



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department

SHORT-TERM ECONOMIC TRENDS

May 2010



Skopje, July 2010

S U M M A R Y
OF THE MOST IMPORTANT SHORT-TERM ECONOMIC
TRENDS

May 2010

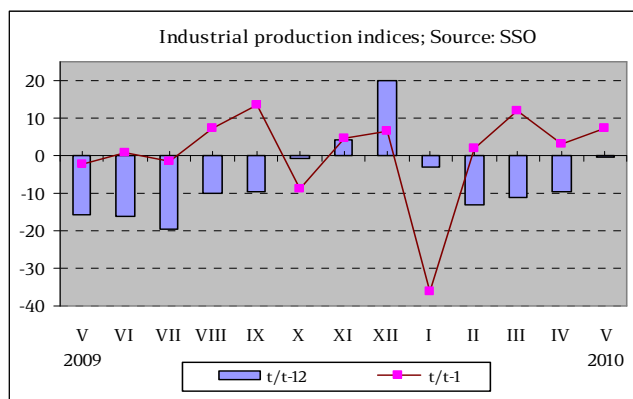
- **Index of industrial production in May 2010, compared to May 2009, declined by 0.4%, showing further slower decline, and it was the lowest since the beginning of the year.**
- **General price level grew slightly by 0.2% on annual basis, with -0.6% monthly inflation.**
- **Central budget revenues dropped by 8.2% (7.2% of GDP) and total expenditures declined by 3.4% (8.4% of GDP) in the period January-May 2010 compared to the same period in 2009.**
- **Number of registered unemployed persons was 334,477 in May, being a decline by 1.4% compared to April 2010.**

1. Real Sector

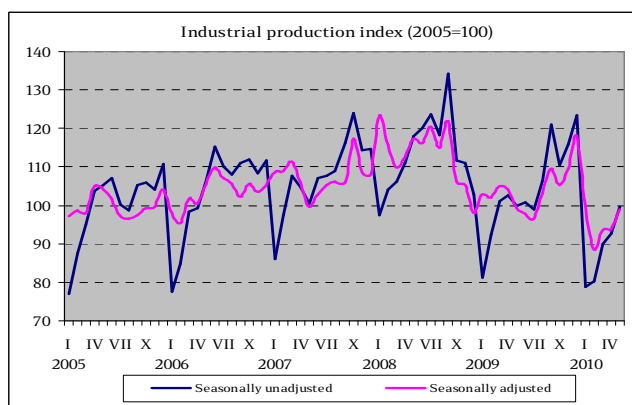
1.1. Index of industrial production in May 2010, compared to May 2009, declined by 0.4%, showing further slower decline, and it was the lowest since the beginning of the year.

Analyzed by sectors, electricity, gas and water supply sector registered positive growth for thirteen consecutive months, whereby it was the highest in May 2010, reaching 37.4%. Ore and stone extraction sector and processing industry also registered slower decline by 1.1% and 5.3% respectively.

As for the processing industry, positive annual growth was seen at 40% of the branches, whereby growth was evidenced in the three branches with the two-digit share in the industrial production. Thus, intensified growth of 23.7% was registered in the clothing production, followed by increase in the textile production, production of base metals surged by 32.3%, while production of food and beverages showed moderate growth of 0.4%.



Increased production of coke and oil derivatives contributed the most to the annual growth of industrial production (9.2 percentage points), while production of electric machines and devices had the highest negative contribution (-2.8 percentage points).



Index of industrial production in May 2010, compared to April 2010, grew by 7.5%, whereby growth was seen at all three sectors: ore and stone extraction sector by 0.5%, processing industry by 7.4%, and electricity supply sector by 10%.

De-seasoned monthly growth of industrial production in Mat 2010 was 5.4%, showing that if seasonal component is excluded, growth was by 2.1 percentage points lower.

