



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

SHORT-TERM ECONOMIC TRENDS

June 2010



Skopje, August 2010

SUMMARY
OF THE MOST IMPORTANT SHORT-TERM ECONOMIC
DEVELOPMENTS

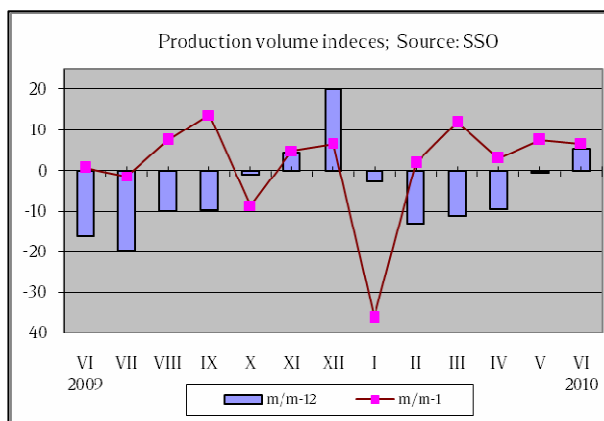
June 2010

- Increase of the index of industrial production in June 2010 by 5.4% on annual level, being the first annual increase of industrial production since the beginning of 2010;
- More evident annual increase of general price level in June by 1.8%, and 0.2% monthly inflation;
- Increase in the physical output of export in the first half of this year by 7.55, being significant valuable nominal increase by 22% compared to the first half of 2009. Increase in imported quantities of goods was 6.6%, being valuable nominal increase by 5.9%;
- Underperformance of total central budget revenues by 4.4% (8.7% of GDP) and decline of total expenditures by 4.1% (9.9% of GDP) in the period January - June 2010 compared to the same period last year;
- Further intensification of growth dynamics of total credits to the private sector in June, with 5.8% rate on annual basis, by simultaneous increase of total deposit potential of banks by 15.2%;
- Reduction of the number of registered unemployed persons in June by 3,900 persons compared to the previous month, whereby it amounted to 330,556 persons.

1. Real Sector

1.1. Index of industrial production in June 2010 increased by 5.4% compared to the same month last year, being the first increase of industrial production on annual basis since the beginning of 2010.

Analyzed by sectors, electricity, gas and water supply sector continued to register high growth rates, whereby growth was 49.7% in June 2010. Ore and stone extraction sector also showed high growth of 19.9%, while processing industry retained the same level from last year.



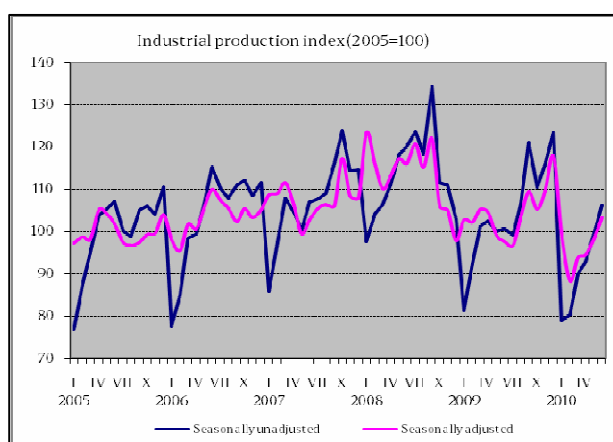
As for processing industry, positive annual growth was seen at 40% of the branches, whereby growth was evidenced in one, out of three branches with two-digit share in the industrial production. Thus, production of base metals also increased by 16.2%, while production of food products and production of clothing declined by 2.5 % and 5.7% respectively.

Electricity, gas and water supply contributed the most to the annual growth of industrial production (6.1 percentage points-p.p.), while production of electrical machines and devices (-1.9 p.p.) had the highest negative contribution.

Index of industrial production in June 2010, compared to the previous month registered positive growth of 6.6%, whereby ore and stone extraction sector increased by 8.3%, processing industry grew by 8.8%, while electricity supply sector dropped by 5.7% on monthly level.

De-seasoned monthly growth of industrial production in June 2010 was 5%, i.e. if seasonal component is excluded, growth was by 1.6% percentage points lower.

