



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department

SHORT-TERM ECONOMIC TRENDS

March 2010



May 2010, Skopje

SUMMARY
OF THE MOST IMPORTANT SHORT-TERM
ECONOMIC TRENDS

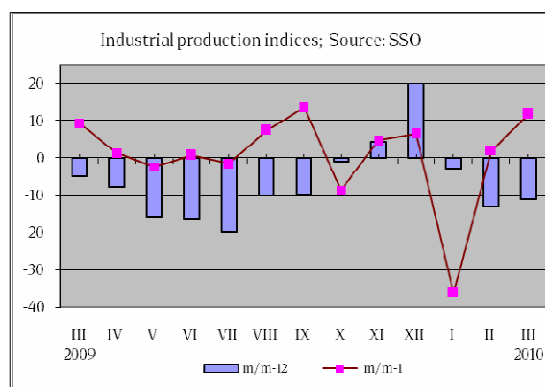
March 2010

- **Index of industrial production in march 2010, compared to the same month last year, dropped by 11.2%.**
- **Annual increase of general price level by 0.7%, with 0.5% monthly inflation**
- **Significant growth by 15.9% of export of goods and decline of import of goods by 9.2% in the first quarter 2010 compared to last year.**
- **Lower realization of central budget revenues by 10.3% (4.1% of GDP) and decline of total expenditures by 2.9% (5% of GDP) in March 2010 compared to the same month in 2009**
- **1.4% decline in new employments in March 2010 compared to the same month last year.**

1. Real Sector

1.1. Index of industrial production in March 2010, compared to the same month last year, dropped by 11.2%, showing third consecutive decline of index of industrial production in the first quarter in 2010.

Analyzed by sectors, electricity, gas and water supply sector registered positive growth for eleven consecutive months, whereby it realized two-digit growth in March 2010 again, amounting to 10.6%. Ore and stone extraction sector and processing industry registered two-digit decline by 23.2% and 13.9% respectively.



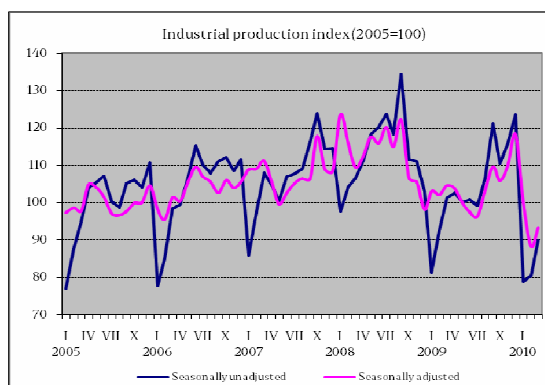
As for the processing industry, positive annual growth was seen at 50% of the branches, whereby growth was evidenced in all branches with the highest share in the industrial production. Thus, high growth of 39.6% was registered in the production of base metals, followed by increase of clothing production by 15.3%, pointing out to improvement of trends in the textile production, while production of food products surged by 3.3%.

Increased production of base metals contributed the most to the annual growth of industrial production (4.5 percentage points), while production of coke and oil derivatives had the highest negative contribution (-3.9 percentage points).

Index of industrial production in March 2010, compared to the previous month, registered two-digit growth of 11.9%.

De-seasoned monthly growth of industrial production in March 2010 was 5.5%, showing that if seasonal component is excluded, growth was by 6.4 percentage points lower.

According to the expectations of enterprise managers, economic situation present in the enterprises and current state of delivery-to-production in March 2010 were more unfavourable compared to the previous month.



According to the managers, following factors limited the most the production volume in March 2010: insufficient foreign demand – 26.3%, insufficient domestic demand – 19.3%, financial problems – 11.7% and uncertain economic surrounding – 9.1%.

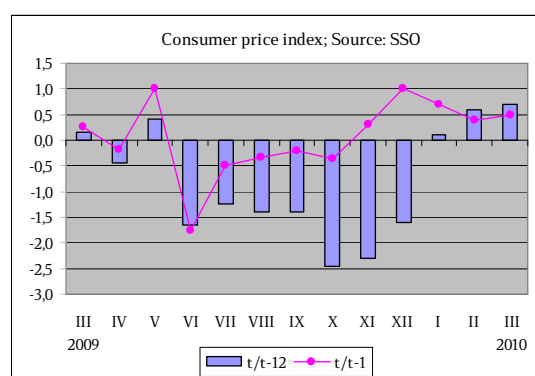
Number of workers in the industry in March 2010, compared to March 2009, dropped by 6.5%, showing return of the downward trend following the

interruption in February, when it was 7.6%. This was also the lowest decline rate in the number of workers in the industry in the last eight months.

