



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department

SHORT TERM ECONOMIC TRENDS

May 2009



Skopje, July 2009

SHORT-TERM ECONOMIC TRENDS

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS

May 2009

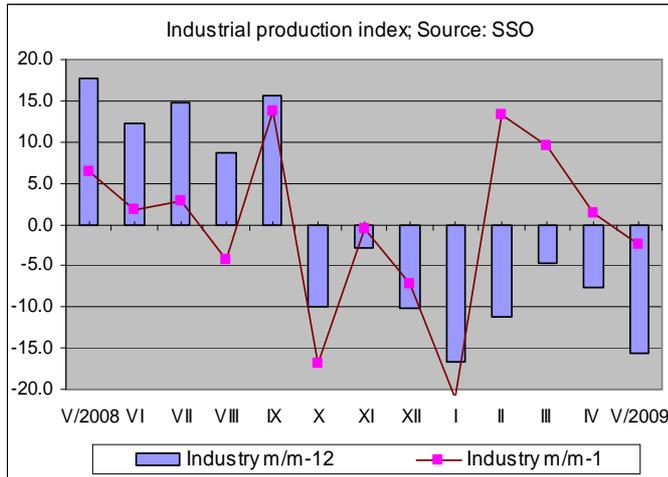
- Industrial production dropped by 15.3% on annual basis
- Annual inflation rate was 0.4% in May
- Slight increase of stock market prices of certain products, mainly nickel and oil derivatives;
- Annual decline of export of goods (euros) by 34.4% in the first five months in 2009, with simultaneous drop of import of goods by 22%
- Export experienced monthly increase by 6.3% for the first time after the crisis emerged, while the import dropped by 17.8%. Previously, both import and export declined, however the export showed higher declining rate
- In the period January - May 2009, total central budget revenues amounted to Denar 33,512 million (8.2% of GDP), being by 2.9% less compared to the same period previous year, while total expenditures accounted for Denar 37,443 million (9.1% of GDP), being by 22.5% more compared to the same period in 2008
- Gross foreign exchange reserves amounted to EUR 1,166.8 million in May 2009, and compared to December 2008, they declined by 21.9% (EUR 328,1 million). On monthly basis, they decreased by 3.1%, i.e. by EUR 37 million, in conditions of net purchase on the foreign exchange market in the amount of EUR 50.2 million
- In May, 17,834 new employments were registered, whereby 27.5% of the new employments were from the unemployed records.

1. Real Sector

1.1. Cumulative index of industrial production in the period January - May 2009, compared to the same period last year, dropped by 11.1%.

In May 2009, industrial production continued its declining trend, dropping by 15.3% annually as a result of the developments in the world economy, i.e. the global financial crisis.

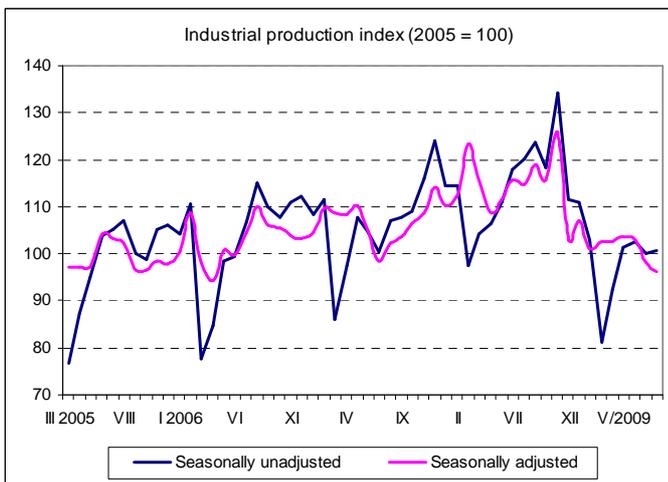
Analysis of the physical production index on annual basis shows that negative results in May were due to the reduced activity in even 18 out of total of 24 industrial branches. As one of the main reasons for such dynamics in the production was the weak activity in the base metals sector, experiencing annual drop of 57%, followed by the annual decline in the oil industry by 68.3%, drop in the production of machines and devices, not mentioned elsewhere, by 41.1%, production of clothing by 16.9%, production of products from other non-metal minerals by 2.9%, etc.



etc.

