



**REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department**

SHORT-TERM ECONOMIC TRENDS

December 2009



February 2010, Skopje

SUMMARY
OF THE MOST IMPORTANT SHORT-TERM ECONOMIC
DEVELOPMENTS

December 2009

- **Second subsequent and highest increase of industrial production index by 20% in December 2009 in relation to the same month last year**
- **Continuation of the trend of negative inflation rate, which in December reached -1.6% on annual basis**
- **Lower realization of central budget revenues by 8.6% (19.8% of GDP), and decline of total expenditures by 0.7% (22.2% of GDP) in 2009 compared to 2008**
- **Increase of gross foreign exchange reserves by 6.9% (EUR 102.6 million) in December 2009 compared to December 2008, with a simultaneous monthly increase by 1.8% or EUR 28 million, in conditions of net purchase on the foreign exchange market in the amount of EUR 31.5 million**
- **Increase in the number of newly employed persons by 16.8% in 2009**

1. Real Sector

1.1. Industrial production index in December 2009, in relation to the same month last year, realized two-digit increase by 20%, being second subsequent and highest increase on annual level in 2009.

On cumulative basis, downward trend of the intensity of decline rate continued, whereby in 2009, industrial production index, compared to the previous year, dropped by 7.7% (it was 9.9% in the period January-October).

Analyzed by sectors, electricity, gas and water supply sector registered positive growth continuously for eight months, whereby it realized two-digit growth in December 2009, amounting to 14%. On the other hand, decline in industrial output was focused in the ore and stone extraction sector (-8.9%), while processing industry, as dominant component of industrial production, grew by 22.7%.

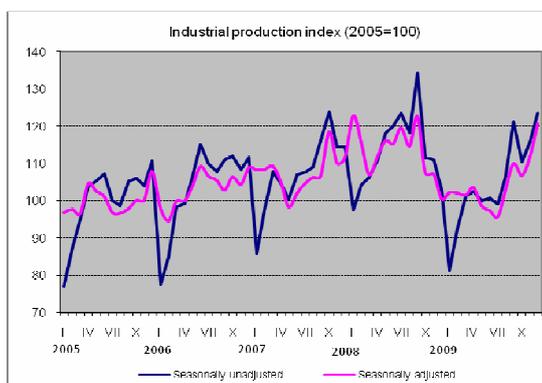
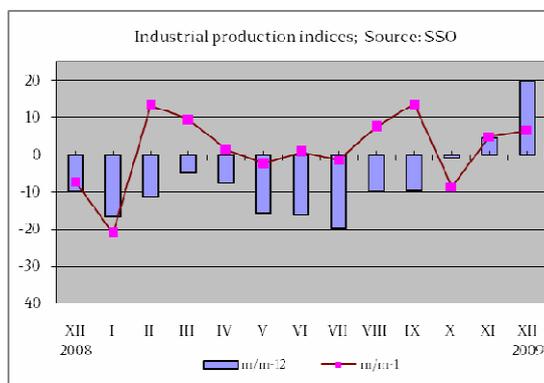
As for the processing industry, positive annual growth was seen at several branches, whereby highest growth was evidenced in the production of metal products in the metal processing stage by 266.7% and production of coke derivatives, oil and nuclear fuel by 176%. In addition, positive indicator is the fact that production of base metals grew by 65.5%, having in mind the high share in the industrial production index (11.24%). Significant growth on annual level was also seen at the production of chemicals and chemical products (16.4%), clothing production (10.4%), production of machines and devices (5.3%), recycling (508.7%) and production of other means of transport (125.5%).

Production of metal products in the metal processing stage contributed the most to the annual growth of industrial production (8.7 percentage points).

Industrial production index in December 2009, in relation to November 2009, increased by 6.6%, showing growth of industrial production on monthly and annual level for the second time in 2009.

Deseasoned monthly growth of industrial production in December 2009 was 8%, showing that if seasonal component is excluded, growth was by 1.4 percentage points higher.

According to the expectations of enterprise managers, economic situation present in the enterprises in December 2009 was more favourable,



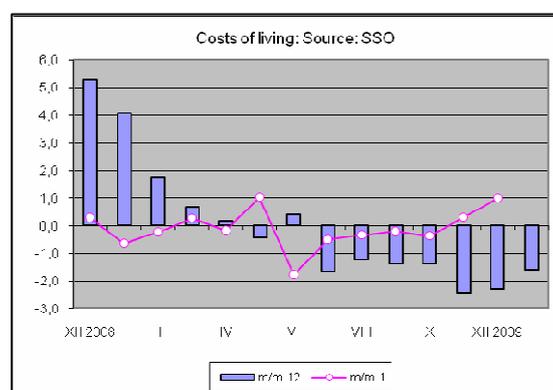
while current state of delivery-to-production was more unfavourable compared to November 2009.