Index of industrial production in the first half of 2010, compared to the same period last year, dropped by 5.3% on cumulative basis.



According to the assessment of enterprise's managers, economic situation present in the enterprises and current state of delivery-to-production in June 2010 were more favourable compared to the previous month. Average utilization of capacities of business entities in June 2010 compared to the previous month increased, amounting to 59.5% of the regular utilization.

According to the managers, following factors limited the most the production volume in June 2010: insufficient foreign demand – 26.3%, insufficient domestic demand – 17.4%, financial problems – 12.3% and uncertain economic surrounding – 9.7%.

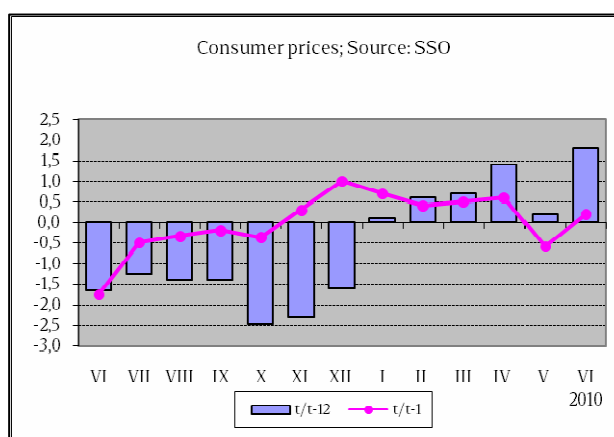
According to the report of the State Statistical Office, total number of workers in the industry in June 2010, compared to May 2010 decreased by 5.2%, being lower decline rate in the number of workers than in April, when it was 6.5%.

Sector analysis showed lower decline rate in the number of workers in the ore and stone extraction sector, whereby it reduced to 2.3%. Lower decline rate was also registered in the processing industry, accounting for -5.9%. As for supply of electricity sector, number of workers also declined, amounting to 0.5%. In general, the highest annual decline was registered in the processing industry, while the decline was the smallest in the electricity, gas and water supply sector.

Number of industrial workers in the first six months of 2010 declined by 6.8% on cumulative basis, being slight lower decline rate (in the period January-May it was 7.1%). Decline rate in the ore and stone extraction sector was 6.2%, 7.4% in the processing industry and 1.9% in the supply of electricity sector.

1.2. In June 2010, prices of personal consumption goods, measured through the CPI index, increased by 1.8% compared to the same month last year.

Increase of general price level was mostly due to increase of prices in the housing category by 4.6%, due to increase of electricity prices by 9.8%. Similar growth was also noticed in the means of transport and service category, where prices were higher by 4.5%, due to the increase of prices of liquid fuels and oils by 16.5%. Increase of prices was also registered in the categories culture and entertainment by 1.2%, clothing and footwear by 1%, and food by 0.9%, while prices in tobacco and beverages category remained the same. Reduction of prices was registered in the categories hygiene and health by 0.6% and administrative and financial services by 6.9%.



CPI index in June 2010, compared to May 2010, was higher by 0.2%.

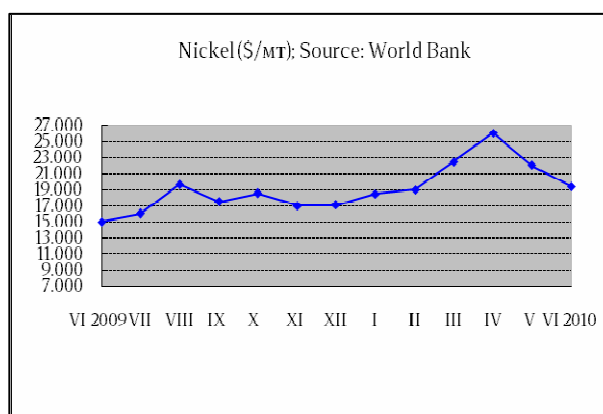
Value of the consumer basket of food and beverages for a four-member household in June 2010, calculated on the basis of retail prices, was Denar 12,170, and compared to the previous month, it was lower by 1.7%.

Retail price index in June 2010, in relation to June 2009, increased by 2.5%.

1.3. In June 2010, global stock markets showed monthly decrease of prices of metals. Oil price also declined, while natural gas price increased.

