



REPUBLIC OF MACEDONIA  
MINISTRY OF FINANCE  
Macroeconomic Policy Department

## SHORT-TERM ECONOMIC TRENDS

September 2010



November 2010, Skopje

## **SUMMARY**

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

**September 2010**

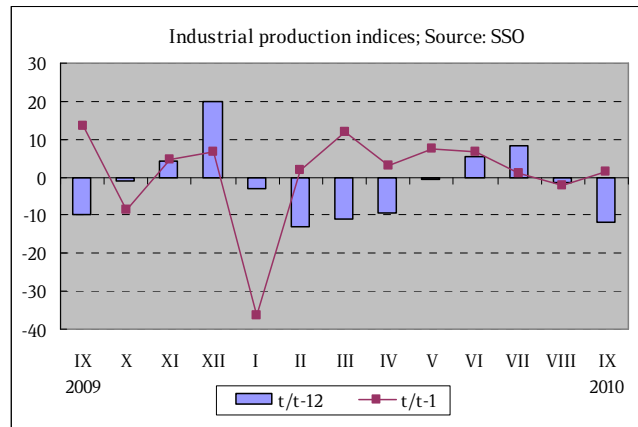
- **Industrial production index in September 2010, compared to the same month previous year, dropped by 11.9%.**
- **Annual increase of general price level by 2.0%, with 0.1% monthly inflation;**
- **Increase in the physical output of export in the period January-September 2010 by 11.5%, with valuable nominal increase by 24.8% compared to the same period last year. Increase in imported quantities of goods was 9.6%, with valuable nominal growth of 9%;**
- **Better performance of total central budget revenues by 3.3% (14.2% of GDP) and increase of total expenditures by 1.2% (15.5% of GDP) in the period January-September 2010 compared to the same period last year; central budget deficit was 1.3%, while consolidated budget deficit accounted for 1.6%.**
- **Intensification of growth dynamics of total credits to the private sector, with 7.17% rate on annual basis, by simultaneous increase of total deposit potential of banks by 14.5%;**
- **Reduction of the number of registered unemployed persons in September by 2,921 persons compared to the previous month, whereby it amounted to 323,233 persons.**

## 1. Real Sector

### 1.1. Industrial production index in September 2010, compared to the same month previous year, dropped by 11.9%.

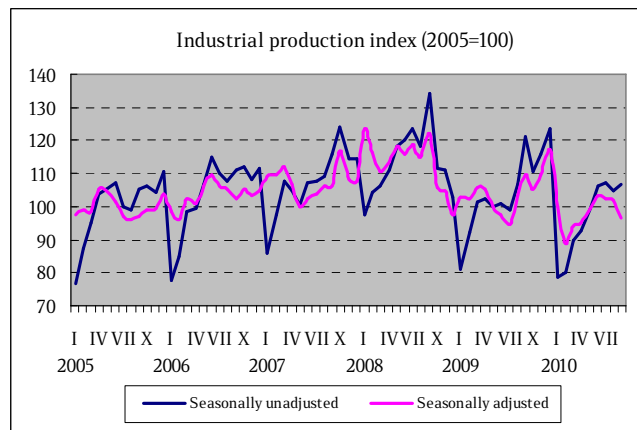
Analyzed by sectors, ore and stone extraction sector was at almost the same level from last year, while processing industry sector dropped by 12.6%, and the electricity, gas and water supply sector decreased by 10.8%.

As for processing industry, positive annual growth was seen at 60% of the branches, whereby growth was evidenced in three driving branches with two-digit share in the industrial production. Thus, production of food products and beverages increased by 13.8%, production of clothing by 7.3% and production of base metals increased by 22.6%.



Production of tobacco products (3.9 percentage points) contributed the most to the annual growth of industrial production, while production of metal products in the metal processing stage (-2.6 percentage points) had the highest negative contribution.

Industrial production index in **September 2010**, compared to the previous month, **increased by 1.6%**. Thereby, ore and stone extraction sector increased by 6.3%, processing industry sector grew by 3.4%, while electricity, gas and water supply sector dropped by 15.2% on monthly basis.



