

SHORT-TERM ECONOMIC TRENDS

OCTOBER 2008

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS IN OCTOBER 2008

- Industrial production dropped by 9.9% on annual basis;
- Inflation stabilized at 7.1% on annual level, experiencing 0.7% monthly increase;
- Increased export of goods (Euros) by 12.9% in the period January-October 2008, with simultaneous growth of import of goods by 29.8%;
- Increase of central budget revenues by 13.7% in the period January-October 2008, with simultaneous increase of expenditures by 15.5% (strong increase of capital expenditures by 83.6%);
- Slowed-down crediting in October 2008, but strong increase by 39.6% on annual basis, and growth of total deposit potential of the non-government sector by 18.9%;
- Continuation of the declining trend in the number of registered unemployed persons in the Employment Agency, reaching 343,051 persons in October.

1. REAL SECTOR

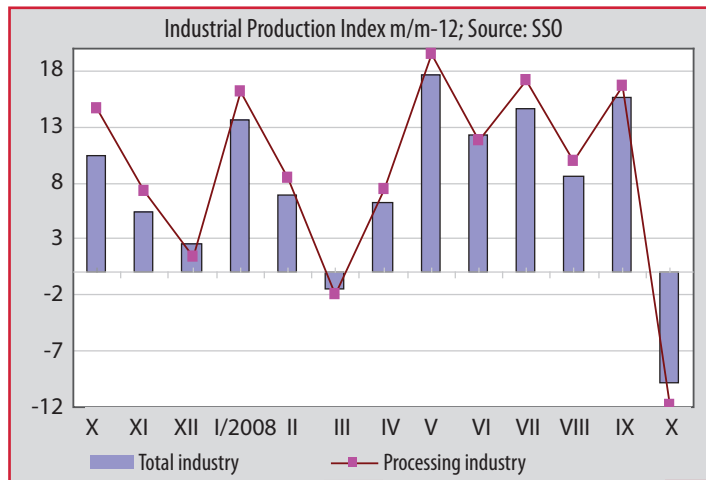
1.1. In October 2008, industrial production decreased by 9.9% annually as a result of the developments in the world economy, i.e. the global financial crisis.

Analysis of the physical production index on annual basis shows that negative results in October were due to the reduced activity in even 15 out of the 24 industrial branches. As one of the main reasons for such dynamics in the production was the weak activity in the base metals sector, experiencing annual drop of 37.6%, followed by the drop in the production of clothing by 23.9%, production of metal products in the metal processing stage, except for machines and devices, 48.4%, production of machines and devices, not mentioned elsewhere, by 34.4%, production of electrical machines and devices, not mentioned elsewhere, by 23.9%, etc. Reduced production was due to the declined external demand as a result of the global recession, having in mind that large portion of this production is export oriented.

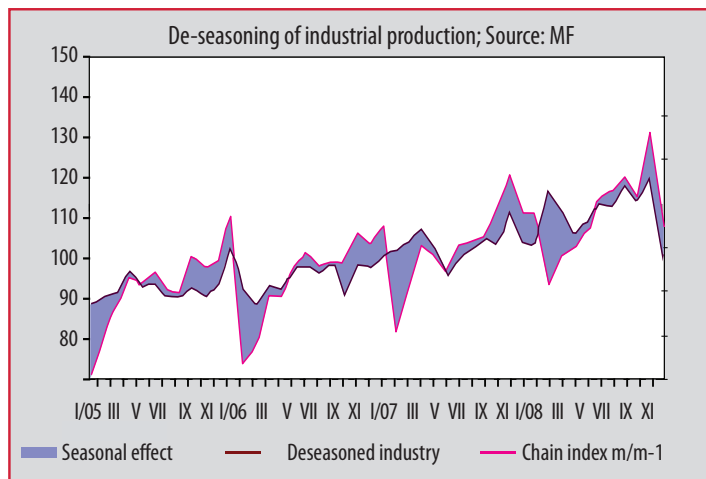
Index of industrial production registered drop by 16.9% on monthly basis.

Reduced monthly activity also led to decline of the cumulative index of industrial production, which was by 8.1% higher in the period January - October 2008, compared to the same period last year (decline in relation to September index was 2.3 percentage points).

