



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department

SHORT-TERM ECONOMIC TRENDS

August 2010



October 2010, Skopje

**SUMMARY
OF THE MOST IMPORTANT SHORT-TERM ECONOMIC
TRENDS**

August 2010

- **Industrial production index in August 2010, compared to the same month previous year, dropped by 1.5%.**
- **Annual increase of general price level by 1.9%, with 0.1% monthly inflation;**
- **Increase in the physical output of export in the period January-August 2010 by 8.8%, whereby nominal growth was 22.9% compared to the same period last year. Increase in imported quantities of goods was 7.2%, with valuable nominal growth of 9%;**
- **Better performance of total central budget revenues by 4% (12.5% of GDP) and insignificant increase of total expenditures by 0.1% (13.6% of GDP) in the period January - August 2010 compared to the same period last year;**
- **Intensification of growth dynamics of total credits to the private sector, with 7.1% rate on annual basis, by simultaneous increase of total deposit potential of banks by 13.5%;**
- **Reduction of the number of registered unemployed persons in August by 1,927 persons compared to the previous month, whereby it amounted to 326,154 persons.**

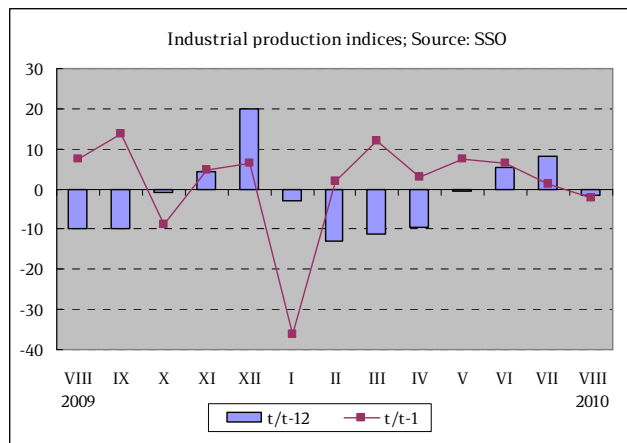
1. Real Sector

1.1. Industrial production index in August 2010, compared to the same month previous year, dropped by 1.5%.

Analyzed by sectors, **ore and stone extraction** sector increased by 4.3% annually, while **processing industry** sector dropped by 1.9%, and the **energy, gas and water supply sector** experienced minimum drop of 0.2%.

As for the processing industry, positive annual growth was seen at 50% of the branches, whereby growth was evidenced in two, out of three, branches with the two-digit share in the industrial production. Thus, production of base metals increased by 11.7% and production of food products and beverages by 8%, while production of clothing dropped by 5.8%.

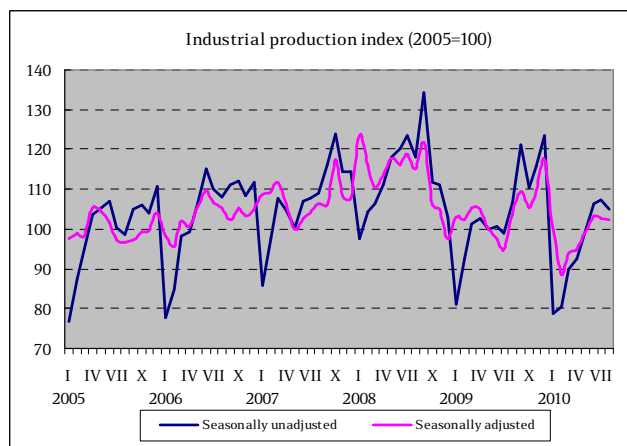
Production of tobacco products (2.9 percentage points) contributed the most to the annual growth of industrial production, while production of metal products in the metal processing stage (1.8 percentage points) had the highest negative contribution.



Industrial production index in August 2010, compared to the same month last year, dropped by 2.2%.

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

On cumulative basis, industrial production index in the period January-August 2010, compared to the same period last year, dropped by 3%, being improvement of the cumulative growth rate, amounting to -3.3% in the period January-July.



