

Republic of Macedonia
Ministry of Finance

QUARTERLY ECONOMIC REPORT

Q3/2010

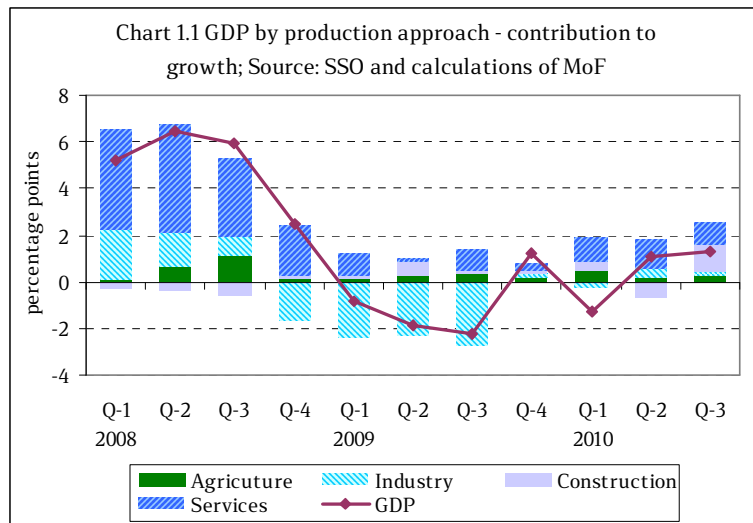
Summary

- In the third quarter of 2010, **GDP showed real growth** of 1.3% compared to the same quarter of 2009, by which average growth was 0.4% in the first three quarters of 2010. Except for hotels and restaurants sector, all other sectors registered growth, construction sector out of which experienced the most significant increase by 18.4%;
- **Number of employed persons** in Q3 2010, according to the Labour Force Survey, increased by 3.5% compared to the previous quarter. Employment rate increased to 39.3%, surging by 1.3 percentage points compared to the previous quarter;
- **Inflation rate** was 1.8% (Q/Q-4) in Q3 2010 on annual basis, measured according to CPI.
- **Net salary** in Q3 2010 increased by 2.9% in nominal terms, while real growth was 1.1%.
- **Budget deficit** at the end of Q3 2010 was -1.5% of annual GDP. **Fiscal burden** in Q2 was 27.2%, reducing by 0.4 p.p. compared to Q2 2010;
- **Credits to private sector** in Q3 2010 showed upward trend, increasing by 7.7% in relation to Q3 2009 and 1.8% on quarterly basis. **Deposits** continued to increase, realizing growth rate of 14.5% compared to Q3 2009;
- **Macedonian Stock Exchange Index** MSEI -10 in September 2010 dropped by 14% compared to September 2009. Total turnover realized on the Macedonian Stock Exchange in Q3 2010 increased by 128.3% compared to the same period in 2009;
- **In Q3 2009, on annual level (Q/Q-4)**, significant increase of both export by 28.5% and import by 20.4% was noticed, whereby total foreign trade, expressed in euros, increased significantly by 23.6%;
- **Trade openness of the Republic of Macedonia** in Q3 2010 was 93.2%, pointing out that the level from the previous quarter was retained.

1. Macroeconomic Trends and Real Sector

Real GDP growth in Q3 2010 amounted to 1.3%, compared to the same quarter in 2009, being certain acceleration of the growth, following the drop of 1.3% in Q1 2010. Thus, in the first three quarters, average real GDP growth accounted for 0.4%. Real GDP growth in Q3 2010, compared to the previous quarter, amounted to 2.4%. Such growth was to a certain extent a result of seasonal factors, and the seasonally adjusted GDP growth in Q3 2010 amounted to 0.4%.

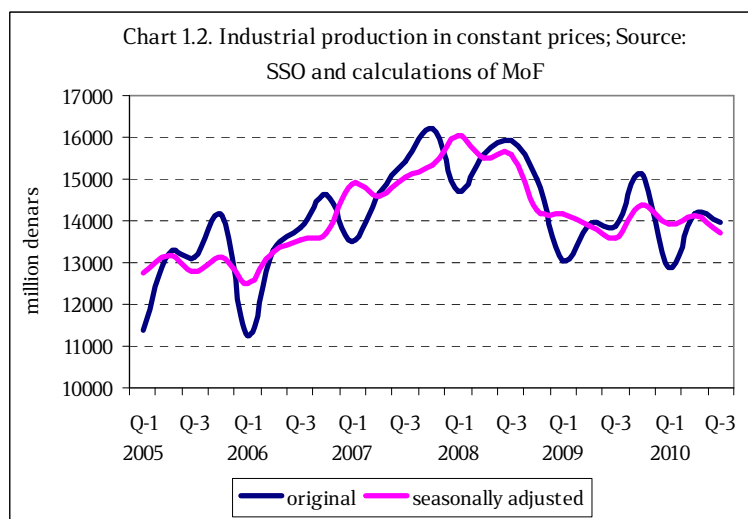
According to the **production side of GDP**, the highest annual real growth rate in Q3 2010 was registered in the construction sector with high 18.4%, thus interrupting the drop noticed in the previous quarter. High increase was due to the increased execution of budgetary capital expenditures, increasing by 77% in nominal terms compared to Q3 2009. Average increase in the field of construction amounted to 3.4% in the period January-September.