Metallurgy industry was the first to feel the effects from the drop of prices on global stock markets. Drastic decline of prices of metals put the companies in this industry in an invidious position. These companies mainly export to the global markets, so their declined production automatically means lower export. Hence, reduced production will be accompanied by lower import of raw materials for processing, and thus effect on the net export could not be predicted with certainty.



According to the expectations of the enterprise managers, economic situation present in the enterprises in October 2008 was estimated as much unfavourable compared to the previous months. Average utilization of the enterprise capacities in October 2008, compared to the previous month, declined by 3.9 percentage points, amounting to 63%. Following factors limited the most the production volume in October 2008: insufficient domestic demand – 15.8%, foreign demand – 13.2%, uncertain economic surrounding – 11.0% and financial problems – 10.8%.



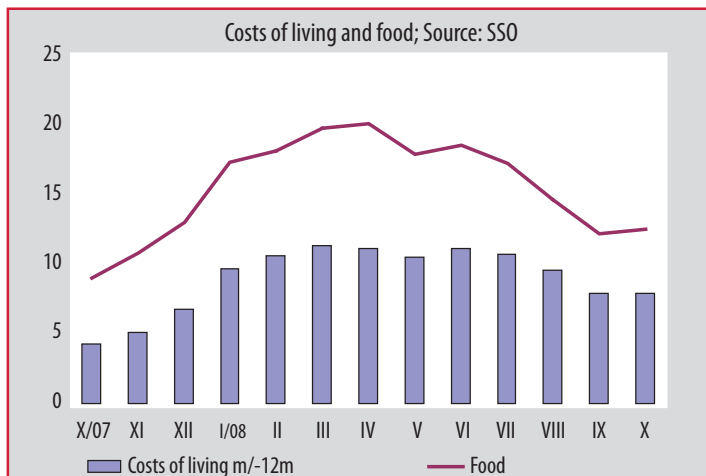
1.2. In the period January - October 2008, prices of personal consumption goods, measures through CPI index, grew by 9.0% compared to the same period last year.

Costs of living in October 2008, compared to October 2007, increased by 7.1%. Growth was mainly due to the higher costs for food by 12.2%, restaurants and hotels by 10.7%, services by 6.1%, tobacco and beverages by 4.3%, housing by 7.7%, flats (rents, water and other services) by 5.7%, etc.

CPI index in October 2008, compared to September 2008, was higher by 0.7%.

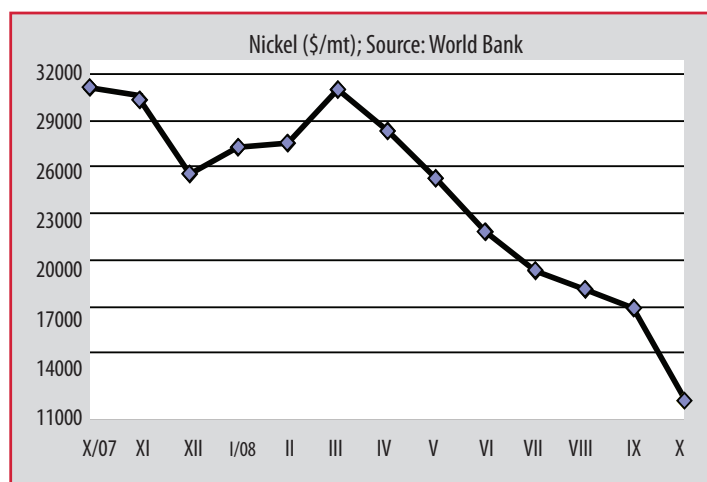
Value of the consumer basket of food and beverages for a four-member household in October 2008, calculated on the basis of retail prices, was Denar 12,242 and, compared to the previous month, it was by 2.3% higher.

In October 2008, retail price index experienced lower growth on annual basis compared to the CPI index. Thus, retail price index in October 2008



registered 5.7% increase compared to October 2007. Analysed on cumulative basis, in the period January-October, retail prices were higher by 7.4%. Increase of prices was noted at the agricultural products by 21.6%, food products by 17%, industrial and alimentary products by 15.8% and goods by 9.8%.

