

SHORT-TERM ECONOMIC TRENDS

DECEMBER 2008

SUMMARY OF THE MOST IMPORTANT SHORT-TERM ECONOMIC MOVEMENTS

- Industrial production dropped by 10.1% on annual basis
- Inflation stabilized at 4.1% on annual level, experiencing 0.3% monthly increase
- Increased export of goods (euros) by 9.9% in 2008, with simultaneous growth of import of goods by 22.4%
- Increase of central budget revenues by 12.7% in the period January-December 2008, with simultaneous increase of expenditures by 17.4% (strong increase of capital expenditures by 53.6%)
- Slowed-down crediting in December 2008, but strong increase by 34.4% on annual basis, and reduced growth of total deposit potential of the non-government sector by 10.4%
- Slight decline of the number of unemployed, amounting to 343,363 persons in December

1. REAL SECTOR

1.1. Cumulative index of industrial production in 2008, compared to the same period last year, increased by 5.5%. In December 2008, industrial production decreased by 10.1% 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 December were due to the reduced activity in even 13 out of the 24 industrial branches. As one of the main reasons for such dynamics in the production is the weak activity in the base metals sector, experiencing annual drop of 58.1%, followed by the drop in the production of clothing by 15.9%, production of coke, oil derivatives and nuclear fuel by 71.1%, production of machines and devices, not mentioned elsewhere, by 8.9%, 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 7.3% on monthly basis.
- In December 2008, number of employees in the industry dropped by 3.7% in relation to the same month last year.
- 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 and 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 December 2008 was estimated as much unfavourable compared to the previous months. Average utilization of the enterprise capacities in December 2008, compared to the previous month, declined by 59.5%. Production volume of the enterprises in the last three to four months dropped and such trend continues in the current month as well. Estimate for the expected production volume for the coming period is the most unfavourable. Estimate for the expected number of employees is also unfavourable.

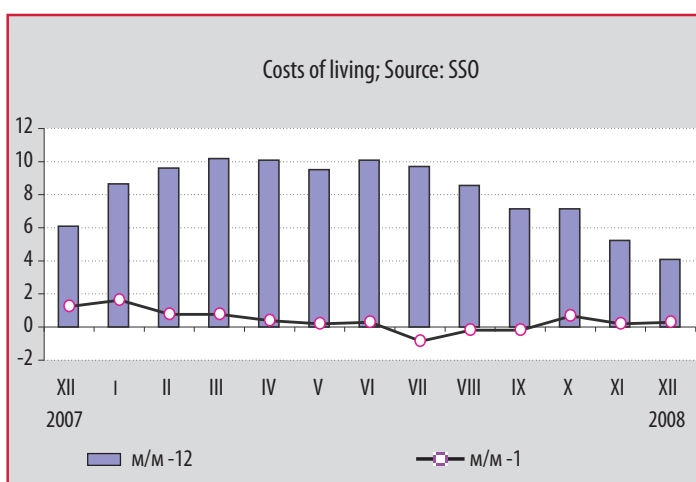
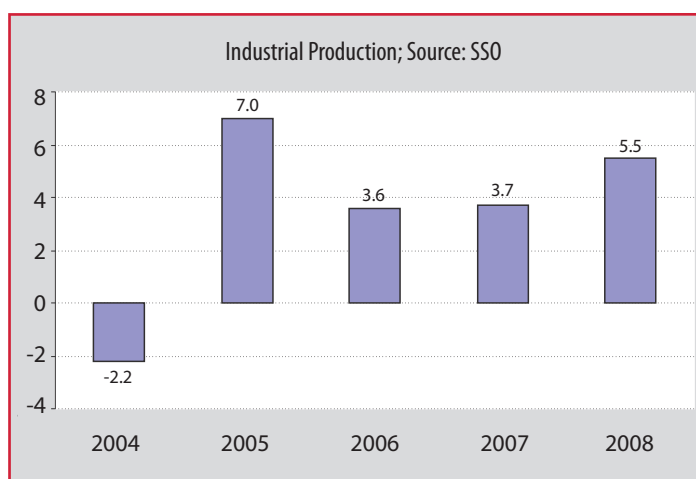
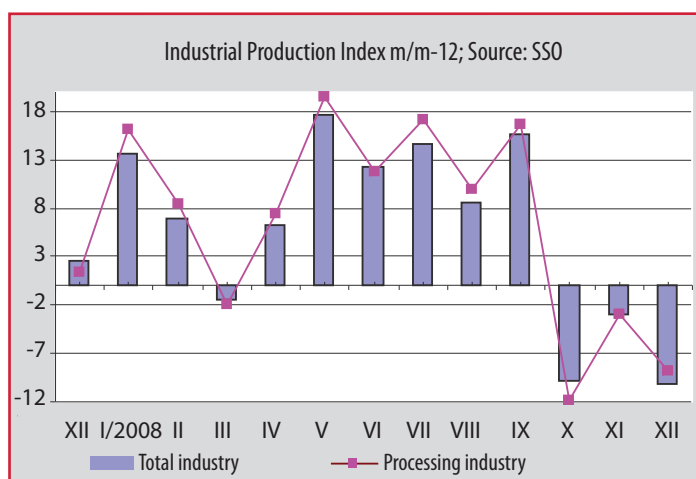
1.2. In the period January - December 2008, prices of personal consumption goods, measures through CPI index, grew by 8.3% compared to the same period last year.