According to the managers, following factors limited the most the production volume in December 2009: insufficient foreign demand – 24.1%, insufficient domestic demand – 19.8%, uncertain economic surrounding – 11.2% and financial problems – 10.8%.

Number of workers in the industry in December 2009, compared to December 2008, dropped by 6.7%, showing slight decline (decline rate in November was 6.9%). As for the separate sectors, decline in the number of workers in December were similar to the ones in November. Thereby, highest annual decline was again registered the ore and stone extraction sector by 10.5%, followed by the processing industry (-6.8%), while the decline was the smallest in the electricity, gas and water supply sector (-2.9%).

1.2. In December 2009, prices of personal consumption goods, measured through the CPI index, declined by 1.6% compared to the same month last year.

Decline of general price level was mostly due to reduction of food prices by 3.4% (participating with 40.7% in the structure). Culture and entertainment category showed price decline by 6.5%, prices in the category means of transport and services increased by 1.1%, restaurants and hotels category experienced decline by 0.6%, while housing category dropped by 0.5%. As



for the other categories, price increase was seen, whereby the highest increase of prices by 3.3% was registered at tobacco and beverages category, followed by 1.2% increase at the hygiene and health category.

CPI index in December 2009, compared to November 2009, was higher by 1.0%.

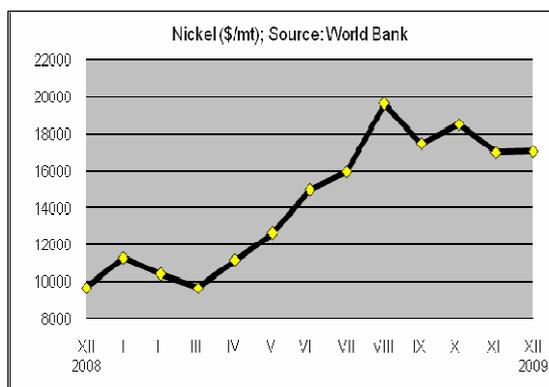
Value of the consumer basket of food and beverages for a four-member household in December 2009, calculated on the basis of retail prices, was Denar 12.128, and compared to the previous month, it was by 3.3% higher.

Retail price index in December 2009, in relation to December 2008, declined by 0.9%.

1.3. In December 2009 global stock markets showed monthly increase of prices of energy sources and most of food products.

In December, oil price on world stock markets dropped by 3.1% compared to the previous month, reaching the price of US\$ 74.67 per barrel. Compared to December last year, oil price surged by 79.6%. Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 0.4% on monthly basis, reaching US\$ 17.066 for a metric ton (\$/mt). Compared to

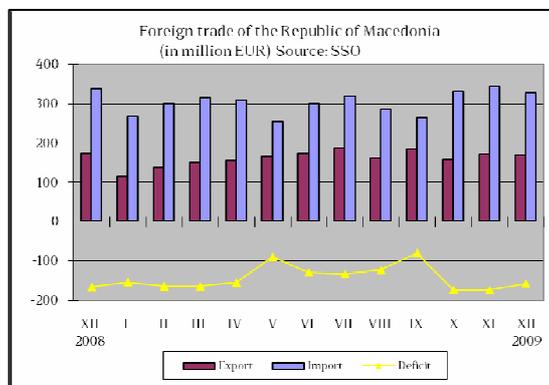
December last year, nickel price was higher by 76.2%. Monthly price increase was also seen at other metals and minerals, aluminum experiencing the highest price increase of 11.9%. Zinc price surged by 8.3%, while copper price grew by 4.6%.