1.3. In October 2008, global stock markets experienced decline in the prices of most metal and food products.



In October, oil price on world stock markets dropped by 26.4% compared to the previous month, reaching the price of US\$ 72.84 per barrel. Compared to October last year, oil price declined by 12.1%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, dropped by 31.8% on monthly basis, reaching US\$ 12.140 for a metric ton (\$/mt).

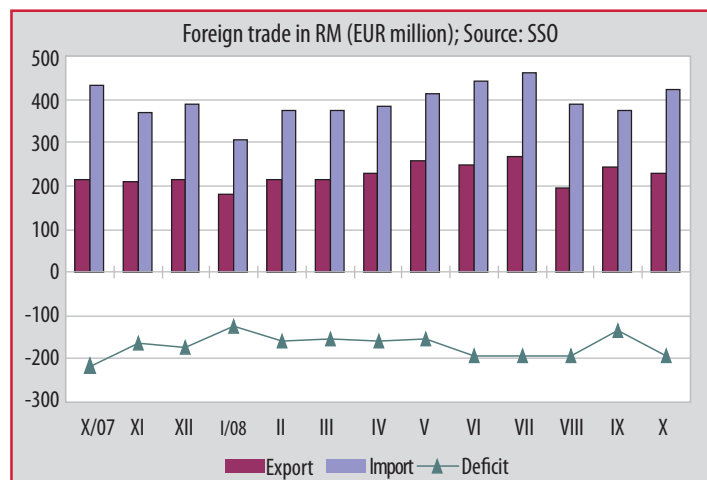
During this period, prices of steel and steel sheets remained stable five months in a row.

2. EXTERNAL SECTOR

2.1. In the period January-October 2008, total foreign trade (expressed in euros), experienced increase by 23.1% in relation to the same period last year.

Thereby, physical output of export grew by 4.9%, while its value reached EUR 2,689.2 million, being an increase by 12.9%.

Increase in the imported quantity of goods was 6%, and its value was EUR 3,141.2 million, being a rise by 29.8%. In conditions of such trends, mainly due to the more intensive value increase of the import compared to the export, trade deficit in the first nine months 2008 grew by 63.5% (EUR 642.2 million) in relation to the deficit realized by end-October last year, amounting to EUR 1,652.5 million. Higher



deficit in this period in 2008 was mainly result of the increase in the negative balance regarding energy trade (EUR 268.3 million), i.e. the increased import of oil and oil products (57.9%) and electricity (40%).

Decrease in the positive trade balance of iron and steel by EUR 140.9 million in the nine months 2008, compared to the same period in 2007, also accounted for significant share (21.9%) in deepening the trade deficit. At the same time, 10.8% of the increased deficit was due

to the increase in the import of road vehicles by 37.2% or by EUR 69.3 million.

Import of oil and oil products*				
	I-X 2007	I-X 2008	Салдо 2008-2007	Стапки во %
КГ	1.031.859.961	1.082.763.994	50.904.033	4,9
ЕУР	361.854.051	571.394.361	209.540.310	57,9
\$	489.969.455	861.271.399	371.301.944	75,8

*) Previous data

Import of electricity*				
	I-X 2007	I-X 2008	Салдо 2008-2007	Стапки во %
MWH	2.582.290	2.606.154	23.864	0,9
ЕУР	147.021.563	205.781.890	58.760.327	40,0
\$	203.599.447	308.914.560	105.315.113	51,7

