



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

SHORT-TERM ECONOMIC TRENDS

July 2010



Skopje, September 2010

SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

July 2010

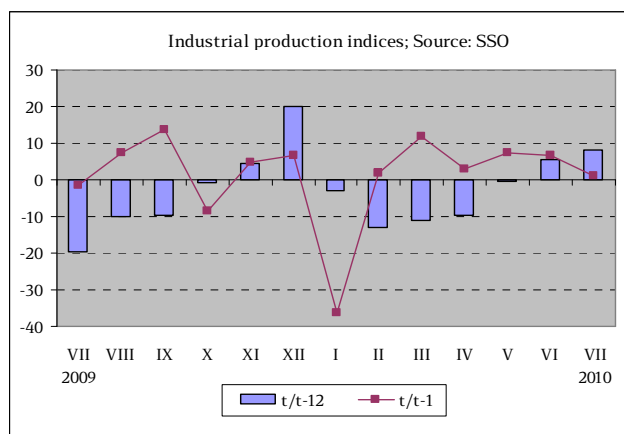
- Increase of the index of industrial production in July 2010 by 8.3% on annual level, being the highest increase of industrial production since the beginning of 2010.
- Annual increase of general price level by 1.5%, with -0.4% monthly inflation;
- Increase in the physical output of export in the period January-July 2010 by 7.5%, being significant valuable nominal increase by 22.5% compared to the same period last year. Increase in imported quantities of goods was 7.2%, being valuable nominal increase by 6.7%;
- Better performance of total central budget revenues by 2.4% (11% of GDP) and insignificant increase of total expenditures by 0.2% (12% of GDP) in the period January - July 2010 compared to the same period last year;
- Further intensification of growth dynamics of total credits to the private sector in July, with 6% rate on annual basis, by simultaneous increase of total deposit potential of banks by 14%;
- Reduction of the number of registered unemployed persons in July by 2,475 persons compared to the previous month, whereby it amounted to 328,081 persons.

1. Real Sector

1.1. Index of industrial production in July 2010 increased by 8.3% compared to the same month last year, being the highest increase of industrial production on annual basis since the beginning of 2010 and continuation of the upward trend of industrial production growth.

Analyzed by sectors, electricity, gas and water supply sector continued to register high growth rates, whereby growth was 35.1% in July 2010. Ore and stone extraction sector also showed high growth of 11.2%, while processing industry increased by 5.3%.

As for the processing industry, positive annual growth was seen at 55% of the branches, whereby growth was evidenced in all three branches with the two-digit share in the industrial production. Thus, production of base metals increased by 20.9%, production of clothing by 26 % and production of food products and beverages increased by only 0.1%.

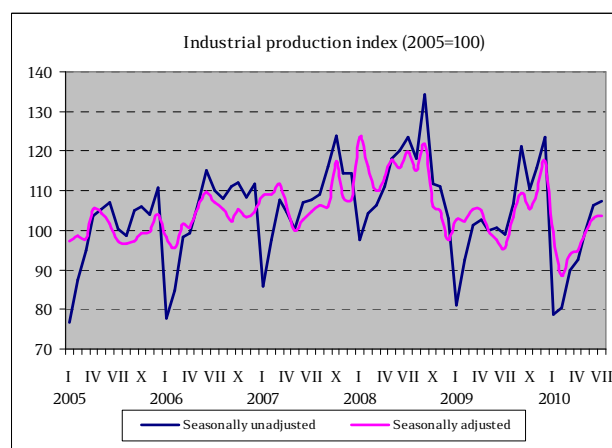


Electricity, gas and water supply contributed the most to the annual growth of industrial production (4.3 percentage points), while production of chemicals and chemical products had the highest negative contribution (0.6 percentage points).

Index of industrial production in July 2010, compared to the previous month, experienced positive growth of 1.2%.

De-seasoned monthly increase of industrial production was 0.6% in July 2010.

Index of industrial production in the period January-July 2010, compared to the same period last year, dropped by 3.3% on cumulative basis.