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

According to the managers, following factors limited the most the production volume in May 2010: insufficient foreign demand – 24.9%, insufficient domestic demand – 18.3%, financial problems – 14.2% and uncertain economic surrounding – 9.5%.

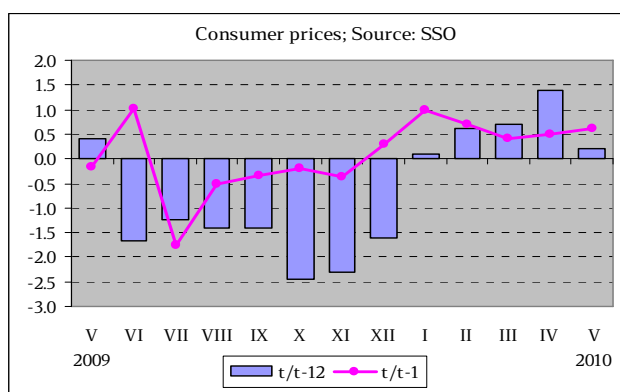
According to the announcement by the State Statistics Office, total number of workers in the industry in May 2010, compared to April 2009, dropped by 6.5%, showing decline in the number of workers compared to April, when it was 7.9%.

Sector analysis showed slower decline of 2.6 p.p. in the number of workers in the ore and stone extraction sector, accounting for 3.2%. Slower decline was also registered in the processing industry, accounting for 7.5%. Electricity supply sector registered moderate decline in the number of workers, accounting for 0.5%, being the lowest decline since the beginning of the year. The highest annual decline was still registered in the processing industry, while the decline was the smallest in the electricity, gas and water supply sector.

On cumulative basis, number of workers in the industry in the first five months in 2010 dropped by 7.1%, showing slight decline (it was 7.3% in the period January-April). Decline registered in the ore and stone extraction sector was 6.9%, while the decline in the electricity, gas and water supply sector accounted for 2.2%.

1.2. In May 2010, prices of personal consumption goods, measured through the CPI index, increased by 0.2% compared to the same month in 2009.

Increase of general price level was mostly due to increase of prices in the category means of transport and services by 5.7%, due to increase of prices of liquid fuels and oils by 26.6%. Prices in the housing category increased by 4.7%, due to increase of heating and lighting prices by 8.3%. Prices in the tobacco and beverages category and culture and entertainment category remained unchanged. Decline of prices was registered at the food category by 3.4%, due to the decline of prices of fresh vegetables by around 20% and fresh fruit by around 12%. Price decline was also registered at the hygiene and health category by 0.4% and at the category restaurants and hotels by 0.1%. CPI index in May 2010, compared to April 2009, was lower by 0.6%.

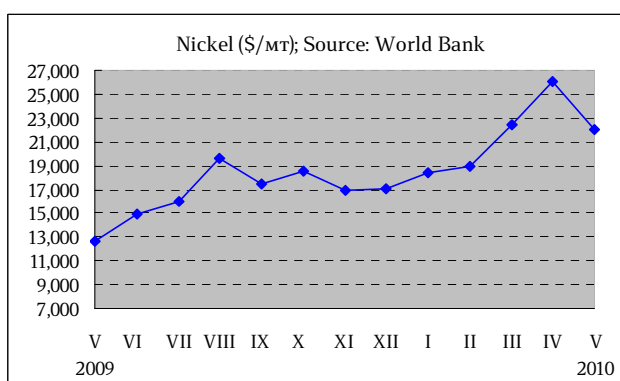


Value of the consumer basket of food and beverages for a four-member household in May 2010, calculated on the basis of retail prices, was Denar 12,378, and compared to the previous month, it was lower by 2.2%.

Retail price index in May 2010, in relation to May 2009, increased by 1.8%.