*) Previous data

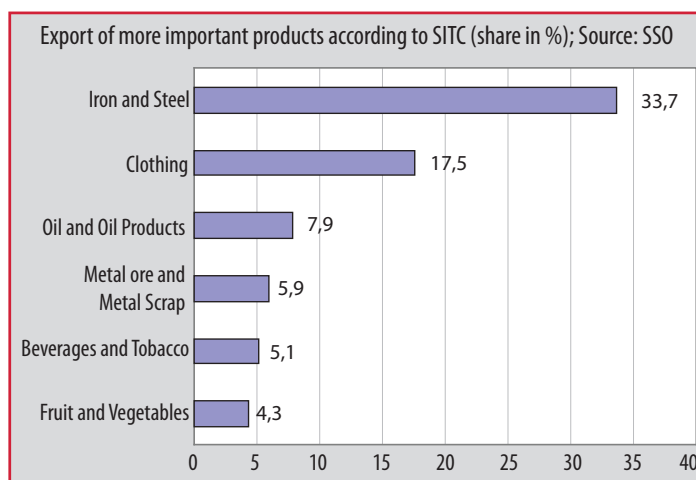
Foreign trade of the Republic of Macedonia - by currency -												
Export	I-X 2007					I-X 2008					Absolute change in currency value	Relative change in currency value (in%)
Currency	000t	Amount of export currency	Average Denar exch, Rate in relation to currencies	Export in denar	Structure in %	000t	Amount of export currency	Average Denar exch, Rate in relation to currencies	Export in denar	Structure in %		
EUR	2,356	1,433,802,904	61.1772	87,716,047,019	70.8	2,638	1,772,733,165	61.2374	108,557,569,918	77.7	338,930,261	23.6
USD	672	779,594,600	45.2875	35,305,890,448	28.5	538	755,320,191	40.8420	30,848,787,241	22.1	-24,274,409	-3.1
EUR+USD	3,028			123,021,937,466	99.2	3,176			139,406,357,159	99.8		
Export Total	3,035			123,976,198,392	100.0	3,182			139,699,373,118	100.0		12.7

Source: State Statistical Office; National Bank of Republic of Macedonia

2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following: iron and steel – 33.7%, clothing – 17.5%, oil and oil products – 7.9%, metal ore and metal scrap – 5.9%, beverages and tobacco – 5.1%, fruit and vegetables – 4.3%.

These six groups of products comprise 74.3% of the total export of goods.

The following participated the most in the import of goods in the first nine months in 2008 on cumulative basis: oil and oil products (EUR 571.4 million), iron and steel (EUR 467 million), road vehicles (EUR 255.6 million), textile yarns and similar (EUR 254.9 million), electricity (EUR 205.8 million), metal ore and metal scrap (EUR 160.5 million), industrial machines and spare parts (EUR 116.7 million), etc.



Import of iron and steel*)				
	I-X 2007	I-X 2008	2008-2007 Balance	% rate
000 T	940,1	889	-51,3	-5,5
EUR mil.	774,6	772	-3,0	-0,4
\$ mil.	1.047,0	1.165	118,3	11,3

*) Previous data

Import of iron and steel*)				
	I-X 2007	I-X 2008	2008-2007 Balance	% rate
000 T	794,6	819,2	24,6	3,1
EUR mil.	329,2	467,1	137,9	41,9
\$ mil.	445,6	767,8	322,2	72,3

*) Previous data

2.3. The following participated the most in the import of goods in the first nine months in 2008 on cumulative basis: oil and oil products (EUR 571.4 million), iron and steel (EUR 467 million), road vehicles (EUR 255.6 million), textile yarns and similar (EUR 254.9 million), electricity (EUR 205.8 million), metal ore and metal scrap (EUR 160.5 million), industrial machines and spare parts (EUR 116.7 million), etc.

During the analyzed period January-October 2008, 91.7% of the trade deficit of the country was realized in the trade with Russia, China, Switzerland, Poland, Turkey, Ukraine, Brazil, Slovenia and Indonesia.

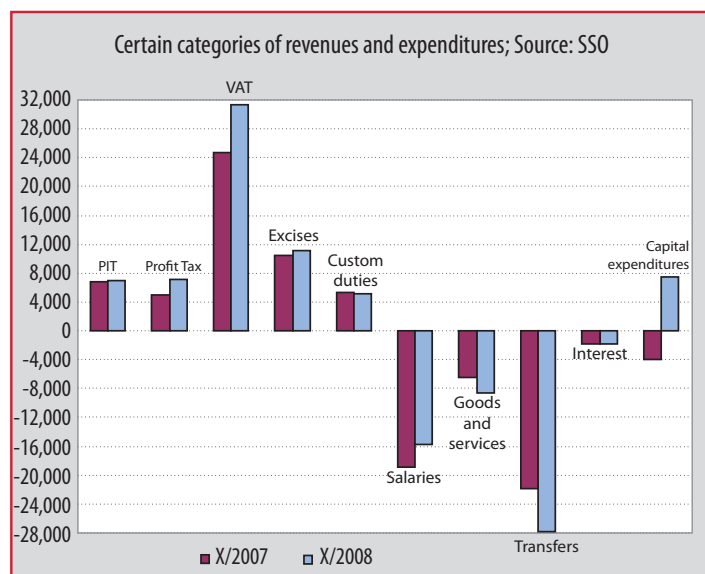
2.4. Observed by currency structure, EURO is becoming more and more dominant, whereby 73.6% of foreign trade is realized in euros, and compared to the same period last year, it increased by 3.6 percentage points (p.p.).

