



Macroeconomic Developments in the Republic of Macedonia in December 2003

The successful maintenance of the price stability as main legally determined monetary policy objective continued in December 2003. The monthly rate of inflation measured through the index of the costs of living equaled 0.5%, while in 2003, on average, a low average inflation rate of 1.2% was realized (which is within the projection of 1.8%). From the aspect of monetary policy conduct, maintenance of a stable exchange rate of the domestic currency is the indirect target in the realization of this objective. Given the higher demand compared to the supply of foreign exchange on the foreign exchange market, in December the NBRM interventions were directed towards offsetting of the pressures for depreciation of the domestic currency. This resulted in a net-sale of foreign exchange by the NBRM on the foreign exchange market and maintenance of the Denar exchange rate at a stable level (Denar 61.29 per one Euro in December, i.e. Denar 61.26 per one Euro in 2003, on average).

From the aspect of the economic activity, the industrial output registered a movement common for the last month of the year, i.e. it registered a monthly fall (although not as intensive as usual), which reflects the gradual normalization of the production volume after the extensive seasonal effect in September (also present in October) 2003. On average, the volume of the industrial output in 2003 accomplished a satisfactory growth rate of 4.7%. Foreign trade also registered positive performances. In December 2003, foreign trade registered monthly growth of 9.8%, as a result of the increase in both the export and the import of goods of 4.7% and 12.9%, respectively. Analyzed on cumulative basis, in 2003 foreign trade was by 17.8% higher compared to 2002, registering more intensive growth of the exports (22.2%) compared to the imports (15.3%).

After the moderate fall in the previous month, in December the total deposits of the non-government sector with the banks registered another increase (by 1.8%). This was a comprehensive growth, i.e. it was registered with the deposits analyzed by maturity (short-term, long-term), by currency (Denar, foreign exchange) and by sectors (households, enterprises). The growth of the total deposits was accompanied by an identical monthly increase of the total banks' placements (1.8%), with a simultaneous growth of the credits in domestic and in foreign currency. The positive trend of movement of the banks' deposit potential and their credit activity during 2003, resulted in high annual growth rates of deposits and credits of 26.8% and 19.1%, respectively.

The seasonal growth of the demand for currency in circulation (before New Year and Christmas holidays) accompanied by the growth in the transaction deposits, caused an increase in the money supply M1 by 9.7% in December. Increased saving (short-term and long-term) resulted in a monthly growth of the broader monetary aggregates M2 and M4 of 4.6% and 4.4%, respectively. Given, however, the more intensive growth of the reserve money (by 16.2%, caused by seasonal factors and high budget spending), the process of monetary multiplication slowed down in December.

In accordance with the seasonally increased liquidity needs of the banking system, in December the interest for purchasing CB bills diminished, while the average weighted interest rate at the auctions of CB bills with 28-day maturity retained the level of the previous month (6.15%). At the institutionalized money market, the interest rate was reduced to 5.8% (a decline of 1.4 percentage points). Simultaneously, the banks' interest rate policy was directed towards decreasing both lending and deposit interest rates, but also towards extending the interest rate margin. Thus the weighted interest rate on the short-term Denar credit was lower by 0.2 percentage points and equaled 14.5%, while the weighted interest rate on the three-month Denar deposit was reduced by 0.4 percentage points and equaled 6.7% (increase of the interest rate margin by 0.2 percentage points). At the end of 2003, banks' interest rates were reduced to the historically lowest level.

Monetary policy in 2004

In 2004 the policy of stable prices and low inflation will continue, as the basis environment for achieving economic development. The projected inflation rate for 2004 is 2.8%. The monetary policy in 2004 will be directed toward maintaining the price stability with further application of the exchange rate targeting strategy, adequate use of the monetary policy instruments and coordination with the other macroeconomic policies, primarily the fiscal policy. The necessity of coordination of the monetary and the fiscal policies is especially emphasized in the area of the planned issuance of government securities in 2004 and liquidity



regulation. The policy of maintaining the foreign exchange reserves at an appropriate and comfortable level (covering four months of import of goods and services) will continue also in 2004. The expected annual increase of the total deposits of the private sector with the banks in 2004 is expected to reach 13.8%, with an identical increase in Denar and foreign exchange deposits (13.8%). The planned intensification of the economic growth in 2004 is expected to be assisted by a credit support provided by the banking sector (projected annual growth of the banks' total credits extended to the private sector of 9.0%). From the aspect of the movement of the monetary aggregates, money supply M2-Denar part is expected to achieve nominal growth of 11.7%, with growth of the broadest monetary aggregate M4 of 12.6%.

Main objectives of the macroeconomic policy for 2004

In December 2003 the macroeconomic policy for 2004 was adopted, which encompasses the main economic objectives in 2004 and the factors that are expected to contribute to their accomplishment.

Main priority of the macroeconomic policy for 2004 is to create conditions for intensification of the growth rates of the Macedonian economy, through maintaining low and stable inflation rate, control of public expenditures openness of the country towards foreign countries, human factor development and accomplishment of balanced regional development. Accordingly, priority targets in 2004 are the increase in the investment activity, intensification of the structural reforms, creation of a competitive private sector, which will ultimately lead to reduced unemployment.

In 2004, GDP is expected to accomplish real growth of 4%, as a result of the expected growth of the industrial output, investment activity (primarily the public investments), and foreign direct investments.

Central budget deficit is expected to equal 0.9% of GDP, while the general budget deficit is not expected to exceed 1.5% of GDP. Main objective of the fiscal policy is the accomplishment of the fiscal sustainability on a medium run and intensification of the reforms. Retention of the restrictive character of the fiscal policy shall mean room for more relaxed monetary policy and reduction of banks' interest rates. Significant novelty in this area is the planned issuance of short-term government securities (beginning of 2004) intended for financing the budget deficit from domestic sources.

Pursuant to the new Law on Foreign Exchange Operations, current and capital-financial transactions in 2004 will be conducted in conditions of a high level of liberalization (partial liberalization of the portfolio transactions). The membership of the Republic of Macedonia in the World Trade Organization (WTO) is expected to act toward increasing both the exports and the imports (by 9% and 4%, respectively), which will result in reducing the trade deficit and improving the situation in the balance of payments. The high expected inflow of FDI of about USD 150 million will contribute to financing the deficit on the current account in the balance of payments, without incurring debt.

Main pillars of the macroeconomic policy in 2004 are the social policy and the policy of employment. In 2004 employment is expected to increase by 3%. To this aim, it is planned to develop a National Action Plan for Employment for 2004 – 2005, in accordance with the principles of EU and the guidelines of the European Council, and to undertake series of measures and activities toward this direction (further education of staff, reduction of gray economy, setting the minimum level of wages in the private sector, etc.). In the area of social welfare, the main accent was placed on the more appropriate distribution of the funds for social welfare (reduction of the number of so-called unrealistic beneficiaries), greater motivation for job seeking of the social welfare beneficiaries.

* According to the Labour Force Survey (April 2003) of the State Statistical Office, the unemployment rate for 2003 reached 36.7%.