Financial intermediation sector continued to realize positive growth rates in Q3 2010 as well, amounting to around 3.8%. Trade sector grew by 2.7%. More detailed analysis of this sector shows that trade in motor vehicles highly contributed to the growth. Relatively high nominal growth was also recorded at retail and wholesale trade, however, retail trade started declining towards the end of Q3 2010.

Real growth in the industry sector, participating with 22% in the GDP creation, was estimated at 0.7% in Q3 2010, being due to the positive performance at the beginning of Q3 2010 (July), when industrial production surged by 8.3%.

Positive trends in the field of industry and trade in Q3 2010 also contributed to positive performance to the transport,



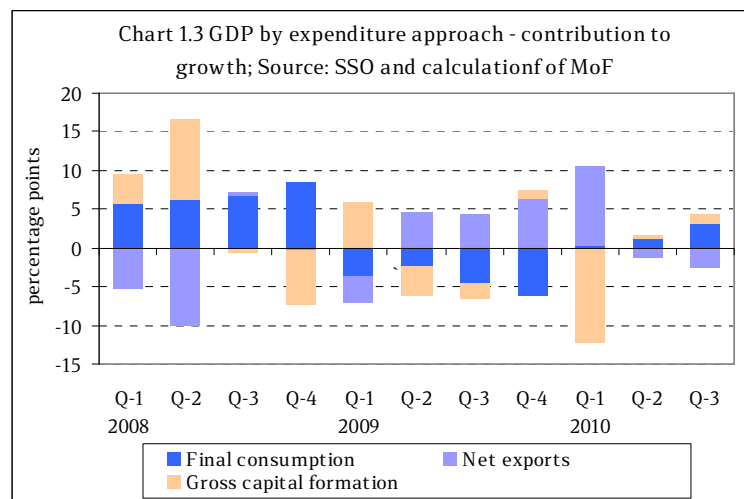
storage and communications sector, where growth was estimated at 0.8%. Positive growth rates were also realized in the sectors agriculture (2.4%) and public administration (0.8%). In Q3 2010, economic activity reduced only in the sector hotel and restaurants by 7.5%.

Drop of **industrial production**¹ in Q3 2010 was mainly a result of the realized negative rates at: production of metal products (34.3%), production of furniture (19.4%), production of motor vehicles (16.5%), mining of metal ore (13.8%), production of chemicals and chemical products (5.6%), production of other non-metal minerals (-2.9%) and tanning and leather processings (2.4%)

On the other hand, other mining and quarrying was significant (50.3%), production of means of transport (45.0%), production of tobacco (37.4%), production of electrical machines (26.1%), recycling (25.3%), production of base metals (18.4%), production of textile fabrics (12.5%), production of coke (10.8%), production of clothing, finishing and colouring of fur (9.2%) and production of cellulose and paper products (8.2%).

Analyzed according to the **expenditure side of GDP**, positive growth in real terms was registered at all components, except the public consumption, dropping by minimum 0.4%, following the drop of 7.7% in the previous quarter.

In Q3 2010, certain stabilization of the growth of gross investments was seen, following the high fluctuations in the previous period. Thus, the growth of 4.7% in Q2 2010 was followed by the growth of 4.8% in Q3 2010. What is indicative for the growth of investments was the high nominal growth of budgetary capital expenditures, as well as the



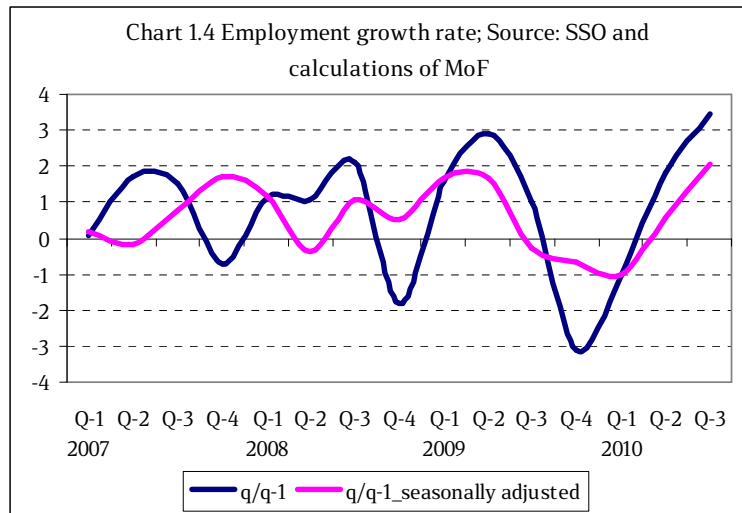
increase of import of investment goods by 17.8%, while production of capital goods in Q3 2010 dropped by around 22%.