In June, oil price on global stock markets dropped by 1.8% compared to the previous month, reaching the price of US\$ 74.84 per barrel. Compared to June last year, oil price surged by 9.1%.

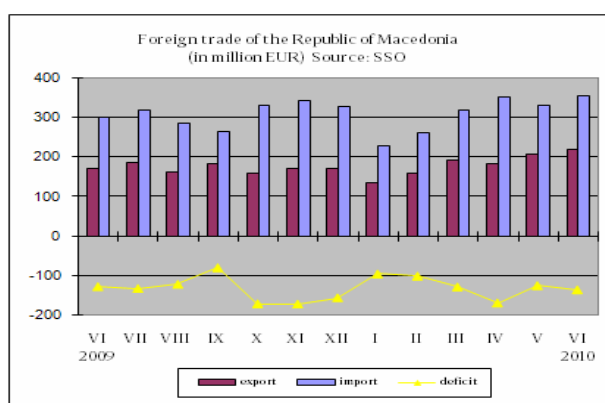
Regarding metal products, price of nickel, as a product having high share in the Macedonian export, dropped by 11.9% on monthly basis, reaching US\$ 19.389 for a metric ton (\$/mt). However, compared to June last year, nickel price was higher by 39.6%. Prices of precious metals increased on monthly basis, gold out of which registered the highest increase by 2.5%, while prices of other metals and minerals dropped. Zinc price, lead price and aluminum price dropped by 11.5%, 9.5% and 5.3% respectively and similar.



2. External Sector

2.1. In the first half of 2010, total foreign trade (expressed in euros) surged by 11.3% in relation to the same period last year.

Thereby, physical output of export in this period increased by 7.5%, while its value reached EUR 1,090.4 million, being a significant increase by 22% compared to the first four half of 2009.



Imported quantity of goods increased by 6.6%, and it amounted to EUR 1,848.7 million, being an increase by 5.9%.

Export of oil and oil products*)				
	1-VI-2009	1-VI-2010	Balance 2010-2009	% rate
.000T	159,3	144,7	-14,6	-9,2
EUR mil.	56,4	71,3	14,9	26,4
\$ mil.	75,3	94,3	19,0	25,2

*Previous data

Import of oil and oil products*)				
	1-VI-2009	1-VI-2010	Balance 2010-2009	% rate
.000T	694,8	651,7	-43,1	-6,2
EUR mil.	190,9	235,2	44,3	23,2
\$ mil.	253,3	310,8	57,5	22,7

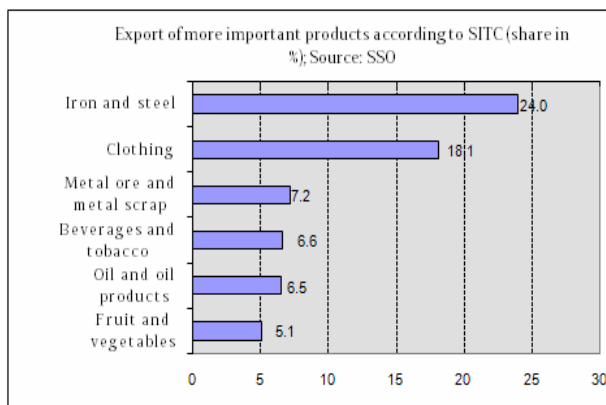
*Previous data

In conditions of such trends at import and export of goods, trade deficit in the first half of this year amounted to EUR 759 million, narrowing by 11 % on annual basis (EUR 94 million), as a result of further slight import growth (5.9%) and intensive export growth (22%). 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 transport devices, other transport equipment, operating machines and devices, industrial machines and spare parts and food products, 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 six months, accounting for 58.9%, showing an annual increase by 7.8 p.p..

