



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department

SHORT-TERM ECONOMIC TRENDS

October 2010



Skopje, December 2010

SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

October 2010

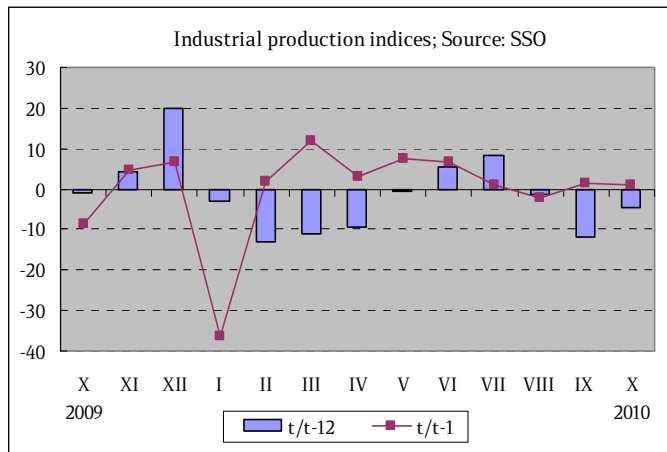
- **Industrial production index in October 2010, compared to the same month previous year, dropped by 4.4%.**
- **Annual increase of general price level by 2.7%, with 0.3% monthly inflation;**
- **Increase in the physical output of export in the period January-October 2010 by 11.5%, whereby nominal growth was 26.5% compared to the same period last year. Increase in imported quantities of goods was 6.8%, with valuable nominal growth of 10,9%;**
- **Better performance of total central budget revenues by 3.8% (15.7% of GDP) and increase of total expenditures by 0.8% (17.3% of GDP) in the period January-October 2010 compared to the same period last year; central budget deficit amounted to 1.5%, while consolidated budget deficit accounted for 1.8%.**
- **Growth of total credits to the private sector, with 8% rate on annual basis, by simultaneous increase of total deposit potential of banks by 13.3%;**
- **Reduction of the number of registered unemployed persons in October by 1,299 persons compared to the previous month, whereby it amounted to 321,934 persons.**

1. Real Sector

1.1 Industrial production index in October 2010, compared to the same month previous year, dropped by 4.4%.

Analyzed by sectors, ore and stone extraction sector decreased by 7.9% annually, while processing industry sector dropped by 3.8%, and electricity, gas and water supply sector declined by 8.1%.

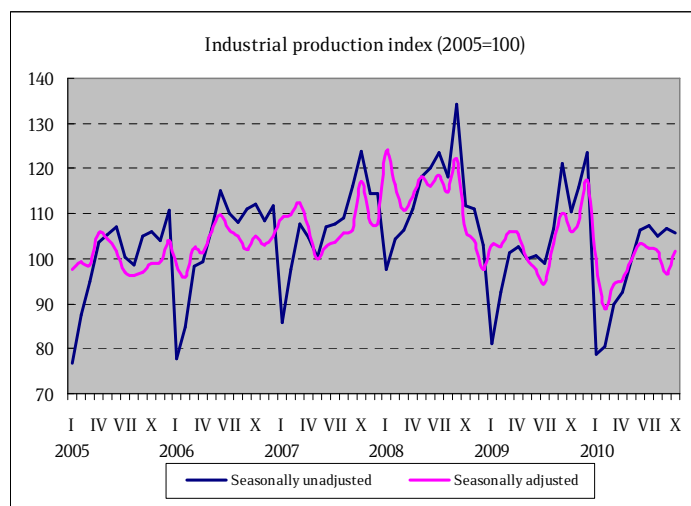
As for processing industry, positive annual growth was seen at 70% of the branches, whereby growth was evidenced at two out of the three driving branches, with two-digit share in the industrial production. Thus, production of clothing increased by 24.2% and production of base metals surged by 20.2%, while production of food products and beverages dropped by 5.2%.



Production of other means of transport (7.3 percentage points) contributed the most to the annual growth of industrial production, while production of metal products in the metal processing stage (-2 percentage points) had the highest negative contribution. Industrial production index in August 2010, compared to the same month last year, dropped by 2.2%.

Industrial production index in October 2010, compared to the same month last year, dropped by 1%. Thereby, ore and stone extraction sector dropped by 3.4%, processing industry sector decreased by 3.2%, while electricity, gas and water supply sector increased by 23% on monthly basis.

De-seasoned monthly growth of industrial production in October 2010 was 4.3%, pointing out to high negative seasonal effects in the industry.