Sectoral analysis showed reduction of decline rates in all industrial branches. Thus, highest decline of 1.3 percentage points in the number of workers was registered in the processing industry, accounting for -6.8%. Ore and stone extraction sector registered the same declining trend, whereby the decline rate regarding the number of workers dropped to the level in April 2008, accounting for -7.6%, while electricity, gas and water supply sector showed lower decline compared to the one seen in the previous months, accounting for -2.3%.

1.2. In March 2010, prices of personal consumption goods, measured through the CPI index, increased by 0.7% compared to the same month in 2009.

Increase of general price level was mostly due to increase of prices in the housing category by 4.5%, due to increase of heating and lighting prices by 7.9%. Prices in the means of transport and services category grew by 4.2%. Prices in hygiene and health category increased by 1.6%, while prices in tobacco and beverages category surged by 0.5%, and prices in the categories clothing and footwear and culture and entertainment increased by 0.4%. 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 increase of general price level to be slighter. Price decline was also registered at the category restaurants and hotels (0.5%).



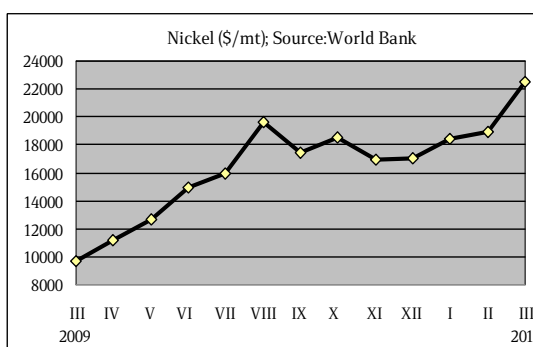
CPI index in March 2010, compared to February 2010, was higher by 0.5%.

Value of the consumer basket of food and beverages for a four-member household in March 2010, calculated on the basis of retail prices, was Denar 12,336, and compared to the previous month, it was by 0.4% higher.

Retail price index in March 2010, in relation to March 2009, increased by 2.3%.

1.3. In March 2010, global stock markets showed monthly increase of prices of energy sources, metals, as well as most of food products.

In March, oil price on world stock markets increased by 6.7% compared to the previous month, reaching the price of US\$ 79.3 per barrel. Compared to March last year, oil price surged by 69.2%.



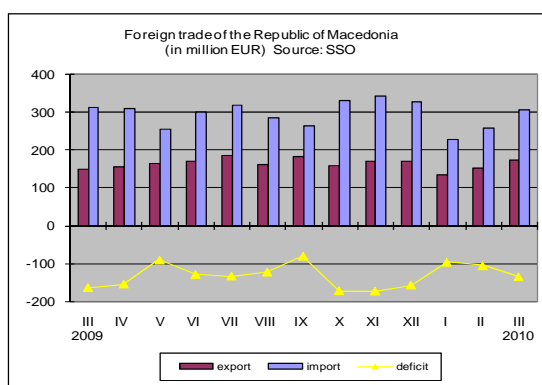
Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 18.4% on monthly basis, reaching US\$ 22,461 for a metric ton (\$/mt). Compared to March last year, nickel price was higher by 131.7%, while copper

price increased by 8.9%. In addition, prices of aluminum and zinc increased by 7.6% and 5.5% respectively.

2. External Sector

2.1. In the first quarter in 2010, total foreign trade (expressed in euros) dropped by only 1.3% in relation to the same period last year.

Thereby, physical output of export declined by only 1.8%, while its value reached EUR 465.1 million, being a significant increase by 15.9%. Imported quantity of goods declined by 17.2%, and it amounted to EUR 797.2 million, being a drop by 9.2%.



In conditions of such trends at the import and export of goods, trade deficit in the first quarter in 2010 amounted to EUR 332 million, narrowing by 30.3% on annual basis (EUR 144.3 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 three months was 58.3%, which was a significant positive change by 12.7 percentage points at annual level.