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

On cumulative basis, industrial production index in the period January-September 2010, compared to the same period last year, dropped by 4.2%, being deterioration of the cumulative growth rate, amounting to -3% in the period January-August.

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 for current state of delivery-to-production is less favourable. Production volume of business entities in September 2010 slightly declined compared to the previous month. Expectations for the production volume in the next three months are less favourable, while the expectations for the number of employees are more favourable.

Average utilization of the capacities of business entities in September 2010 was 60.1% of the regular utilization.

According to the managers, following factors limited the most the production volume in August 2010: insufficient foreign demand – 24.2%, insufficient domestic demand – 16.4%, financial problems – 13% and uncertain economic surrounding – 10.4%.

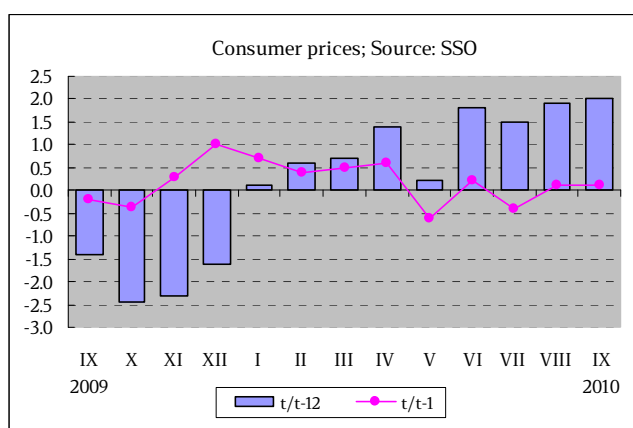
**Total number of workers in the industry in September 2010 decreased by 1.4% compared to September 2009.**

Sector analysis points out to first increase in employment rate in ore and stone extraction sector by 0.6% on annual basis, showing improvement of the developments in this sector. Lower decline rate was also registered in the processing industry, accounting for -1.5%. Electricity, gas and water supply sector dropped by 1.6%. As for processing industry, **significant increase in the number of workers** on annual basis was seen at both production of tobacco products and tobacco fermentation by 19.6% and production of base metals by 9.5%.

Number of industrial workers in the first nine months of 2010 declined by 5.4% on **cumulative basis**, being slight lower decline rate (in the period January-August, it was -5.9%). Decline registered in the ore and stone extraction sector was 4.3%, 5.9% in the processing industry, while the decline in the electricity, gas and water supply sector accounted for 1.7%.

**1.2. In September 2010, prices of personal consumption goods, measured through the CPI index, increased by 2.0% 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 5.4%, due to increase of heating and lighting prices by 9.1%. Price increase was also seen at food category by 2.3% (having at the same time the highest share in the structure - 38.6%), means of transport and services by 1.3%, food and footwear by 1.2%, restaurants and hotels by 0.2% and hygiene and health by 0.1%. Decline of prices was registered at culture and entertainment category by 0.3% and tobacco and beverages by 0.2%.



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

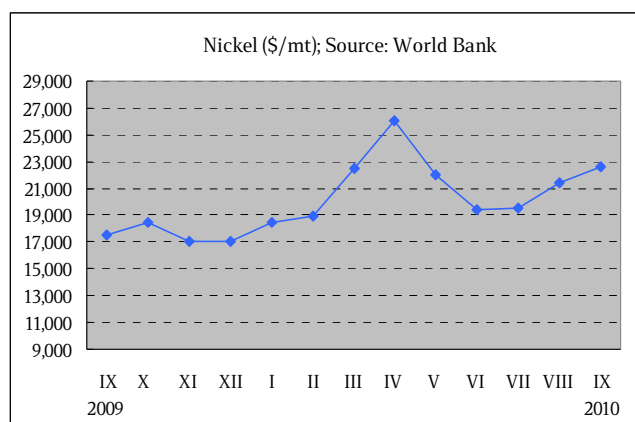
Value of the consumer basket of food and beverages for a four-member household in September 2010, calculated on the basis of retail prices, was Denar 12,037, and compared to the previous month, it was by 1.2% higher.

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

### 1.3. In September 2010, world stock markets experienced monthly increase of prices of metals, while price of natural gas declined.