Industrial production index in the period January-October 2010, compared to the same period last year, dropped by 4.2% on cumulative basis, the same as in the period January-September.

According to the assessment of enterprise managers, economic situation present in the enterprises in August 2010 was less favourable compared to the previous

month, as well as the assessment for the current state of delivery-to-production. Production volume of business entities in October 2010 experienced slight decline compared to the previous month, the expectations for the production volume in the coming three months are less favourable, while the expectations for the number of employees are unfavourable, pointing out to deterioration of the developments in the processing industry.

Average utilization of the capacities of business entities in October 2010 was 60.2% of the regular utilization, being minimum increase compared to last month, when it accounted for 60.1%.

According to the managers, following factors limited the most the production volume in August 2010: insufficient foreign demand – 22.8%, insufficient domestic demand – 16.4%, financial problems – 12.1% and uncertain economic surrounding – 10.9%.

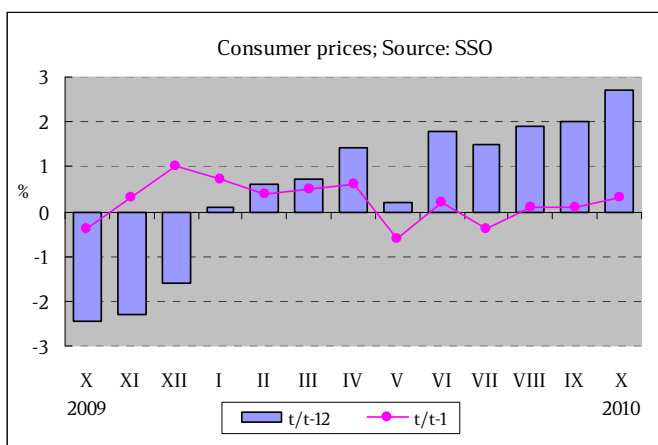
Total number of industrial workers in October 2010 decreased by 0.6% compared to October 2009.

Sector analysis points out to lower decline rates, whereby processing industry dropped by 0.7%, while electricity, gas and water supply sector decreased by 0.2%. Number of workers in the ore and stone extraction sector is the same as in October last year.

Number of industrial workers in the first nine months of 2010 declined by 4.9% on cumulative basis, being lower decline rate (in the period January-August, it was - 5.4%). Decline registered in the ore and stone extraction sector was 3.9%, 5.4% in the processing industry, while the decline in the electricity, gas and water supply sector accounted for 1.5%.

1.2. In October 2010, prices of personal consumption goods, measured through the CPI index, increased by 2.7% compared to the same month of the previous year.

Increase of general price level was mostly due to increase of prices in the housing category by 5.7%, due to increase of heating and lighting prices by 9.1%. Price increase was also seen at food category by 3.4% (having at the same time the highest share in the structure - 38.6%), means of transport and services by 3.1%, food and footwear by 2.0%, restaurants and hotels and tobacco and beverages by 0.7%. Decline of prices was registered at culture and entertainment category by 2.5% and hygiene and health by 0.1%.



CPI index in October 2010, compared to September 2010, was higher by 0.3%.

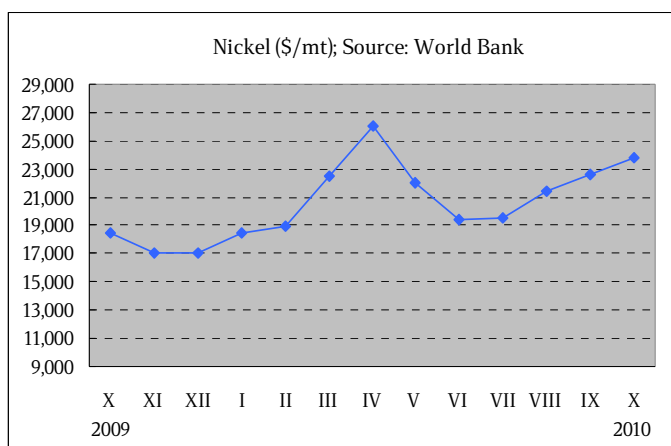
Value of the consumer basket of food and beverages for a four-member household in October 2010, calculated on the basis of retail prices, was Denar 12,105 and, compared to the previous month, it was higher by 0.6%.

Retail price index in October 2010, in relation to October 2009, increased by 3.3%.

1.3. In October 2010, world stock markets experienced monthly increase of prices of metals, while price of natural gas declined.