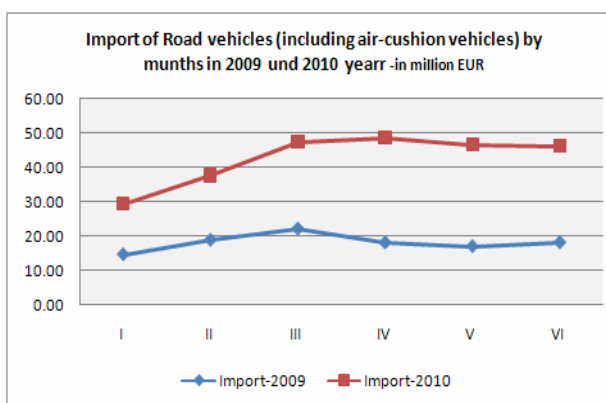
2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following:

iron and steel – 24%, clothing – 18.1%, metal ore and metal scrap – 7.2%, beverages and tobacco – 6.6%, oil and oil products – 6.5%, and fruit and vegetables – 5.1%. These six groups of products comprised 67,5% of the total export of the country.



The following participated the most in the cumulative import of goods in the first half of 2010: oil and oil products (EUR 190.9 million, 12.7%), road vehicles (EUR 147.7 million, 8%), textile yarns and similar (EUR 141.1 million, 7.6%), iron and steel (EUR 135.8 million, 7.3%), electrical machines, devices and spare parts (EUR 60 million, 3.2%), etc.

2.3. Analyzed by regions, in the first half of 2010, in conditions of significant increase of trade with the European Union (EU 27), in relation to the same period last year by 17.1%, share of trade with EU in the total foreign trade experienced an increase by 2.7 percentage points, accounting for 55.9%, whereby export of goods participated with 61.6% and share of import of goods was 52.6%. Export to the European Union increased significantly by 35.3%, while import experienced increase by 7.2% compared to the same period in 2009.



In the period January-June in 2010, 86.8% of the trade deficit of the country was realized in the trade with Russia, China, Turkey, Great Britain, Serbia, 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.

Export of iron and steel*)				
	I-VI-2009	I-VI-2010	Balance 2010-2009	% rate
000T	282,4	347,1	64,7	22,9
EUR mil.	167,8	261,3	93,5	55,7
\$ mil.	223,4	343,1	119,7	53,6

*)Previous data

Import of iron and steel*)				
	I-VI-2009	I-VI-2010	Balance 2010-2009	% rate
000T	234,2	313,2	79,0	33,7
EUR mil.	93,4	135,8	42,4	45,4
\$ mil.	124,2	179,9	55,7	44,8

*)Previous data

2.4. Observed by currency structure, 74% of the foreign trade was realized in euros, and compared to the same period last year, it dropped by 4,2 percentage

points. On export and import side, euro accounted for 77.5% and 72% respectively, and in relation to the same period last year, decline was evidenced at export and import by 6.3 p.p. and 3,4 p.p. respectively. Such trend was due to growth of import from Great Britain, calculated in GBP.

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

export currency	I-VI 2009					I-VI 2010					absolute change in currency value	relative change in currency value (in %)
	.000 T	export in currency	avrage Denar exch. Rate in relation to currencies	export in denar	structure in %	.000 T	export in curency	avrage Denar exch. Rate in relation to currencies	export in denar	structure in %		
EUR	1.081	748.690.090	61,3724	45.948.907.680	83,8	1.177	840.418.246	61,4744	51.664.207.422	77,5	91.728.156	12,3
USD	282	185.868.798	46,0728	8.563.495.956	15,6	286	322.800.821	46,3760	14.970.210.875	22,5	136.932.023	73,7
EUR+USD	1.363			54.512.403.636	99,4	1.463			66.634.418.297	100,0		
tot. export:	1.366			54.861.969.433	100,0	1.467			66.664.418.369	100,0		21,5

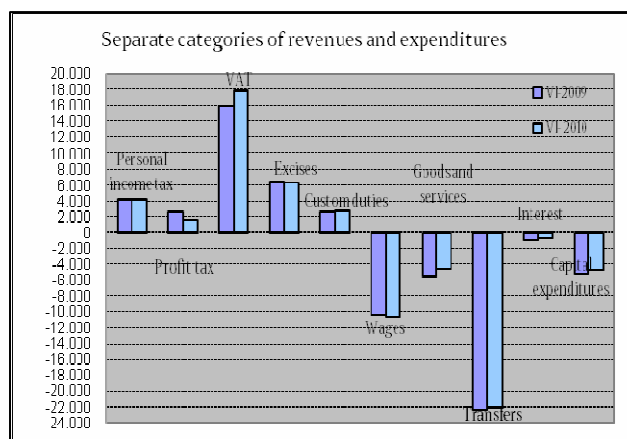
Source: SSO and NBRM

3. Fiscal Sector

3.1. During the first half-term in 2010, total central budget revenues reached the amount of Denar 37,255 million (8.7% of GDP), dropping by 4.4% in relation to the same period last year.