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

In May, oil price on world stock



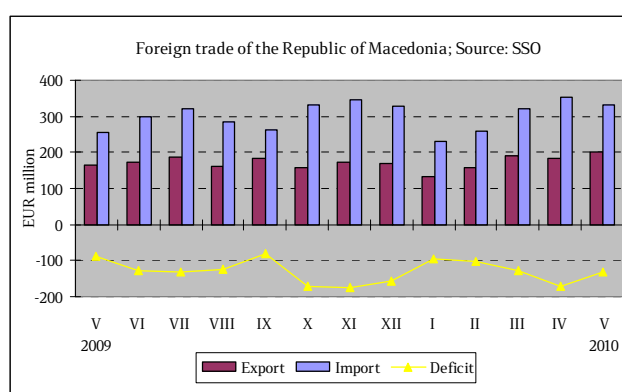
markets dropped by 10.3% compared to the previous month, reaching the price of US\$ 76.25 per barrel. Compared to May last year, oil price surged by 31.6%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, dropped by 15.5% on monthly basis, reaching US\$ 22,008 for a metric ton (\$/mt). Compared to May last year, nickel price was higher by 74.2%, while zinc price increased by 16.8%. In addition, prices of aluminum and copper increased by 11.9% and 11.7% respectively.

2. External Sector

2.1. In the first five months in 2010, total foreign trade (expressed in euros) increased by 8.9% in relation to the same period last year.

Thereby, physical output of export in this period surged by 6.9%, while its value reached EUR 865.8 million, being a significant increase by 20% compared to the first five months in 2009. At the same time, imported quantity of goods increased by 5.2%, and it amounted to EUR 1,494.6 million, being an increase by 3.4%.



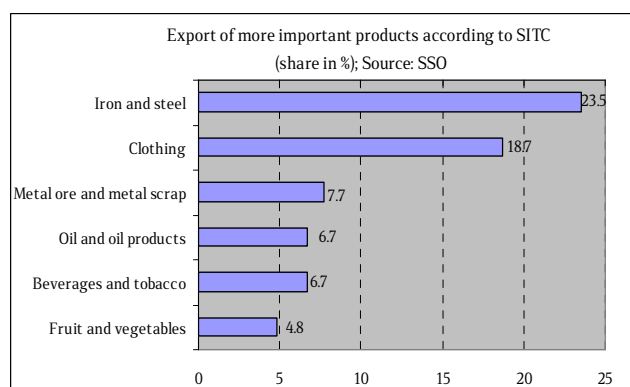
	I-V-2009	I-V-2010	Balance 2010-2009	% rate
.000T	227.9	283.0	55.1	24.2
EUR mil.	136.0	203.0	67.0	49.3
\$ mil.	178.9	272.0	93.1	52.0

	I-V-2009	I-V-2010	Balance 2010-2009	% rate
.000T	201.0	273.6	72.6	36.1
EUR mil.	80.8	115.0	34.2	42.3
\$ mil.	106.5	154.5	48.0	45.1

*)Previous data

*)Previous data

In conditions of such trends at import and export of goods, trade deficit in the period January-May 2010 amounted to EUR 628.8 million, narrowing by 13.2% on annual basis (EUR 96 million), as a result of further low growth of import by 3.4%, i.e. import decline by 3.8% and intensive export growth by 20%.



Analyzed from balances point of view, decline in negative trade balance was a result of combined effect of the reduced negative balance in trade with machines and transportation devices and energy sources, as well as the increased positive balance in trade with iron and steel and their products. Such trends led to higher level of coverage of import with export in the first five months, accounting for 57.9%, showing an annual increase by 8 p.p.

2.2. Main groups of products (according to SITC) having the biggest share in

export in this period were the following: iron and steel – 23.5%, clothing – 18.7%, metal ore and metal scrap – 7.7%, oil and oil products – 6.7%, beverages and tobacco – 6.6%, and fruit and vegetables – 4.8%. These six groups of products comprised 68% 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 183.2 million, 12.3%), road vehicles (EUR 119.2 million, 8%), iron and steel (EUR 115 million, 7.7%), textile yarns and similar (EUR 109.3 million, 7.3%), electrical machines and devices and spare parts (EUR 47.9 million, 3.2%), etc.