Index of industrial production registered drop by 2.4% on monthly basis.

According to the expectations of the enterprise managers, economic situation present in the enterprises in May 2009 was still estimated as unfavourable compared to the previous months. Stocks of raw materials and intermediate goods, as well as on-going procurement of raw materials and intermediate goods, were below the production quota, while stocks of finished goods in May 2009 surged in relation to the previous month.



Following factors limited the

most the production volume in May 2009: insufficient foreign demand (25.2%), insufficient domestic demand (16.7%), uncertain economic surrounding (10.7%) and financial problems (12.8%). Estimate of the expected production volume in the coming period is more favourable, as well as the estimate of the expected number of employees.

In May 2009, number of employees in the industry dropped by 6.0% in relation to the same month last year. In May 2009, number of employees in the sector for extraction of ore and stone dropped by 9.8% in relation to the same month last year, and it dropped by 5.8% in the processing industry.

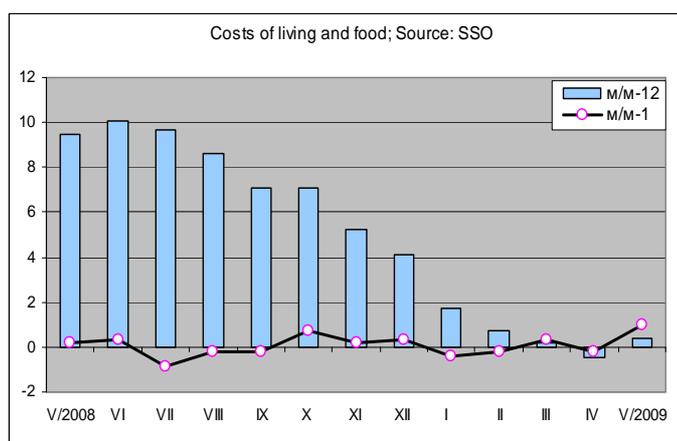
1.2. In May 2009, prices of personal consumption goods, measures through CPI index, grew by 0.4% compared to the same month last year.

The growth was mainly due to the increase registered at tobacco and beverages by 4.3%, housing by 6.8%, restaurants and hotels by 3% and food by 1.3%.

CPI index in May 2009, compared to April 2009, was higher by 1.0%.

Value of the consumer basket of food and beverages for a four-member household in May 2009, calculated on the basis of retail prices, was Denar 12,992, and compared to the previous month, it was by 2.1% higher.

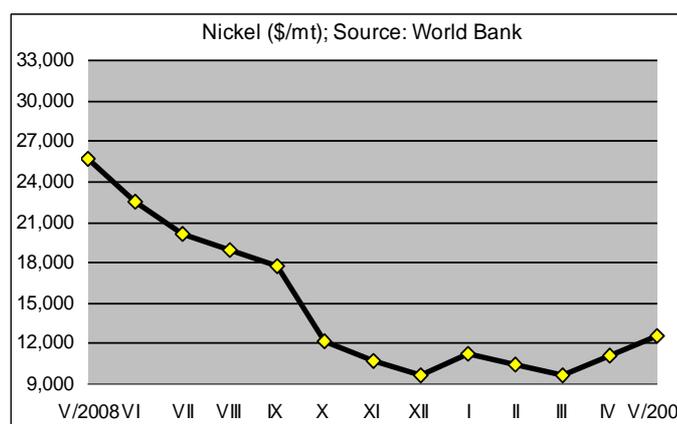
Retail price index in May 2009, in relation to May 2008, declined by 1.1%. Retail prices were higher by 0.3% on monthly basis. Price increase of 4.9% was evident in the group of agricultural products.