According to the assessment of enterprise managers, economic situation present in the enterprises in July 2010 was more favourable compared to the previous month. Assessment for current state of delivery-to-production is less favourable. Production volume of business entities in July continued to increase compared to previous month, while the expectations for the production volume in the next three months are pessimistic, and the expectations for the number of employees are more optimistic. Average utilization of capacities of business entities in July 2010 compared to the previous month was at the same level, amounting to 59.6% of the regular utilization.

According to the managers, following factors limited the most the production volume in June 2010: insufficient foreign demand – 22.4%, insufficient domestic demand – 17.6%, financial problems – 12.7% and uncertain economic surrounding – 10.1%.

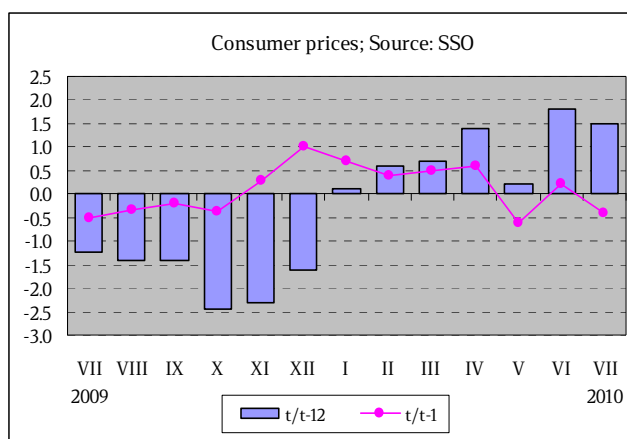
According to the announcement by the State Statistical Office, total number of workers in the industry in July 2010, compared to July 2009, dropped by 4.1%.

Sector analysis showed lower decline rate in the number of workers in the ore and stone extraction sector, whereby it reduced to -1.5%. Lower decline rate was also registered in the processing industry, accounting for -4.7%. As for supply of electricity sector, number of workers also declined, amounting to -1.1%. In general, the highest annual decline has been still registered in the processing industry, while the decline was again the smallest in the electricity, gas and water supply sector.

Number of industrial workers in the first seven months of 2010 declined by 6.4% on cumulative basis, being slight lower decline rate (in the period January-May, it was -6.8%). Decline registered in the ore and stone extraction sector was 5.5%, 7% in the processing industry while the decline in the electricity, gas and water supply sector accounted for 1.8%.

1.2. In July 2010, prices of personal consumption goods, measured through the CPI index, increased by 1.5% compared to the same month in 2009.

Increase of general price level was mostly due to increase of prices in the housing category by 4.7%, due to increase of heating and lighting prices by 8.2%. Similar growth was also noticed in the means of transport and services category, where prices were higher by 3.6%. Price increase was also noticed in the categories culture and entertainment by 2.1%, clothing and footwear by 1%, restaurants and hotels by 0.6% and food by 0.2%. Decline of prices was registered at the tobacco and beverages category by 0.2% and hygiene and health category by 0.1%.



CPI index in July 2010, compared to June 2010, was lower by 0.4%.

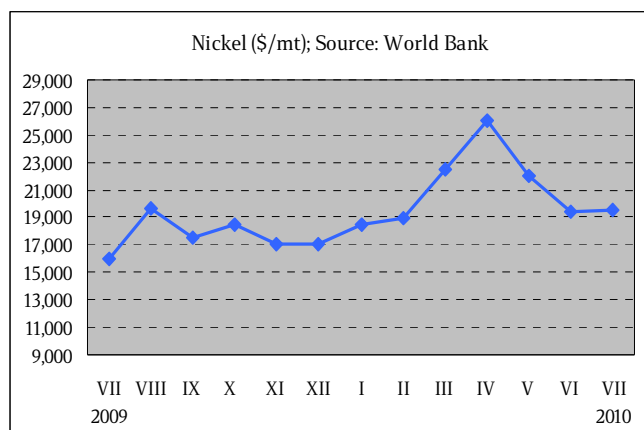
Value of the consumer basket of food and beverages for a four-member household in July 2010, calculated on the basis of retail prices, was Denar 11,892, and compared to the previous month, it was lower by 2.3%.