On export and import side, EURO accounted for 77.7% and 71.6% respectively, and in relation to the same period last year, more intensive increase was evidenced at export by 6.9 percentage points, while import increased by 1.6 percentage points.

3. FISCAL SECTOR

3.1. In the period January-October 2008, the total central government budget revenues reached an amount of Denar 72,797 million (19.1% of GDP), which was 13.7% increase in relation to the same period last year.

Such increase of revenues was due to the intensified economic activity and improved collection of tax revenues, and partially to the increased consumption, especially evident at revenues on the basis of indirect taxes. High increase was also realized at non-tax revenues as a result of the payment of Telecom dividend.



Tax revenues in this period were realized in the amount of Denar 63,946 million, which was 10.3% growth in relation to same period last year.

Share of VAT in total tax revenues in the ten months in 2008 amounted to 48.9%, while excises accounted for 17.4%, whereby revenues in the amount of Denar 42,436 million were realized on the basis of these two taxes, i.e. 2/3 of total tax revenues (11.1% of GDP). Analyzed by categories, VAT revenues significantly increased by 26.9%, excises surged by 6.9%, profit tax revenues increased by 44.3%, i.e. 79.8% were realized compared to the revised plan (although with a reduced

rate of 10%). Customs revenues were realized almost at the same level (only by 0.2% less), while PIT revenues surged by 1.9% compared to the same period last year, despite the reduced unified tax rate of 10%. Non-tax revenues increased by 44.3% in relation to the same period last year, mostly due to the payment of Telecom dividend in 2007 in the amount of Denar 3,784 million.

3.2. In the period January - October 2008, total central budget expenditures amounted to Denar 61,229 million (16.2% of GDP), being by 15.5% more compared to the same period in 2007.

With respect to the structure of realized total expenditures, current expenditures (Denar 53,819 million) accounted for 87.9%, while capital expenditures participated with 12.1%.

The biggest expenditure items were transfers (Denar 27,790 million) and salaries and allowances (Denar 15,729 million). With respect to the total central government budget expenditures, expenditures related to wages and salaries and allowances accounted for 25.7% in this period, which was 16.5% decline in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 8,566 million, i.e. by 32.8% more compared to 2007.

With regard to transfers, 27.5% more resources were spent compared to the same period in 2007, and were the largest expenditure item, i.e. their share in total expenditures was 45.4% (7.3% of GDP). Such results were partially due to the fact that grants transferred to LGUs included part of VAT, number of LGUs moving to the second phase of decentralization also rose, whereby block grants were paid to 62 municipalities for financing the transferred competences (funds for payment of salaries and allowances to the employees in local public institutions and operating costs). Transfers to the Pension and Disability Insurance Fund were in the amount of Denar 8,058 million or by Denar 384 million lower (4.5% drop). Interest was collected in the amount of Denar 1,734 million, being by 8.2% less compared 2007.

Capital expenditures amounted to Denar 7,410 million, increasing by almost twice (83.6%) compared to the same period in 2007 (2.0% of GDP).

3.3. Thus, in the period January-October 2008, central government budget surplus reached the amount of Denar 11,568 million (3.0% of GDP), while consolidated budget surplus amounted to Denar 11,000 million (2.9% of GDP).

4. MONETARY SECTOR

4.1. In October 2008, primary money increased by 19.2% on annual basis (19.4% in September), which, in conditions of slightly increased level of ready money in circulation by 0.2%, was fully due to the stronger increase of total liquid assets of the banks by 38.5%.