In October, oil price on world stock markets increased by 6.6% compared to the previous month, reaching the price of US\$ 82.9 per barrel. Compared to September last year, oil price surged by 13.3%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 5.1% on monthly basis, reaching US\$ 23.807 for a metric ton (\$/mt). In addition, compared to September last year, nickel price was higher by 28.5%. Price increase on monthly basis was also noticed at zinc by 10.2%, aluminum by 8.5%, copper by 7.6% and gold by 5.6%.



2. External Sector

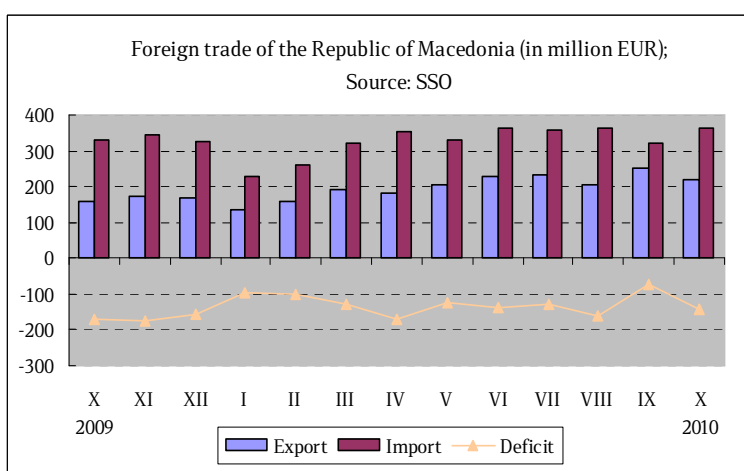
2.1. In the period January-October 2010, total foreign trade (expressed in euros) surged by 16.3% in relation to the same period last year.

Thereby, physical output of export increased by 11.5%, the value of which amounted to EUR 2,005.5 million, **being significant and the highest increase by 26.5% this year** compared to the same period last year.

Imported quantities of goods increased by 6.8%, and it amounted to EUR 3,265.5 million, increasing by 10.9%.

In conditions of such trends, trade **deficit** realized by the end of October amounted to EUR 1,260 million,

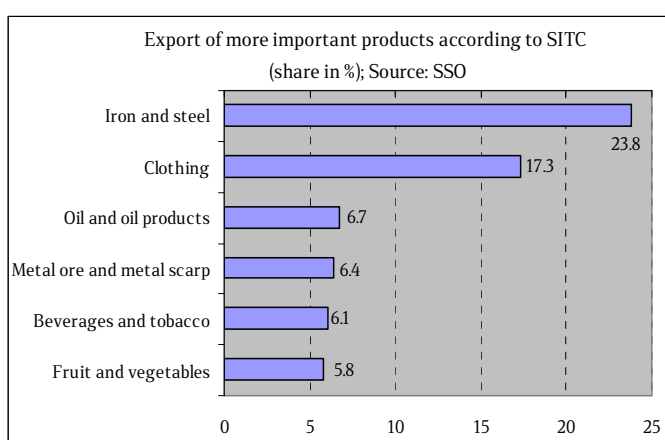
narrowing by 7.4 % on annual basis (EUR 100.2 million), as a result of more intensive growth of export (26.5%) than import (10.9%). Analyzed from balances point of view, decline in negative trade balance was a result of combined effect of



the reduced negative balance of trade in electricity, industrial machines and spare parts, other transport equipment, telecommunication devices, operating machines and devices and food products, as well as the increased positive balance of trade in iron and steel and their products, metal ore and metal scrap, chemical materials and metal products. Increased negative balance of trade in raw chemicals, road vehicles, oil and oil products, non-ferrous metals, etc., had opposite effect. Such trends also led to higher level of coverage of import with export in the ten months, accounting for 61.4%, showing an annual increase by 7.6 p.p.

2.2. Main groups of products (according to SITC) having the biggest share in export in the first ten months of 2010 were the following: iron and steel – 23.8%, clothing – 17.3%, oil and oil products – 6.7%, metal ore and metal scrap – 6.4%, beverages and tobacco – 6.1%, and fruit and vegetables – 5.8%. These six groups of products comprised

66.1% of the total export in the country. According to the carried out analysis, **seasonally adjusted trend of export** in October dropped by **4.3%** on monthly basis, pointing out to high negative effects of the seasonal factor (8 p.p.) on export this month as well.



The following participated the most in the import of goods in the ten months on cumulative basis: oil and oil products (EUR 431.5 million, 12%), road vehicles (EUR 246.9 million, 7.7%), iron and steel (EUR 224.3 million, 7.6%), textile yarns and similar (EUR 238.7 million, 6.9%), electrical machines, devices and spare parts (EUR 105.9 million, 3.2%), metal ore and metal scrap (EUR 111 million, 2.4%), etc.