2.3. Analysed by regions, during the first five months in 2010, in conditions of significantly improved trade with the European Union (EU 27) by 15.2%, compared to the same period last year, share of trade with EU in the total external trade experienced an increase by 3 percentage points, accounting for 56.1%, whereby export of goods participated with 61.3% and share of import of goods was 53.2%. Export to the European Union increased significantly by 30.6%, while the import experienced increase by 6.8% compared to the same period in 2009.

Export of oil and oil products*)					Import of oil and oil products*)				
	I-V-2009	I-V-2010	Balance 2010-2009	% rate		I-V-2009	I-V-2010	Balance 2010-2009	% rate
.000T	132.9	119.8	-13.1	-9.9	.000T	599.0	426.7	-172.3	-28.8
EUR mil.	45.3	58.3	13.0	28.7	EUR mil.	156.7	183.3	26.6	17.0
\$ mil.	59.6	78.4	18.8	31.5	\$ mil.	205.4	247.5	42.1	20.5

*Previous data

*Previous data

In the period January-May 2010, 87.9% of the trade deficit of the country was realized in the trade with Russia, Great Britain, China, Serbia, Turkey, Greece, Italy, Ukraine, Romania and Slovenia, while it was adjusted with the surplus realized in the trade with Kosovo, Belgium, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, etc.

2.4. Observed by currency structure, 73.8% of the foreign trade was realized in euros, and compared to the same period last year, it dropped by 4.2 percentage

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

export	I-V 2009					I-V 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	855	606,684,593	61.3938	37,246,672,566	84.1	923	667,507,329	61.4668	41,029,539,490	77.5	60,822,736	10.0
USD	232	145,165,047	46.5420	6,756,271,617	15.2	239	261,953,442	45.5804	11,939,942,668	22.5	116,788,395	80.5
EUR+USD	1,087			44,002,944,183	99.3	1,162			52,969,482,158	100.0		
tot. export:	1,090			44,314,809,509	100.0	1,165			52,960,636,892	100.0		19.5

Source: SSO and NBRM

points. On export and import side, EURO accounted for 77.5% and 71.7% respectively, and in relation to the same period last year, decline was evidenced at export and import by 6.6 p.p. and 3.3 p.p. respectively. Such trend was due to growth of import from Great Britain, calculated in GBP.

3. Fiscal Sector

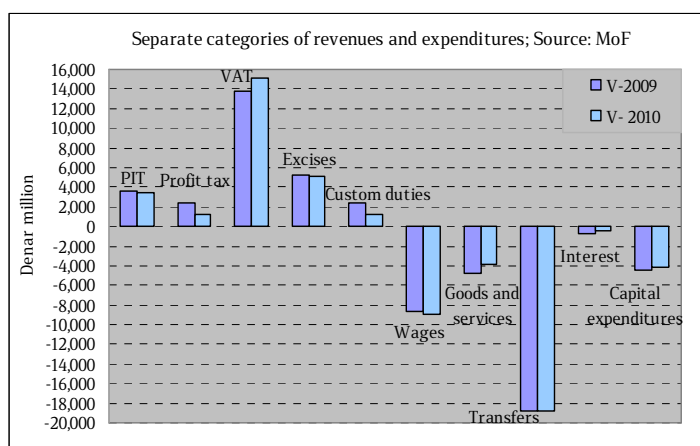
3.1. In the first five months in 2010, total central government budget revenues amount to Denar 30,773 million (7.2% of GDP), which was 8.2% decline compared to the same period last year.

Tax revenues in this period were realized in the amount of Denar 28,177 million, showing almost the same performance, i.e. it was lower by only 0.2% in relation to same period last year.

Share of VAT in total tax revenues in the first five months in 2010 was dominant and it amounted to 53.5%, while excises accounted for 18.1%, whereby revenues in the amount of Denar 20,166 million were realized on the basis of these two taxes, i.e. 71.6% or almost 3/4 of the total tax revenues (4.7% of GDP).