Personal consumption in Q3 2010 recorded real growth of 4.1%. Such performance was a result of the increase of salaries in the country (annual increase of average net wage by 2.9% in Q3 2010 and positive performance in the field of trade). This was also underpinned by the value added tax, where nominal annual growth of 8% was seen in Q3 2010.

Export of goods and services continued to show accelerated growth in Q3 2010 as well, increasing by 25.2%. Import dependence of export also reflected on the export of goods and services, experiencing growth of 23.8%. Higher share of import in trade, had negative contribution to net export in the economic growth.

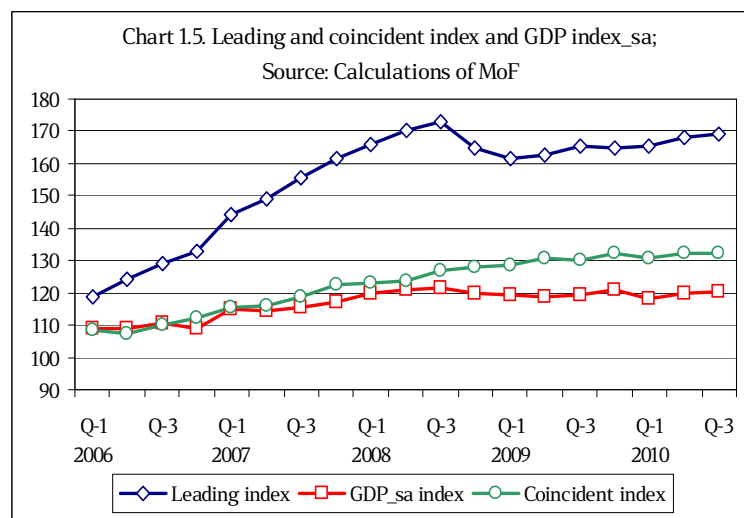
¹ Calculated on the basis of monthly releases of Industrial production index

Number of employees in Q3 2010, according to the Labour Force Survey, increased by 3.5% in relation to the previous quarter, accompanied by relatively high dropped of non-active population, decreasing by 3.4% on quarterly basis. Reduced inactivity also led to a certain extent to the increase of the number of unemployed by 1.5%. In addition, increase of active population also absorbed



certain increase of working able population. Such labour market trends caused for the activity rate to increase by 1.5 percentage points compared to the previous quarter, amounting to 57.6% in Q3 2010. Employment rate increased to 39.3%, increasing by 1.3 percentage points compared to the previous quarter, while unemployment rate decreased from 31.7% to 32.1% in Q2 2010. In fact, on net basis, in Q3 2010, compared to the previous quarter, working positions in the private sector increased, where the number of employees increased by 6.4%, while employment decreased by 4.2% in the other parts of the economy. Number of employed persons excluding the seasonal effects increased by 2.1% in Q3 2010, compared to the increase by 0.6% in the previous quarter.

Leading Composite Index² in Q3 2010 increased by 0.9 index points compared to the previous quarter. Compared to the same quarter in 2009, leading composite index was higher by 3.6 index points. Such trends of the index points out that positive growth of economic activity is expected to continue in the last quarter of 2010 as well, having also tendency for achieving positive growth rates at the beginning of 2011.

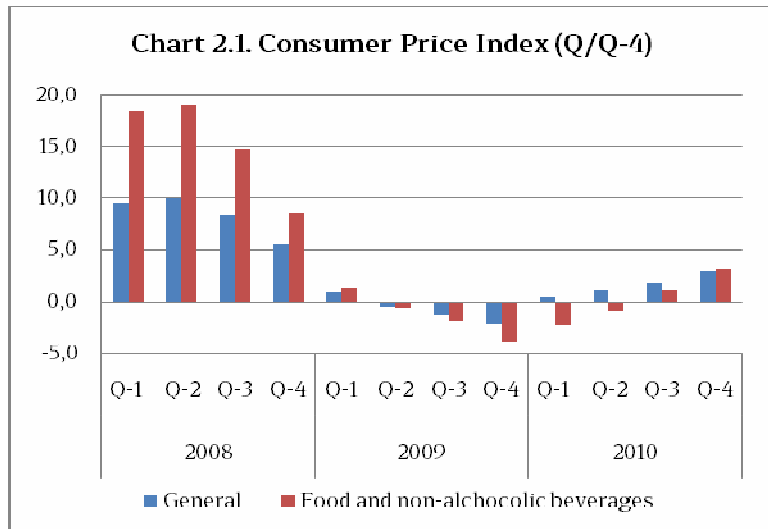


² Prepared by the Ministry of Finance MakLead is an aggregate indicator, showing the direction of business cycle in advance. Index is comprised of eight leading indicators of the economic cycle: 1/average salary in processing industry; 2/average number of persons - beneficiaries of pecuniary allowance; 3/assessment of producers for their production stock for new orders; 4/index of agreed construction works; 5/MSEI-10 stock exchange index; 6/money supply - M2; 7/interest differential and 8/total import reduced for the import of personal consumption.