Tax revenues in this period were realized in the amount of Denar 34,192 million, being higher by 2.9% for the first time this year, in relation to same period last year.

Share of VAT in total tax revenues in the first six months in 2010 was dominant and it amounted to 52.5%, while excises accounted for 18.5%, whereby revenues in the amount of Denar 24,275 million were realized on the basis of these two taxes, i.e. 71.0% or almost 3/4 of the total tax revenues (5.6% of GDP). Analyzed by



certain tax categories, revenues on the basis of personal income tax were realized in the same amount as in the same period in 2009. VAT revenues experienced record increase by 12.2%, collection of customs duties increased by 4.0%, while excise revenues dropped by 1.6% compared to the same period last year. Revenues on the basis of profit tax experienced the highest drop of 42.5% (decline was significant on the basis of monthly advance payments, since in 2009, advance payments in January and February were made on the profit realized in 2007 when it was taxed, while in 2010, as a result of amendments to the regulations, it is paid only on non-exempted expenditures determined in the

2008 tax balance). Non-tax revenues decreased by 54.7% compared to the same half-term last year.

Capital revenues realized on the basis of sale of construction land and flats amounted to Denar 584 million.

Social contributions during this period were realized in the amount of Denar 18,518 million (pension insurance contributions participated with 67.8%, share of health insurance contributions was 27.9%, while unemployment contributions accounted for 4.3%), being lower by 7.2% than 2010 estimations, i.e. by 2.1% less compared to the previous year.

3.2. In the period January - June 2010, total central budget expenditures amounted to Denar 42,749 million (9.9% of GDP), being by 4.1% less compared to the same period in 2009.

With respect to the structure of total realized expenditures, current expenditures (Denar 38,069 million) accounted for 89.1% and were lower by 3.3% compared to the same period last year, while capital expenditures participated with 10.9%.

The biggest expenditure items were transfers (Denar 22,132 million), followed by salaries and allowances (Denar 10,680 million). With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 25% in this period and, compared to the same month last year, they increased by 2.2%.

Expenditures for goods and services reached the amount of Denar 4,515 million, i.e. significant underperformance by 18.4% compared to 2009.

Regarding transfers, 0.9% less funds were spent in this period compared to same period in 2009. 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 74 municipalities for financing the transferred competences (funds for payment of salaries and allowances to the employees in local public institutions, as well as 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 7,053 million or by Denar 229 million lower (3.1% drop).

Interest was collected in the amount of Denar 743 million, being by 28.9% less compared to the same period in 2009.

During the analyzed period, capital expenditures amounted to Denar 4,680 million, decreasing by 10% compared to the same period in 2009 (1.1 % of GDP).

3.3. Thus, in the first six months in 2010, central government budget deficit reached the amount of Denar 5,495 million (1.3% of GDP), while consolidated budget deficit amounted to Denar 6,070 million or 1.4% of GDP.

4. Monetary Sector

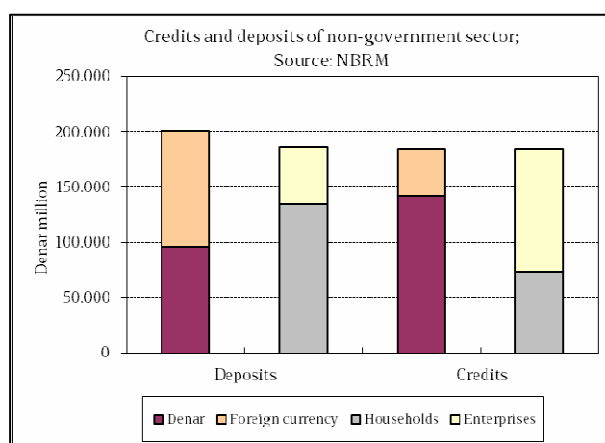
4.1. In June 2010, primary money¹ increased by 27.1% on annual basis (28.4% increase in May), in conditions of growth of total liquid assets of the banks by 41.3% and increase of the demand for ready money in circulation² by 9.8%.