Analyzed by categories, VAT revenues registered record growth by 9.8%, while PIT revenues dropped by 1.6%, excises revenues by 2.0%, and the highest decline was registered at profit tax revenues by 47.9%. Customs revenues dropped by 11.0%, while non-tax revenues declined by 59% compared to the same quarter in 2009.

Capital revenues on the basis of sale of construction land and flats reached Denar 498 million.



Social contributions during this period were realized in the amount of Denar 15,323 million (pension insurance contributions – Denar 10,382 million and health insurance contributions – Denar 4,276 million), being lower by 7.6% in relation to 2010 projections, i.e. 4.0% less compared to the same period last year.

3.2. In the period January - May 2010, total central budget expenditures amounted to Denar 36,186 million (8.4% of GDP), being by 3.4% less compared to the same period in 2009.

With respect to the structure of total realized expenditures, current expenditures (Denar 32,057 million) accounted for 88.6% and were lower by 2.7% compared to the same period last year, while capital expenditures participated with 11.4%.

Transfers (Denar 18,768 million) accounted for the most in the current expenditure items, followed by salaries and allowances (Denar 8,915 million). With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 24.6% and, compared to the same month in 2009, they increased by 2.8%.

Expenditures for goods and services reached the amount of Denar 3,896 million, i.e. significantly lower execution by 16.9% compared to 2009.

With regard to transfers, 0.4% 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 51.9% (4.4% of GDP). Such results were 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 5,899 million or by Denar 174 million lower (2.9% drop).

Interest was collected in the amount of Denar 478 million, being by 36.6% less compared to the same period in 2009.

During the analysed period, capital expenditures amounted to Denar 4,129 million, being a decrease by 7.9% compared to the same period in 2009, accounting for 1.0% of GDP.

3.3. Thus, in the first five months in 2010, central government budget deficit reached the amount of Denar 5,413 million (1.3% of GDP), while consolidated budget deficit amounted to Denar 5,668 million or 1.3% of GDP.

4. Monetary Sector

4.1. In May 2010, primary money¹ increased by 28.4% on annual basis (23.2% increase in April), in conditions of growth of total liquid assets of the banks by 47.1% and increase of the demand for ready money in circulation² by 8.4%.

On monthly basis, primary money grew by 1.0%, fully due to the higher demand for ready money in circulation by 3.6%, while total liquid assets of the banks dropped by 0.7%.

In May 2010, National Bank of Macedonia adopted decision to reduce interest rate on central bank bills by 0.5 p.p., from 6.5% to 6%. At the same time, NBRM reduced interest rate on collateral loans from 8% to 7.5%

4.2. Total deposit potential of non-government sector³ in May registered intensified growth by 2.1% (2.0% growth in April) on monthly basis, mainly as a result of increase of Denar deposits. On monthly basis, Denar deposits grew by 3.5%, while foreign currency deposits were higher by 0.9%. From sectoral point of view, deposits of private enterprises contributed the most

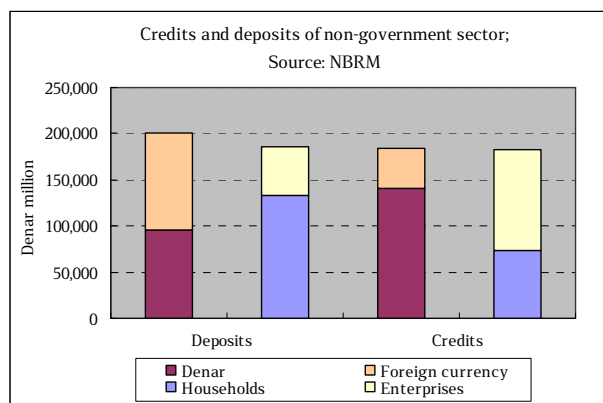
¹ Primary money is calculated as a sum of ready money in circulation (including cash in hand), the denar and foreign currency reserve requirement and the surplus of liquid assets over the reserve requirement (in denars).