Leading diffusion index³ in Q3 2010 registered positive trends at 50% of the components of the leading composite index, being lower performance compared to the previous quarter and the same quarter of 2009, when it amounted to more than 60%.

2. Prices, Costs and Productivity

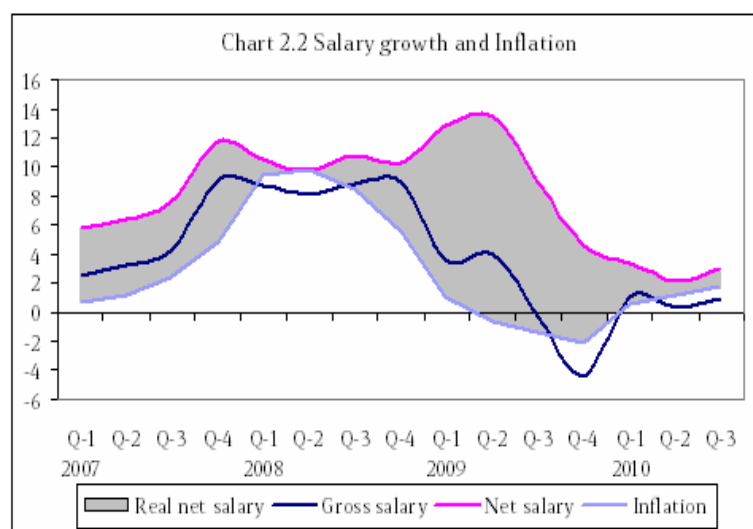
Inflation rate, measured according to CPI in Q3 2010 was 1.18% compared to the same quarter of 2009. Highest price increase by 5.2% was seen at housing category, mainly due to the increase of prices of electricity (9.8%), as well as at the category means of transport and services by 2.6%, driven by the increase of prices of liquid fuels and oils by 12.9%. Increase of prices was also seen at culture and entertainment (1.6%), food (1.2%), clothing and footwear (1.1%) and hotels and restaurants (0.5%). Reduction of prices was recorded in the category tobacco and beverages (-0.2%) and other services (-6.8%), while prices in the hygiene and health category remained the same.



Core inflation (excluding the effect of food and energy) in Q3 2010 was 0.2%, compared to Q2 2010, when it amounted to 0%.

Retail prices in Q3 2010 increased by 2.4% compared to the same quarter of 2009. Higher price increase was registered at industrial products category (3.8%), whereby the increase of industrial non-food products (5.5%) was more noticeable. On the other hand, agricultural products category increased by only 0.2%.

Value of the consumer basket of food and beverages for a four-member household, calculated on the basis of retail prices, was higher by 3.7% compared to the previous month, while it was higher by

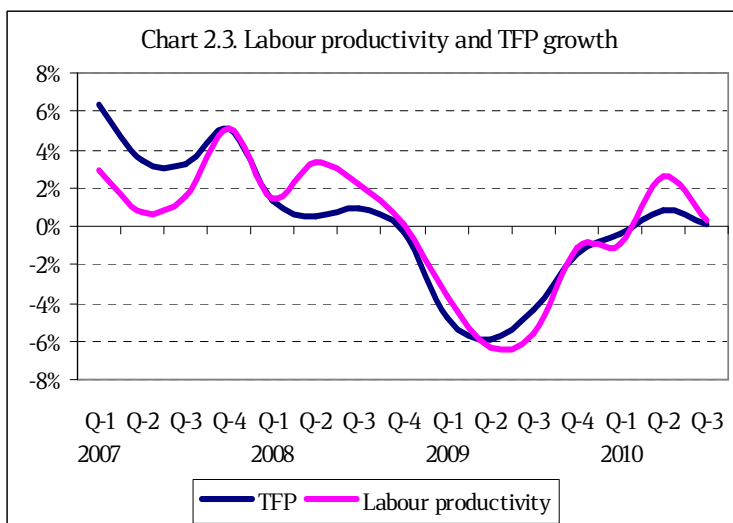


³ Leading diffusion index measures the number (percentage) of components of the leading composite index, which increased in certain period

1.1% compared to Q3 2009. Value of the consumer basket in Q3 2010 was 58.3% of the average net salary.

