



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

SHORT-TERM ECONOMIC TRENDS

February 2010



April 2010, Skopje

SUMMARY
OF THE MOST IMPORTANT SHORT-TERM ECONOMIC
TRENDS

February 2010

- **Index of industrial production in February 2010, compared to January 2010, increased by 1.9%, following the two-digit drop in January.**
- **Slight annual increase of general price level by 0.6%, with 0.4% monthly inflation.**
- **Lower realization of central budget revenues by 11.2% (2.5% of GDP) and increase of total expenditures by 6.5% (3.3% of GDP) in February 2010 compared to the same month in 2009**
- **Gross foreign exchange reserve in February 2010 increased by 1.4% (EUR 21.8 million) in relation to February 2009, reserves amounted to EUR 1,413.6 million in February 2010, and they were stagnant on monthly level (slight decline of 0.03% or EUR 0.5 million).**
- **Increase in the number of newly employed persons by 1.2% in February 2010 compared to the same month in 2009.**

1. Real Sector

1.1. Index of industrial production in February 2010, compared to January 2010, increased by 1.9%, following the two-digit drop in January.

Analyzed by sectors, increase was seen in the following sectors: ore and stone extraction sector and processing industry by 3.7% and 4.4% respectively, while electricity, gas and water supply sector registered decline by 7%.

As for the processing industry, positive annual growth was seen at 13 out of 20 branches, whereby growth was evidenced in most branches with high weight in the industrial production. Production of products from other non-metal minerals increased by 27.1%, following the drop in January, production of base metals, as a branch with high share in the industrial production index, increased by 3.7%, production of tobacco products surged by 22%, and production of chemical products increased by 47.5%.

Production of chemical products contributed the most to the annual growth of industrial production (2.2 percentage points).

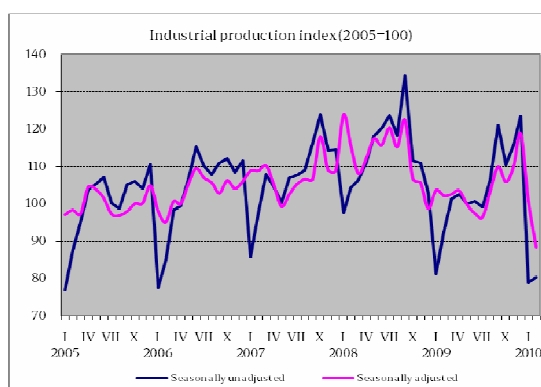
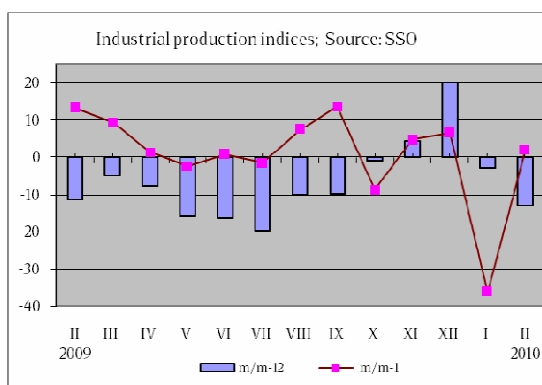
Index of industrial production in February 2010, compared to the same month last year, dropped by 13.1%.

De-seasoned monthly decline of industrial production in February 2010 was 12.2%, showing that if seasonal component is excluded, decline was by 13.9% percentage points higher.

According to the expectations of enterprise managers, economic situation present in the enterprises was unfavourable, while current state of delivery-to-production in February 2010 was more favourable compared to the previous month.

According to the managers, following factors limited the most the production volume in February 2010: insufficient foreign demand – 26.4%, insufficient domestic demand – 18.6%, financial problems – 13.5% and uncertain economic surrounding – 10.8%.