2. External Sector

2.1. In 2009, total foreign trade (expressed in euros) experienced decline by 24.4% in relation to last year.

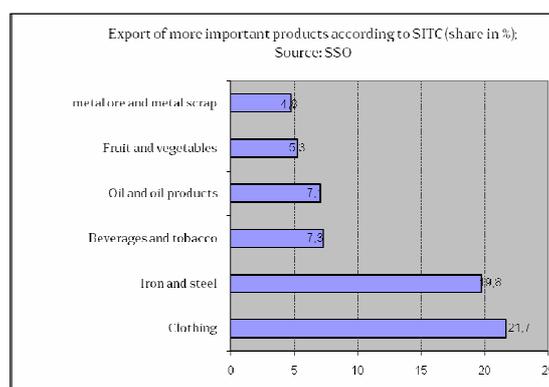
Thereby, physical output of export declined by 21%, while its value reached EUR 1,192.5 million, being a drop by 28.4%. Imported quantity of goods dropped by 11%, and its value was EUR 3,615.8 million, being a drop by 22.1%. Under such developments, mainly due to the significant annual decline of import compared to export of goods during the analyzed period,



negative gap of trade balance dropped by 13.5% (EUR 263.7 million) on annual basis and it amounted to EUR 1,690.5 million, accounting for 25.8% of projected GDP in 2009. Analyzed by categories, reduction of trade deficit in 2009 was mostly due to reduced deficit in trade with electricity participating with 56.5%, oil and oil products participating with 43.4%, road vehicles participating with 31%, etc.

On the other hand, trade surplus with respect to our main export products declined, i.e. reduced surplus when exporting following products was registered: iron and steel and products thereof by EUR 196.4 million, clothing and textile by EUR 58.2 million, other transport equipment by EUR 41.2 million, medical and pharmaceutical products by EUR 15.6 million, etc.

2.2. Main groups of goods (according to SITC) having the biggest share in export in 2009 were the following: clothing – 21.7%, iron and steel – 19.8%, beverages and tobacco 7.3%, oil and oil products 7.1%, fruit and vegetables – 5.3% metal ore and metal scrap 4.8%.



These six groups of products comprised 66% of the total export in the country.

The following participated the most in the import of goods in 2009 on cumulative basis: oil and oil products (EUR 444 million), textile yarns and similar (EUR 277.3 million), steel and iron (EUR 215.4 million), road vehicles (EUR 212.4 million), electrical machines and spare parts (EUR 130.2 million), industrial machines and spare parts (EUR 123.2 million), telecommunication devices (EUR 127 million), meat and meat products (EUR 100.9 million), etc.

Export of oil and oil products*)					Import of oil and oil products*)				
	I-XII-2008	I-XII - 2009	Balance 2009-2008	% rate		I-XII-2008	I-XII - 2009	Balance 2009-2008	% rate
.000T	370,9	349,5	-21,4	-5,8	.000T	1.256,6	1.321,2	64,6	5,1
EUR mil.	204,8	136,3	-68,5	-33,4	EUR mil.	626,9	444,1	-182,8	-29,2
\$ mil.	305,7	191,3	-114,4	-37,4	\$ mil.	933,2	621,1	-312,1	-33,4
* Previous data					* Previous data				

2.3. Analyzed by regions, in 2009, European Union (EU 27) participated the most in the total foreign trade with 53.6% (56.2% export of goods and 52.1% import of goods). Import from the European Union was lower by 15.7%, and the export intensively dropped by 32.3% compared to 2008. In 2009, 76.2% of trade deficit of the country was realized with Russia, China, Turkey, Slovenia, Greece, Italy, Switzerland, the USA, Romania and Austria.

Export of iron and steel*)					Import of iron and steel*)				
	I-XII-2008	I-XII - 2009	Balance 2009-2008	% rate		I-XII-2008	I-XII - 2009	Balance 2009-2008	% rate
.000T	1.015,9	619,3	-396,6	-39,0	.000T	892,3	550,9	-341,4	-38,3
EUR mil.	867,5	381,3	-486,2	-56,0	EUR mil.	505,2	215,4	-289,8	-57,4
\$ mil.	1.292,1	534,0	-758,1	-58,7	\$ mil.	757,3	301,7	-455,6	-60,2
* Previous data					* Previous data				

2.4. Observed by currency structure, EURO is becoming more and more dominant, whereby 76.9% of foreign trade in 2009 was realized in euros, and compared to 2008, it increased by 1.9 percentage points (p.p.). On export and import side, EURO accounted for 81.1% and 74.7% respectively, and in relation to 2008, more intensive increase was evidenced at export by 2.6 percentage points, while import increased by 1.75 percentage points.