Retail price index in July 2010, in relation to July 2009, increased by 2.2%.

1.3. In July 2010, world stock markets experienced monthly increase of prices of metals, while price of natural gas and oil declined.

In July, oil price on world stock markets dropped by 0.2% compared to the previous month, reaching the price of US\$ 74.74 per barrel. Compared to July 2009, oil price surged by 15.1%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 0.7% on monthly basis, reaching US\$ 19.518 for a metric ton (\$/mt). However, compared to July last year, nickel price was higher by 21.1%. Price increase on monthly basis was noticed at metals; zinc by 5.8%, copper by 3.6% and aluminum by 3.0%, while gold price dropped by 3.2%.

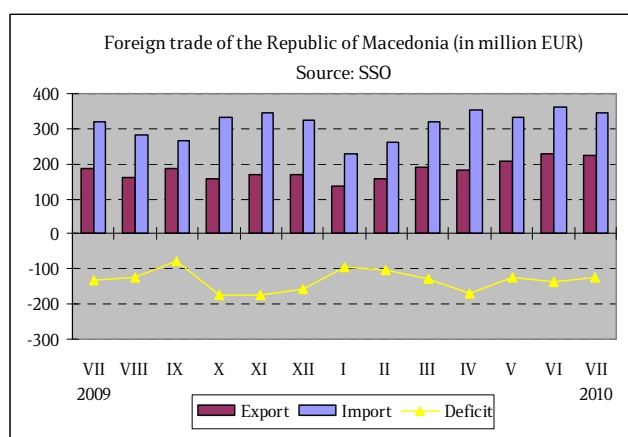


2. External Sector

2.1. In the period January-July 2010, total foreign trade (expressed in euros) surged by 12.1% in relation to the same period last year.

Thereby, physical output of export increased by 7.5%, while its value reached EUR 1,323.7 million, being a significant increase by 22.5% compared to the same period in 2009. Imported quantity of goods increased by 7.2%, and it amounted to EUR 2,203.8 million, being an increase by 6.7%.

In conditions of such trends, trade deficit realized by the end of July amounted to EUR 881 million, narrowing by 10.6 % on annual basis (EUR 105 million), as a result of further slight import growth (6.7%) and intensive export growth (22.5%). 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 seven months, accounting for 60%, showing an annual increase by 7.8 p.p.



Export of oil and oil products*)				
	I-VII-2009	I-VII-2010	Balance 2010-2009	% rate
.000T	195.8	178.5	-17.3	-8.8
EUR mil.	71.4	89.1	17.7	24.8
\$ mil.	96.5	117.8	21.3	22.1

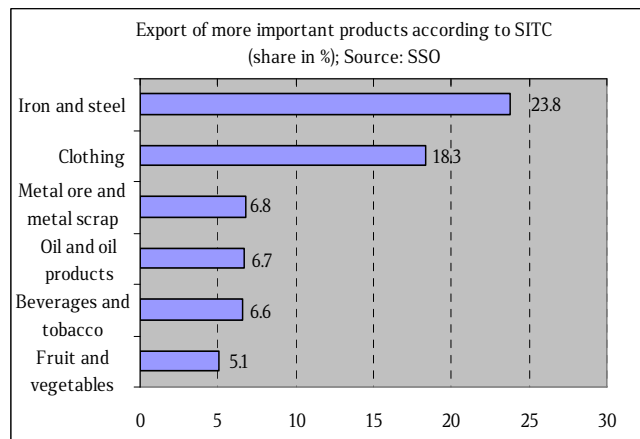
*Previous data

Import of oil and oil products*)				
	I-VII-2009	I-VII-2010	Balance 2010-2009	% rate
.000T	813.8	659.7	-154.1	-18.9
EUR mil.	240.4	283.5	43.1	17.9
\$ mil.	322.9	371.6	48.7	15.1