According to the assessment of enterprise managers, economic situation present in the enterprises in August 2010 was more favourable compared to the previous month. Assessment of current state of delivery-to-production was also more favourable compared to the previous month. Production volume of business entities in August experienced slight decline compared to previous month, while the expectations for the production volume in the next three months are pessimistic, as well as the expectations for the number of employees. Average utilization of capacities of business entities in August 2010 compared to the previous month increased, amounting to 61.3% of the regular utilization.

According to the managers, following factors limited the most the production volume in August 2010: insufficient foreign demand – 22.2%, insufficient domestic demand – 16.2%, financial problems – 12.3% and uncertain economic surrounding – 11.8%.

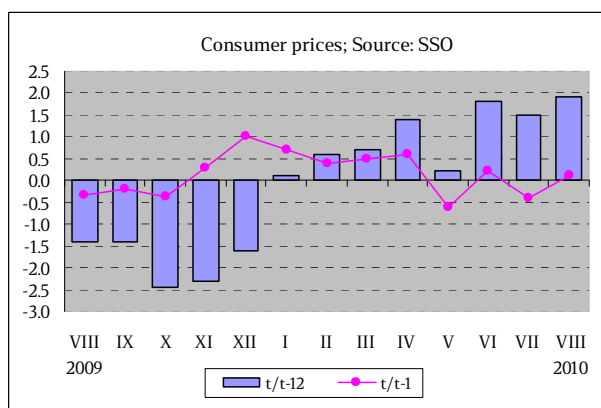
Total number of workers in the industry in August 2010 decreased by 1.9% compared to August 2009.

Sector analysis showed lower decline rate in the number of workers in the ore and stone extraction sector, whereby it reduced to -0.4%. Lower decline rate was also registered in the processing industry, amounting to -2.1%, as well as in the electricity supply sector with -1%. In general, processing industry has still experienced the biggest annual drop, while ore and stone extraction sector registered the lowest drop.

Number of industrial workers in the first eight months of 2010 declined by 5.9% on **cumulative basis**, being slight lower decline rate (in the period January-July, it was -6.4%). Decline registered in the ore and stone extraction sector was 4.9%, 6.4% in the processing industry, while the decline in the electricity, gas and water supply sector accounted for 1.7%.

1.2. In August 2010, prices of personal consumption goods, measured through the CPI index, increased by 1.9% compared to the same month of the previous year.

Increase of general price level was mostly due to increase of prices in the housing category by 5.5%, due to increase of prices in the housing category by 5.5%, due to increase of heating and lighting prices by 9.5%. Price increase was also noticed in the categories culture and entertainment by 3%, means of transport and services by 2.8%, clothing and footwear by 1.2%, food by 1% and restaurants and hotels by 0.7%. Decline of prices was registered at the tobacco and beverages category by 0.3% and hygiene and health category by 0.1%.



CPI index in August 2010, compared to July 2010, was higher by 0.1%.

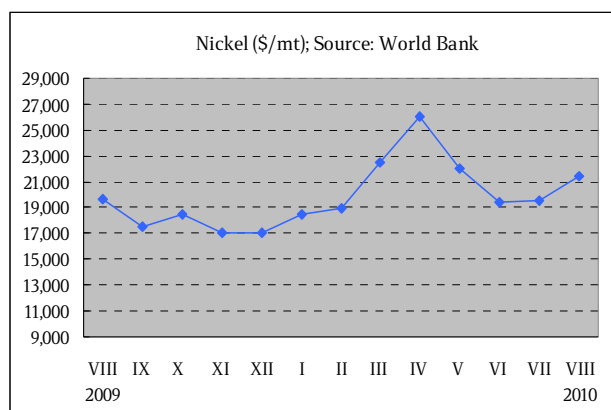
Value of the consumer basket of food and beverages for a four-member household in August 2010, calculated on the basis of retail prices, was Denar 11,819, and compared to the previous month, it was at the same level.

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

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

In August, oil price on world stock markets increased by 2.6% compared to the previous month, reaching the price of US\$ 76.7 per barrel. Compared to August last year, oil price surged by 5.8%.