Costs of living in December 2008, compared to December 2007, increased by 4.1%. Growth was mainly due to the higher costs for food by 6.3%, restaurants and hotels by 6.8%, services by 5.1%, tobacco and beverages by 4.4%, housing by 11.2%, flats (rents, water and other services) by 6.0%, etc.

CPI index in December 2008, compared to November 2008, was higher by 0.3%.

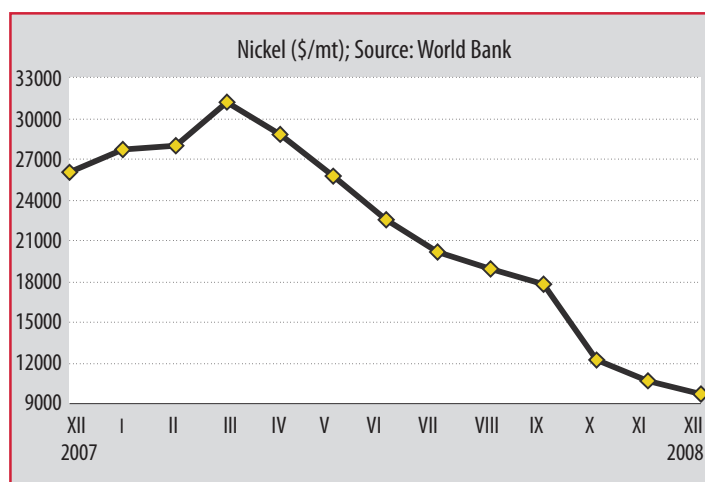
Value of the consumer basket of food and beverages for a four-member household in December 2008, calculated on the basis of retail prices, was Denar 12,575, and compared to the previous month, it was by 2.8% higher.

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



registered 2.8% increase compared to December 2008. Analysed on cumulative basis, in the period January-December, retail prices were higher by 6.7%. Increase of prices was noted at the agricultural products by 18.6%, food products by 15.0%, industrial and alimentary products by 14.0% and goods by 8.6%.

