banks seated in the USA. Thus total of US Dollar 17.8 million or 7.5% of the funds were transferred to the Republic of Macedonia.*
- ❖ *On April 30, 2003, the IMF Board of Directors extended the Stand-by arrangement to the Republic of Macedonia, agreed upon in February this year. The arrangement in the amount of US Dollar 27 million will be carried out within a period of 14 months. The approval of the arrangement reaffirms the support of the IMF to the Government macroeconomic policy.*
- ❖ *On April 16, 2003, the implementation of the Law on Inducing the Employment started ("Official Gazette of the Republic of Macedonia" no. 25/2003), which creates environment for inducing the employment by compensating the funds of the employer for the paid wage contributions (contributions for pension and disability insurance, health insurance and employment), for each new worker employed on permanent basis, for a period of 24 months since the employment. In order to exercise the right to compensation, the new worker should be: unemployed person registered in the Employment Bureau for at least one year, unemployed person who was made redundant due to economic, technological, structural or other similar changes or due to a bankruptcy and unemployed business-capable person, beneficiary of public welfare. The employer is required to keep the new worker employed on this basis at least twice longer than the period for which they used the right for compensation of the funds. The funds for enforcement of this Law in the amount of Denar 2 billion will be provided by the state budget, within the framework of the funds planned for implementation of the Program for increasing the employment and the flexibility on the labor market. The provisions of this Law will be in force until December 31, 2003.*
- ❖ *New regulations: Law on State Aid – the enforcement of this Law will start on January 1, 2004 and Law on Accounting of Non-profitable Organizations – with retroactive enforcement starting from January 1, 2003 ("Official Gazette of the Republic of Macedonia" no. 24/2003).*

**The Republic of Macedonia concluded a Stand-by arrangement with the IMF**

On April 30, 2003, the International Monetary Fund (IMF) Executive Board extended a Stand-by arrangement to the Republic of Macedonia in the amount of Special Drawing Rights (SDR) 20 million, or around US Dollar 27 million. The arrangement is a financial support to the macroeconomic policy for the period from April 30, 2003 to June 15, 2004. Additionally, this arrangement is a prerequisite for receiving the announced funds from the foreign donors and creditors. Thus the stress is laid on *ensuring sustainable fiscal and external position in a medium run and inducing the economic growth and the employment*. In order to achieve such goals, the following macroeconomic framework was established:

- **Monetary and exchange rate policy** – the strategy of *de facto exchange rate targeting of the Denar against the Euro* was considered a proper monetary strategy for this period. The IMF competitiveness indicators show neither overvaluation nor undervaluation of the exchange rate. *The monetary policy* will be conceived in function of successful maintenance of the stability of the exchange rate and further successful achievement of its ultimate objective, preserving the price stability. From the operational point of view, the CB bills auctions and their interest rates further remain major monetary policy instrument.
- **Fiscal policy** – the adjustments within the fiscal policy are aimed at *ensuring sustainable fiscal position*. Therefore suitable changes were made on the sides of both the expenditures and the revenues. Thus after the exceptionally high public spending in 2001 (for security reasons) and in 2002 (year of parliamentary elections), considerable reduction in the public spending is planned for 2003 (by eliminating the extraordinary expenses and taking other measures so as to reduce the budget spending). On the revenue side, after the abolishment of the temporary financial transactions tax, the revenues are planned to be supplemented through the changed structure in the value-added tax (a larger portion of the non-food products will no longer be taxed on the basis of preferred, but on the basis of the general tax rate). These measures are expected to lower the budget deficit and to reduce it to 2.0% of the GDP in 2003.
- **Structural reforms** – in this area, the reforms are focused on increasing the flexibility on the labor market, support of the small and medium enterprises (by promoting the entrepreneurship, facilitating the access to credits by establishing a Credit Guarantee Fund), solving the problem with the loss making enterprises, completing the privatization, as well as undertaking measures for reducing the corruption. Within these frameworks, the admission of the Republic of Macedonia to the World Trade Organization is considered positive.



Macroeconomic Developments in the Republic of Macedonia in April 2003

On April 1, 2003, the implementation of the new value-added tax rates started in accordance with the amendments to the Law on the Value Added Tax (the general VAT rate was reduced from 19% to 18%, while its application was extended to a larger scope of products which, so far, have been taxed at preferred VAT rate of 5%). These amendments were an integral part of the arrangement with the IMF, as an alternative solution for the condition of in the budget after the abolishment of the financial transactions tax. The changes made in the tax policy resulted in an increase of the general level of prices in the economy, with a monthly inflation rate of 1.4.% being registered in April, according to the costs of living index. With regard to the character of the changes, it is a one-time effect on the inflation. Notwithstanding the monthly increase, the average inflation rate registered in the first four months of 2003 was minimal (0.1%). The price stability corresponds with the stable level of the Denar exchange rate, which in April remained at the level of Denar 61.2 per one Euro, after the successful elimination of the pressures on the foreign exchange market for Denar depreciation.

In April, the changes in the real and the external sector in the economy were negative due to the high comparison bases from the previous month. Nevertheless, on cumulative basis the positive indicators remained. Thus, in April, the industrial output registered a monthly fall of 9.7%, while the foreign trade dropped by 11.8%. However, in the first four months of 2003, compared to the same period of the previous year, the industrial output went up by 2.4%, and the foreign trade increased by 21.3% (given the increase in both the imports and the exports of 23.7% and 20%, respectively).

In April, in the monetary sector, the easing of the monetary policy continued further, in line with the overall developments in the economy. After the changes in the NBRM interest rate policy in February 2003, in April the interest rates were further reduced as follows: the discount rate was reduced from 8% to 6.5%, whereas the interest rate on Lombard loans reduced from 17.5% to 16%. Also, since April 11, 2002, the CB bills interest rate has been fixed at a level of 7%, in conformity with the changed type of auction (volume tender). These changes sent a signal to the banks for proportional reduction of their interest rates, and consequently, larger financial support to the economic activity in the country and inducing of the economic development.

The payment of the third installment and the interest on the government bonds for the old foreign exchange savings on April 1, 2003, was a major factor for the increased budget spending, which directly resulted in higher liquidity of the banks in April. Given the simultaneous increase in the demand for currency in circulation, due to the Easter and Labor's Day Holidays, in April, the reserve money registered significant increase of 10.6% on monthly basis.

In April, the decrement of the average weighted interest rate on the CB bills auctions and on the Money Market continued. The high liquidity in the period in which the interest rate tender auctions were still in place, as well as the later fixing of the interest rates on the CB bills at the level of 7%, led to decline in the average weighted interest rate on the CB bills of 2.6 percentage points in April, compared to the previous month, thus reducing it to 7%. Simultaneously, taking into account the higher supply relative to the demand for liquid funds on the Money Market, the average weighted interest rate registered a fall of 1.6 percentage points and equaled 10.6%. In April 2003, the Denar lending interest rates of the banks remained at the level of the previous month (17.3%), whereas the Denar deposit interest rates reduced by 0.3 percentage points and equaled 8.9%, annually.

In April, the monetary aggregates registered a monthly increase. Thus the money supply M1 went up by 3.2%, due to the rise in the currency in circulation and the households' demand deposits. The money supply M2 was by 6% higher, with the short-term Denar deposits increasing much faster than the short-term foreign exchange deposits. The broadest monetary aggregate M4 registered an increase of 5.3%, given the increase in the foreign exchange, and the decrease in the Denar non-monetary deposits. From the aspect of the total deposit structure, the share of both the short-term and the foreign exchange deposits still dominates.