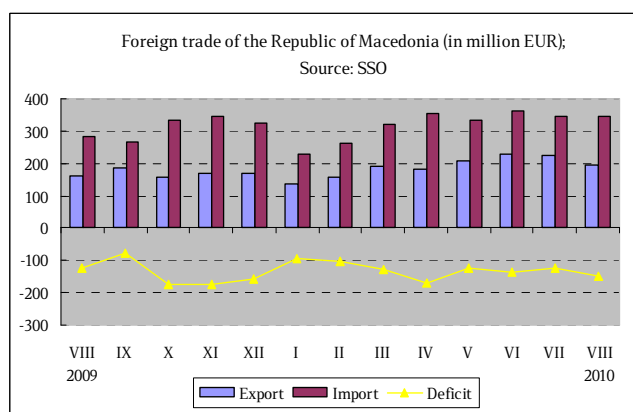
Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 9.7% on monthly basis, reaching US\$ 21.413 for a metric ton (\$/mt). In addition, compared to August last year, nickel price was higher by 9%. Price increase on monthly basis was also noticed at zinc by 10.9%, copper by 8.2% aluminum by 6.3%, and gold by 1.9%.



2. External Sector

2.1. In the period January-August 2010, total foreign trade (expressed in euros) surged by 13.8% in relation to the same period last year.

Thereby, physical output of export increased by 8.8%, while its value reached EUR 1,526.4 million, being a significant increase by 22.9% compared to the same period last year. Imported quantity of goods increased by 7.2%, and it amounted to EUR 2,561.4 million, increasing by 9%.



Export of oil and oil products*)				
	I-VIII-2009	I-VIII-2010	Balance 2010-2009	% rate
.000T	231.7	215.1	-16.6	-7.2
EUR mil.	87.6	108.6	21.0	24.0
\$ mil.	119.5	142.3	22.8	19.1

*Previous data

Import of oil and oil products*)				
	I-VIII-2009	I-VIII-2010	Balance 2010-2009	% rate
.000T	929.3	788.1	-141.2	-15.2
EUR mil.	288.4	343.9	55.5	19.2
\$ mil.	391.5	449.5	58.0	14.8

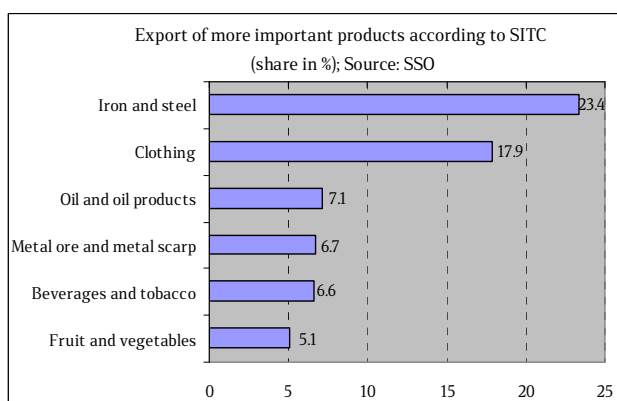
*Previous data

In conditions of such trends, trade **deficit** realized by the end of August amounted to EUR 1,035 million, narrowing by 6.6 % on annual basis (EUR 73.3 million), as a result of more intensive growth of export (22.9%) than import (9%). 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 the other transport equipment, industrial machines and spare parts, operating machines and devices and food products, as well as the increased positive balance in trade with iron and steel and their products and metal ore and metal scrap. Such trends also led to higher level of coverage of import with export in the first eight months, accounting for 59.6%, showing an annual increase by 6.7 p.p.

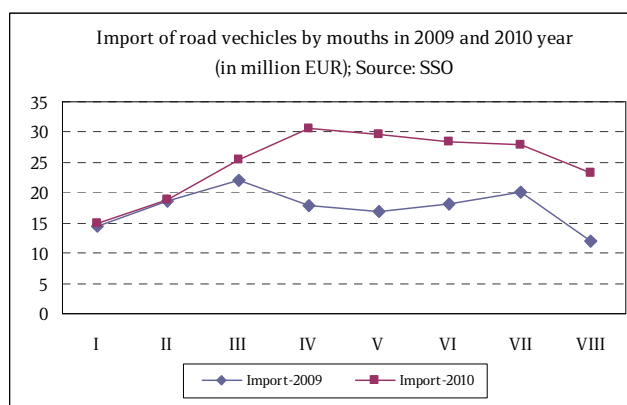
2.2. Main groups of goods (according to SITC) having the biggest share in export in the first eight months of 2010 were the following: iron and steel – 23.4%, clothing – 17.9%, oil and oil products – 7.1%, metal ore and metal scrap – 6.7%, beverages and tobacco – 6.6%, and fruit and vegetables – 5.1%. These six

groups of products comprised 66.2% of the total export in the country.