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



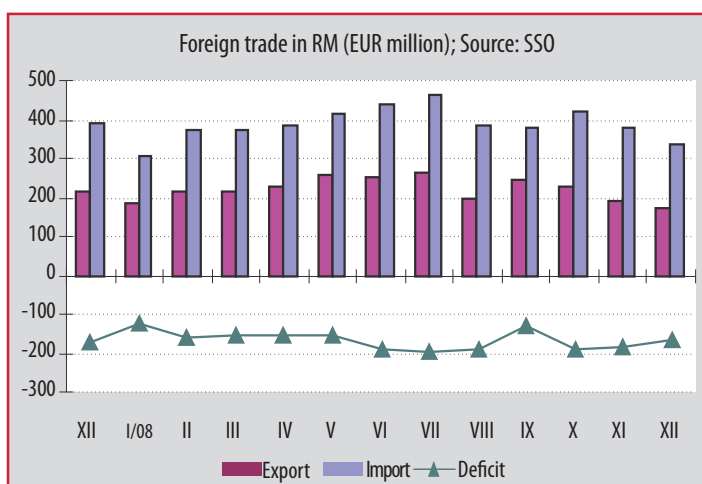
In December, oil price on world stock markets dropped by 21.9% compared to the previous month, reaching the price of US\$ 41.58 per barrel. Compared to December last year, oil price declined by 54.5%.

Regarding metal products, price of nickel, as a product having high share in the Macedonian export, dropped by 9.5% on monthly basis, reaching US\$ 9.686 for a metric ton (\$/mt).

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

2. EXTERNAL SECTOR

2.1. In 2008, total foreign trade (expressed in euros), experienced increase by 17.5% (EUR 1,091.2 million) in relation to last year.



Thereby, physical output of export grew by 3.6%, while its value reached EUR 2,689.2 million, being an increase by 9.9%. Thereby, the physical volume of export grew by only 0.3%, while its value reached US\$ 4,643.4 million, being 22.4% growth. In conditions of such trends, mainly due to the more intensive value increase of the import compared to the export, trade deficit in 2008 grew by 44.9% (EUR 605.6 million) in relation to the deficit realized last year, amounting to EUR 1,954.2 million. Higher deficit in 2008 was mainly result of the increase in the

- negative balance regarding energy trade (EUR 255 million), i.e. the increased import of oil and oil products (36.6%) and electricity (29.9%).
- Decrease in the positive trade balance of iron and steel by EUR 162.6 million, compared to 2007, also accounted for significant share (26.8%) in deepening the trade deficit in 2008. At the same time,
- 11.5% of the increased deficit was due to the increase in the import of road vehicles by EUR 70 million or by 30.2%.

Import of oil and oil products*)				
	I-XII 2007	I-XII 2008	Balance 2008-2007	Rates in %
Kg	1,226,410,225	1,256,628,156	30,217,931	2.5
EUR	458,952,977	626,926,665	167,973,688	36.6
\$	631,844,977	933,218,995	301,374,018	47.7

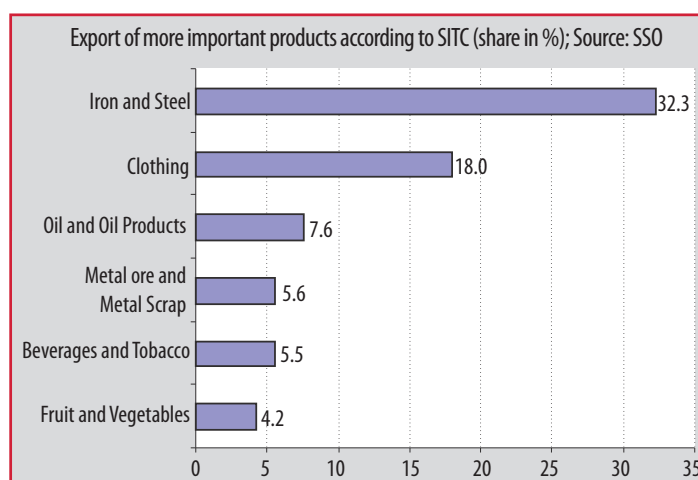
*) Preliminary data

Import of electricity*)				
	I-XII 2007	I-XII 2008	Balance 2008-2007	Rates in %
MWH	2,931,052	2,955,768	24,716	0.8
EUR	180,788,201	234,888,821	54,100,620	29.9
\$	252,998,411	347,111,886	94,113,475	37.2

*) Preliminary data

2.2. Main groups of products (according to SITC) having the biggest share in export in this period were the following: iron and steel – 32.3%, clothing – 18%, oil and oil products – 7.6%, metal ore and metal scrap – 5.6%, beverages and tobacco – 5.5%, fruit and vegetables – 4.2%. These six groups of products comprise 73.2% of the total export of the country.