1.3. In May 2009, global stock markets experienced slight increase in oil prices and prices of most metal products.

In May, oil price on world stock markets increased by 13.9% compared to the previous month, reaching the price of US\$ 57.94 per barrel. Compared to May last year, oil price declined by 53.2%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 13.2% on monthly basis, reaching US\$ 12.635 for a metric ton (\$/mt).



Price of copper surged by 3.6% in May compared to April, reaching US\$ 4.569 for a metric ton (\$/mt), price of gold increased by 4.4% in May in relation to the previous month. Prices of steel and steel sheets remained stable in May 2009.

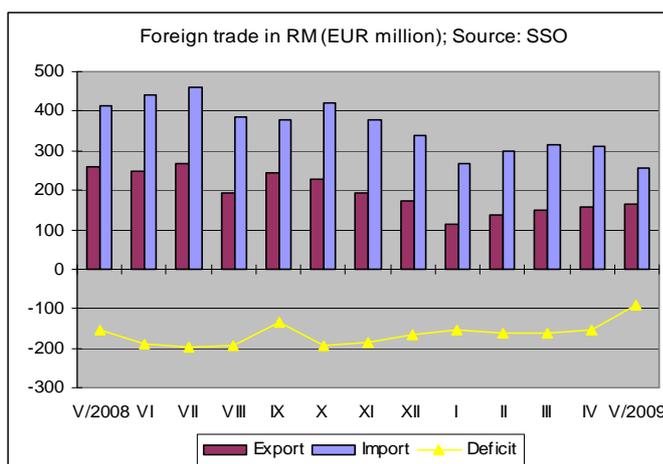
2. External Sector

2.1. In the first five months in 2009, total foreign trade (expressed in euros) dropped by 26.6% in relation to the same period last year.

Thereby, physical output of export declined by 30.1%, while its value reached EUR 721.3 million, being a drop by 34.4%. Imported quantity of goods declined by 23.1%, and it amounted to EUR 1,445.8 million, being a drop by 22%.

In conditions of such trends at the import and export of goods, trade deficit in the first five months in 2009 amounted to EUR 724.5 million, declining by 3.8% on annual basis (EUR 28.7 million), whereby reduced import of iron and steel and their products accounted for the most.

Import to export coverage in the first five months was 49.9%, which was a significant annual decline by 9.5



	I-V 2008	I-V 2009	Balance 2009-2008	% rate
.000 T	149.5	132.9	-16.6	-11.1
EUR mil.	83.8	45.1	-38.7	-46.2
\$ mil.	128.3	59.7	-68.6	-53.5

*Previous data

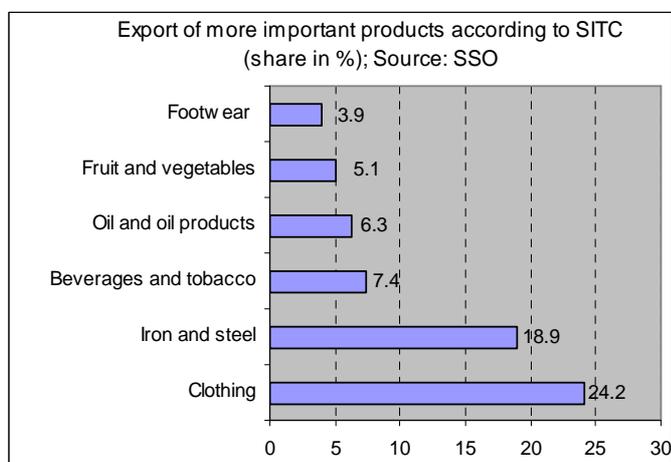
	I-V 2008	I-V 2009	Balance 2009-2008	% rate
.000 T	567.5	598.9	31.4	5.5
EUR mil.	275.9	156.7	-119.2	-43.2
\$ mil.	419.9	205.5	-214.4	-51.1

*)Previous data

percentage points.