The following participated the most in the import of goods in the first eight months on cumulative basis: oil and oil products (EUR 343.9 million, 13.4%), road vehicles (EUR 199.2 million, 7,8%), textile yarns and similar (EUR 188.9 million, 7.4%), iron and steel (EUR 174.2 million, 6.8%), electrical machines, devices and spare parts (EUR 82.1 million, 3.2%), etc.



2.3. Analyzed by regions, in the period January-August 2010, in conditions of significant increase of trade with the European Union (EU 27), in relation to the same period last year by 18.5%, share of trade with EU in the total foreign trade experienced an increase by 2.2 percentage points, accounting for 55.5%, whereby export of goods participated with 61% and share of import of goods was 52.2%. Export to the European Union increased significantly by 33.4%, while import increased by 10% compared to the same period in 2009.



In the period January-August 2010, 86% of the trade deficit of the country was realized in the trade with Russia, China, Turkey, Great Britain, Serbia, Greece, Slovenia, Italy, Ukraine and Romania and while it was adjusted with the surplus realized in the trade with Kosovo, Belgium, Albania, Bosnia and Herzegovina, Montenegro, Bulgaria, Spain, etc.

	I-VIII-2009	I-VIII-2010	Balance 2010-2009	% rate
.000T	389.1	465.4	76.3	19.6
EUR mil.	231.7	357.3	125.6	54.2
\$ mil.	314.0	466.2	152.2	48.5

*)Previous data

	I-VIII-2009	I-VIII-2010	Balance 2010-2009	% rate
.000T	333.2	386.9	53.7	16.1
EUR mil.	130.2	174.2	44.0	33.8
\$ mil.	176.4	229.1	52.7	29.9

*)Previous data

2.4. Analyzed by economic purpose, in the period January-August 2010, significant increase of the export was registered at the industrial products by 42.8% or by EUR 222 million compared to the same period last year. Export of energy products increased by 40.7% or by EUR 36.4 million. Similar tendencies were also noted at export, where industrial products significantly increase by EUR 202 million or 24%, amounting to EUR 1,018,2 million, while the amount of imported energy products in the analyzed period was EUR 420.5, increasing by 9.2% or EUR 35 million. 0.5% drop was registered at import of products intended for personal consumption, certainly being a positive trend as regards import

structure.

2.5. Observed by currency structure, 73.4% of the foreign trade in the first eight months in 2010 was realized in euros, and compared to the same period last year, it dropped by 3,9 percentage points. On export and import side, EURO accounted for 77.2% and 71.1% respectively, and in relation to the same period last year, decline was evidenced at export and import by 5.3 p.p. and 3.3 p.p. respectively.

Foreign trade of the republic of Macedonia (by currency); calculations: MoF													
- by currency -													
export	I-VIII 2009					I-VIII 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	structure in %			
EUR	1,528	1,025,529,532	61.3242	62,889,778,126	82.5	1,677	1,176,772,229	61.4806	72,348,662,702	77.2	151,242,697	14.7	
USD	400	285,296,774	45.3361	12,934,243,076	17.0	420	448,087,694	46.6496	20,903,111,690	22.3	162,790,920	57.1	
EUR+USD	1,928			75,824,021,202	99.5	2,097			93,251,774,392	99.6			
tot. export:	1,932			76,217,654,975	100.0	2,101			93,658,800,119	100.0		22.9	