Average **net salary** in Q3 2010 was higher than the same quarter of 2009 by 2.9% in nominal terms, while average **gross salary** experienced slower nominal growth compared to net salary (0.9%), as a result of the additional reduction of social contribution rates since the beginning of 2010. Moderate inflation rate caused for increase of net salary to be 1.1% in real terms, while for gross salary to drop by 0.9%. (shaded field in Chart 2.2).

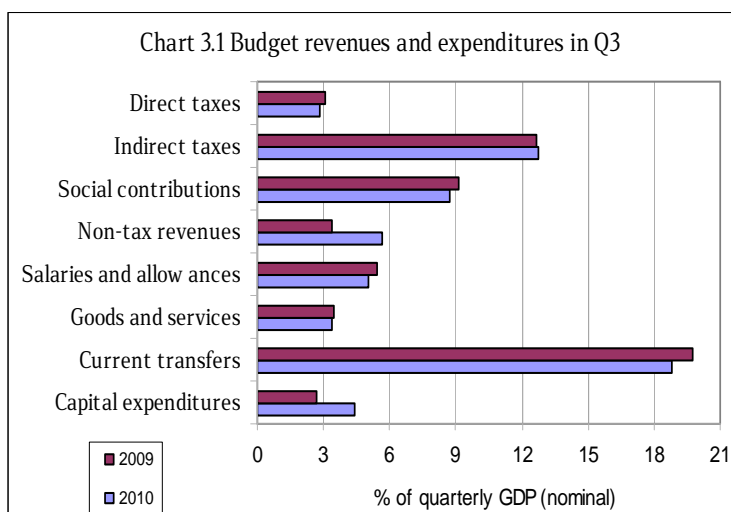
Labour productivity continued its positive growth in Q3 2010, amounting to 0.3% on annual basis, having tendency to continue in the next quarter as well. Such performance was a result of the higher production growth than the growth of the number of employees in Q3 2010. In parallel to the increase in the number of employees in Q3 2010, physical capital also increased by 1.6%. Such tendencies of growth factors caused for total factor productivity (TFP) to increase by minimum 0.1% in Q3 2010, compared to the increase by 0.9% in the previous quarter.



3. Fiscal Sector

Higher performance of **budget revenues** compared to Q3 2009, accompanied by relatively more moderate budget expenditures, led to budget deficit in the amount of Denar 520 million in Q3 2010 or 0.5% of realized GDP for this quarter (0.1% of projected annual GDP).

Anti-cyclical fiscal policy continued to be conducted in the third quarter of 2010 as well, aimed at mitigating the consequences of the global economic crisis on Macedonian economy and maintaining macroeconomic stability. Thereby, fiscal sustainability of

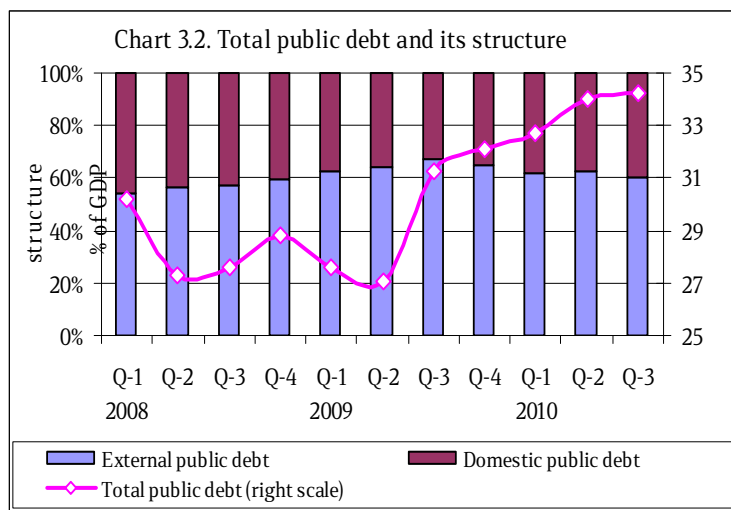


public finance was not jeopardized.