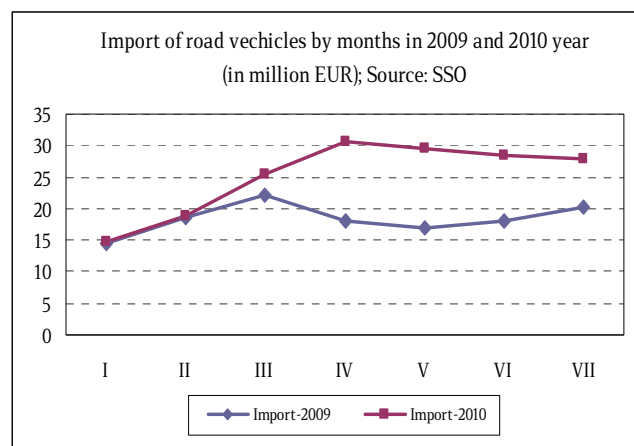
*Previous data

2.2. Main groups of goods (according to SITC) having the biggest share in export in the first seven months of 2010 were the following: iron and steel – 23.8%, clothing – 18.3%, metal ore and metal scrap – 6.8%, oil and oil products – 6.7%, beverages and tobacco – 6.6%, and fruit and vegetables – 5.1%. These six groups of products comprised 67.4% of the total export in the country.

The following participated the most in the import of goods in the first seven months on cumulative basis: oil and oil products (EUR 283.5 million, 12.9%), road vehicles (EUR 175.7 million, 8%), textile yarns and similar (EUR 168.1 million, 7.6%), iron and steel (EUR 151.8 million, 6.9%), electrical machines, devices and spare parts (EUR 71.7 million, 3.2%), etc.



2.3. Analyzed by regions, in the period January-July 2010, in conditions of significant increase of trade with the European Union (EU 27), in relation to the same period in 2009 by 17.4%, share of trade with EU in the total foreign trade experienced an increase by 2.5 percentage points, accounting for 56.2%, whereby export of goods participated with 61.8% and share of import of goods was 52.8%. Export to the European Union increased significantly by 34.2%, while import increased by 7.2% compared to the same period in 2009.



In the period January-July 2010, 86% of the trade deficit of the country was realized in the trade with Russia, China, Turkey, Great Britain, Serbia, Greece, Italy, Slovenia, Ukraine and Romania and 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*)					Import of iron and steel*)				
	I-VII-2009	I-VII-2010	Balance 2010-2009	% rate		I-VII-2009	I-VII-2010	Balance 2010-2009	% rate
.000T	337.4	411.2	73.8	21.9	.000T	284.7	340.9	56.2	19.7
EUR mil.	199.7	315.2	115.5	57.8	EUR mil.	112.7	151.8	39.1	34.7
\$ mil.	268.3	411.8	143.5	53.5	\$ mil.	151.4	200.3	48.9	32.3

*)Previous data

*)Previous data

2.4. Observed by currency structure, 74.5% of the foreign trade in the first seven months in 2010 was realized in euros, and compared to the same period last year, it dropped by 3,6 percentage points. On export and import side, euro accounted for 77.3% and 71.8% respectively, and in relation to the same period last year, decline was evidenced at export and import by 6.3 p.p. and 3.6 p.p. respectively.

Foreign trade of the Republic of Macedonia (by currency); calculations: MoF												
export	I-VII 2009					I-VII 2010					absolute change in currency value	relative change in currency value (in %)
currency	.000T	export in currency	avrage Denar exch. Rate in relation to currencies	export in denar	structure in %	.000 T	export in currency	avrage Denar exch. Rate in relation to currencies	export in denar	structure in %		
EUR	1,311	899,703,498	61.3456	55,192,850,907	83.3	1,454	1,020,988,236	61.4806	62,770,969,342	77.3	121,284,738	13.5
USD	343	234,493,536	45.6917	10,714,408,299	16.2	353	389,447,971	46.6496	18,167,592,068	22.4	154,954,435	66.1
EUR+USD	1,654			65,907,259,206	99.5	1,807			80,938,561,410	99.7		
tot. export:	1,657			66,269,044,263	100.0	1,811			81,182,735,922	100.0		22.5