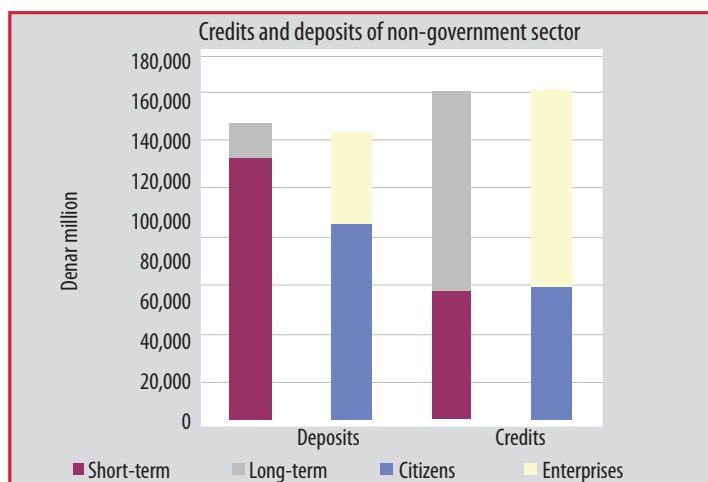
On monthly basis, primary money increased by 4.2%, due to the increase at two components, increase of the total liquid assets of the banks by 11.2% and of the ready money in circulation by 0.3%.

In October 2008, with respect to the requirements for volume tenders, interest rate on central bank bills kept the level of 7%.

Interest rates on government securities were as follows: 7.57% on three-month treasury bills, 7.86% on six-month treasury bills, 7.99% on twelve-month treasury bills and 8.25% on two-year treasury bills.

In October, two auctions were held by applying interest rate tender for three-month treasury bills, one auction was held by applying interest rate tender for six-month treasury bills, and one auction was held by applying volume tender for two-year treasury bills.

4.2. Total deposit potential of non-government sector surged by 18.9% in relation to last year (compared to 22.2% in September 2008). For the first time in 2008, total deposits dropped by 0.9% on monthly basis, as a result of the declined saving by the citizens and the declined deposits of enterprises.



In October 2008, Denar deposits dropped by 0.6% on monthly basis, while foreign currency deposits realized strong decline by 2.0%. Denar and foreign currency deposits increased by 14.5% and 22.7% respectively on annual basis.

From the point of view of sector structure, savings of the corporate sector declined by 2.3% on monthly basis, while savings of the population dropped by 0.7%. With respect to last year, deposits of citizens and of enterprises were higher by 15.6% and 23.5% respectively.

Analysis of the maturity structure showed strong increase of short- and long-term deposits in October on annual basis by 13.9% and 78.9% respectively. Short-term deposits dropped by 0.2% on monthly basis, while long-term deposits grew by 10.9%.

4.3. In October 2008, credits to private sector experienced growth. Monthly increase of credits by 1.9% was mainly due to increased credits to corporate sector. With respect to last year, credit growth surged and it was 39.6% (compared to 38.4% in September).

Monthly increase of credits to citizens in October was almost the same, amounting to 2.3%, while credits to enterprises increased slightly by 1.7% (compared to 2.9% in September). Annually, credits to citizens and enterprises surged by 46.3% and 35.5%, respectively.

With respect to credits to enterprises, short- and long-term credits to enterprises increased slightly by 33.7% and 37.0% respectively on annual basis. Monthly, short-term credits to enterprises declined by 0.8%, while long-term ones were higher by 2.5%.

From currency point of view, Denar credits (including credits with foreign currency clause) increased by 41.5% annually. Foreign currency credits increased by 33.7% annually. Compared to the previous month, Denar credits grew by 2.3%, having dominant share in total credit growth. Foreign currency credits were higher by 0.7%.

4.4. In October 2008, average weighted interest rate on Denar credits remained unchanged, amounting to 9.7%. Average interest rate on foreign currency credits increased by 0.2 p.p. compared to the previous month, being at the level of 8.3%. With respect to last year, interest requirements of the banks were loosed, i.e. average interest rate on Denar and foreign currency credits dropped by 0.5 p.p.. When analyzing the banks on the basis of their size, large banks had the lowest weighted interest on debit balance, 8.9% on Denar credits and 8.3% on foreign currency credits.