In September, oil price on world stock markets increased by 1.4% compared to the previous month, reaching the price of US\$ 77.8 per barrel. Compared to September last year, oil price surged by 14.9%.

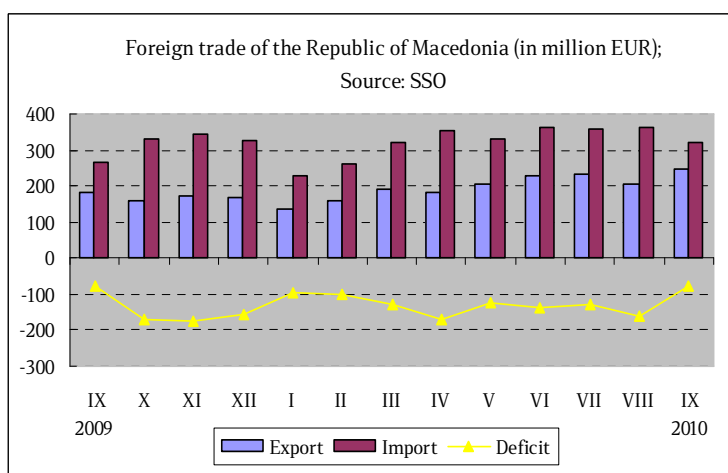
Regarding metal products, price of nickel, as a product having high share in the Macedonian export, increased by 5.7% on monthly basis, reaching US\$ 22.643 for a metric ton (\$/mt). In addition, compared to September last year, nickel price was higher by 29.6%. Price increase on monthly basis was also noticed at copper by 5.8%, zinc by 5.2% gold by 4.5% and aluminum by 2.1%.



## 2. External Sector

### 2.1. In the period January-September 2010, total foreign trade (expressed in euros) surged by 15.9% in relation to the same period last year.

Thereby, physical output of export increased by 11.5%, the value of which amounted to EUR 1,781 million, being a **significant and the highest increase by 24.8%** compared to the same period last year. Imported quantity of goods increased by 9.6%, and it amounted to EUR 2,902.5 million, increasing by 11%.



In conditions of such trends, trade **deficit**

realized by the end of September amounted to EUR 1,215.5 million, narrowing by 5.6 % on annual basis (EUR 66.2 million), as a result of more intensive growth of export (24.8%) than import (11%). Analyzed from balances point of view, decline in negative trade balance was a result of combined effect of the reduced negative balance of trade in the other transport equipment, industrial machines and spare parts, operating machines and devices and food products, as well as the increased positive balance of trade in 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 nine months, accounting for 61.4%, showing an annual increase by 6.8 p.p.

Export of oil and oil products*)				
	I-IX-2009	I-IX-2010	Balance 2010-2009	% rate
.000T	268.1	245.3	-22.8	-8.5
EUR mil.	101.9	123.4	21.5	21.1
\$ mil.	140.4	161.8	21.4	15.2

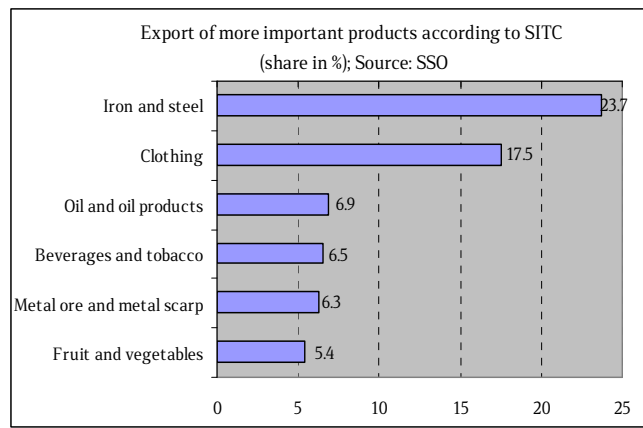
\*Previous data

Import of oil and oil products*)				
	I-IX-2009	I-IX-2010	Balance 2010-2009	% rate
.000T	970.4	855.8	-114.6	-11.8
EUR mil.	305.0	383.0	78.0	25.6
\$ mil.	417.0	500.3	83.3	20.0