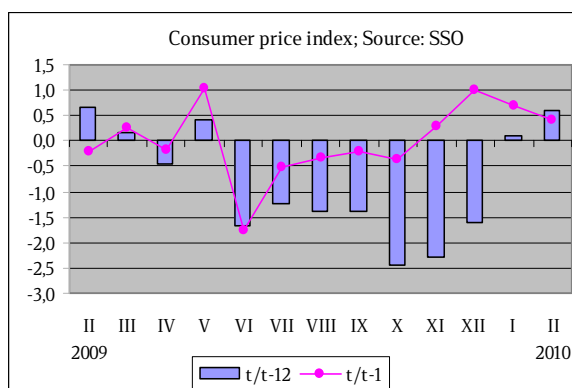
Number of workers in the industry in February 2010, compared to February 2009, dropped by 7.6% (decline rate in January was 7.1%), showing slight intensification of the downward trend at the beginning of the year.



Sectoral analysis showed that ore and stone extraction sector registered lower decline in the number of workers compared to the previous month, while the decline was the higher in the processing industry and electricity, gas and water supply sector. Thereby, the highest annual decline was again registered the ore and stone extraction sector by 8.3%, followed by the processing industry (-8.1%), while the decline was the smallest in the electricity, gas and water supply sector (-3%).

1.2. In February 2010, prices of personal consumption goods, measured through the CPI index, increased by 0.6% compared to the same month in 2009.

Increase of general price level was mostly due to increase of prices in the housing category by 4.8%, due to increase of heating and lighting prices by 8.6%. Prices in the means of transport and services category grew by 4%. Prices in hygiene and health category increased by 0.9%, while prices in tobacco and beverages category surged by 0.7%.



Decline of prices in food category by 1.9%, at the same time having the highest share of 38.6% in the structure, caused for the insignificant increase of general price level. Price decline was also registered at the following categories: restaurants and hotels (0.4%), clothing and footwear and culture and entertainment (0.3%).

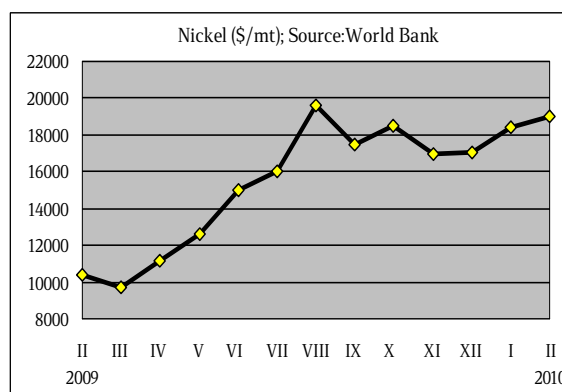
CPI index in February 2010, compared to January 2010, was higher by 0.4%.

Value of consumer basket of food and beverages for a four-member household in February 2010, calculated on the basis of retail prices, was Denar 12,285, and compared to the previous month, it was by 1.1% higher.

Retail price index in February 2010, in relation to the same month 2009, grew by 1.9%.

1.3. In February 2010, global stock markets showed monthly decline of prices of energy sources and most of food products.

In February, oil price on the world stock market dropped by 2.7% compared to the previous month, reaching the price of US\$ 74.3 per barrel. Compared to February 2009, oil price declined by 71.9%.



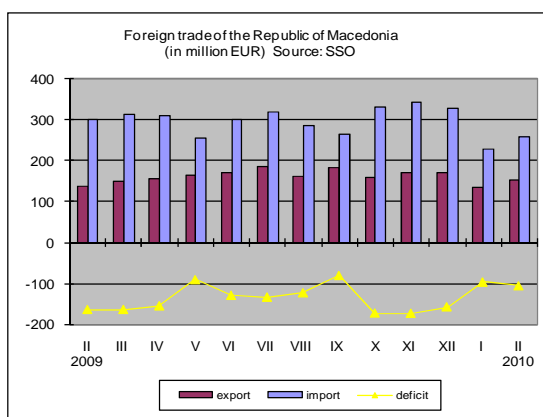
Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 2.9% on monthly basis,

reaching US\$ 18.976 for a metric ton (\$/mt). Compared to February last year, nickel price was higher by 82.3%. Monthly price decline was also seen at other metals and minerals, zinc experiencing the highest price drop of 11.4%. Aluminum price decreased by 8.3%, while copper price declined by 7.3%.