Foreign trade of the republic of Macedonia (by currency); calculations: MoF												
- by currency -												
export	I-XII 2008					I-XII 2009					absolute change in currency value	relative change in currency value (in %)
	currency	.000 T	export in currency	average Denar exch. Rate in relation to currencies	export in denar	struct ure in %	.000 T	export in currency	average Denar exch. Rate in relation to currencies	export in denar		
EUR	3.089	2.107.801.272	61.2654	129.135.288.070	78,5	2.342	1.562.662.061	61.2728	95.748.679.910	81,1	-545.139.212	-25,9
USD	640	840.863.757	41.8646	35.202.424.837	21,4	597	493.639.361	44.0766	21.757.944.680	18,4	-347.224.395	-41,3
EUR+USD	3.729			164.337.712.906	100,0	2.939			117.506.624.589	99,6		
tot. export	3.731			164.414.131.749	100,0	2.946			117.993.525.022	100,0		-28,2

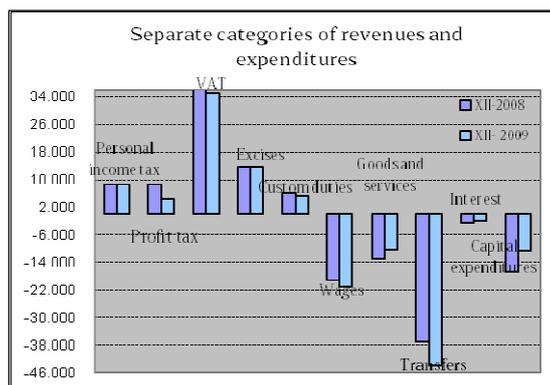
Source: SSO and NBRM

3. Fiscal Sector

3.1. In 2009, total central government budget revenues reached an amount of Denar 78,484 million (19.8% of GDP), which was 8.6% less in relation to 2008.

Tax revenues in 2009 amounted to Denar 70,009 million, being less by 7.7% compared to 2008.

Share of VAT in total tax revenues in 2009 was dominant and it amounted to 50.2%, while excises accounted for 19.7%, whereby revenues in the amount of Denar 48,961 million were realized on the basis of these two taxes, i.e. 70.0% or almost 3/4 of the total tax revenues (12.4% of GDP). Analyzed by categories, VAT revenues



dropped by 2.8%, profit tax revenues declined by 48.3% (partially due to changes in the regulations - starting 2009, no undistributed profit tax is paid), customs revenues decreased by 16.7%, while excises experienced increase by 1.7% and PIT revenues surged by 0.2% compared to 2008. Non-tax revenues dropped by 15.9% in relation to 2008, whereby payment of Telecom dividend in the amount of Denar 2,383 million accounted for the most in these revenues.

3.2. In 2009, total central budget expenditures amounted to Denar 88,071 million (22.2% of GDP), which was by 0.7% less compared to 2008.

With respect to the structure of total realized expenditures, current expenditures (Denar 77,473 million) accounted for 88.0% and were higher by 7.6% compared to the same period last year, while capital expenditures participated with 12.0%.

The biggest expenditure items were transfers (Denar 44,048 million), followed by salaries and allowances (Denar 21,024 million). With respect to total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 23.9%, which was 5.3% increase in relation to 2008.

Expenditures for goods and services reached the amount of Denar 10,300 million, i.e. significantly lower execution by 21.3% compared to 2008.

With regard to transfers, resources higher by 18.6% (Denar 6,916 million) were spent in 2009 compared to 2008, and were the largest expenditure item, i.e. they accounted for 50.4% in the total expenditures (11.1% of GDP). Such performance 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 68 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 13,815 million or by Denar 3,939 million higher (39.9% increase).

Interest was collected in the amount of Denar 2,101 million, being by 15.5% less compared to 2008.

In 2009, capital expenditures amounted to Denar 10,598 million, being a decline by 36.6% compared to 2008, accounting for 2.7% of GDP.

3.3. Thus, in 2009, central government budget deficit reached the amount of Denar 9,587 million (2.4% of GDP), while consolidated budget deficit amounted to Denar 10,895 million (2.7% of GDP).

4. Monetary Sector

4.1. In December 2009, primary money¹ increased by 12.4% on annual basis (increase by 22.3% in November), in conditions of growth of total liquid assets of the banks by 31.8% and decline of ready money in circulation by 6.3%.

On monthly basis, primary money increased by 3.4%, due to the increase of ready money in circulation by 11.7%, while total liquid assets of the banks were lower by 1.9%.