\*Previous data

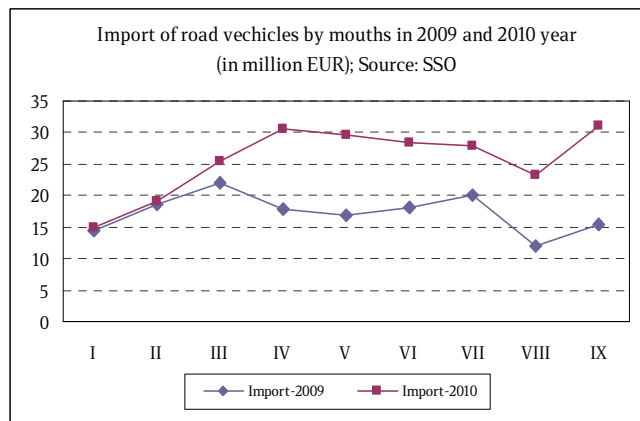
**2.2. Main groups of products (according to SITC) having the biggest share in export in the first nine months of 2010 were the following: iron and steel – 23.7%, clothing – 17.5%, oil and oil products – 6.9%, beverages and tobacco – 6.5%, metal ore and metal scrap – 6.3%, fruit and vegetables – 5.4%. These six groups of products comprised 66.4% of the total export in the country.**

The following participated the most in the import of goods in the first nine months on cumulative basis: oil and oil products (EUR 383 million, 13.2%), road vehicles (EUR 230.5 million, 7.9%), textile yarns and similar (EUR 211 million, 7.3%), iron and steel (EUR 198.7 million, 6.8%), metal ore and metal scrap (EUR 98.7 million, 3.4%), electrical machines, devices and spare parts (EUR 93.5 million, 3.2%), etc.



**2.3. Analyzed by economic purpose, in the period January-September 2010, significant increase of the export was registered at the industrial products by 44.6% or by EUR 270 million compared to the same period last year. Export of energy products increased by 37.6% or by EUR 39 million.**

Similar tendencies were also noted at **export**, where industrial products significantly increased by EUR 225.6 million or 24%, amounting to EUR 1,151.1 million, while the amount of imported energy products in the analyzed period was EUR 473.9, increasing by 16% or EUR 64 million. 3% drop was seen at import of products intended for investments, being of course unfavourable trend in relation to the import structure.



**2.4. Analysis of cumulative export by activities in January-September 2010, compared to the same period last year showed that export at processing industry experienced high increase by 22%, being primarily due to the increase at the following: Production of base metals by EUR 16 million or 55%, production of**

chemicals and chemical products by EUR 90 million or 2.3 times, production of coke, oil derivatives and nuclear fuel by EUR 20 million or 19% and production of food products and beverages by EUR 12.4 million or 8.4%.

Export of iron and steel*)					Import of iron and steel*)				
	I-IX-2009	I-VIII-2010	Balance 2010-2009	% rate		I-IX-2009	I-VIII-2010	Balance 2010-2009	% rate
.000T	389.1	465.4	76.3	19.6	.000T	333.2	386.9	53.7	16.1
EUR mil.	231.7	357.3	125.6	54.2	EUR mil.	130.2	174.2	44.0	33.8
\$ mil.	314.0	466.2	152.2	48.5	\$ mil.	176.4	229.1	52.7	29.9

\*)Previous data

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As for this area, drop of export was seen at production of electrical machines and devices by EUR 14 million or 49% and production of metal products in metal processing phase, except machines and devices by EUR 11.4 million or 32.5%.

As regards **agriculture, forestry and fishing** sector, agriculture, hunting and appropriate services experienced positive export trend by 13.6%.

As for **extraction of ore and stone** sector, increase of export by EUR 47 million or 77.7% was due to the increase of metal ore extraction by EUR 39 million or 81% and extraction of other ore and stone by EUR 6.8 million or 56.9%.

The increase of export by EUR 19 million in the **electricity, gas and water supply** sector is mainly a result of the high increase of export of electricity in the nine months this year.