The following participated the most in the import of goods this year on cumulative basis: oil and oil products (EUR 626.9 million, 13.5%), iron and steel (EUR 505.2 million, 10.9%), textile yarns and similar (EUR 316.2 million, 6.8%), road vehicles (EUR 302.2 million, 6.5%), electricity (EUR 234.9 million, 5.1%), metal ore and metal scrap (EUR 173.2 million, 3.7%), industrial machines and spare parts (EUR 139.7 million, 3.0%), etc.



Export of iron and steel*)				
	I-XII 2007	I-XII 2008	Balance 2008-2007	Rates in %
000 T	1,119.2	1,015.9	-103.3	-9.2
Mill. EUR	921.3	867.5	-53.8	-5.8
Mill. \$	1,261.3	1,292.1	30.8	2.4

*) Preliminary data

Export of iron and steel*)				
	I-X 2007	I-X 2008	Balance 2008-2007	Rates in %
000 T	953.4	892.3	-61.1	-6.4
Mill. EUR	396.4	505.2	108.8	27.4
Mill. \$	543.6	757.3	213.7	39.3

*) Preliminary data

2.3. Analyzed by regions, in 2008, the European Union (EU 27) participated the most in the total foreign trade with 52.2% (export of goods – 59.5% and import of goods – 48.2%). Export to the European Union was higher by only 0.3%, while the import experienced more intensive growth by 21.4% compared to 2007. In 2008, 85.1% of the trade deficit of the country was realized in the trade with Russia, China, Switzerland, Poland, Turkey, Ukraine, Brazil, Indonesia and Slovenia.

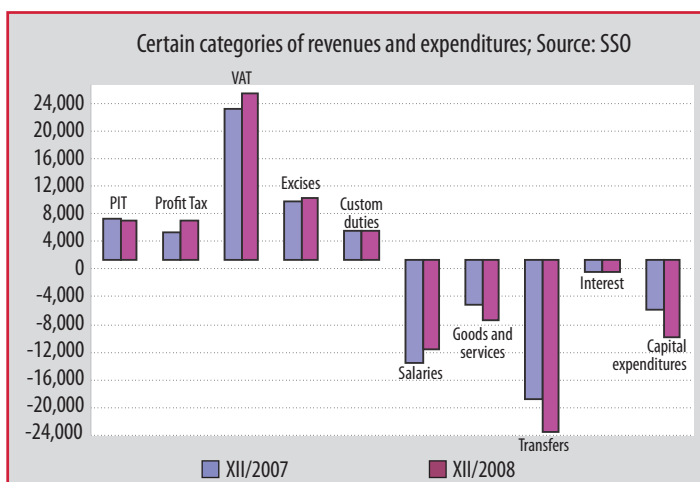
2.4. Observed by currency structure, EURO is becoming more and more dominant, whereby 75% of foreign trade in 2008 was realized in euros, and compared to last year, it increased by 4.6 percentage points (p.p.). On export and import side, EURO accounted for 78.5% and 73% respectively, and in relation to the same period last year, more intensive increase was evidenced at export by 7.8 percentage points, while import increased by 2.8 percentage points.