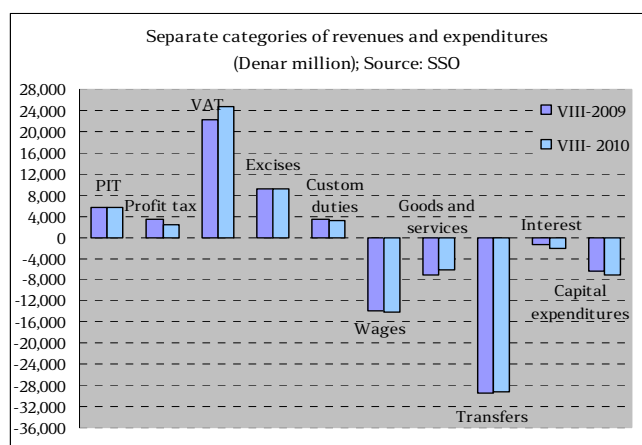
Source: SSO and NBRM

3. Fiscal Sector

3.1. In the first eight months in 2010, total central budget revenues showed overperformance for the second time this year, amounting to Denar 53,884 (12.5% of GDP), increasing by 4.0% compared to the same period last year.

Tax revenues in this period were realized in the amount of Denar 47,218 million, being higher by 3.9% for the third time this year, in relation to same period last year.

Share of VAT in total tax revenues in the first eight months in 2010 was dominant and it amounted to 52.6%, while excises accounted for 19.4%, whereby revenues in the amount of Denar 33,982 million were realized on the basis of these two taxes, i.e. 72.0% or almost 3/4 of the total tax revenues (7.9% of GDP). Analyzed by certain tax categories, revenues on the basis of personal income tax were realized in almost the same amount as in the same period in 2009. VAT revenues experienced record growth of 12.3%, while excises were higher by 0.9%, profit tax revenues experienced the highest drop of 29.9% (drop on the basis of monthly advance payments was significant, since in 2009, advance payments in the first two months were made on the profit realized in 2007, when it was taxed, while in 2010, as a result of amendments to the regulations, it paid only on non-exempted expenditures determined in the 2008 tax balance), revenues on the basis of customs duties were lower by 6.1% compared to same period last year. Non-tax revenues increased by



4.4% in relation to the same period last year, mostly due to the payment of Telecom dividend in the amount of Denar 2,503 million.

Capital revenues realized on the basis of sale of construction land and flats amounted to Denar 748 million.

Social contributions during this period were realized in the amount of Denar 24,997 million (pension and disability insurance contributions - Denar 16,959 million, health insurance contributions - Denar 6,965 million and employment contributions - Denar 1073 million), being lower by 0.2% in relation to 2010 projections, i.e. 1.0% less compared to the same period last year.

3.2. In the period January - August 2010, total being at almost the same level, slightly increasing by 0.1% compared to the same period in 2009.

With respect to the structure of total realized expenditures, current expenditures (Denar 51,366 million) accounted for 87.9% and were lower by 1.1% compared to the same period last year, while capital expenditures participated with 12.1%.

Transfers (Denar 29,167 million) accounted for the most in the current expenditure items, followed by salaries and allowances (Denar 14,175 million). With respect to the total expenditures in the central government budget, expenditures related to wages and salaries and allowances accounted for 24.3% and, compared to the same month last year, they increased by 1.4%.

Expenditures for goods and services reached the amount of Denar 6,015 million, i.e. significant underperformance by 16.7% compared to 2009.

With regard to transfers, during this period, 1.1% less resources were spent compared to the same period in 2009, and they were the largest expenditure item, i.e. accounting for half of the total expenditures (they participated with 49.9% in the total expenditures (6.7% 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 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 9,482 million or by Denar 136 million lower (1.4% drop).

Interest was collected in the amount of Denar 2,009 million, being by 60.0% more compared to the same period in 2009. Such increase was mainly due to the payment of due interest for the second Eurobond in July.

During the analyzed period, capital expenditures amounted to Denar 7,055 million, increasing by 10.2% compared to the same period in 2009, accounting for 1.6% of GDP.