Source: SSO and NBRM

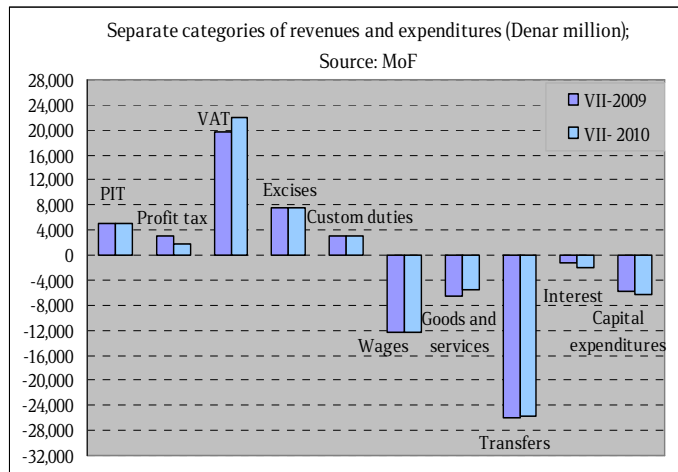
3. Fiscal Sector

3.1. During the first seven months in 2010, total central budget revenues reached the amount of Denar 47,293 million (11.0% of GDP), increasing by 2.4% in relation to the same period last year.

Tax revenues in this period were realized in the amount of Denar 41,095 million, being higher by 2.7% for the second time this year, in relation to same period last year.

Share of VAT in total tax revenues in the first seven months in 2010 was dominant and it amounted to 53.5%, while excises accounted for 18.5%, whereby revenues in the amount of Denar 29,582 million were realized on the basis of these two taxes, i.e. almost 3/4 of the total tax revenues (6.9% 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 growth of 12.0%, while excises dropped by 1.3%. Revenues on the basis of profit tax experienced the highest drop of 43.7% (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). Revenues on the basis of customs duties slightly increased by 0.3%, non-tax revenues increased by 0.8% compared to the same period last year, being almost twice the amount of the cumulative amount last month, mainly as a result of Telecom dividend, amounting to Denar 2,503 million.

Capital revenues realized on the basis of sale of construction land and flats amounted to Denar 647 million, decreasing by 1.2%.

Social contributions were realized in the amount of Denar 22,046 million, being lower by 0.2% of the projections in 2010, i.e. decrease by 1.5% compared to last year.

3.2. In the period January-July 2010, total central budget expenditures amounted to Denar 51,682 (12.0% of GDP), being almost at the same level as in 2009, i.e. insignificant increase by 0.2%.

With respect to the structure of total realized expenditures, current expenditures accounted for 88.0% and were lower by 0.5% compared to the same period in 2009, while capital expenditures participated with 12.0%.

Transfers (Denar 25,674 million) accounted for the most in the current expenditure items, followed by salaries and allowances (Denar 12,445 million). With respect to total central budget expenditures, expenditures related to wages and salaries and allowances accounted for 24.1% and, compared to the same month last year, they increased by 1.8%.

Expenditures for goods and services reached the amount of Denar 5,423 million, i.e. significant underperformance by 16.4% compared to 2009.

Regarding transfers, 0.6% less funds were spent 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 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 8,191 million, decreasing by 2.9%.

Interest was collected in the amount of Denar 1,918 million, being by 67.1% more compared to the same period in 2009. Such increase was mainly due to the payment of due interest for the second Eurobond.

Capital expenditures amounted to Denar 6,223 million, increasing by 5.6% compared to the same period in 2009 (1.5 % of GDP).

3.3. Thus, in the first seven months in 2010, central government budget deficit reached the amount of Denar 4,390 million (1.0% of GDP), while consolidated budget deficit amounted to Denar 5,267 million or 1.2% of GDP.