2. External Sector

2.1. In the first two months in 2010, total foreign trade (expressed in euros) dropped by 5.5% in relation to the same period last year.

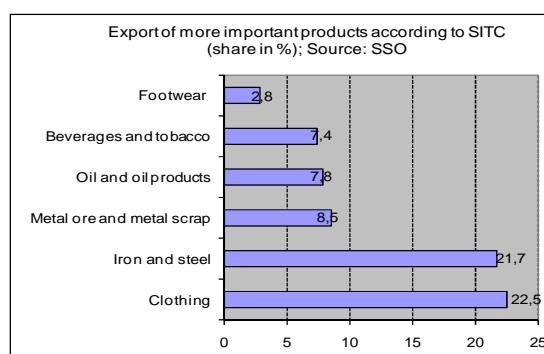
Thereby, physical output of export grew by 5.1%, while its value reached EUR 287.3 million, showing an increase by 14.5% on cumulative basis for the first time after December 2008. Imported quantity of goods declined by 12%, and it amounted to EUR 487.8 million, being a drop by 14.3%. In conditions of such trends at the import and export of goods, trade deficit in the first two months in 2010



amounted to EUR 200.5 million, narrowing by 63% on annual basis (EUR 118 million), whereby positive balance in trading iron and steel and their products contributed the most to such growth. Import to export coverage in the first two months was 58.9%, showing significant positive changes by 14.4 percentage points.

Export of oil and oil products*)					Import of oil and oil products*)				
	I-II-2009	I-II-2010	Balance 2010-2009	% rate		I-II-2009	I-II-2010	Balance 2010-2009	% rate
.000T	44,9	49,4	-1,0	-4,9	.000T	308,5	192,6	-49,0	-34,9
EUR mil.	14,5	22,6	2,6	39,4	EUR mil.	75,4	79,1	5,4	16,3
\$ mil.	18,8	31,5	4,5	51,7	\$ mil.	98,3	110,5	10,8	24,5
*Previous data					*Previous data				

2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following: clothing - 22.5%, iron and steel – 21.7%, metal ore and metal scrap – 8.5%, oil and oil products 7.8%, tobacco and beverages 7.4%, and footwear – 2.8%. These six groups of products comprised 66.6% of the total export in the country. Following participated the most in the import of goods in the first two months in 2010 on cumulative basis: oil and oil products (EUR 79.1 million, 16.2%), textile yarns and similar (EUR 35.1 million, 7.2%), iron and steel (EUR 34.1 million, 7.1%), road vehicles (EUR 33.5 million, 6.9%), medical and pharmaceutical products



(EUR 15.2 million, 3.1%), etc.

2.3. Analysed by regions, during the first two months in 2010, despite the reduced intensity of trade with the European Union (EU 27) by 4.5%, trade with EU participated with 53.5% in the total trade (63.7% export of goods and 47.5% import of goods). Export to the European Union increased by 17.6%, while import experienced decline by 17.1% compared to the same period in 2009.

During the analyzed period January-February 2010, highest trade deficit was realized in the trade with Russia, China, Serbia, Turkey, Greece, Slovenia, Romania, Great Britain, Ukraine and Switzerland.