Export of iron and steel*)					Import of iron and steel*)				
	I-X-2009	I-X-2010	Balance 2010-2009	% rate		I-X-2009	I-X-2010	Balance 2010-2009	% rate
.000T	506.9	612.0	105.1	20.7	.000T	443.8	489.6	45.8	10.3
EUR mil.	308.9	476.6	167.7	54.3	EUR mil.	173.2	224.2	51.0	29.4
\$ mil.	427.2	626.2	199.0	46.6	\$ mil.	239.5	296.9	57.4	24.0

*)Previous data

*)Previous data

As for import of goods, de-seasoned trends showed decrease by 4.2% on monthly basis, pointing out to positive impact of the seasonal factors (16.9 p.p.) on the import of goods.

2.4. Analyzed by economic purpose, in the period January-October 2010, significant increase of the export was registered at the industrial products by 46.2% or by EUR 311.7 million compared to the same period last year. Export of personal consumption goods and energy products increased by EUR 48.8 (6.7%) and EUR 47.9 million (43.9%) respectively. Similar tendencies were also noted at **export**, where industrial products significantly increased by EUR 256.4 million or 24.4%, amounting to EUR 1,307.1 million, while the amount of imported energy

products was EUR 536.2 million, increasing by 17.5% or EUR 79.9 million. 4.5% drop was seen at import of products intended for investments, being of course unfavourable trend in relation to the import structure.

2.4. Analysis of cumulative export by activities in January-October 2010, compared to the same period last year showed that export at processing industry experienced high increase by 23.8%, being primarily due to the increase at the following: production of base metals by EUR 185 million or 56.6%, contributing with 43.8% to the total export increase, production of chemicals and chemical products by EUR 108 million or 2.5 – time increase, contributing with 25%, production of coke, oil derivatives and nuclear fuel by EUR 27 million or 25.4%, contributing with 6.5%, production of machines and devices by EUR 18 million or 48%, contributing with of 4.3% and food products and beverages by EUR 15.6 million or 9.4%, contributing with 3.7%.

Export of oil and oil products*)				
	I-X-2009	I-X-2010	Balance 2010-2009	% rate
.000T	279.5	269.0	-10.5	-3.8
EUR mil.	106.4	135.1	28.7	27.0
\$ mil.	147.1	178.2	31.1	21.1

*Previous data

Import of oil and oil products*)				
	I-X-2009	I-X-2010	Balance 2010-2009	% rate
.000T	1,083.4	961.8	-121.6	-11.2
EUR mil.	348.6	431.5	82.9	23.8
\$ mil.	480.0	568.0	88.0	18.3

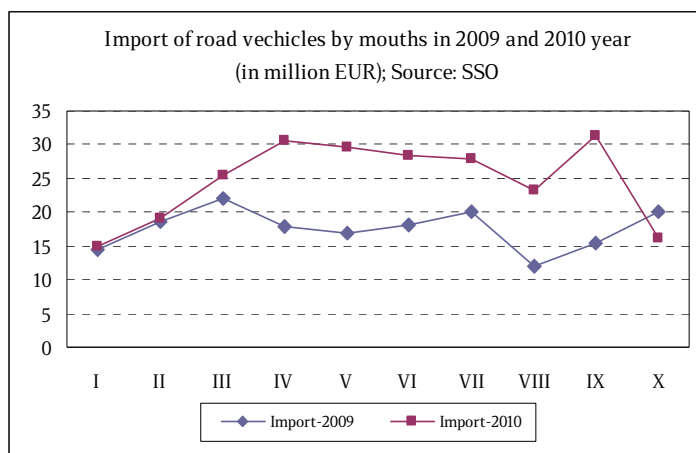
*Previous data

As for this area, drop of export was seen at production of electrical machines and devices by EUR 16 million or 48% and production of metal products in metal processing phase, except machines and devices by EUR 12.7 million or 32.5%.

As regards **agriculture, forestry and fishing**, agriculture, hunting and appropriate services experienced positive export trend by 17.3%.

As for **extraction of ore and stone**, increase of export by EUR 50 million or 69.6% was due to the increase of metal ore extraction by EUR 44 million or 78% and extraction of other ore and stone by EUR 5 million or 34%.

The increase of export by EUR 21 million in the **electricity, gas and water supply** is mainly a result of the high increase of export of electricity in the ten months this year.