4. Monetary Sector

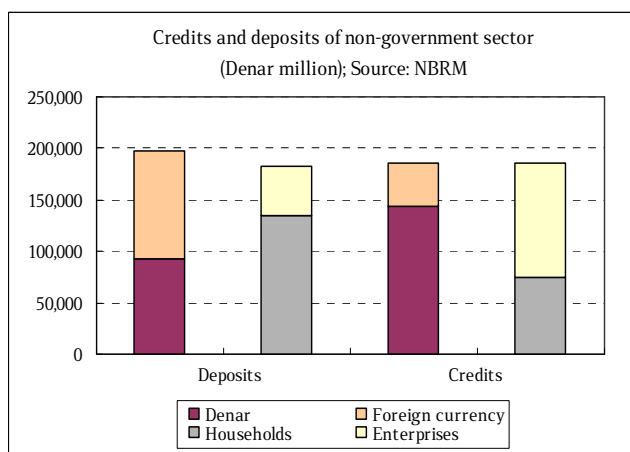
4.1. In July 2010, primary money¹ showed slowed down growth of 11.3% on annual basis (increase by 27.1% in June), in conditions of slowed down growth of total liquid assets of banks by 12.9% and ready money in circulation by² 9.2%.

Compared to June, primary money dropped by 1.1%, as a result of the drop of total liquid assets of banks by 6.3%, while ready money surged by 7%.

Interest rate on CB bills of NBRM was 5% in July 2010. NBRM, following the reduction of reference interest rate in June, during July, in conditions of relatively stable foreign exchange market, did not make any changes in the monetary policy.

4.2. Total deposit potential of banks³ in July dropped by 2% on monthly basis (compared to the increase by 0.4% in June), instigated by the decrease of deposits of private enterprises by 9.3%. Household deposits were higher by 0.5% compared to last month. In fact, Denar deposits decreased by 3.4% on monthly basis, while foreign currency deposits were lower by 0.8%.

In July, deposits increased by 14% (compared to 15.2% in June 2010) on annual basis. Thereby, Denar deposits increased by 19%, while foreign currency deposits registered slowed down growth of 9.9%. From the point of view of sector structure, deposits of private enterprises increased by 3.3% on annual basis (compared to 7.6% in June), while savings of households increased by 18%.



4.3. In July 2010, total credits to private sector increased by 0.5% on monthly basis. Increase was instigated by Denar credits, being higher by 1% compared to June, while foreign currency credits dropped by 1.1%. From the point of view of sector structure, credits to households experienced slowed down growth of 0.3%, while credits to enterprises retained growth dynamics from the previous month of 0.7% on monthly basis.

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

On annual basis, total credits to private sector continued their accelerated growth, realizing 6% growth rate (compared to 5.8% in June). Denar credits increased by 4.4% on annual basis, while foreign currency credits continued to experience high growth of 11.7%. From sectoral point of view, credits to private enterprises in July increased by 8.2% on annual level, while credits to households grew by 2.9%.

4.4. In July 2010, more favourable interest on Denar credits were noticed in relation to June. In fact, average weighted interest rate on Denar credits reduced by 0.4 p.p. on monthly basis, amounting to 9.2%. Reduction was noticed at all groups of banks, whereby the biggest reduction was registered at the group of medium-sized banks. Thus, in July interest rate on Denar credits amounted to 9%, 9.5% and 10.7% at large, small and medium-sized banks respectively. In relation to the previous year, average weighted interest rate on Denar credits decreased by 1 p.p.. Average interest rate on foreign currency credits amounted to 7.4%, being higher by 0.1 p.p. compared to June, while it declined by 0.2 p.p. on annual basis.