**Given the analysis of import by activities for the period January-September 2010 compared to the same period last year, it is concluded that the processing industry with its 9.9% or EUR 218 million is driving force of the cumulative growth of import, being due to the increase at the following:** production of chemicals and chemical products by EUR 83.8 million or 30.6%, production of base metals by EUR 82.9 million or 40.3%, production of motor vehicles, trailers and semi-trailers by EUR 76 million or 51% and production of coke, oil derivatives and nuclear fuel by EUR 45 million or 46.6%.

Import at **ore and stone extraction** sector increased by 32% or by EUR 87.9 million, being due to the increase at the following: extraction of crude oil and natural gas by 20.2% or by EUR 48 million and metal ore extraction by twice or by EUR 33 million.

As a result of the reduced import of electricity, import at **electricity, gas and water supply** sector dropped by 32.8% or by EUR 25 million.

Import in the agriculture increased by 4.3% or by EUR 2.7 million.

**2.5.** Analyzed by regions, in the period January-September 2010, in conditions of significant increase of trade with the European Union (EU 27), in relation to the same period last year by 20.8%, share of trade with EU in the total foreign trade increased by 2.3 percentage points, accounting for 55.8%, whereby export of goods participated with 61.1% and share of import of goods was 52.5%. Export to the European Union increased significantly by 36.7%, while import increased by 11.4% compared to the same period in 2009.

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

2.6. Observed by currency structure, 73.7% of the foreign trade in the first nine months in 2010 was realized in euros, and compared to the same period last year, it dropped by 3.7 percentage points. On export and import side, EURO accounted for 77.7% and 71.2% respectively, and in relation to the same period last year, decline was evidenced at export and import by 4 p.p. and 3.8 p.p. respectively.

Foreign trade of the republic of Macedonia (by currency); calculations: MoF													
- by currency -													
export	I-IX 2009					I-IX 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	1,755	1,166,238,395	61.2926	71,481,783,449	81.7	1,991	1,381,126,959	61.5006	84,940,136,655	77.7	214,888,564	18.4	
USD	456	347,146,836	44.6039	15,484,102,758	17.7	478	512,032,123	46.8468	23,987,066,460	21.9	164,885,287	47.5	
EUR+USD	2,211			86,965,886,208	99.3	2,469			108,927,203,114	99.6			
tot. export:	2,217			87,542,560,521	100.0	2,472			109,357,308,109	100.0		24.9	

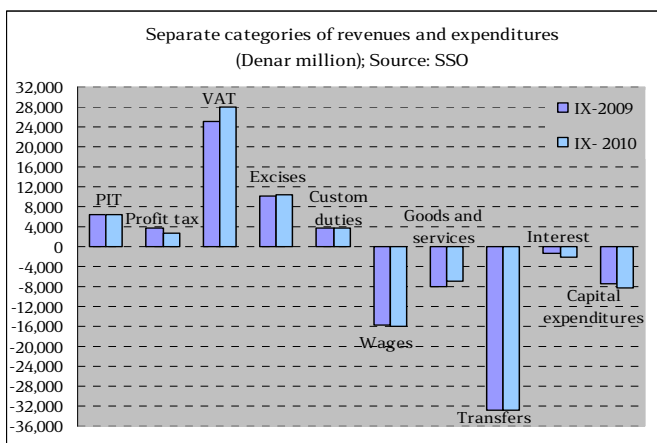
Source: SSO and NBRM

### 3. Fiscal Sector

3.1. In the period January-September 2010, total central budget revenues showed over-performance for the third time this year, amounting to Denar 60,350 (14.2% of GDP), increasing by 3.3% compared to the same period last year.

Tax revenues in this period were realized in the amount of Denar 53,169 million, being higher by 3.7% for the fourth time this year, in relation to same period last year.