2.2. Main groups of products (according to SITC) having the biggest share in export in the period January-May were the following: clothing – 24.2%, iron and steel – 18.9%, beverages and tobacco – 7.4%, oil and oil products – 6.3%, fruit and vegetables – 5.1%, metal ore and metal scrap – 3.9%. These six groups of products comprise 66% of the total export of goods.

The following participated the most in the import of goods in the first five months in 2009 on cumulative basis: oil and oil products (EUR 156.7 million, 10.8%), textile yarns and similar (EUR 108.8 million, 7.5%), road vehicles (EUR 90.3 million, 6.2%), iron and steel (EUR 80.8 million, 5.6%), industrial machines and spare parts (EUR 56.3 million, 3.9%), telecommunication devices (EUR 49.1 million, 3.4%), etc.



2.3. Analyzed by regions, during the first five months in 2009, despite the reduced intensity of the trade with the European Union (EU 27), trade share with EU participated with 53% in the total trade (56.3% export of goods and 51.5% import of goods). Export to the European Union was significantly lower by 38.5%, while the import experienced slower decline by 13.5% compared to the same period in 2008.

During the analyzed period, 73.2% of the trade deficit of the country was realized in the trade with Russia, Switzerland, China, Turkey, Poland, Ukraine, Slovenia, France, Indonesia and Austria.

Export of iron and steel *)				
	I-V 2008	I-V 2009	Balance 2009-2008	% rate
.000 T	491.2	227.9	-263.3	-53.6
EUR mil.	379.7	136.0	-243.7	-64.2
\$ mil.	581.2	178.9	-402.3	-69.2

*Previous data

Import of iron and steel *)				
	I-V 2008	I-V 2009	Balance 2009-2008	rate%
.000 T	424.3	201.4	-222.9	-52.5
EUR mil.	205.9	80.8	-125.1	-60.8
\$ mil.	316.2	106.5	-209.7	-66.3

*Previous data

2.4. Observed by currency structure, 78% of the foreign trade in the period January-May 2009 was realized in euros, and compared to the same period last year, it increased by 3.7 percentage points. On export and import side, EURO accounted for 84.2% and 75% respectively, and in relation to the first five months last year, increase was evidenced at export by 7.3 percentage points, while import increased by 3.7 percentage points.

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

- by currency -

Export currency	I-V 2008					I-V 2009					absolute change in currency value	relative change in currency value (in %)
	.000 T	export in currency	average Denar exch. Rate in relation to currencies	export in Denar	structur e in %	.000 T	export in currency	average Denar exch. Rate in relation to currencies	export in Denar	structur e in %		
EUR	1,288	844,821,406	61.2942	51,782,652,224	76.7	855	606,698,033	61.3938	37,247,497,698	84.1	-238,123,373	-28.2
USD	266	382,811,066	40.2150	15,394,763,518	22.8	232	145,165,047	46.5420	6,756,271,617	15.2	-237,646,019	-62.1
EUR+USD	1,554			67,177,415,742	99.5	1,087			44,003,769,316	99.3		
tot.export:	1,559			67,486,903,286	100.0	1,090			44,315,634,846	100.0		-34.3

3. Fiscal Sector

3.1. In the period January-May 2009, the total central government budget revenues reached an amount of Denar 33,512 million (8.2% of GDP), which was 2.9% less in relation to the same period last year.

Tax revenues in this period were realized in the amount of Denar 28,236 million, which was lower by 10.2% in relation to same period last year.

Share of VAT in total tax revenues in the first five months in 2009 was dominant and it amounted to 48.6%, while excises accounted for 18.4%, whereby revenues in the amount of Denar 18,930 million were realized on the basis of these two taxes, i.e. 67.0% (or 2/3) of the total tax revenues (4.6% of GDP). Analyzed by categories, VAT revenues dropped by 9.6%, profit tax revenues declined by 44.7% (due to changes in the regulations - starting 2009, no undistributed profit tax is paid), customs revenues decreased by 5.7%, while excises surged by 1.4%, and PIT revenues experienced increased by 5.6%, compared to the same period last year. Non-tax revenues increased by 86.8% in relation to the same period last year, mostly due to the payment of Telecom dividend in May in the amount of Denar 2,383 million.