Export of iron and steel*)					Import of iron and steel*)				
	I-II-2009	I-II-2010	Balance 2009-2008	%rate		I-II-2009	I-II-2010	Balance 2009-2008	%rate
.000T	65,8	92,3	26,5	40,3	.000T	63,7	92,6	28,9	45,4
EUR mil.	42,3	62,5	20,2	47,8	EUR mil.	27,7	34,8	7,1	25,6
\$ mil.	54,7	87,4	32,7	59,8	\$ mil.	36,1	48,7	12,6	34,9
*)Previous data					*)Previous data				

2.4. Observed by currency structure, 73.7% of the foreign trade in the first two months in 2010 was realized in euros, and compared to the same period last year, it decreased by 1 percentage point. On export and import side, EURO accounted for 75.2 and 69.3% respectively, and in relation to the same period last year, decline was evidenced at export by 9 p.p., while import remained at the same level.

Foreign trade of the republic of Macedonia (by currency); calculations: MoF												
- by currency -												
export	I-II 2009					I-II 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	structure in %		
EUR	231	212.378.743	61,3067	13.020.239.883	84,8	236	215.224.167	61,1798	13.167.371.492	75,2	2.845.424	1,3
USD	79	47.275.987	47,0205	2.222.940.547	14,5	89	99.086.105	42,8267	4.243.530.893	24,2	51.810.118	109,6
EUR+USD	310			15.243.180.430	99,3	325			17.410.902.385	99,4		
tot. export:	311			15.347.230.926	100,0	326			17.516.629.591	100,0		14,1

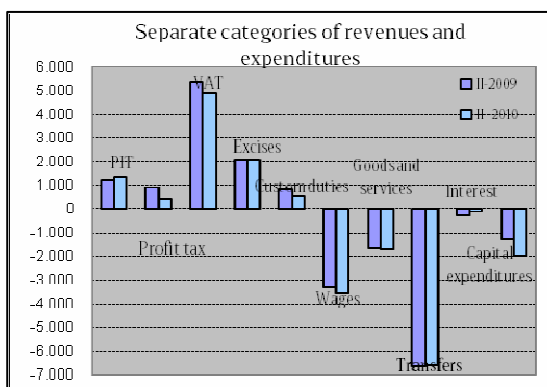
Source: SSO and NBRM

3. Fiscal Sector

3.1. In the period January-February 2010, the total central government budget revenues reached an amount of Denar 10,405 million (2.5% of GDP), which was by 11.2% less in relation to the same period last year.

Tax revenues in this period were realized in the amount of Denar 9,679 million, being lower by 11.7% in relation to same period last year.

Share of VAT in total tax revenues in the first two months in 2010 was dominant and it amounted to 50.3%,



while excises accounted for 21.3%, whereby revenues in the amount of Denar 6,925 million were realized on the basis of these two taxes, i.e. 71.6% or almost 3/4 of the total tax revenues (1.7% of GDP). Analyzed by certain tax categories, only revenues on the basis of personal income tax increased by 7.8% compared to the same period last year. VAT revenues dropped by 9.0%, excise revenues experienced 1.2\$ drop, while the highest decline of 56.5% was registered at profit tax revenues (partially due to changes in the regulations - starting 2009, no undistributed profit tax is paid), customs revenues decreased by 36.1%, while PIT revenues surged by 7.8%. Non-tax revenues dropped by 9.7% compared to the same month last year.

3.2. In the first two months of 2010, total central budget expenditures amounted to Denar 14,072 million (3.3% of GDP), being by 6.5% more compared to the same period in 2009.

With respect to the structure of total realized expenditures, current expenditures (Denar 12,072 million) accounted for 85.8% and were higher by 1.1% compared to the same period last year, while capital expenditures participated with 14.2%.

The biggest expenditure items were transfers (Denar 6,617 million), followed by salaries and allowances (Denar 3,593 million). With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 25.5%, which was 8.2% increase in relation to the same month in 2009.

Expenditures for goods and services reached the amount of Denar 1,721 million, i.e. by 3.9% more compared to 2009.

With regard to transfers, almost identical amount of funds was spent, i.e. 0.9% less resources were spent compared to the same period in 2009, and they were the largest expenditure item, i.e. their share in total expenditures was 47.0% (1.6% 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 69 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 2,403 million or by Denar 74 million lower (3.0% drop).