Share of VAT in total tax revenues in the first nine months in 2010 was dominant and it amounted to 52.4%, while excises accounted for 19.6%, whereby revenues in the amount of Denar 38.276 million were realized on the basis of these two taxes, i.e. 72.0% or almost 3/4 of the total tax revenues (8.9% of GDP). Thereby, VAT collection amounted to Denar 39,245.1 on gross basis, Denar 11,378.2 out of which was refunded to taxpayers. Structure of trading in the country points out that the sales of goods and services taxed with the general tax rate of 18% reduced by 1.5%, sales





taxed with preferential tax rate of 5% increased by 7.2%, while sales exempt from VAT significantly increased by 55%. Analyzed by certain tax categories, revenues on the basis of personal income tax decreased by only 0.9% compared to the same period in 2009. VAT revenues experienced record growth of 10.6%, while excises were higher by 1.7%, profit tax revenues experienced the highest drop of 26.4% (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 is paid only on non-exempted expenditures determined in the 2008 tax balance). Revenues on the basis of customs duties reduced by 5.9%, while non-tax revenues dropped by 1.8% in relation to the same period last year (whereby only the payment of Telecom dividend in the amount of Denar 2,503 million participated with 41.8% in the total funds).

Capital revenues on the basis of sale of construction land and flats reached Denar 805 million, being lower by 5% compared to the same period last year.

Social contributions during this period were realized in the amount of Denar 28,248 million (pension and disability insurance contributions - Denar 19,162 million, health insurance contributions - Denar 7,876 million and employment contributions - Denar 1,210 million), being lower by 0.5% compared to last year.

**3.2. In the period January - September 2010, total central budget expenditures amounted to Denar 65,988 (15.5% of GDP), slightly increasing by 1.2% compared to the same period in 2009.**

With respect to the structure of total realized expenditures, current expenditures (Denar 57,854 million) accounted for 87.7% and were at almost the same level as last year, while capital expenditures participated with 12.3%.

Transfers (Denar 32,881 million) accounted for the most in the current expenditure items, followed by salaries and allowances (Denar 15,916 million). With respect to total central budget expenditures, expenditures related to wages and salaries and allowances accounted for 24.1% in this period, which was 1.3% increase in relation to the same period last year. Expenditures for goods and services reached the amount of Denar 6,954 million, i.e. significant underperformance by 11.7% compared to 2009.

With regard to transfers, the spent resources were almost identical when compared to the same period in 2009, accounting for almost the half of the total expenditures, i.e. they participated with 49.8% in the total expenditures (7.7% 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 10,742 million or by Denar 94 million lower (0.9% drop).

Interest was collected in the amount of Denar 2,103 million, being by 56% 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 8,134 million, increasing by 10.6% compared to the same period in 2009, i.e. 1.9% of GDP.

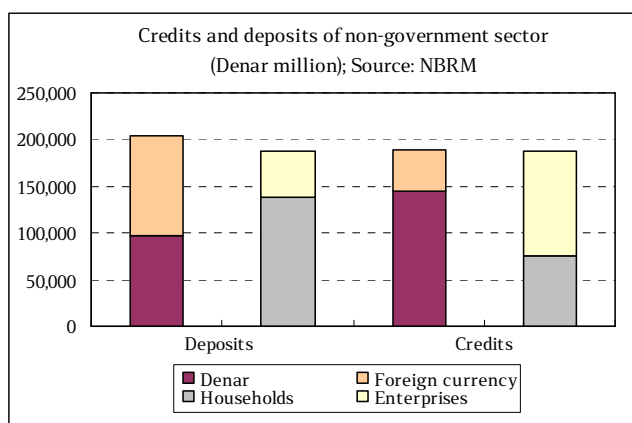
**3.3. Thus, in the first nine months in 2010, central government budget deficit reached the amount of Denar 5,638 million (1.3% of GDP), while consolidated budget deficit amounted to Denar 6,598 million or 1.6% of GDP.**

## 4. Monetary Sector

**4.1. In September 2010, primary money<sup>1</sup> showed slowed down growth of 9.5% on annual basis (compared to the growth of 10.9% in August), in conditions of slowed down growth of total liquid assets of banks of 9.2% and growth of ready money in circulation<sup>2</sup> of 10%.**

On monthly basis, primary money dropped by 3.4%, as a result of the drop of total liquid assets of banks by 4.1% and the drop of ready money in circulation by 2.4%.

National Bank of the Republic of Macedonia in September 2010 retained the interest rate on CB bills at the same level of 4.5% and the interest rate on overnight credits (Lombard credits) at the level of 6.0%.