Foreign trade of the Republic of Macedonia - by currency -												
Export	I-XII 2007					I-XII 2008					Absolute change in currency value	Relative change in currency value (in%)
Currency	000 t	Amount of export currency	Average Denar exch. rate in relation to currencies	Export in denar	Structure in %	000 t	Amount of export currency	Average Denar exch. rate in relation to currencies	Export in denar	Structure in %		
EUR	2,770	1,730,608,346	61.1838	105,885,194,920	70.7	3,084	2,107,801,272	61.2654	129,135,288,050	78.5	377,192,926	21.8
USD	822	957,735,722	44.7184	42,828,409,111	28.6	640	840,863,757	41.8646	35,202,424,841	21.4	-116,871,965	-12.2
EUR+USD	3,592			148,713,604,031	99.3	3,724			164,337,712,891	100.0		
Export Total	3,600			149,763,545,944	100.0	3,731			164,414,131,749	100.0		9.8

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

3. FISCAL SECTOR

3.1. In 2008, the total central government budget revenues reached an amount of Denar 85,843 million (21.1% of GDP), which was 12.7% increase in relation to the same period last year. Such slighter increase of revenues on cumulative basis was due to the decline at VAT revenues in December (as a result of larger VAT refunds) despite the improved collection of tax revenues, particularly evident at the revenues on the basis of indirect taxes, as well as the higher increase of non-tax revenues as a result of Telecom dividend.



Tax revenues in this period were realized in the amount of Denar 75,840 million, which was 10.2% growth in relation to same period last year.

Share of VAT in total tax revenues in 2008 was dominant and it amounted to 47.7%, while excises accounted for 17.9%, whereby revenues in the amount of Denar 49,730 million were realized on the basis of these two taxes, i.e. almost 2/3 the total tax revenues (12.3% of GDP). Analyzed by categories, VAT revenues increased by 9.7%, excise revenues by 12.4%, profit tax revenues

increased by 45.5%, i.e. so-far realized 95.3% in relation to supplementary budget (although with 10% reduced rate), customs revenues remained at almost the same level or they increased by 1.2%), while PIT revenues declined by 2.2% compared to the same period last year, despite the reduced and unified 10% tax rate. Non-tax revenues increased by 45.0% 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 2008, total central budget expenditures amounted to Denar 88,710 million (21.8% of GDP), being by 17.6% more compared to the same period in 2007.

With respect to the structure of realized total expenditures, current expenditures (Denar 71,969 million) accounted for 81.2%, while capital expenditures participated with 18.8%, being an improvement in the expenditure structure from the point of view of more underlined development component.

The biggest expenditure items were transfers (Denar 37,132 million), followed by salaries and allowances (Denar 19,294 million). With respect to the total central government budget expenditures, expenditures related to wages and salaries and allowances accounted for 21.8% in this period, which was 13.5% decline in relation to the same period last year.

Expenditures for goods and services reached the amount of Denar 13,086 million, i.e. by 37.4% more compared to 2007.

With regard to transfers, 22.7% 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 41.9% (9.1% 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 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 9,876 million or by Denar 154 million lower (3.7% drop). Interest was collected in the amount of Denar 2,453 million, being by 3.2% less compared to 2007.

During the analyzed period, capital expenditures amounted to Denar 16,713 million (Denar 6,547 million was realized in December alone), being an increase by 54.5% compared to the same period in 2007 (4.1% of GDP).

3.3. Thus, in 2008, central government budget deficit reached the amount of Denar 2,873 million (0.7% of GDP), while consolidated budget deficit amounted to Denar 3,853 million (0.9% of GDP).