Given the analysis of import by activities for the period January-October 2010 compared to the same period last year, it is concluded that **processing industry with its 9.5% or EUR 234 million is driving force of the cumulative growth of import, being due to the increase at the following:** production of base metals by EUR 101 million or 43%, contributing with 30.7% to the total import increase, production of chemicals and chemical products by EUR 91 million or 29.4%, contributing with 27.6%, production of motor vehicles trailers and semi-

trailers by EUR 72.3 million or 42.8%, contributing with 22% and production of coke, oil derivatives and nuclear fuel by EUR 42 million or 36.4%, contributing with 12.8%.

Import at **ore and stone extraction** increased by 32.4% or by EUR 100 million, contributing with 30.4% to the total import increase, being due to the increase at the following: extraction of crude oil and natural gas by 21.8% or by EUR 57.7 million and metal ore extraction by twice or by EUR 35 million.

As a result of the reduced import of electricity, import at **electricity, gas and water supply** dropped by 23.8% or by EUR 18 million.

Import at agriculture as a result of the intensified activities and preparations for the autumn sowing season, increased by 6.3% or by EUR 4 million.

2.5. Analyzed by regions, in the period January-October 2010, in conditions of significant increase of trade with the European Union (EU 27), in relation to the same period last year by 22.4%, share of trade with EU in the total foreign trade increased by 2.8 percentage points, accounting for 56.4%, whereby export of goods participated with 61.3% and share of import of goods was 53.4%. Export to the European Union increased significantly by 38.4%, while import increased by 13.2% compared to the same period in 2009.

In the period January-October 2010, 88% of the trade deficit of the country was realized in the trade with Russia, Turkey, China, Great Britain, Greece, Serbia, Slovenia, Ukraine, the USA and Italy, while it was adjusted with the surplus realized in the trade with Kosovo, Albania, Belgium, Germany, Bosnia and Herzegovina, Montenegro, Spain, etc.

2.6. Observed by currency structure, 73.5% of the foreign trade in the first ten months in 2010 was realized in euros, and compared to the same period last year, it dropped by 3.9 percentage points. On export and import side, the euro accounted for 77.6% and 71% respectively, and in relation to the same period last year, decline was evidenced at export and import by 4.4 p.p. and 3.9 p.p. respectively.

Foreign trade of the republic of Macedonia (by currency); calculations: MoF												
- by currency -												
export	I-X 2009					I-X 2010					absolute change in currency value	relative change in currency value (in %)
	currency	.000 T	export in currency	avrage Denar exch. Rate in relation to currencies	export in denar	structure in %	.000 T	export in currency	avrage Denar exch. Rate in relation to currencies	export in denar		
EUR	1,971	1,300,549,761	61.2926	79,714,076,281	82.0	2,210	1,556,178,907	61.5131	95,725,388,724	77.6	255,629,146	19.7
USD	488	381,019,955	44.6039	16,994,975,971	17.5	533	579,221,363	46.5945	26,988,529,798	21.9	198,201,408	52.0
EUR+USD	2,459			96,709,052,252	99.5	2,743			122,713,918,522	99.5		
tot. export:	2,464			97,236,126,788	100.0	2,472			123,344,375,021	100.0		26.9

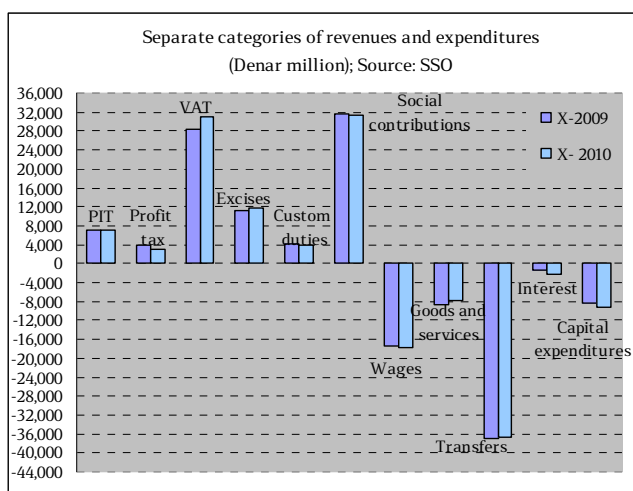
Source: SSO and NBRM

3. Fiscal Sector

3.1. In the period January-October 2010, total central budget revenues showed over-performance for the fourth time this year, amounting to Denar 66,921 million (15.7% of GDP), increasing by 3.8% compared to the same period last year.