3.2. In the first five months of 2009, total central budget expenditures amounted to Denar 37,443 million (9.1% of GDP), being by 22.5% more compared to the same period in 2008.

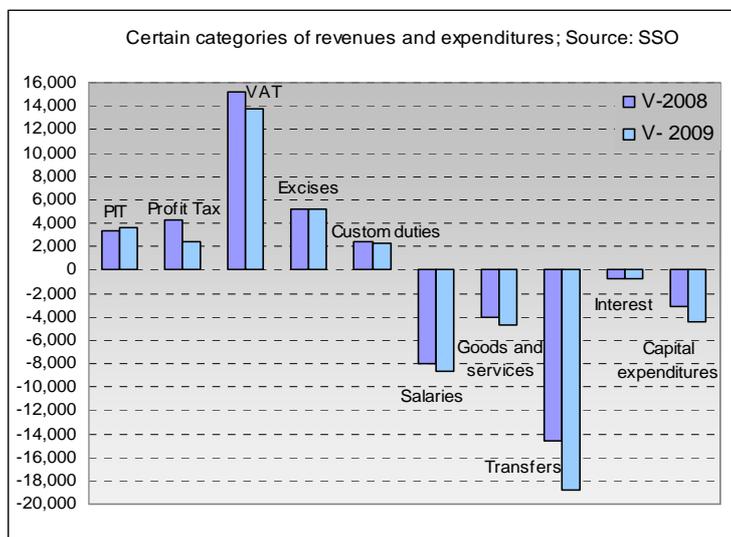
With respect to the structure of total realized expenditures, current expenditures (Denar 32,961 million) accounted for 88.0% and were higher by 20.3% compared to the same period last year, while capital expenditures participated with 12.0%.

The biggest expenditure items were transfers (Denar 18,846 million), followed by salaries and allowances (Denar 8,672 million). With respect to the total central government budget expenditures, expenditures related to wages and salaries and

allowances accounted for 23.2% in this period, which was 9.3% increase in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 4,689 million, i.e. by 15.4% more compared to 2008.

With regard to transfers, 28.8% more resources (Denar 4,218 million) were spent in this period compared to the same period 2008, and were the largest expenditure item, i.e. their share in total expenditures was 50.3% (4.6% 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 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 6,073 million or by Denar 1,228 million higher (25.3% growth). Interest was collected in the amount of Denar 754 million, being by 3.3% less compared to the same period in 2008.

During the analyzed period, capital expenditures amounted to Denar 4,482 million, being an increase by 41.4% compared to the same period in 2008, accounting for 1.1% of GDP.

3.3. Thus, in the period January-May 2009, central government budget deficit reached the amount of Denar 3,931 million (1.0% of GDP), while consolidated budget deficit amounted to Denar 3,392 million (0.8% of GDP).

4. Monetary Sector

4.1. In May 2009, primary money¹ dropped by 0.6% on annual basis (increase by 1.8% in April), in conditions of growth of total liquid assets of the banks by 6.2% and decline of the demand for ready money in circulation by 6.9%.

On monthly basis, primary money dropped by 3.1%, due to the decrease of the total liquid assets of the banks by 4.5% and the lower demand for ready money in circulation by 1.4%.

In May 2009, with respect to the requirements for volume tenders, interest rate on central bank bills was the same as in April, amounting to 9%.

Interest rates on government securities were as follows: 9.05% on one-month treasury bills and 8.8% on six-month government bonds.