Export of oil and oil products*)				
	I-III-2009	I-III-2010	Balance 2010-2009	% rate
.000T	73.4	67.1	-6.3	-8.6
EUR mil.	23.3	30.4	7.1	30.5
\$ mil.	30.3	42.0	11.7	38.6

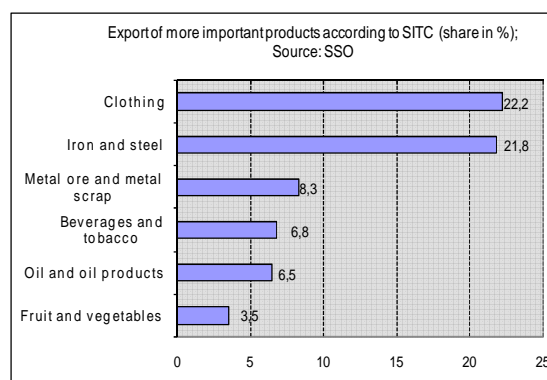
*Previous data

Import of oil and oil products*)				
	I-III-2009	I-III-2010	Balance 2010-2009	% rate
.000T	429.7	233.2	-196.5	-45.7
EUR mil.	102.3	95.9	-6.4	-6.3
\$ mil.	133.4	133.3	-0.1	-0.1

*Previous data

2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following: clothing – 22.2%, iron and steel – 21.8%, metal ore and metal scrap – 8.3%, beverages and tobacco – 6.8%, oil and oil products – 6.5% and fruit and vegetables – 3.5%. These six groups of products comprised 69% of the total export in the country.

The following participated the most in the import of goods in the first quarter on cumulative basis: oil and oil products (EUR 95.9 million, 12%), iron and steel (EUR 59.6 million, 7.5%), road vehicles (EUR 58.5 million, 7.3%), textile yarns and similar (EUR 58.2 million, 7.3%), electrical machines and devices and spare parts (EUR 25.3 million, 3.2%), etc.



2.3. Analysed by regions, during the first quarter in 2010, in conditions of slight increase of trade with the European Union (EU 27), share of trade with EU in the total trade experienced an increase by 2.9 percentage points, accounting for 55.9%, whereby export of goods participated with 63.2% and share of import of goods was 51.6%. Export to the European Union increased significantly by 22%, while the import experienced slower decline by 4% compared to the same period in 2009.

In the first quarter in 2010, 90.7% of the trade deficit of the country was realized in the trade with Russia, China, Serbia, Turkey, Great Britain, Slovenia, Romania, Greece and Italy, while it was adjusted with the surplus realized in the trade with Kosovo, Belgium, Germany, Bulgaria, Albania, Bosnia and Herzegovina, etc.

Export of iron and steel*)					Import of iron and steel*)				
	I-III-2009	I-III-2010	Balance 2010-2009	% rate		I-III-2009	I-III-2010	Balance 2010-2009	% rate
.000T	116.5	152.8	36.3	31.2	.000T	115.6	154.3	38.7	33.5
EUR mil.	72.2	101.3	29.1	40.3	EUR mil.	62.1	59.6	-2.5	-4.0
\$ mil.	93.4	140.0	46.6	49.9	\$ mil.	47.7	82.3	34.6	72.5

*)Previous data

*)Previous data

2.4. Observed by currency structure, 74.3% of the foreign trade was realized in euros, and compared to the same period last year, it dropped by 1.6 percentage points. On export and import side, EURO accounted for 77.3% and 72.6% respectively, and in relation to the same period last year, decline was evidenced at export by 7 p.p., while import registered slight increase of 0.7p.p.

Foreign trade of the republic of Macedonia (by currency); calculations: MoF

- by currency -													
export		I-III 2009					I-III 2010					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	structure in %	.000 T	export in currency	average Denar exch. Rate in relation to currencies	export in denar	structure in %			
EUR	396	339,407,403	61.4067	20,841,888,574	84.7	405	359,004,058	61.4015	22,043,387,667	77.5	19,596,655	5.8	
USD	129	76,490,825	47.0742	3,600,744,394	14.6	130	144,087,588	44.3686	6,392,964,557	22.5	67,596,763	88.4	
EUR+USD	525			24,442,632,968	99.3	535			28,436,352,224	100.0			
tot. export:	527			24,620,239,665	100.0	536			28,431,671,627	100.0		15.5	

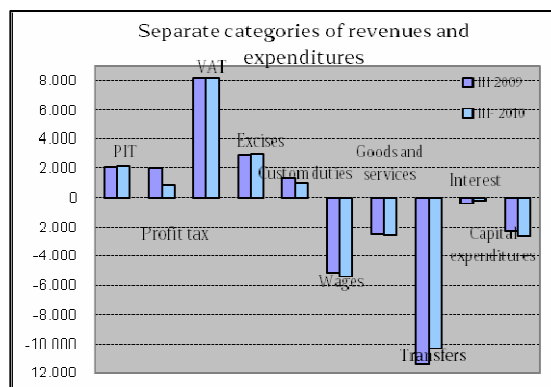
Source: SSO and NBRM

3. Fiscal Sector

3.1. In the first quarter in 2010, total central government budget revenues reached an amount of Denar 17,463 million (4.1% of GDP), which was 10.3% less in relation to the same period in 2009.