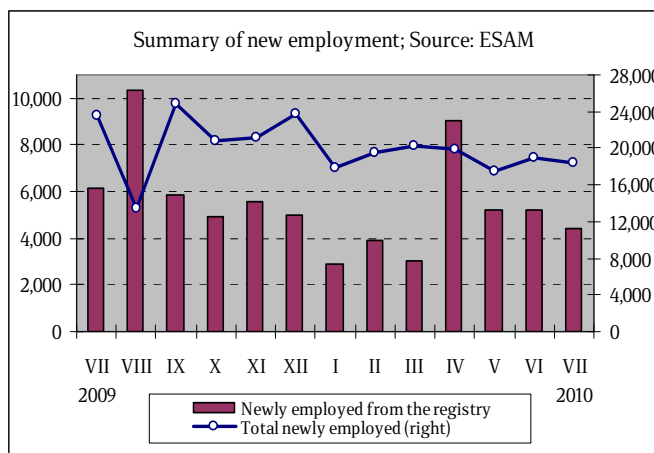
Interest on credit balance on Denar deposits amounted to 7.1%, increasing by 0.1 p.p. on monthly basis, while dropping by 0.1 p.p. compared to the previous year. Average interest rate on foreign currency deposits reduced by 0.1 p.p. compared to June, amounting to 3%.

4.5. Gross foreign currency reserves amounted to EUR 1,644.6 million in June 2010, and compared to December 2009, they were higher by EUR 46.9 million.

5. Social Sector

5.1. In the period January-July 2010, Employment Agency of the Republic of Macedonia registered total of 132,373 new employments. 37.4% 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 6.2%.

During July 2010, 18,333 new employments were registered, 24.2% out of which were from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 9,999 persons in July, 43.7% out of which were new employments. 7,524 persons were registered as inflow to the Agency, 51.9% of which were persons whose employment was terminated.



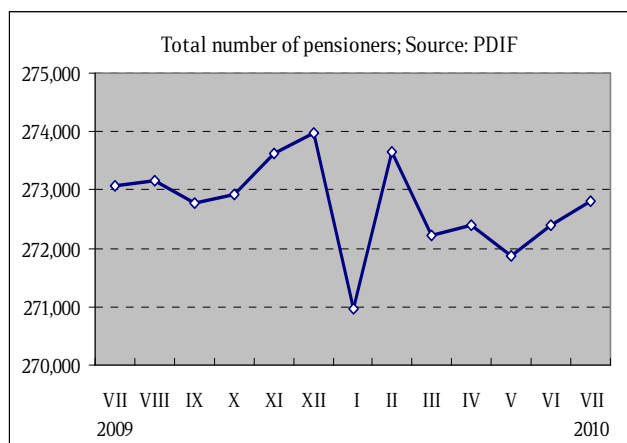
Unemployment in July reduced by 2,475 persons, i.e. by 0.7% compared to the previous month, thus the number of unemployed persons amounted to 328,081.

Number of unemployed persons, compared to the same month last year, declined by 3.7%.

Major percentage of the unemployed, i.e. 66.4%, came from urban areas (cities), whereby 57.5% were men. Analyzed by education structure, major part, i.e. 52.9% 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 58.5% fall in the category of 25-49 years of age. According to the time they waited for a job, 50.3% of the unemployed persons sought job from one to seven years, while 30.2% sought job for eight years and more.

5.2. In July 2010, Pension and Disability Insurance Fund registered 272,809 pensioners, declining by 0.1% compared to the same month last year. Number of pension beneficiaries increased by 420 persons in relation to the previous month.

In July, Denar 2,737.23 million was spent for payment of pensions, being 49.9% of the total social transfers in the state Budget.



Average pension in July 2010 amounted to Denar 10,156, increasing by 2.9% on annual level. Ratio between the average pension and the average paid salary in June 2010 (the most recent available data) amounted to 49.7%.

5.4. In the period January-June 2010 (the most recent available data), compared to the same period in 2009, average monthly net salary increased by 2.7% in nominal terms, while real average salary was higher by 1.9%.

In June 2010, average net salary per employee amounted to Denar 20,424. In June 2010, compared to the same month in 2009, there was an increase of the average monthly net salary by 1.8%, while real average salary remained the same. Percentage of employees who did not receive salary in June 2010 was 3.0%, being by 1.6 p.p. lower in relation to the same period last year.