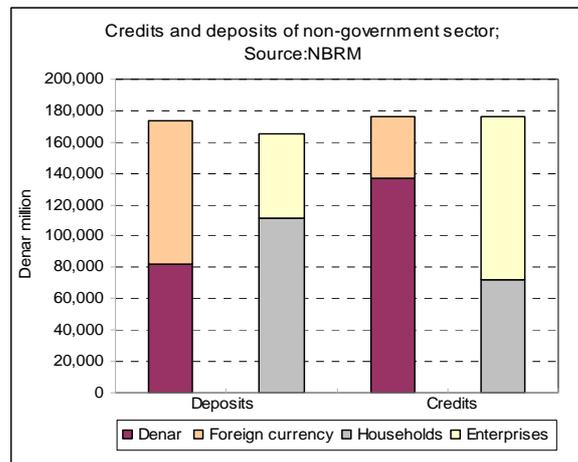
¹Primary money is calculated as a sum of ready money in circulation, cash in hand and on the accounts of the bank, including the reserve requirement of foreign currency deposits.

Total of 3 auctions were held by applying interest rate tender for three- and six-month government bonds, as follows: two auctions of three-month treasury bills and one auction of six-month treasury bills.

4.2. Total deposit potential of non-government sector² in May registered the lowest growth so far of 2.9% on annual basis (6.3% in April 2009). Total deposits experienced decline by 0.8% on monthly basis, due to the decrease of both the Denar and the foreign currency deposits.

In May 2009, Denar deposits dropped by 0.6% on monthly basis, while foreign currency deposits declined by 1.0%. On annual basis, Denar deposits declined by 10.8%, while foreign currency deposits increased by 19.7%³.

From the point of view of sector structure, deposits of the corporate sector declined by 3.6% on monthly basis, while savings of the households increased by 0.2%. With respect to last year, household deposits were higher by 11.8%, while deposits of enterprises were lower by 16.8%.



4.3. In May 2009, credits to private sector experienced decline. Monthly drop of credits by 0.3% was mainly due to decreased foreign currency credits. With respect to last year, credit growth further slowed down and it was 18.5%.

Monthly decline of credits to enterprises in May was 0.7% (compared to 0.3% in April), while credits to households increased by 0.4% (compared to 0.1% increase in April). Annually, credits to households and enterprises surged by 19.8% and 17.6%, respectively.

From currency point of view, Denar credits (including credits with foreign currency clause) registered slower increase by 19.4% annually. Foreign currency credits experienced slower growth by 15.2% annually. Compared to the April, Denar credits were lower by 0.1%, while foreign currency credits declined by 0.5%.

4.4. In May 2009, average weighted interest rate on Denar credits was higher by 0.2 p.p. compared to the one in April, amounting to **10.1%**. Average interest rate on foreign currency credits was higher by 0.1 p.p. compared to the one in April, amounting to 7.5%. With respect to last year, interest requirements of the banks were tightened, i.e. average interest rate on Denar credits grew by 0.5 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 7.2% on foreign currency credits. In May 2009, interest rate on credit balance on Denar deposits was higher by 0.1 p.p. compared to the previous month, amounting to 6.8%, and it surged by 1.1 p.p. on annual basis. Average interest rate on foreign currency deposits remained at the same level as in April, amounting to 3.2%, and it increased by 0.9 p.p. on annual basis.

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

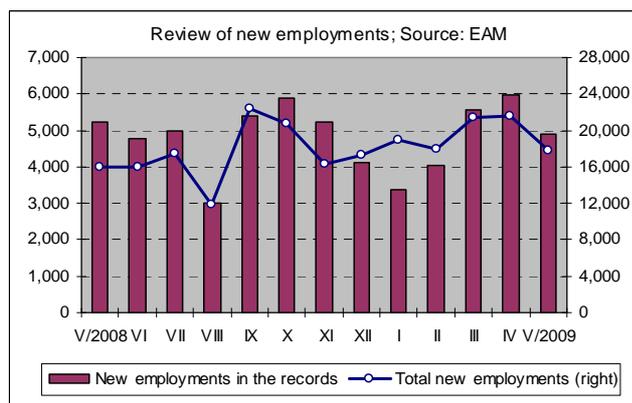
³Starting January 2009, deposits include calculated interest.