Tax revenues in this period were realized in the amount of Denar 59,118 million, overperforming by 3.7%, compared to the same period last year, five months in a row.

Share of VAT in total tax revenues in the first ten months in 2010 was dominant and it amounted to 52.5%, while excises accounted for 19.8%, whereby revenues in the amount of Denar 42,696 million were realized on the basis of these two taxes, i.e. 72.2% or almost 3/4 of the total tax revenues (10.0% of GDP). Thereby, VAT collection amounted to Denar 44,021.1 million on gross basis, Denar 13,008.2 million out of which was refunded to taxpayers. Structure of trading in the country points out that the sales of goods and services taxed with the general tax rate of 18% reduced by 0.3%, while sales taxed with preferential tax rate of 5% increased by 7.3%, and the sales exempt from VAT significantly increased by 54%. Observed by certain categories of taxes, revenues on the basis of personal income tax were realized in almost the same amount (reduction of only 0.2%) compared to the same period in 2009, VAT revenues experienced record increase by 9.5%, while excises increased by 3.2%. Revenues on the basis of profit tax experienced the highest drop of 24.7% (decline was significant on the basis of monthly advance payments, since in 2009, advance payments in January and February were made on the profit realized in 2007 when it was taxed, and in 2010, as a result of amendments to the regulations, it is paid only on non-exempted expenditures determined in the 2008 tax balance), starting April this year, revenues on the basis of tax paid for dividend and other distribution of profit was registered, participating with 30.7% in the structure of this law, revenues on the basis of customs duties dropped by 6.4%, compared to the same period last year. Non-tax revenues increased by 3.0% in relation to the same period last year (whereby only the payment of Telecom dividend in the amount of Denar 2,503 million participated with 38.2% in the total funds).



Capital revenues on the basis of sale of construction land and flats reached Denar 860 million, being lower by 5.4% compared to the same period last year.

Social contributions during this period were realized in the amount of Denar 31,401 million (pension and disability insurance contributions - Denar 21,300 million, health insurance contributions - Denar 8,757 million and employment contributions - Denar 1,344 million), being lower by 0.9% compared to the same period in 2009.

3.2. In the period January - October 2010, total central budget expenditures amounted to Denar 73,557 million (17.3% of GDP), slightly increasing by 0.8% compared to the same period in 2009.

With respect to the structure of total realized expenditures, current expenditures (Denar 64,392 million) accounted for 87.5% and were almost the same compared to the same period last year, i.e. they declined by only 0.1%, while capital expenditures participated with 12.5%.

Transfers (Denar 36,557 million) accounted for the most in the current expenditure items, followed by salaries and allowances (Denar 17,658 million). With respect to the total central government budget expenditures, expenditures related to wages and salaries and allowances accounted for 24.0% in this period, increasing by less than 1.0% in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 7,929 million, i.e. significant underperformance by 8.0% compared to 2009.

With regard to transfers, during this period, almost the same amount of funds was spent, i.e. decrease by 0.8% compared to the same period in 2009, and they were the largest expenditure item, i.e. they participated with 49.7% or around half of the total expenditures (8.6% of GDP). However, as for transfers category, share of category other transfers was 53.4%. Such structure of transfers was partially due to the fact that grants transferred to LGUs included part of VAT, number of LGUs moving to the second phase of decentralization also rose, whereby block grants were paid to 74 municipalities for financing the transferred competences (funds for payment of salaries and allowances to the employees in local public institutions and operating costs). In addition, significant portion of the transfers were intended for agricultural subsidies. Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 11,985 million or by Denar 82 million higher (0.7% increase).

Interest was collected in the amount of Denar 2,248 million, being by 49.6% more compared to the same period in 2009. Such increase was mainly due to the payment of due interest for the second Eurobond in July.

Capital expenditures amounted to Denar 9,165 million, increasing by 7.7% compared to the same period in 2009, accounting for 2.2% of GDP.

3.3. Thus, in the first ten months in 2010, central government budget deficit reached the amount of Denar 6,204 million (1.5% of GDP), while consolidated budget deficit amounted to Denar 7,730 million or 1.8% of GDP.

4. Monetary Sector

4.1. In October 2010, primary money¹ showed slowed down growth of 7.5% on annual basis (compared to the growth of 9.5% in September), in conditions of slowed down growth of total liquid assets of banks of 5.9% and growth of ready money in circulation² of 10.2%.