In December 2009, interest rate on central bank bills was the same as in November, amounting to 9%.

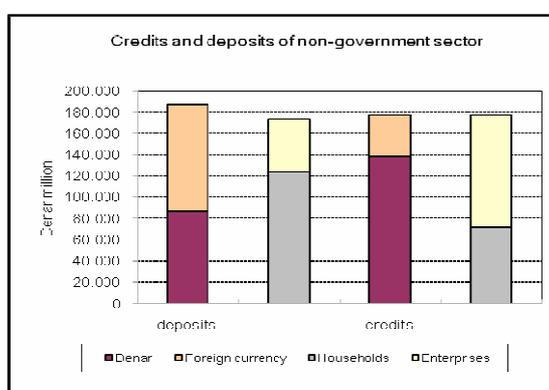
One auction of 3-month treasury bills was held in December, with interest rate of 5.3% with respect to requirements for volume tenders.

4.2. Total deposit potential of non-government sector² in December increased by 7.1% on annual basis (increase by 7.2% in November 2009). Total deposits experienced intensified growth by 2.1% on monthly basis (0.9% increase in the previous month), due to the increase of total deposits of households by 3.3% on monthly basis, while total deposits of enterprises dropped by 0.2% on monthly basis.

Annual downward trend of Denar deposits slowed down to 4.6%, while foreign currency deposits increased by 19.9%³. On monthly basis, Denar deposits increased by 2.4%, while foreign currency deposits increased by 1.9%.

From the point of view of sector structure, deposits of private enterprises declined by 0.2% on monthly basis, while savings of households increased by 3.3%. With respect to 2008, household deposits were higher by 15.4%, while deposits of enterprises were lower by 16.4%.

4.3. In December 2009, total credits to private sector experienced further slowdown – growth by 3.5% on annual basis (compared to 4.1% in November). Compared to the previous month, credits to private sector grew by 0.7%,



¹ Primary money is calculated as a sum of ready money in circulation, cash in hand and on the accounts of the bank, including the reserve requirement of foreign currency deposits.

² Total deposit potential includes non-monetary and quasi-deposits.

³ Starting January 2009, deposits include calculated interest.

fully due to the increased crediting to enterprises (increase by 1.7%), while credits to households drooped by 0.6%.

Annually, credits to households and enterprises surged by 3.5% and 3.4% respectively.

From currency point of view, Denar credits (including credits with foreign currency clause) registered slower increase by 4.1% annually. Foreign currency credits experienced intensified growth by 1.4% annually. On monthly basis, Denar credits grew by 0.7%, while foreign currency credits increased by 0.8%.

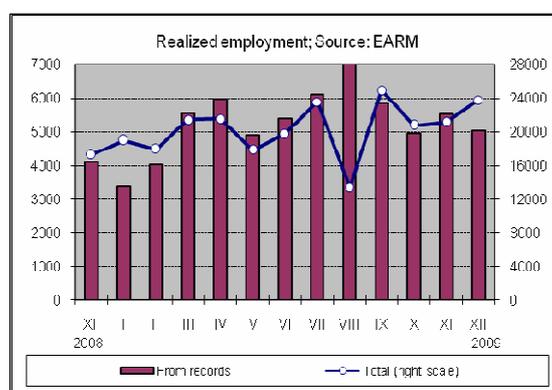
4.4. In December 2009, average weighted interest rate on Denar credits was 10.3% and was higher by 0.1 p.p. compared to November. Average interest rate on foreign currency credits was same as the rate in the previous month, being at the level of 7.6%. With respect to 2008, interest requirements of the banks were tightened, i.e. average interest rate on Denar credits grew by 0.5 p.p., while interest rate on foreign currency credits surged by 0.4 p.p. annually. On the other hand, interest rates on deposits experienced growth, reflecting the efforts of the banks to keep, i.e. increase their share on the deposits market. In fact, average weighted interest rate on Denar credits amounted to 7.5% in December 2009, registering an increase of 0.1 p.p. compared to November, while compared to December 2008, it increased by 0.9 p.p. Average weighted interest rate on foreign currency credits remained unchanged on monthly basis, amounting to 3.4%. It was higher by 0.4 p.p. on annual basis.

4.5. Gross foreign exchange reserves amounted to EUR 1,597.5 million in December 2009, and compared to December 2008, they increased by 6.9% (EUR 102.6 million). On monthly basis, they increased by 1.8%, i.e. EUR 28 million, in conditions of net purchase on the foreign exchange market in the amount of EUR 31.5 million. NBRM, through foreign currency transactions, created liquid assets.