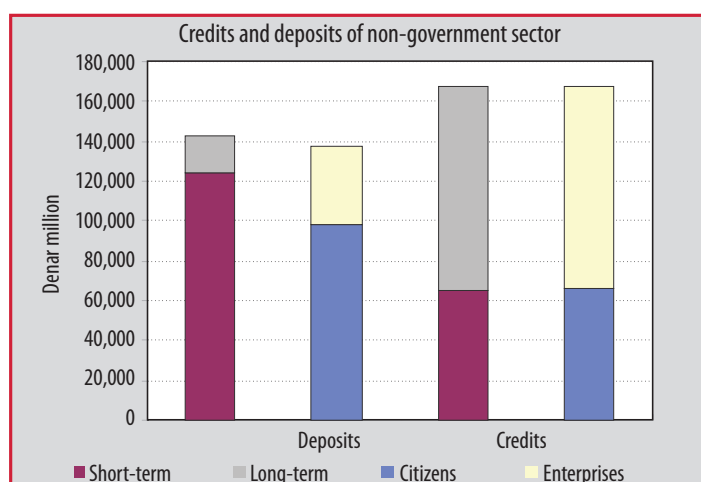
4. MONETARY SECTOR

4.1. In December 2008, primary money¹ increased by 7.8% on annual basis (6.6% in November), in conditions of growth of total liquid assets of the banks by 16.6% and decline of the demand for ready money in circulation by 1.7%.

On monthly basis, primary money increased by 12.6%, due to the simultaneous increase at two components, increase of the total liquid assets of the banks by 13.7% and of the ready money in circulation by 11.2%.

In December 2008, by applying volume tenders, interest rate on central bank bills was kept at the level of 7%.

Interest rates on government securities were as follows: 7.49% on three-month treasury bills, 7.81% on six-month and 7% on twelve-month treasury bills.



1. Primary money is calculate as sum of ready money in circulation, cash in valuts and banks' accounts, including reserve requirement for foreign currency deposits

Total of 7 auctions were held by applying interest rate tender for three-, six- and twelve-month treasury bills, as follows: four auctions of three-month treasury bills, two out of which were regular and two were extraordinary, two auctions of six-month treasury bills, one out of which was regular and one was extraordinary, and one auction of twelve-month treasury bills.

4.2. Total deposit potential of non-government sector² experience slowed growth by 10.4% in relation to last year (compared to 12.3% in November 2008). On monthly basis, following the two-month decline of total deposits, they surged by 0.5% in December, as a result of the increased saving by the citizens and almost unchanged status of deposits of enterprises.

In December 2008, Denar deposits dropped by 2.2% on monthly basis, while foreign currency deposits increased by 2.6% (as a result of the foreign currency deposits of the corporate sector). On annual basis, Denar deposits declined by 3.2%, while foreign currency deposits increased by 22.4%.

From the point of view of sector structure, deposits of the corporate sector remained almost unchanged on monthly basis, while savings of the citizens increased by 0.6%. With respect to last year, deposits of citizens and of enterprises were higher by 11.7% and 5.9% respectively.

Analysis of the maturity structure in December showed strong increase of long-term deposits compared to the short-term ones, so long-term deposits grew by 81.0%, while the short-term ones surged by 4.4% on annual basis. Short-term deposits remained almost at the same level on monthly basis, i.e. they increase by only 0.2%, while long-term deposits grew by 3.0%.

4.3. In December 2008, credits to private sector experienced even stronger slowdown. Monthly increase of credits by 1.2% was mainly due to increased credits to corporate sector. With respect to last year, credit growth slowed down and it was 34.4% (compared to 37.8% in November).

Monthly increase of credits to citizens in December was lower, mainly as a result of the slowed down growth of credits to citizens and amounted to 0.7% (compared to 1.1% in November), while credits to enterprises experienced slight increase by 1.6% (compared to 1.9% in November). Annually, credits to citizens and enterprises surged by 37.6% and 32.5% respectively.

With respect to credits to enterprises, short- and long-term credits to enterprises increased by 34.9% and 30.6% respectively on annual basis. On monthly basis, short-term credits to enterprises experienced slowed down growth of 0.6%, while long-term ones registered accelerated growth of 2.4%.

From currency point of view, Denar credits (including credits with foreign currency clause) increased by 37.4% annually. Foreign currency credits increased by 25.3% annually. Compared to the previous month, Denar credits grew by 1.6%, while foreign currency credits declined by 0.1%.