Total budget revenues (Government and Funds) were higher by record 13.7% compared to the same quarter of 2009, mainly due to the higher performance of tax revenues by 5.3%, while social contributions were higher by 2.7%, and non-tax revenues were higher by 79.0%. Increase of personal consumption by 0.1% and increase of import and export of goods, resulted in higher collection of VAT and profit tax, as well as insignificant reduction of personal tax. What is significant is that VAT revenues, accounting for 51.7% of the total tax revenues, were higher by 7.9% in Q3 2010 compared to the same quarter of 2009. Regarding the structure of gross VAT revenues, there was increase in VAT collection on the basis of trading in the country in line with the increased trade sales, however, realized VAT revenues on the basis of import increased and the dynamics of VAT refund was also intensified. Thereby, 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%, while sales taxed with preferential tax rate of 5% increased by 7.2%, and the sales exempt from VAT significantly increased by 55%. Excise revenues were higher by 7.8% compared to the same quarter of 2009. Reduction of import also caused lower collection of customs duties by 26.9%. As for direct taxes, profit tax increased by 15.8%, taking into account that starting January 2009, only profit distributed for dividend was taxed, and starting April 2010 revenues on the basis of tax paid for dividend and other distribution of profit was registered, participating with significant percentage in the structure of this tax. Revenues on the basis of personal income tax were lower by 2.6% due to the lower base, as well as the high decline of revenues on the basis of capital gain. Collection of social contributions was higher by 2.7%, whereby collection of pension insurance contributions increased by 3.2%, as for health insurance contributions it also surged by 3.8%, while employment contributions declined by 10.3%. Non-tax revenues (profit of NBRM, administrative and court taxes, as well as collected road toll), accounting for 17.5% of total budget revenues in Q3 2010 were higher by 79.0% compared to the same period in 2009.

Capital revenues in Q3 2010 were higher by 17% on annual basis, mainly on the basis of dividend, privatization and lease of construction land, as well as sale of flats. Revenues on the basis of donations for the same period were higher by 37.7%.

Total **budget expenditures** in Q3 2010 were higher by 11.0% compared to the same quarter of 2009. Current expenditures, accounting for 86.5% of the total expenditures, increased by 4.9% on annual basis. Capital expenditures participating with 13.5% in the total expenditures were higher by 77% compared to Q3 2009. Execution of capital expenditures, as of September



2010 inclusive had improved dynamics unlike the previous years, amounting to 62% of the total projected funds for 2010. As for current expenditures, expenditures for goods and services increased by 4.3%, while expenditures related to salaries and allowances were lower by 1.1%. However, transfers were higher by 1.8% on annual basis, and share of category “other transfers” was 21.5% (including transfers to the local government) in the total transfers. Transfers to the Pension and Disability Insurance Fund, accounting for 44.8% in the total transfers were higher by 2.5% compared to the same quarter of 2009. Interest-related expenditures increased by four times, whereby domestic debt interest-related expenditures increased by 14.9% and expenditures related to interest on foreign debt surged by 6.5 times.

Fiscal burden, measured as participation of the budget revenues⁴ in relation to nominal GDP, was 27.2% in Q3 2010, dropping by 0.4 p.p. in relation to Q2 2010. Total budget expenditures accounted for 32.9% of GDP, which was by 0.8 p.p. higher compared to Q2 2010.

Total **public debt** at the end of Q3 2010 was 34.2% of GDP, increasing by 0.7 p.p. compared to Q2 2010. Such increase was due to the increase of both domestic public debt by 7.5% and external public debt by 1.2% in relation to Q2 2010. Thus, share of domestic public debt grew by 39.7% (Chart 3.2). Such trends point out that additional borrowing, which is inevitable for conducting more expansive fiscal policy in conditions of slowed down economic growth, whether externally or internally, would not jeopardize the fiscal sustainability, whereby coordination with the monetary policy is indispensable. Sound fiscal policy is one of the Maastricht Criteria for convergence, having the limits set at budget deficit of 3% of GDP and general government debt of 60% of GDP.

The debt, which does not include the debt of NBRM and the public enterprises, increased to 23.6% of GDP at the end of Q3 2010, i.e. by 0.2 p.p. in relation to Q2 2010. Such phenomenon was a result of the increase of central government debt (by 4.0%) as a result of the increase of foreign borrowing. On the other hand, NBRM debt increased by 1.7%, however, share of state debt in the total public debt was 69.0% in Q3 2010, being lower by 1.0 p.p. than the share of the previous quarter.

4. Monetary and Financial Trends 5

In Q3 2010 **primary money**⁶ dropped by 3.7% compared to the previous quarter in conditions of decline of total liquidity of banks by 7.4%. Compared to the end of the third quarter of 2009, primary money were higher by 9.5% (compared to the increase by 27.1% in the previous quarter). **Monetary aggregate M1** increased by 2.4% compared to Q2 2010, while it was higher by 12.2% on annual basis. Broader monetary aggregates **M2**

⁴ Included tax revenues, social contributions and administrative fees

⁵ Starting Q1 2009, analyses are made on the basis of the data harmonized with the new accounting plan for the banks, in force from January 2009

⁶ 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).