² Including cash in hand of the banks.

³ Starting January 2009, deposits include calculated interest.

to the total monthly growth of deposits, increasing by even 6.4%. On the other hand, growth rate of deposits of households declined by 0.9% compared to April.

On annual basis, deposits surged by 15.7% (compared to 12.3% in April 2010). Thereby, Denar deposits increased by 15.6%, while foreign currency deposits increased by 15.9%. From sectoral point of view, deposits of enterprises in the private sector increased, on annual basis, for the first time since January 2009, reaching 9.7% in May, while savings of households surged by 19.3%.



4.3. In May 2010, total credits to the private sector experienced slower growth by 0.6% on monthly basis. Thereby, foreign currency deposits contributed the most to the growth, which, compared to the previous month, grew by 2.1%, while Denar credits increased by only 0.1%. From sectoral point of view, credits to households showed intensified growth by 1% on monthly basis, while credits to enterprises grew by 0.2%.

Annually, total credits to private sector experienced intensified growth by 4.2% (compared to 3.3% in April), whereby, share of Denar credits, although still dominant, declined for four months now. In fact, they increased by 2.9% on annual basis, while foreign currency credits increased their share as a result of their high growth of 8.7%. From sectoral point of view, credits to private enterprises increased by 6% on annual level, while credits to households grew by 1.9%.

4.4. In May 2010, certain improvement of interest requirement for bank credits could be observed. In fact, average weighted interest rate on Denar credits was 9.6%, being lower by 0.2 p.p. compared to the previous month. Average interest rate on foreign currency credits remained unchanged several months in a row, amounting to 7.3%. Annually, average interest rate on Denar credits dropped by 0.5 p.p., while interest rate on foreign currency credits declined by 0.2 p.p..

When analyzing the banks on the basis of their size, large banks experienced the highest decline of interest rates on Denar credits by 0.2 p.p. on monthly basis, while interest rate at smaller banks remained at the same level. Hence, in May, interest rate on Denar credits at the large banks was 9.3%, while the one for the medium and small banks was 10.3% and 10.9% respectively.

As regards interest on credit balance, it dropped on monthly basis. In May 2010, interest on credit balance on Denar deposits was lower by 0.3 percentage point compared to the previous month, amounting to 7.1%, and it surged by 0.5 percentage point on annual basis. Average interest rate on foreign currency

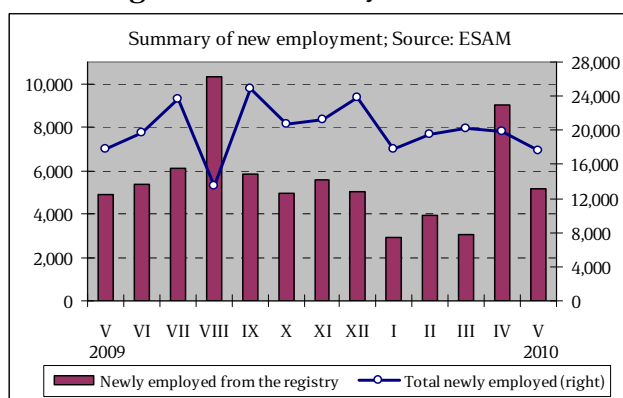
credits was lower by 0.1 p.p. on monthly basis, being at the level of 3.1% on annual basis.

4.5. Gross foreign exchange reserves amounted to EUR 1,682.97 million in May 2010, and compared to December 2009, they grew by EUR 85.3 million.

5. Social Sector

5.1. In the period January-may 2010, Employment Agency of the Republic of Macedonia registered total of 95,097 new employments. In fact, 38.7% 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 declined by 2.8%.