On monthly basis, primary money increased by 3.8%, due to the increase of total liquid assets of the banks by 6.8% while demand for ready money dropped by 0.6%.

In June 2010, NBRM reached decision to reduce the interest rate on CB bills by 1 percentage point, from 6.0% to 5.0%. At the same time, NBRM also reduced the interest rate on credits granted overnight (Lombard credits) from 7.5% to 6.5%.

4.2. Total deposit potential of banks³ in June increased by 0.4% on monthly basis (increase by 2.1% in May), instigated by the increase of Denar deposits. In fact, Denar deposits increased by 1.1% on monthly basis, while foreign currency deposits were lower by 0.3%. From the point of view of sector structure, driving force of total monthly growth of deposits were deposits of households, increasing by 1%. On the other hand, deposits of private enterprises dropped by 1.3% compared to May.

On annual basis, deposits increased by 15.2% (compared to 15.7% in May 2010). Thereby, Denar deposits increased by 15.9%, while foreign currency deposits grew by 14.6%. From the point of view of sector structure, deposits of private enterprises continued their increase on annual basis, 7.6% (compared to 9.7% in May), while savings of households increased by 19.6%.



4.3. In June 2010, total credits to private sector increased by 0.9% on monthly basis. Foreign currency credits had dominant contribution to growth, which compared to last month were higher by 2.3%, while Denar credits were higher by 0.4%. From the point of view of sector structure, credits to households experienced intensified increase by 1.1%, as well as credits to enterprises increasing by 0.7% on monthly basis.

On annual basis, total credits to private sector continued to intensify the growth dynamics, realizing growth rate of 5.8% (compared to 4.2% in May). Denar credits realized growth by 3.7% on annual basis, while foreign currency

¹ Primary money is calculated as a sum of ready money in circulation (including cash in hand) reserve requirement in both denars and currencies and the surplus of liquid assets above the obligation for reserve requirement (in denars).

² It also includes cash in hand of banks.

³ Starting January 2009 deposits include calculated interest

credits increased their contribution as a result of the high growth by 13.1%. From the point of view of sector structure, credits to private enterprises in June registered strong annual increased by 7.9%, while credits to households increased by 2.8%.

4.4. In June 2010, there were no changes in the interest requirements of bank credits on monthly basis. In fact, average weighted interest rate on Denar credits remained at the same level in relation to the previous month, amounting to 9.6%. Average interest rate on foreign currency credits has not changed for several months already, amounting to 7.3%. On annual basis, average interest rate on Denar credits decreased by 0.5 p.p., while interest rate on foreign currency credits dropped by 0.3 p.p..

When analyzing the banks on the basis of their size, interest rate on Denar credits at large and small banks did not change, while as regards medium-sized banks it was lower by 0.1 p.p.. Thus, in June interest rate on Denar credits amounted to 9.3%, 10.2% and 10.9% at large, small and medium-sized banks respectively.

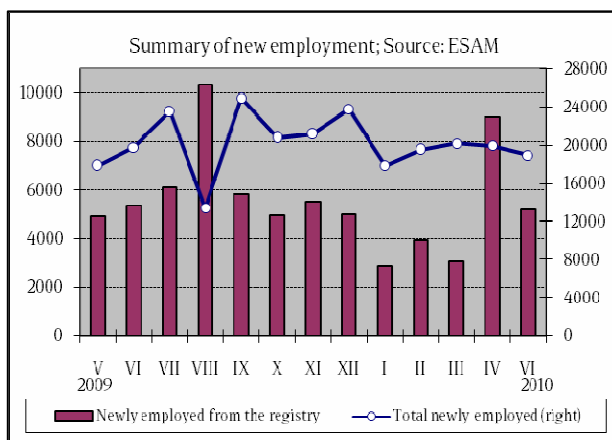
Interest on credit balance on Denar deposits in June 2010 was lower by 0.1 percentage points compared to the previous month, amounting to 7.0%, and it surged by 0.1 percentage points on annual basis. Average interest rate on foreign currency deposits amounted to 3.1%, remaining the same on monthly basis, while it was lower by 0.4 p.p.. on annual basis.