**4.2. Total deposit potential of banks<sup>3</sup> in September 2010 increased by 1% on monthly basis (compared to the increase by 2.2% in August), mainly instigated by the increase of deposits of private enterprises by 2.4%. Deposits of households were higher by 0.5% compared to last month.** According to the currency, Denar deposits continued to register high growth of 1.6% on monthly basis, thus largely contributing to the monthly growth of total deposits (72.5%), while foreign currency deposits were higher by 0.5%.

On annual basis, total deposits increased by 14.5% (compared to 13.5% in August 2010), whereby from the point of view of sector structure, the increase was mainly a result of the growth of deposits of households (almost 80% contribution), although they slowed down the growth to 17.6% in September (from 18.5% in August). On the other hand, deposits of enterprises registered significant intensification of the annual growth, amounting to 6.8% (compared to 1.4% in

<sup>1</sup> 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).

<sup>2</sup> Including cash in hand of the banks.

<sup>3</sup> Starting January 2009, deposits include calculated interest.

August). Analyzed according to the currency, Denar deposits continued the trend of intensifying the growth rate, again experiencing high growth of 21% (19.5% in August) in September. Foreign currency deposits increased by 9%.

**4.3. In September 2010, total credits to private sector increased by 0.95% on monthly basis.** From the point of view of sector structure, credits to both enterprises and households also increased by 0.5%. According to the currency, Denar credits grew by 0.3%, while foreign currency credits experienced high increase by 1.1% compared to last month.

**On annual basis, accelerated growth of total credits continued, whereby annual growth rate was 7.7% (compared to 7.1% in August).** From the point of view of sector structure, crediting to private enterprises had dominant contribution to growth, increasing by 10.3%, and crediting to households also registered accelerated growth of 4.3%. From currency point of view, Denar credits experienced annual growth of 5.5%, while foreign currency credits continued to realize high growth of 15.8%.

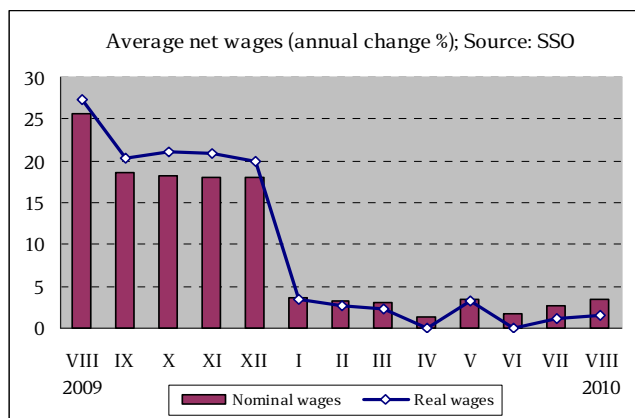
**4.4. In September 2010, there were not more significant changes of interest requirements of banks, compared to August.** In fact, interest on debit balance on Denar and foreign currency credits did not change on monthly basis, amounting to 9.2% and 7.4% respectively. However, compared to September 2009, loosening of interest policy of banks can be noticed. In fact, average interest rate on Denar credits reduced by 1.1 p.p., while average interest rate on foreign currency credits was lower by 0.2 p.p..

On the other hand, interest on Denar deposits in September 2010 amounted to 6.8%, decreasing by 0.2 p.p. on monthly basis, while dropping by 0.5 p.p. compared to September 2009. Average interest rate on foreign currency deposits has remained unchanged three months already, amounting to 3%. However, it was lower by 0.3 p.p. compared to the same month 2009.

**4.5. Gross foreign currency reserves in September 2010 amounted to EUR 1,689.3 million, and compared to December 2009, they were higher by EUR 91.6 million.**

## 5. Social Sector

**5.1. In the period January-September 2010, Employment Agency of the Republic of Macedonia registered total of 172,750 new employments. 36.5% 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 3.8%.**

During September, 24,604 new employments were registered, 21.8% out of which were from the unemployed records. Outflow of persons from the Employment Agency Registry of the Republic of Macedonia amounted to 11,271 persons in September, 43.8% out of which were new employments. 8,350 persons were registered as inflow to the Agency, 48.1% out of which were persons whose employment was terminated.