Tax revenues in this period were realized in the amount of Denar 15,845 million, being lower by 7.7% in relation to the same period last year.

Share of VAT in total tax revenues in the first quarter in 2010 was dominant and it amounted to 51.8%, while excises accounted for 18.8%, whereby revenues in the amount of Denar 11,180 million were realized on the basis of these two taxes, i.e. 70.6% or almost $\frac{3}{4}$ of the total tax revenues (2.6% of GDP).



Analyzed by certain tax categories, revenues on the basis of personal income tax increased by 4.0% compared to the same period last year, while VAT and excise revenues grew by 0.4%. Revenues on the basis of profit tax experienced highest drop of 56% (decline was significant on the basis of monthly advance payments, partially as a result of amendments to the regulations in 2010 for it to be paid only on non-exempted expenditures). At the same time, customs revenues dropped by 26.9%, while non-tax revenues declined by 32.9% compared to the same quarter in 2009.

Social contributions during this period were realized in the amount of Denar 9,175.6 million, which was by 3.6% less compared to the previous year.

3.2. In the first quarter in 2010, total central budget expenditures amounted to Denar 21,155 million (5.0% of GDP), which was by 2.9% less compared to the same period in 2009.

With respect to the structure of total realized expenditures, current expenditures (Denar 18,509 million) accounted for 87.5% and were lower by 5.1% compared to the same quarter last year, while capital expenditures participated with 12.5%.

The biggest expenditure items were transfers (Denar 10,331 million), followed by salaries and allowances (Denar 5,396 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 5.2% increase in relation to the same month in 2009.

Expenditures for goods and services reached the amount of Denar 2,584 million, i.e. by 3% more compared to 2009.

With regard to transfers, 9.1% less resources were spent compared to the same quarter in 2009, and were the largest expenditure item, i.e. their share in total expenditures was 48.8% (2.4% 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 3,566 million or by Denar 74 million lower (2.0% drop).

Interest was collected in the amount of Denar 198 million, being by 2 times less (or by 51.5% less) compared to the same quarter in 2009.

During the analysed period, capital expenditures amounted to Denar 2,646 million, being an increase by 15.9% compared to the same period in 2009, i.e. 0.6% of GDP.

3.3. Thus, in the first three months in 2010, central government budget deficit reached the amount of Denar 3,692 million (0.9% of GDP), while

consolidated budget deficit amounted to Denar 4,099 million or 0.97% of GDP.

4. Monetary Sector

4.1. In March 2010, primary money¹ increased by 19.8% on annual basis (19.8% increase in February), in conditions of growth of total liquid assets of the banks by 33.7% and increase of the demand for ready money in circulation by 4.2%.

On monthly basis, primary money dropped by 2.3%, due to the decrease of total liquid assets of the banks by 4.0% and the increased demand for ready money in circulation by 0.3%.

In March 2010, with respect to the requirements for volume tenders, interest rate on central bank bills was the same as in February, amounting to 7.5%, having in mind that the interest rate was reduced on 31 March and it amounted to 6.5%.

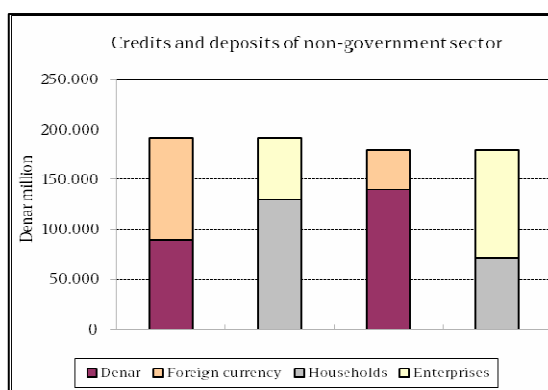
As for interest rate on government securities, it was 4.99% on six-month treasury bills with foreign exchange clause.

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 March increased by 11.4% on annual basis (increase by 8.7% in February 2010). Total deposits experienced slight increase by 0.8% on monthly basis (0.2% increase in the previous month), due to the increase of total deposits of households which grew by 1.7% on monthly basis, while total deposits of enterprises increased by 0.8% on monthly basis.

On annual basis, Denar deposits increased by 7.7%, while foreign currency deposits increased by 14.80%.³ On monthly basis, Denar deposits increased by 2.1%, while foreign currency deposits grew by 0.8%.⁴

From the point of view of sector structure, deposits of corporate sector grew by 0.8% on monthly basis, while savings of households increased by 1.7%. On annual level, household deposits were higher by 19.9%, while deposits of enterprises were lower by 3.2%.