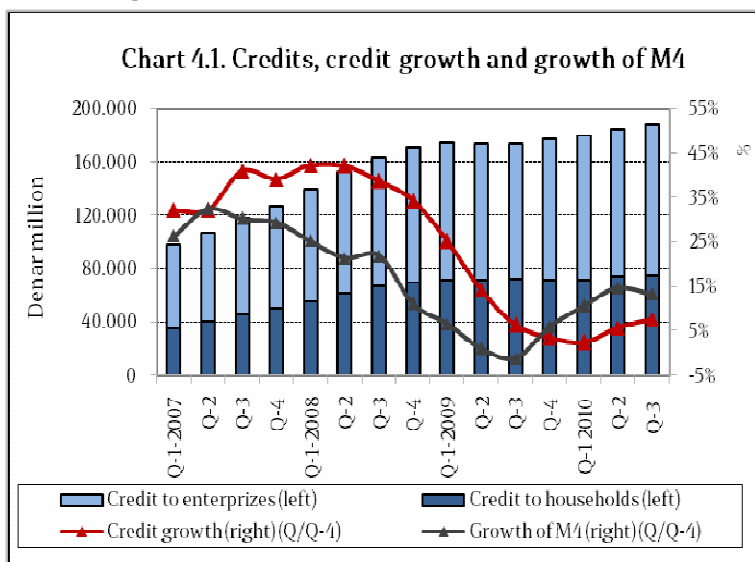
and M4 in Q3 2010 increased in relation to the previous quarter by 0.1% and 0.7% respectively, while they increased by 9.4% and 13.4% on annual basis respectively.

Total deposit potential⁷ of the private sector continued to experience intensified growth on annual basis, reaching growth rate of 14.5%. As for quarterly dynamics, increase of deposits slowed down by 1.2% in relation to the previous quarter (compared to the increase by 4.6% in Q2 2010).

From the point of view of sector structure, increase of deposits was mainly a result of the deposits of households, increasing by 2% compared to Q2 2010. At the same time, deposits of private enterprises dropped by 2.6% in relation to the increase by 10.4% registered last quarter. On annual basis, deposits of households were higher by 17.6%, while deposits of private enterprises were higher by 6.8%.

From the point of view of currency, Denar deposits given their increase by 1.6% had dominant contribution to the quarterly growth (contribution of 63.3%) Therefore, the level of euroization measured through the share of foreign currency deposits in the total deposit potential reduced by 52% (compared to 52.2% in Q2 2010).

According to maturity, short-term deposits, accounting for 68.6% of the total deposits in Q3 2010 dropped by 0.6% compared to the previous quarter, while deposit money increased by 6.5%. Long-term deposits (share of 13.9% in total deposits) were higher by 4.3%. On annual basis, deposit money increased by 18.2%, while short-term and long-term deposits surged by 8.4% and 50.5% respectively.



Credits to non-government sector in Q3 2010 dropped by 1.8% compared to the previous quarter. Analyzed on annual basis, credits continued to accelerate their growth, reaching growth of 7.7% at the end of the third quarter (5.8% in Q2 2010).

From the point of view of sector structure, credits to private enterprises had dominant contribution (64,8%) to quarterly growth of credits, increasing by 2% compared to the previous quarter. Credits to households increased by 1.6% on quarterly basis. On annual basis, credits to private enterprises continued to increase, reaching even 10.3% in September, while credits to households increased by 4.3%.

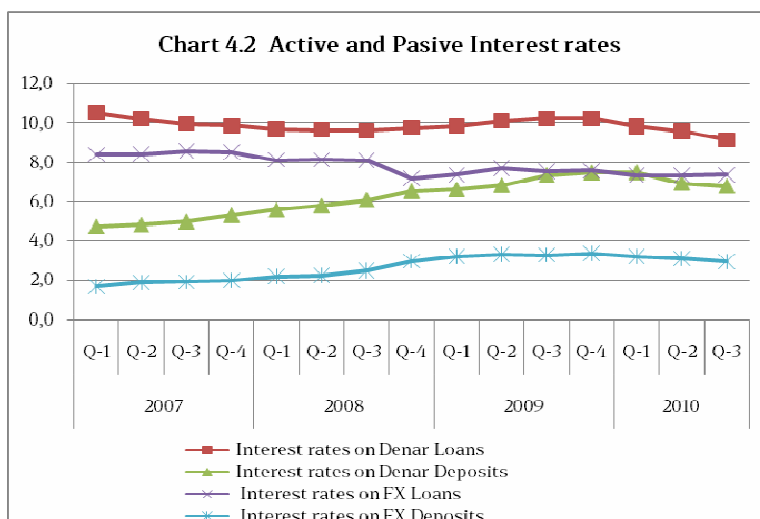
From the point of view of currency, Denar credits increased by 1.8% compared to Q2 2010 (contributing with 77.8% to the growth of total credits). On annual basis, Denar credits surged by 5.5% and their share in the total credits amounted to 76.7%. Foreign

⁷ Deposits also include calculated interest

currency credits in Q3 2010 were higher by 1.7% in relation to the previous quarter, while they increased by 15.8% on annual basis.