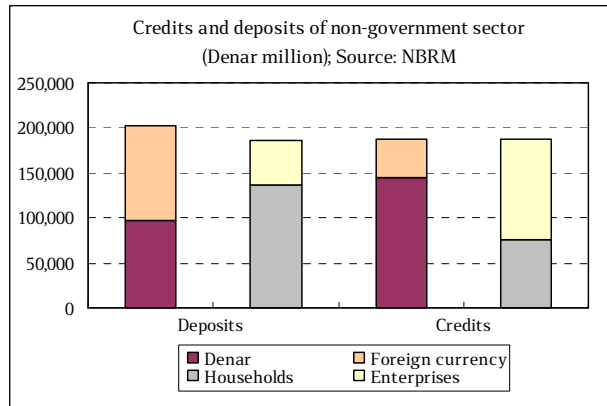
3.3. Thus, in the first eighth months in 2010, central government budget deficit reached the amount of Denar 4,537 million (1.1% of GDP), while consolidated budget deficit amounted to Denar 5,409 million or 1.3% of GDP.

4. Monetary Sector

4.1. In August 2010, primary money¹ showed slowed down growth of 10.9% on annual basis (increase by 11.3% in July), in conditions of slowed down growth of total liquid assets of banks by 11.7% and ready money in circulation² by 9.9%.

Compared to July, primary money increased by 0.9%, as a result of the increase of total liquid assets of banks by 3.1%, while ready money dropped by 2.1%.

In August 2010, the National Bank, in conditions of increase of foreign currency reserves, reduced the interest rate on CB Bills by 0.5 p.p., i.e. from 5.0% to 4.5%. In parallel to the reduction of interest rate on CB bills, interest rate on NBRM overnight credits (Lombard credits) was also reduced from 6.5% to 6.0%.



4.2. Total deposit potential of banks³ in August 2010 increased by 2.2% on monthly basis (compared to the drop by 2% in July), mainly instigated by the increase of deposits of private enterprises by 4.9%. Household deposits were higher by 1% compared to last month. According to the currency, following the drop last month, denar deposits registered high growth of 3.5% on monthly basis, thus largely contributing to the growth of total deposits, while foreign currency deposits were higher by 1.1%.

On annual basis, total deposits increased by 13.5% (compared to 14% In July 2010), whereby from the point of view of sector structure, the increase was mainly a result of the growth of household deposits (89% contribution).

In fact, household deposits increased by 18.5%, while deposits of enterprises were higher by 1.4%.

Analyzed from the currency point of view, denar deposits registered high growth of 19.5%, while foreign currency deposits continued to slow down the growth to 8.4%.

4.3. In August 2010, total credits to private sector increased by 0.8% on monthly basis (0.5% in July). Increase, to a great extent, was instigated by the increased crediting to private enterprises by 0.8%. In addition, credits to households experienced intensified growth of 0.8%. According to the currency, Denar credits, in relation to last month were higher by 0.5%, while foreign

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

currency deposits, compared to the drop of 1.1% in July, recorded high growth of 1.8% in August 2010.

On annual basis, accelerated growth of total credits continued, whereby annual growth rate was 7.1% (compared to 6% in July). From the point of view of sector structure, crediting to private enterprises sector had dominant contribution to growth, increasing by 9.5%, and crediting to households also registered accelerated growth of 3.7%. From currency point of view, Denar credits experienced annual growth of 5.1%, while foreign currency credits continued to realize high growth of 14.1%.

4.4. In August 2010, there were not more significant changes of interest requirements of banks, compared to July. In fact, average weighted interest rate on Denar credits remained at the same level in relation to the previous month, amounting to 9.2%. In relation to August 2009, average weighted interest rate on Denar credits decreased by 1 p.p.. Average interest rate on foreign currency credits was also unchanged on monthly basis, amounting to 7.4%, while it declined by 0.2 p.p. on annual basis.

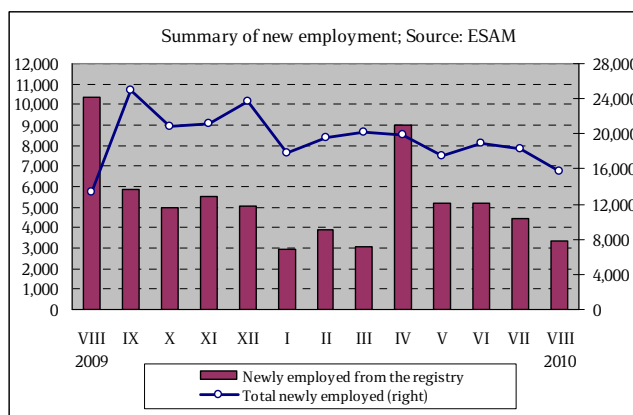
In August 2010, interest on Denar deposits amounted to 7.0%, decreasing by 0.1 p.p. on monthly basis, while dropping by 0.2 p.p. compared to the previous year. Average interest rate on foreign currency deposits was the same, amounting to 3% in relation to July, while it was lower by 0.3 p.p. compared to the same month 2009.