Interest was collected in the amount of Denar 141 million, being by 2 times less (or by 51.6% less) compared to the same month in 2009.

During the analysed period, capital expenditures amounted to Denar 2,000 million, being an increase by 57.1% compared to the same period in 2009 (0.5% of GDP).

3.3. Thus, in the first two months in 2010, central government budget deficit reached the amount of Denar 3,667 million (-0.9% of GDP), while consolidated budget deficit amounted to Denar 4,106 million or 0.97% of GDP.

4. Monetary Sector

4.1. In February 2010, primary money¹ increased by 19.3% on annual basis (19.3% growth in January), in conditions of growth of total liquid assets of the banks by 27.9% and decline of the demand for ready money in circulation by 0.5%.

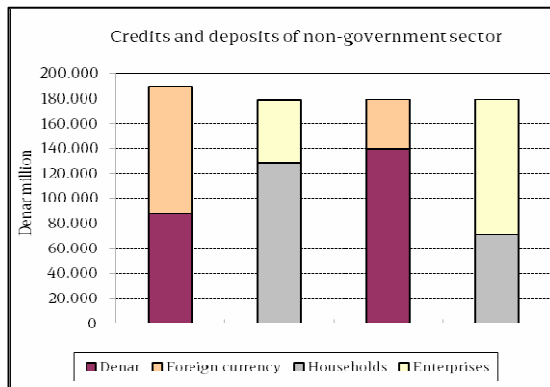
On monthly basis, primary money dropped by 2.8%, due to the decrease of the total liquid assets of the banks by 2.9% and the lower demand for ready money in circulation by 2.6%.

In February 2010, with respect to the requirements for volume tenders, interest rate on central bank bills was lower by 0.5 p.p. compared to January, amounting to 7.5%.

As for interest rate on government securities, it was 5.0% on six-month treasury bills with foreign exchange clause.

Only one auction was held by applying volume tender (with predetermined price) for six-month government securities.

4.2. Total deposit potential of non-government sector² in February increased by 8.7% on annual basis (increase by 8.8% in January 2010). Total deposits experienced slowed down increase by 0.2% on monthly basis (0.9% increase in January), due to the increase of total deposits of households, which grew by 1.7% on monthly basis, while total deposits of enterprises dropped by 3.6% on monthly basis.



On annual basis, Denar deposits declined by 0.3%, while foreign currency deposits increased by 18.0%³. On monthly basis, Denar deposits increased by 0.6%, while foreign currency deposits dropped by 0.1%⁴.

From the point of view of sector structure, deposits of corporate sector declined by 3.6% on monthly basis, while savings of households increased by 1.7%. With respect to last year, household deposits were higher by 18.1%, while deposits of enterprises were lower by 11.8%.

4.3. In February 2010, total credits to private sector experienced lower growth by 2.4% on annual basis (compared to 3.5% in December and 3.5% in

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.

⁴ Starting January 2009, deposits include calculated interest.

January). January growth continued, however with slower pace, surging by 0.5%, mainly due to increased credits to corporate sector by 1.0%.

Annually, credits to households and enterprises surged by 0.5% and 3.9% respectively.

From currency point of view, Denar credits (including credits with foreign currency clause) registered slower increase by 2.8% annually. Foreign currency credits experienced moderate growth by 1.1% annually.