¹ Primary money is calculated as a sum of ready money in circulation (including cash in hand), the denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars)

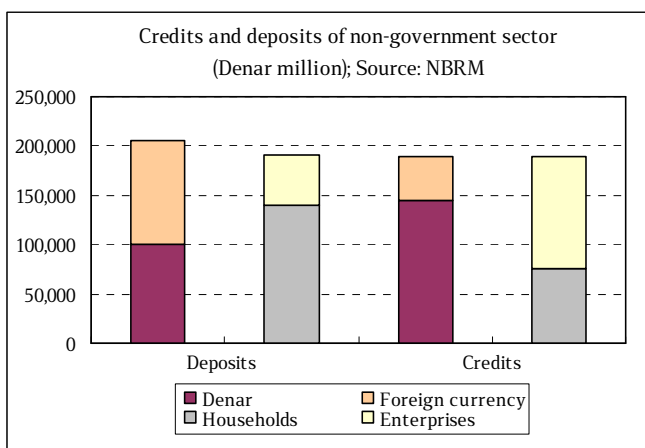
² Including cash in hand of the banks

On monthly basis, primary money increased by even 6%, compared to the drop of 3.4% in September, mainly as a result of the higher liquidity of banks of 9.7%. Ready money in circulation were higher by 0.7% on monthly basis.

National Bank of the Republic of Macedonia in October 2010 retained the interest rate on CB bills at the same level of 4.5% and the interest rate on overnight credits (Lombard credits) at the level of 6.0%.

4.2. Total deposit potential of banks³ in October 2010 increased by 1.2% on monthly basis (compared to the increase by 1% in September) mainly driven by the increase of Denar deposits by 2% (contributing with 80.8%).

Foreign currency deposits were higher by 0.4% compared to previous month. From the point of view of sector structure, deposits of households intensified the growth, i.e. increasing by 1.3% they had dominant share of 75.8%. Deposits of private enterprises were higher by 1% in relation to last month.



On annual basis, total deposits increased by 13.3% (compared to 14.5% in September 2010). Thereby, from the point of view of sector structure, growth was mainly a result of the increase of deposits of households by 17% (compared to 17.6% in September), contributing with 83.6%. On the other hand, deposits of enterprises increased by 4.4% on annual basis (compared to 6.8% in September). From currency point of view, Denar deposits had dominant contribution of 66.6% to the growth of deposit potential, continuing the trend of high growth, increasing by 19.2% in October (21% in September). Foreign currency deposits increased by 8.2%.

4.3. In October 2010, total credits of banks to the private sector increased by 0.4% on monthly basis, whereby credits to households increased by 0.6%, while credits to private enterprises increased by 0.2%. According to the currency, Denar credits grew by 0.3%, while foreign currency credits increased by 0.6% compared to last month.

On annual basis, accelerated growth of credits continued, whereby annual growth rate was 8% (compared to 7.7% in September). From the point of view of sector structure, crediting to private enterprises had dominant contribution of almost 75% to growth of total credits, increasing by 10.2%, Crediting to households continued to strengthen in October, amounting to 4.9%. From currency point of view, Denar credits experienced annual growth of 5.7%, while foreign currency credits continued to realize high growth of 16%.

4.4. In October 2010, interest rates on Denar credits/deposits decreased, while interest rates on foreign currency credits/deposits did not change on monthly

³ Starting January 2009, deposits include calculated interest

basis. In fact, interest on Denar debit balance reduced by 0.1 p.p. on monthly basis, amounting to 9.1%. In relation to October last year, interest rate on Denar credits was significantly lower by 1.2 p.p.. On the other hand, interest on Denar credit balance reduced by 0.1 p.p., amounting to 6.7%, decreasing by 0.7 p.p. compared to last year.

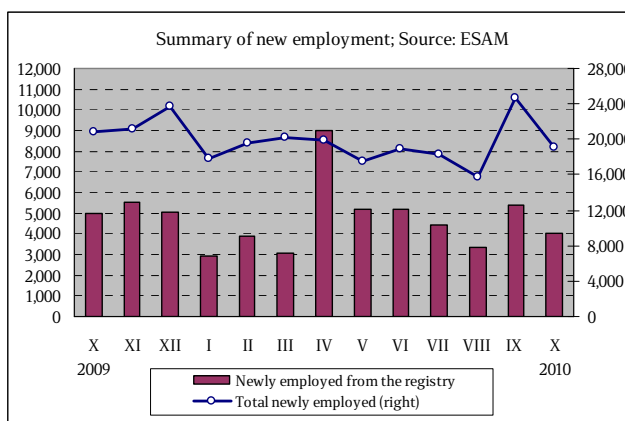
Interest rates on foreign currency credits/deposits did not change on monthly basis. Interest rate on foreign currency credits amounted to 7.4%, decreasing by only 0.1 p.p. compared to October 2009, while interest rate on foreign currency deposits amounted to 3.0%, being lower by 0.3 p.p..