Interest rate on credit balance on Denar deposits increased by 0.1 percentage point in October 2008 on monthly basis, amounting to 6.2%, and it surged by 1.1 percentage point on annual basis.

Average interest rate on foreign currency deposits increased by 0.2 p.p. compared to the previous month, amounting to 2.7%, and it increased by 0.7 p.p. on annual basis.

4.5. Gross foreign exchange reserves amounted to EUR 1,673.2 million in October 2008, and compared to December 2007, they increased by 9.8%. On monthly basis, they dropped by 0.9% in conditions of net purchase on the foreign exchange market in the amount of EUR 10.0 million and sale of EUR 21.0 million, thus the net effect from foreign currency transactions was negative.

5. SOCIAL SECTOR

5.1. In the period January-October 2008, Employment Agency of the Republic of Macedonia registered 176,364 new employments (full-time, temporary and seasonal employment), being an increase by 10.9% compared to the same period last year. Thereby, 42.2% were full-time employees, while the rest was temporary employment and seasonal works.

In the course of October, 20,690 new employments were registered, 28.5% out of which from the Registry of the Employment Agency, accounting for 49.3% of the total outflow from the Registry. As inflow to the Agency, 11,297 persons were registered, 45.7% of which were persons that terminated their employment.

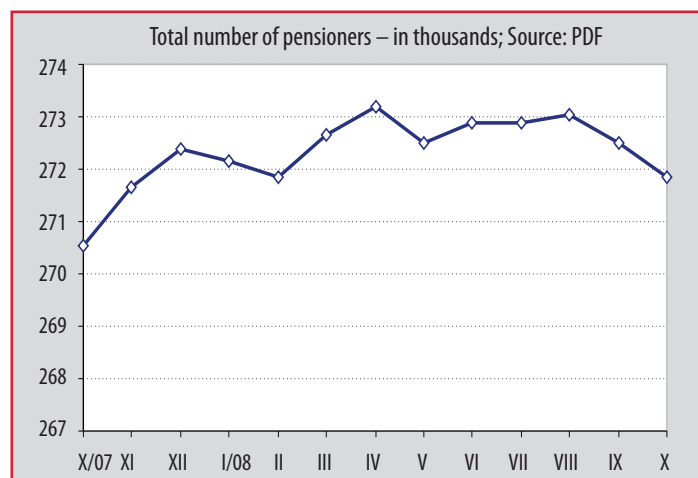
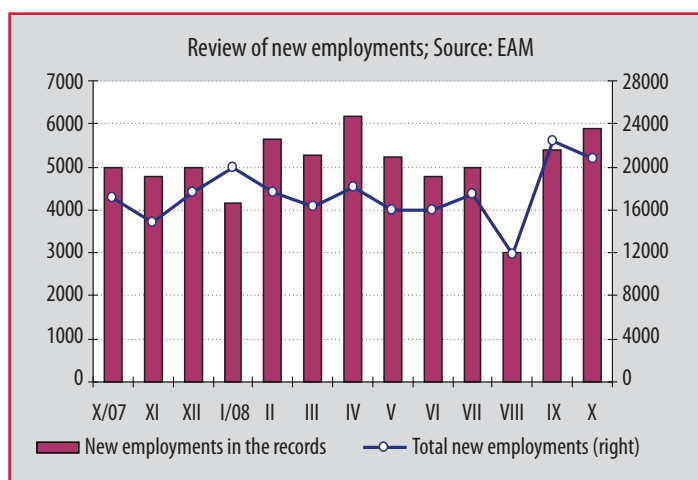
As a result, unemployment declined by 641 persons, i.e. 0.2% compared to the previous month.

Thus, in October 2008 the number of unemployed persons was 343,051, 71,638 (20.9%) out of which declared that they applied only to exercise the right to health insurance, and others actively seek job. Compared to the same month last year, number of unemployed persons declined by 4.7%.

Major percentage of the unemployed, i.e. 66.7%, came from urban areas (cities), whereby 57.9% were men. According to the education structure, major part, i.e. 51.7% of the unemployed persons were unskilled or semi-skilled, while 7% were with community college or higher education level. Observed by age, majority of the unemployed (60.2%) fall in the category of 25-49 years of age. In fact, 82.4% were unemployed for a year or more.