4.4. In December 2008, average weighted interest rate on Denar credits amounted to 9.8%.

Average interest rate on foreign currency credits dropped by 0.6 p.p. compared to the previous month, being at the level of 7.2%. With respect to last year, interest requirements of the banks were loosened, i.e. average interest rate on Denar credits dropped by 0.1 percentage point, while average interest rate on foreign currency deposits declined by 1.3 percentage point. When analyzing the banks on the basis of their size, large banks had the lowest weighted interest on debit balance, 9.0% on Denar credits and 6.8% on foreign currency credits. In December 2008, interest rate on credit balance on Denar deposits remained the same on monthly basis, amounting to 6.5%, and it surged by 1.2 percentage point on annual basis. Average interest rate on foreign currency deposits increased by 0.1 p.p. compared to the previous month, amounting to 3.0%, and it increased by 1.0 p.p. on annual basis.

2. Total deposit potential includes non-monetary and quasi deposits

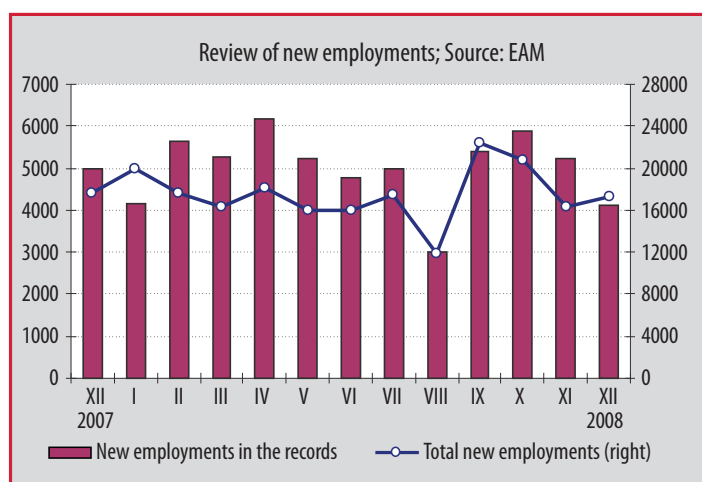
4.5. Gross foreign exchange reserves amounted to EUR 1,494.9 million in December 2008, and compared to December 2007, they declined by 1.9%. On monthly basis, they decreased by 5.9% in conditions of net purchase on the foreign exchange market in the amount of EUR 40.5 million.

NBRM, through foreign currency transactions, mopped up liquid assets. Increased demand for foreign assets was registered on the foreign exchange market, leading to sale of foreign assets by NBRM. NBRM created liquidity through transaction on the foreign exchange market.

5. SOCIAL SECTOR

5.1. In the period January-December 2008, Employment Agency of the Republic of Macedonia registered total of 210,010 new employments. In fact, 42.4% out of the total number was full-time employees, while the rest was temporary employment and seasonal works. Compared to the same period last year, number of newly employed persons increased by 9.7%.

Thereby, in December, 17,322 new employments were registered, whereby 23.7% of the new employments were from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 8,167 persons in December, 50.2% out of which were new employments. As inflow to the Agency, 8,164 persons were registered, 41.4% of which were persons that terminated their employment.



As a result, unemployment declined by 21 persons, i.e. by 0.01% compared to the previous month. There were 343,363 unemployed persons in December 2008.

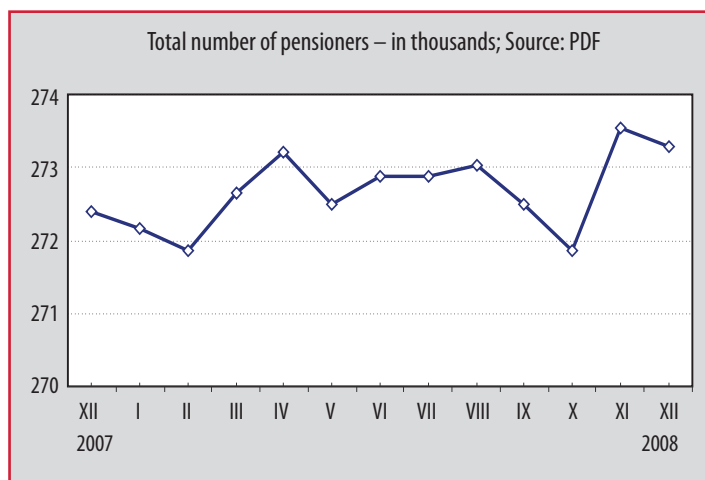
Thereby, 71,589 (20.8%) out of them declared that they applied only to exercise the right to health insurance, and the remaining persons actively sought job. Compared to the same month last year, number of unemployed persons declined by 3.8%.