In May, 17,563 new employments were registered, whereby 29.5% of the new employments was from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 10,944 persons in May, 45.7% out of which were new employments. 6,294 persons were registered as inflow to the Agency, 51.5% of which was persons whose employment was terminated. **As a result, unemployment reduced by 4,745 persons, i.e. by 1.4 compared to the previous month. There were 334,477 unemployed persons in May 2010.**

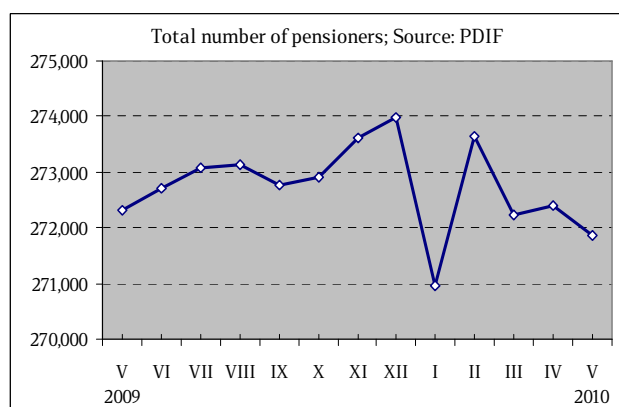


Number of unemployed persons, compared to May 2009, declined by 4.2%.

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 7.6% 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 49.9% of the unemployed persons sought job from one to seven years, while 30.1% sought job for eight and more years.

5.2. In May 2010, Pension and Disability Insurance Fund registered 271,860 pensioners, being a decline by 0.2% compared to the same month in 2009. Number of pension beneficiaries dropped by 543 persons in relation to the previous month.



In May, Denar 2,737.11 million was spent for payment of pensions, being 52.3% of the total social transfers in the state Budget.

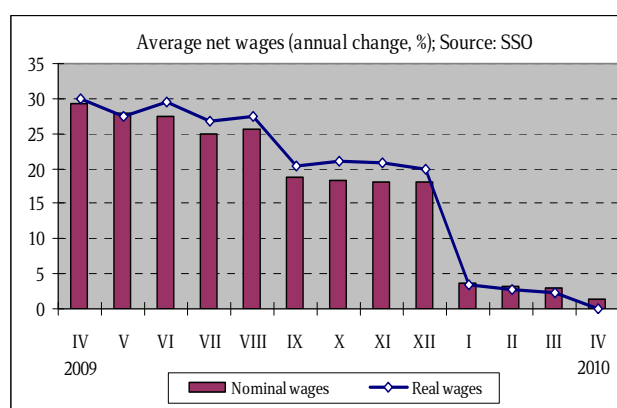
Average pension in May 2010 amounted to Denar 10,145, being an increase by 2.7% on annual level. Ratio between the average pension and the average paid salary in April 2010 (the most recent available data) amounted to 49.4%.

5.3. Number of social welfare beneficiaries in April 2010 (most recent available data) was 50,730 households, which was a decline by 8,152 beneficiaries compared to previous month.

Thereby, around Denar 127 million was spent for payment of social welfare, i.e. 48.9% of social welfare payments under all bases. Around Denar 101.7 million was spent on the basis of third person care for 22,086 persons in April, i.e. 39.2% of payments under all bases. In this month, 5,574 persons were registered as beneficiaries of permanent pecuniary allowance, for which around Denar 22.2 million was spent, while 5,714 persons used healthcare for which Denar 8.5 million were spent.

These welfare-related payments accounted for 4.7% of the total social transfers realized in April.

5.4. In the period January-April 2010 (the most recent available data), compared to the same period in 2009, there was an increase of the average nominal and real monthly net salary by 2.8% and 2.1% respectively.



In April 2010, average net salary per employee amounted to Denar 20,449. In April 2010, compared to the same month in 2009, there was an increase of the average nominal net salary by 1.4%, while average real net salary remained the same. Percentage of employees who did not receive salary in April 2010 was 3.6%, being by 0.3 p.p. higher in relation to the same period in 2009.