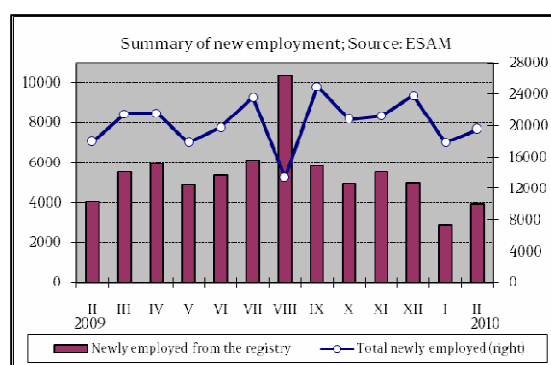
4.4. In February 2010, average weighted interest rate on Denar credits was 10.0% and was lower by 0.2 p.p. compared to January 2010. Average interest rate on foreign currency credits was lower by 0.2 p.p. compared to January 2010, being at the level of 7.3%. With respect to last year, interest and credit requirements of the banks were loosed, i.e. average interest rate on Denar credits dropped by 0.3 p.p.. On the other hand, interest rate on foreign currency credits grew by 0.3 p.p. on annual basis. When analyzing the banks on the basis of their size, large banks had the lowest weighted interest on debit balance, 9.7% on Denar credits and 6.9% on foreign currency credits. In February 2010, interest rate on credit balance on Denar deposits was higher by 0.2 p.p. compared to January 2010, amounting to 7.5%, and it surged by 0.7 p.p. on annual basis. Average interest rate on foreign currency deposits was identical to the one in the previous month, amounting to 3.3%, and it increased by 0.1 p.p. on annual basis.

4.5. Gross foreign exchange reserves amounted to EUR 1,619.2 million in February 2010, and compared to December 2009, they grew by 1.4% (EUR 21.8 million). On monthly basis, they were almost the same (decline by 0.03% or by EUR 0.5 million). NBRM created liquidity through transaction on the foreign exchange market.

5. Social Sector

5.1. In the period January-February 2010, Employment Agency of the Republic of Macedonia registered total of 37,374 new employments. In fact, 35.2% 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 increased by 1.2%.

In February, 19,528 new employments were registered, whereby 20.1% of the new employments were from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 8,910 persons in February, 47.4% out of which were new employments. 7,742 persons were registered as inflow to



the Agency, 18.5% of which was persons whose employment was terminated.

As a result, unemployment reduced by 1,168 persons, i.e. by 0.3% compared to the previous month. There were 342,779 unemployed persons in February 2010.

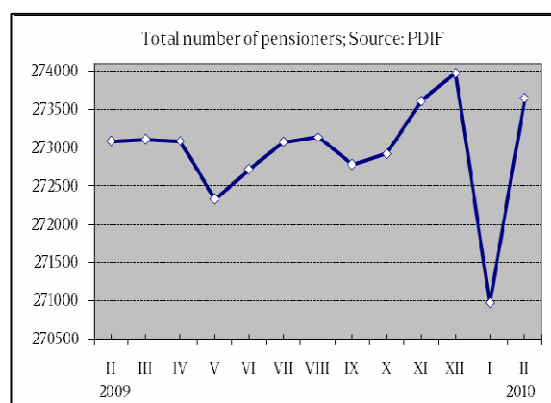
Number of unemployed persons, compared to February 2009, declined by 2.4%.

Major percentage of the unemployed, i.e. 66.4%, 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 7.7% was with community college or higher education level. Observed by age, majority of unemployed or 58.8% fall in the category of 25-49 years of age. According to the time they waited for a job, around 49.9% of the unemployed persons sought job from one to seven years, while 29.6% sought job for eight and more years.

5.2. In February 2010, Pension and Disability Insurance Fund registered 273,652 pensioners, being an increase by 0.2% compared to the same month in 2009. Number of pension beneficiaries increased by 2,682 persons in relation to January.

In February, Denar 2,708.10 million was spent for payment of pensions, accounting for 52.3% of the total social transfers in the state Budget.

Average pension in February 2010 amounted to Denar 10,055, being an increase by 1.9% on annual level. Ratio between the average pension and the average paid salary in February 2010 (the most recent available data) amounted to 49.6%.



5.3. In January 2010 (the most recent available data), compared to the same month in 2009, there was an increase of the average nominal and real net salary by 3.6% and 3.5% respectively.

In January 2010, average net salary per employee amounted to Denar 20,330. Percentage of employees who did not receive salary in January 2010 was 2.9%, being identical in relation to the same period in 2009.