4.5. Gross foreign currency reserves amounted to EUR 1,662.98 million in October 2010, and compared to December 2009, they were higher by EUR 65.3 million.

5. Social Sector

5.1. In the period January-October 2010, Employment Agency of the Republic of Macedonia registered total of 191, 825 new employments. 36.9% out of the total number of newly employed was on the basis of full-time employment, while the rest was temporary employment and seasonal works. Compared to the same period last year, number of newly employed persons declined by 4.2%.

During October, 19,075 new employments were registered, 21.2% out of which were from the unemployed records. Outflow of persons from the Employment Agency Registry of the Republic of Macedonia amounted to 10,122 persons in October, 38.1% out of which were new employments. 8,823 persons were registered as inflow to the Agency, 50.5% out of which were persons whose employment was terminated.



As a result, unemployment reduced by 1,299 persons, i.e. by 0.4% compared to the previous month. Thus, there were 321,934. unemployed persons in October 2010.

Number of unemployed persons, compared to the same month last year, declined by 5.9%.

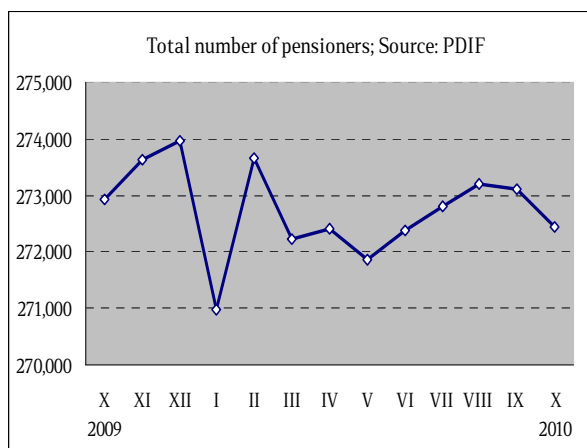
Major percentage of the unemployed, i.e. 66.2%, came from urban areas (cities), whereby 57.5% were men. Analyzed by education structure, major part, i.e. 52.5% of unemployed persons were unskilled or semi-skilled, while only 7.9% was with community college or higher education level. Observed by age, majority of unemployed or 58.2% fall in the category of 25-49 years of age. According to the

time they waited for a job, 50.9% of the unemployed persons sought job from 1 to 7 years, while 30.2% sought job for 8 years and more.

5.2. In October 2010, Pension and Disability Insurance Fund registered 272,446 pensioners, declining by 0.2% compared to the same month last year. Number of pension beneficiaries dropped by 655 persons in relation to the previous month.

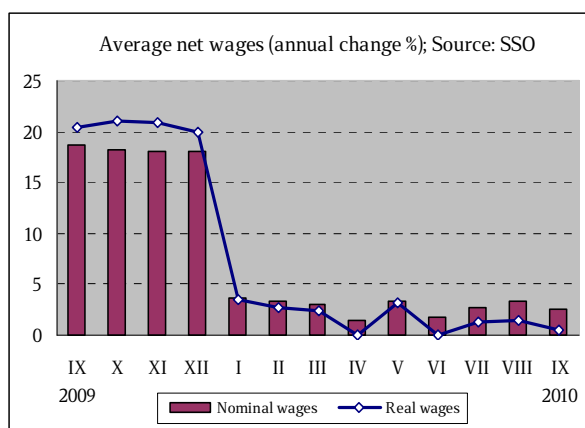
In October, Denar 2,757.28 million was spent for payment of pensions, being 50.8% of the total social transfers in the state Budget.

Average pension in October 2010 amounted to Denar 10,274, increasing by 2.1% on annual basis. Ratio between average pension and average paid salary in September 2010 (most recent available data) amounted to 49.9%.



5.4. In the period January-September 2010 (the most recent available data), compared to the same period in 2009, average monthly net salary increased by 2.8% in nominal terms, while real average salary was higher by 1.7%.

In September 2010, average net salary per employee amounted to Denar 20,554. In September 2010, compared to the same month in 2009, average monthly net salary increased by 2.5% in nominal terms, while real average salary was higher by 0.5%. Percentage of employees who did not receive salary in September 2010 was 2.2%, being by 0.4 p.p. lower in relation to the same period last year.



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