**As a result, unemployment reduced by 2,921 persons, i.e. by 0.9% compared to the previous month. Thus, there were 323,233 unemployed persons in September 2009.**

Number of unemployed persons, compared to the same month last year, declined by 5.4%.

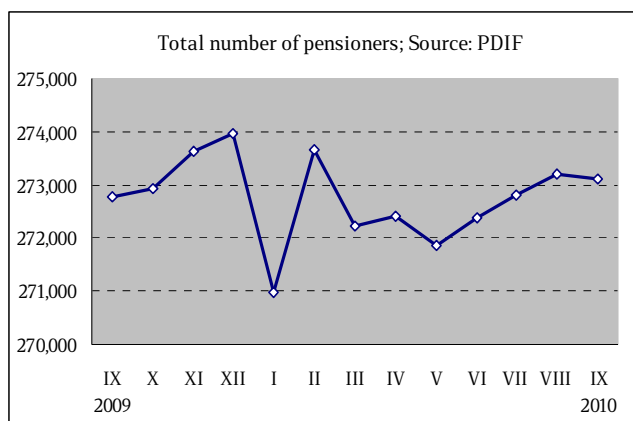
Major percentage of the unemployed, i.e. 66.3%, came from urban areas (cities), whereby 57.6% were men. Analyzed by education structure, major part, i.e. 52.7% of unemployed persons were unskilled or semi-skilled, while only 7.68% was with community college or higher education level. Observed by age, majority of unemployed or 58.3% fall in the category of 25-49 years of age. According to the time they waited for a job, 50.8% of the unemployed persons sought job from 1 to 7 years, while 30.2% sought job for 8 years and more.

**5.2. In September 2010, Pension and Disability Insurance Fund registered 273,101 pensioners, increasing by 0.1% compared to the same month last year. Number of pension beneficiaries dropped by 96 persons in relation to the previous month.**

In September, Denar 2,778.23 million was spent for payment of pensions, being 52% of total social transfers in the state Budget.

Average pension in September 2010 amounted to Denar 10,268, increasing by 2% on annual basis. Ratio between average pension and average paid salary in August 2010 (most recent available data) amounted to 49.4%.

5.3. Number of social welfare beneficiaries in August 2010 (most recent available data) was 51,337 households, increasing by 463 beneficiaries compared to previous month.

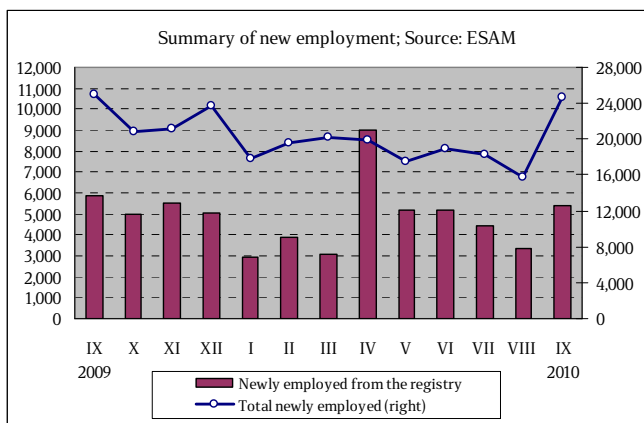


Thereby, around Denar 124.4 million was spent for payment of social welfare, i.e. 49.5% of social welfare payments under all bases. Around Denar 96 million was spent on the basis of third person care for 22,560 persons in August, i.e. 38.2% of payments of social welfare under all bases. This month, 5,624 persons were registered as beneficiaries of permanent pecuniary allowance, for which Denar 22.4 million was spent, while 5,694 persons used healthcare, for which Denar 8.4

million was spent. These welfare-related payments accounted for 4.7% of the total social transfers realized in August.

**5.4. In the period January-August 2010 (the most recent available data), compared to the same period in 2009, average monthly net salary increased by 2.8% in nominal terms, while real average salary was higher by 1.8%.**

In August 2010, average net salary per employee amounted to Denar 20,541. In August 2010, compared to the same month in 2009, average monthly net salary increased by 3.4% in nominal terms, while real average salary was higher by 1.5%. Percentage of employees who did not receive salary in August 2010 was 2.7%, being by 1 p.p. lower in relation to the same period last year.



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