4.5. Gross foreign currency reserves amounted to EUR 1,718.8 million in June 2010, and compared to December 2009, they were higher by almost EUR 121.1 million.

5. Social Sector

5.1. In the period January-August 2010, Employment Agency of the Republic of Macedonia registered total of 148,146 new employments. 37.5% out of the total number of newly employed was on the basis of full-time employment, while the rest was temporary employment and seasonal works. Compared to the same period last year, number of newly employed persons declined by 4.2%.

In August, 15,773 new employments were registered, 21.3% out of which were from the unemployed records. Outflow of persons from the Employment Agency Registry of the Republic of Macedonia amounted to 9,386 persons in August, 35.5% out of which were new employments. 7,459 persons were registered as inflow to the Agency, 53% out of which were persons whose employment was terminated.



As a result, unemployment reduced by 1,927 persons, i.e. by 0.6% compared to the previous month. There were 326,154. unemployed persons in August 2010.

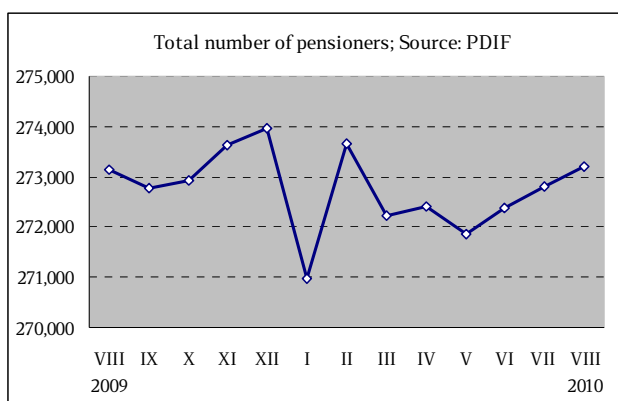
Number of unemployed persons, compared to the same month last year, declined by 4.8%.

Major percentage of the unemployed, i.e. 66.3%, came from urban areas (cities), whereby 57.5% were men. Analyzed by education structure, major part, i.e. 52.8% of unemployed persons were unskilled or semi-skilled, while only 7.8% 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, 50.6% of the unemployed persons sought job from one to seven years, while 30.2% sought job for eight years and more.

5.2. In August 2010, Pension and Disability Insurance Fund registered 273,197 pensioners, increasing by 0.02% compared to the same month last year. Number of pension beneficiaries increased by 388 persons in relation to the previous month.

In August, Denar 2,733.72 million was spent for payment of pensions, being 51.3% of total social transfers in the state Budget.

Average pension in August 2010 amounted to Denar 10,154, increasing by 1,1% on annual level. Ratio between average pension and average paid salary in July 2010 (most recent available data) amounted to 50%.



5.3. Number of social welfare beneficiaries in July 2010 (most recent available data) was 50,483 households, declining by 149 beneficiaries compared to previous month.

Thereby, around Denar 122.2 million was spent for payment of social welfare, i.e. 49,9% of social welfare payments under all bases. Around Denar 92.3 million was spent on the basis of third person care for 21,530 persons in July, i.e. 37.7% of payments of social welfare under all bases. This month, 5,500 persons were registered as beneficiaries of permanent pecuniary allowance, for which around Denar 21.8 million was spent, while 5,600 persons used healthcare for which Denar 8.3 million was spent. These welfare-related payments accounted for 4.5% of the total social transfers realized in July.

5.4. In the period January-July 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 1.8%.

In July 2010, average net salary per employee amounted to Denar 20,299. In July 2010, compared to the same month in 2009, average monthly net salary increased by 2.7% in nominal terms, while real average salary was higher by 1.2%. Percentage of employees who did not receive salary in July 2010 was 2.6%, being by 0.8 p.p. lower in relation to the same period last year.