Major percentage of the unemployed, i.e. 66.5%, came from urban areas (cities), whereby 57.8% were men. According to the education structure, major part, i.e. 52.8% of the unemployed persons were unskilled or semi-skilled, while 7.1% were with community college or higher education level. Observed by age, majority of the unemployed (59.9%) fall in the category of 25-49 years of age. According to the time they waited for a job, 51% of the unemployed persons sought job from one to eight years, while 30.8% sought job for more than eight years.

5.2. In December 2008, Pension and Disability Insurance Fund registered 273,281 pensioners, being an increase by 0.3% on annual level. Compared to the previous month, number of pension beneficiaries declined by 248 persons.

In December, Denar 2,510.5 million was spent for payment of pensions.

Average pension in December 2008 amounted to Denar 9,541, being an increase by 21.6% on annual

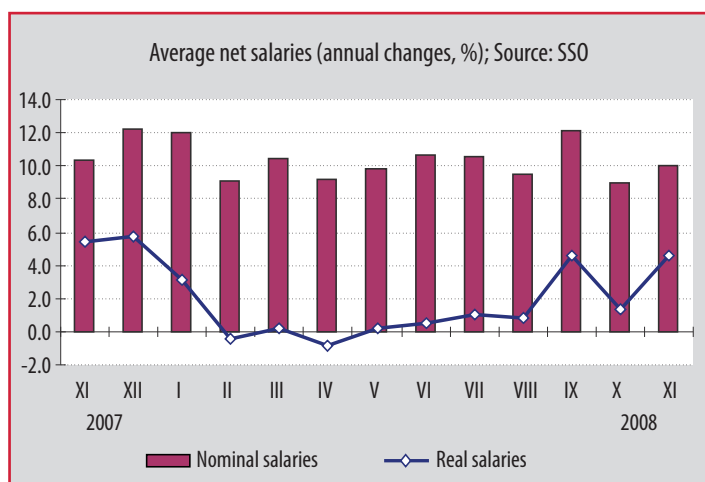


level. Ratio between the average pension and the average net paid salary in November 2008 amounted to 56.6%.

5.3. Number of social welfare beneficiaries in November 2008 (most recent available data) was 55,453 households, which is an increase by 1,779 beneficiaries compared to previous month.

Thereby, around Denar 121.6 million was spent for payment of social welfare, i.e. 52.4% of social welfare payments under all bases. Around Denar 87.1

million was spent on the basis of third person care for 20,533 persons in November, i.e. 37.5% of social welfare payments under all bases. In December, 5,285 persons were registered as beneficiaries of permanent pecuniary allowance, for which around Denar 18.7 million was spent, while 5,228 persons used healthcare for which Denar 4.6 million was spent. These welfare-related expenditures accounted for 4.6% of the total social transfers realized in November.



5.4. In the period January–November 2008 (the most recent available data), compared to the same period in 2007, average nominal and real net salary grew by 10.2%, i.e. by 1.4%.

In November 2008, average net salary per employee amounted to Denar 16,859, being an increase by 10% on annual basis in nominal terms, while average salary was higher by 4.6% in real terms. Percentage of unemployed receiving no salary in November 2008 was 7.8%. Compared to the same period last year, it was lower by 3.2 p.p.