4.5. Gross foreign currency reserves amounted to EUR 1,708.7 million in June 2010, and compared to December 2009, they were higher by almost EUR 111 million.

5. Social Sector

5.1. In the period January-June 2010, Employment Agency of the Republic of Macedonia registered total of 114,040 new employments. In fact, 37.5% out of the total number of newly employed persons 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 3%.

In the course of June, 18,943 new employments were registered, 27.4% out of which were from the unemployed records. Outflow of persons from the Employment



Agency Registry amounted to 10,533 persons in June, 50.9% out of which were new employments. 6,612 persons were registered as inflow to the Agency, 50.9% of which was persons whose employment was terminated.

As a result, unemployment reduced by 3,921 persons, i.e. by 1.2% compared to the previous month. Thus, there were 330,556 unemployed persons in June 2010.

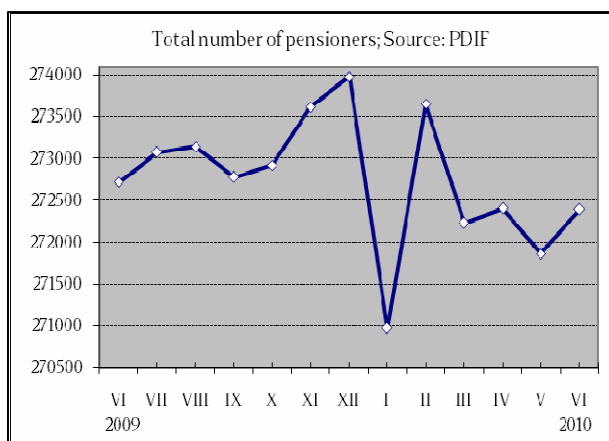
Number of unemployed persons, compared to the same month last year, declined by 4.9%.

Major percentage of the unemployed, i.e. 66.2%, came from urban areas (cities), whereby 57.6% were men. Analyzed by education structure, major part, i.e. 52.9% of the unemployed persons were unskilled or semi-skilled, while only 7.6% were with community college or higher education level. Observed by age, majority of unemployed or 58.5% 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 30.2% sought job for eight years and more.

5.2. In June 2010, Pension and Disability Insurance Fund registered 272,389 pensioners, declining by 0.1% compared to the same month last year. Number of pension beneficiaries increased by 529 persons in relation to the previous month.

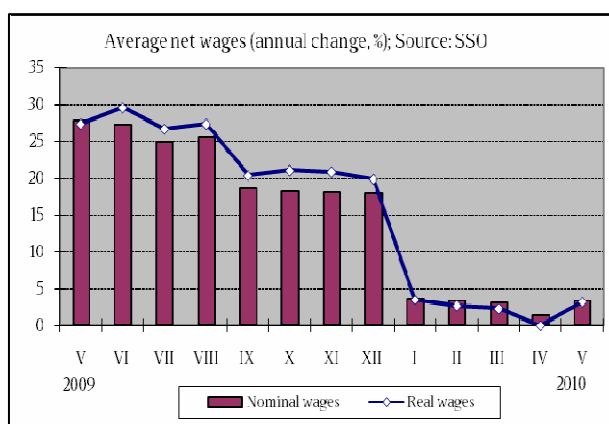
In June, Denar 2,737.51 million was spent for payment of pensions, being 52.4% of the total social transfers in the state Budget.

Average pension in June 2010 amounted to Denar 10,155, increasing by 2.8% on annual level. Ratio between average pension and average paid salary in May 2010 (the most recent available data) amounted to 48.8%.



5.4. In the period January-May 2010 (the most recent available data), compared to the same period in 2009, average monthly net salary increased by 2.9% in nominal terms, while real average salary was higher by 2.3%.

In May 2010, average net salary per employee amounted to Denar 20,798. In May 2010, compared to the same month last year, average monthly net salary increased by 3.4% in nominal terms, while real average salary was higher by 3.2%. Percentage of employees who did not receive salary in May 2010 was 4.4%, being by 0.6 p.p. higher in relation to the same period in 2009.



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