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

4.3 In March 2010, total credits to private sector experienced slight growth by 2.5% on annual basis (compared to 3.5% in January and 2.4% in February). February growth continued, however with moderate pace, surging by 0.6%, mainly due to increased credits to corporate sector by 0.8%.

Annually, credits to households and enterprises surged by 0.5% and 3.8% respectively.

From currency point of view, Denar credits (including credits with foreign currency clause) experienced slower growth by 2.6% annually. Foreign currency credits experienced moderate growth by 2.4% annually.

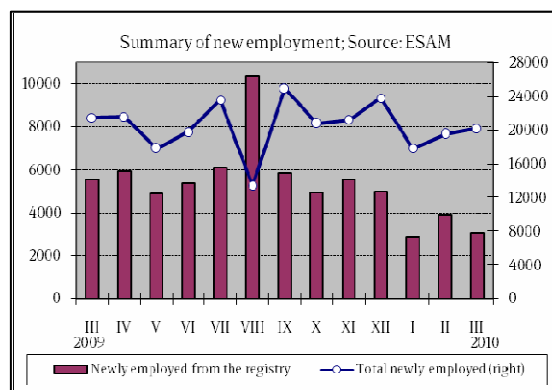
4.4. In March 2010, average weighted interest rate on Denar credits amounted to 9.8% and it was the same as in February 2010. Average interest rate on foreign currency credits was identical with the rate in the previous month, being at the level of 7.3%. With respect to last year, interest and credit requirements of the banks were loosed, i.e. average interest rate on Denar credits dropped by 1.8 p.p.. On the other hand, interest rate on foreign currency credits declined by 0.6 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, 9.5% on Denar credits and 7.0% on foreign currency credits. In March 2010, interest rate on credit balance on Denar deposits was the same as in February 2010, amounting to 7.5%, and it surged by 0.9% p.p. on annual basis. Average interest rate on foreign currency deposits was lower by 0.1 p.p. compared to the one in the previous month, amounting to 3.2%, and it was identical to the rate in March 2009 on annual basis.

5. Social Sector

5.1. In the first quarter in 2010, Employment Agency of the Republic of Macedonia registered total of 57,549 new employments. In fact, 37.5% 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 1.4%.

In March, 20,175 new employments were registered, whereby 15,2% of the new employments were from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 10,854 persons in March, 47.9% out of which were new employments. 9,775 persons were registered as inflow to the Agency, 18.4% of which was persons whose employment was terminated.

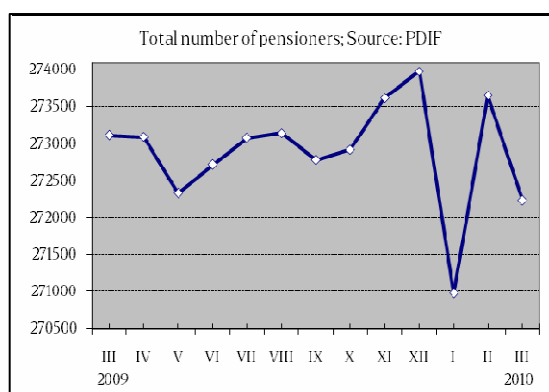


As a result, unemployment reduced by 1,079 persons, i.e. by 0.3% compared to the previous month. There were 341,720 unemployed persons in March 2010.

Number of unemployed persons, compared to March 2009, declined by 2.7%.

Major percentage of the unemployed, i.e. 66.4%, came from urban areas (cities), whereby 57.6% 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 58.6% fall in the category of 25-49 years of age. According to the time they waited for a job, around 49.6% of the unemployed persons sought job from one to seven years, while 29.6% sought job for eight and more years.

5.2. In March 2010, Pension and Disability Insurance Fund registered 272,228 pensioners, being a decline by 0.3% compared to the same month in 2009. Number of pension beneficiaries dropped by 1,424 persons in relation to the previous month.



In March, Denar 2,730.25 million was spent for payment of pensions, being 51.9% of the total social transfers in the state Budget.

Average pension in March 2010 amounted to Denar 10,104, being an increase by 2.4% on annual level. Ratio between the average pension and the average paid salary in February 2010 (the most recent available data) amounted to 49.7%.

5.3. In the period January-February 2010 (the most recent available data), compared to the same period in 2009, there was an increase of the average nominal and real net salary by 3.5% and 3.1% respectively.

In February 2010, average net salary per employee amounted to Denar 20,240. In February 2010, compared to the same month in 2009, there was an increase of the average nominal and real net salary by 3.3% and 2.7% respectively. Percentage of employees who did not receive salary in February 2010 was 3.3%, being higher by 0.5 p.p. in relation to last year.