5. Social Sector

5.1. In 2009, Employment Agency of the Republic of Macedonia registered total of 245,294 new employments. In fact, 41.3% out of the total number of newly employed was full-time employees, while the rest was temporary employment and seasonal works. Compared to 2008, number of newly employed persons increased by 16.8%.

In December, 23,773 new employments were registered, whereby 21.1% of the new employments were from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 10,189 persons in December, 47.2% out of which were new employments. 10,159 persons were registered as inflow to the Agency, 47.9% of which was persons whose employment was terminated.



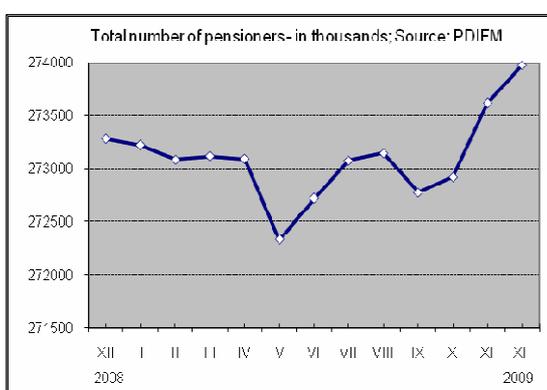
There were 341,295 unemployed persons in December 2009.

Number of unemployed persons, compared to the same month 2008, declined by 0.6%. Major percentage of the unemployed, i.e. 65.7%, came from urban areas (cities), whereby 57.2% were men. Analyzed by education structure, major part, i.e. 52.6% of unemployed persons were unskilled or semi-skilled, while only 7.7% was with community college or higher education level. Observed by age, majority of unemployed or 59% fall in the category of 25-49 years of age. According to the time they waited for a job, around 50% of the unemployed persons sought job from one to seven years, while 29.7% sought job for eight and more years.

5.2. In December 2009, Pension and Disability Insurance Fund registered 273,977 pensioners, being an increase by 0.3% compared to the same month 2008. Compared to the previous month, number of pension beneficiaries increased by 360 persons.

In December, Denar 2,664.82 million was spent for payment of pensions, accounting for 51.2% of the total social transfers in the state Budget.

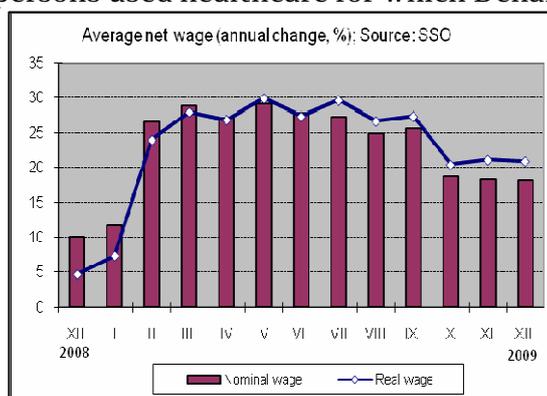
Average pension in December 2009 amounted to Denar 10,057, being an increase by 5.4% on annual level. Ratio between the average pension and the average paid salary in November 2009 (the most recent available data) was 50.5%.



5.3. Number of social welfare beneficiaries in November 2009 (most recent available data) was 52,362 households, which was a decrease by 64 beneficiaries compared to previous month.

Thereby, around Denar 128.3 million was spent for payment of social welfare, i.e. 51.5% of social welfare payments under all bases. Around Denar 91.3 million was spent on the basis of third person care for 20,472 persons in November, i.e. 36.6% of social welfare payments under all bases. In November, 5,736 persons were registered as beneficiaries of permanent pecuniary allowance, for which around Denar 22 million was spent, while 5,507 persons used healthcare for which Denar 7.5 million was spent. These welfare-related expenditures accounted for 4.7% of the total social transfers realized in November.

5.4. In the period January-November 2009 (the most recent available data), compared to the same period in 2008, there was an increase of the average monthly nominal and real



net salary by 24.6% and 25.5% respectively.

In November 2009, average net salary per employee amounted to Denar 19,918, which was an increase by 18.1% on monthly basis in nominal terms, while on annual basis, there was 20.9% increase recorded in real terms. Percentage of employees who did not receive salary in November 2009 was 2.8%, being lower by 5% compared to the same month 2008.