5.2. In October 2008, the PDF registered 271,856 pensioners, which was an increase by 0.5% on annual level.

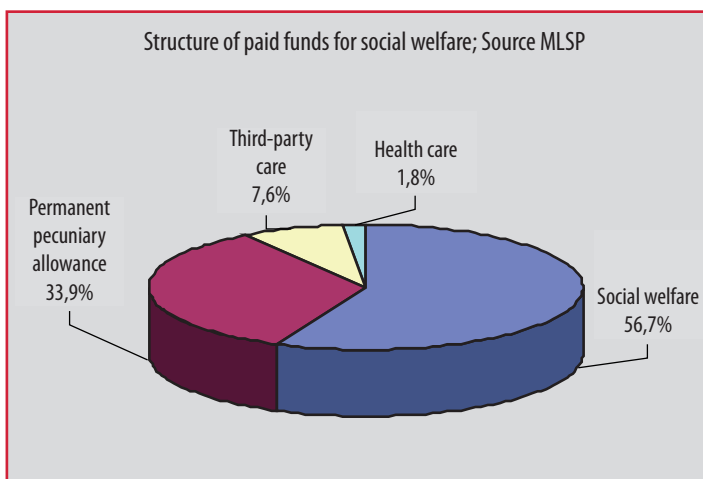
In October, Denar 2,076.7 million was spent for payment of pensions, being



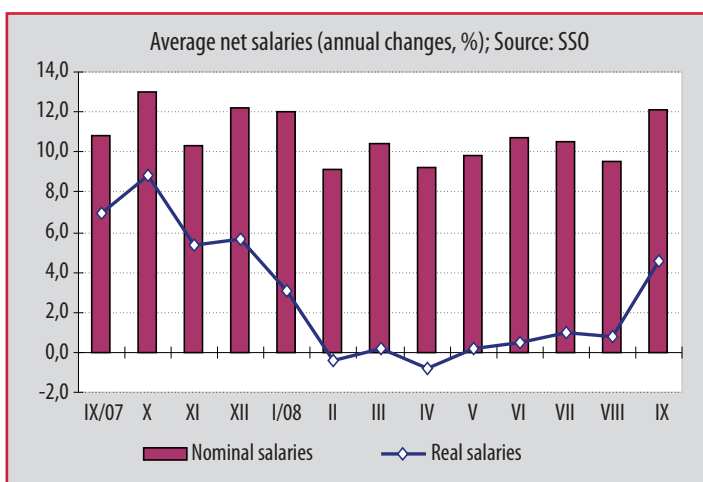
52.9% of the total social transfers in the state Budget. As of October inclusive, 6% of the projected GDP was dedicated to these purposes.

Average pension in October 2008 amounted to Denar 9,548, being an increase by 21.6% on annual level. Ratio between the average pension and the average net paid salary in September 2008 (last available data) was 56.6%, being a decline by 3.3 p.p. compared to the previous month, as a result of the increase of salaries in September.

5.3. Number of social welfare beneficiaries in September (most recent available data) is 57,591 households, which is a mild increase compared to previous month.



In fact, Denar 133.7 million was spent for payment of social welfare. In September, around Denar 80 million was spent for 20,134 beneficiaries using third person care, which is annual decline by 10%. In October, 5,189 persons were registered as beneficiaries of permanent pecuniary allowance, for which Denar 18 million was spent, while 5,212 persons used healthcare for which around Denar 4.2 million was spent. Welfare-related payments accounted for 4.9% of the total social transfers realized in September.



5.4. In the period January–September 2008 (the most recent available data) compared to the same period in 2007, the average nominal and real net salary grew by 10.4%, i.e. by 1.0%.

In September 2008, average monthly net salary per employee amounted to Denar 16,886, which was two-digit growth by 12.1% annual basis, while on monthly basis the growth was 6.7%, due to the increase of salaries in the public administration and defense (by 13.3%), education (by 9.5%) and health and social work (by 8.4%). Percentage of unemployed persons having received

no salary was 8.3%, being by 3.3 percentage lower compared to September 2007.