4.5. Gross foreign exchange reserves amounted to EUR 1,166.8 million in May 2009, and compared to December 2008, they declined by 21.9% (EUR 328.1 million). On monthly basis, they decreased by 3.1%, i.e. by EUR 37.0 million, in conditions of net purchase on the foreign exchange market in the amount of EUR 50.2 million. NBRM, through foreign currency transactions, mopped up liquid assets. Increased demand for foreign assets was registered on the foreign exchange market, leading to sale of foreign assets by NBRM.

5. Social Sector

5.1. In the period January-May 2009, Employment Agency of the Republic of Macedonia registered around 97,812 new employments. In fact, 43.8% out of the total number of newly employed was full-time employees, while the rest was temporary employment and seasonal works. Compared to the same period last year, number of newly employed persons increased by 11.1%.

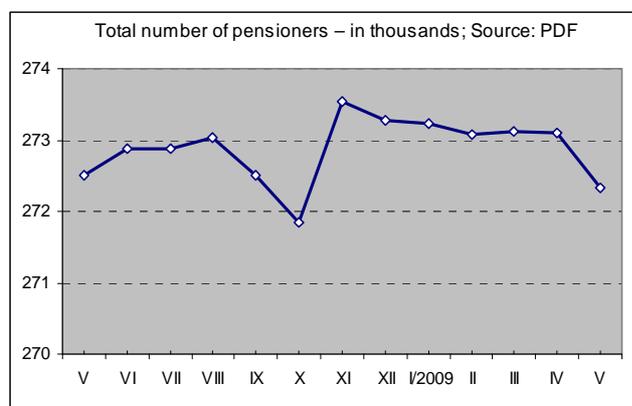
In May, 17,834 new employments were registered, whereby 27.5% of the new employments was from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 8,949 persons in May, 51.6% out of which were new employments. As inflow to the Agency, 8,133 persons were registered, 53.3% of which were persons whose employment was terminated.



As a result, unemployment reduced by 816 persons, i.e. 0.23% compared to the previous month. There were 349,063 unemployed persons in May 2009.

Thereby, 70,924 persons (20.3%) out of the persons registered as unemployed declared that they applied only to exercise the right to health insurance, and the remaining persons actively sought job. Number of unemployed persons, compared to the same month in the previous year, declined by 0.8%.

Major percentage of the unemployed, i.e. 66.1%, came from urban areas (cities), whereby 57.8% were men. According to the education structure, 52.9% of the unemployed persons were unskilled or semi-skilled, while only 7.2% were with community college or higher education level. Observed by age, majority of the unemployed or 59.7% fall in the category of 25-49 years of age. According to the time they waited for a job, 50.1% of the unemployed persons sought job from one to seven years, while 29.8% sought job for eight years and more.



5.2. According to the data from the PDF, in May 2009, 272,330 pensioners were registered, which, compared to the previous month, was an increase by 762 persons.

In May, Denar 2,645.9 million was spent for payment of pensions, being 50% of the total social transfers in the state Budget.

Average pension in May 2009 amounted to Denar 9,876, being an increase by 11.2% on annual level. Ratio between the average pension and the average paid salary in April 2009 (the most recent available data) amounted to 48.9%.

5.3. In the period January-April 2009 (the most recent available data), compared to the same period in 2008, there was an increase of the average nominal and real monthly net salary by 27.8% and 27.1% respectively.

In April 2009, average net salary per employee amounted to Denar 20,167, which was an increase by 29.2% on monthly basis in nominal terms, while on annual basis, there was 29.9% increase recorded. Percentage of employees who did not receive salary in April 2009 was 3.9%, being lower by 5.2% compared to the same month previous year.