According to maturity, short-term credits dropped by 0.7% in relation to the end of Q2 2010, while long-term credits participating with 59.7% in the total credits increased by 2.1%. On annual basis, short-term credits were higher by 1.7%, while long-term ones were higher by 8.3%.

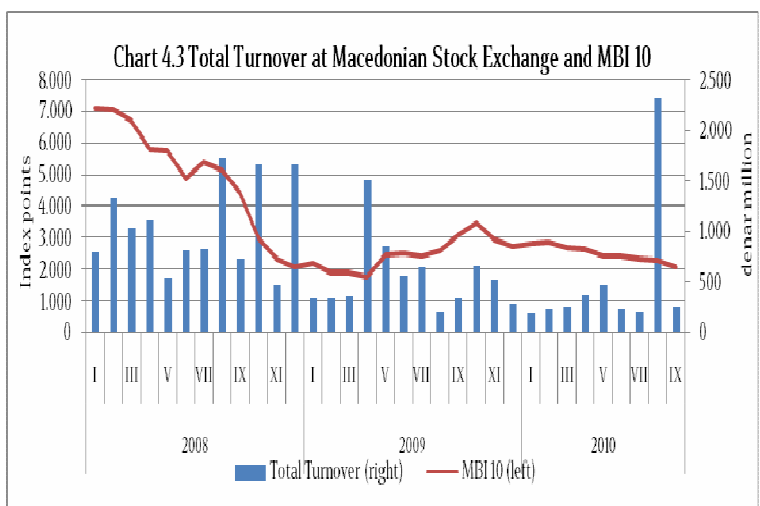
Since the beginning of 2010, NBRM, at several occasions, has reduced the **reference interest rate**, adjusting it by 400 basis points on cumulative basis. In Q3 2010, interest rate on CB bills reduced by 50 basic points (more precisely in August), thus reaching 4.5%. European Central Bank, from May 2009 onwards, has not changed the reference interest rate, remaining at the level of 1% in Q3 2010.



In the third quarter of 2010, certain loosening of the interest policy of banks can be noticed. In fact, average weighted interest rate on Denar credits reduced from the beginning of 2010, amounting to 9.2% at the end of Q3 2010, being lower by 0.4 p.p. compared to the previous quarter. Comparison with September 2009 points out to even more significant reduction by 1.1. p.p.. Interest rate on foreign currency credits remained unchanged in relation to the end of the second quarter, amounting to 7.4%. However, compared to Q3 2009, it reduced by 0.2 p.p..

Average interest rate on Denar deposits reduced by 0.2 p.p. at the end of Q3 2010, compared to the previous quarter, amounting to 6.8%. In relation to the end of Q3 2010, it was lower by 0.5 p.p.. Interest rate on foreign currency deposits amounted to 3%, being lower by 0.1 p.p. in relation to the last quarter (reduction by 0.3 p.p. in relation to Q3 2009).

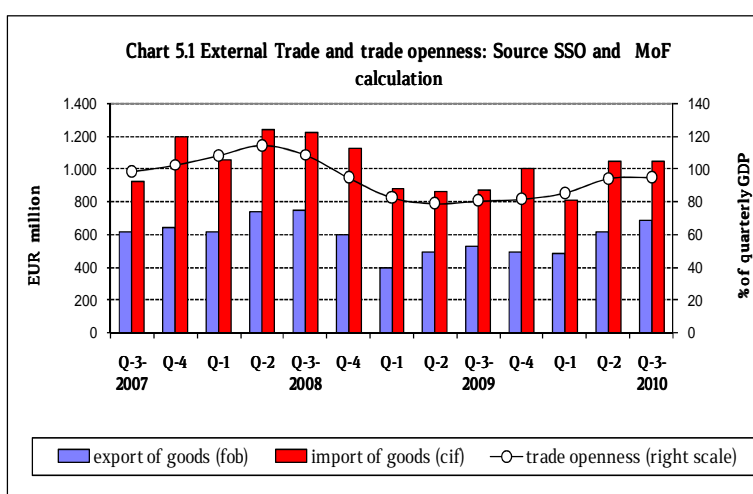
Capital market total turnover increased by 153.5% in the third quarter of the year, in relation to the previous quarter, being a result of the realized block transactions amounting to Denar 2.2 billion in August, while traditional trading



dropped by 29.8%. Compared to the same period in 2009, total turnover realized on the Stock Exchange dropped by 128.3%, and if only the traditional trading is analyzed, it decreased by 25.2%. Macedonian Stock Exchange Index MSEI-10, as aggregate indicator of stock exchange trends, continued to drop, with a rate of 14% compared to June 2010, while the drop was 32.8% in relation to September 2009.

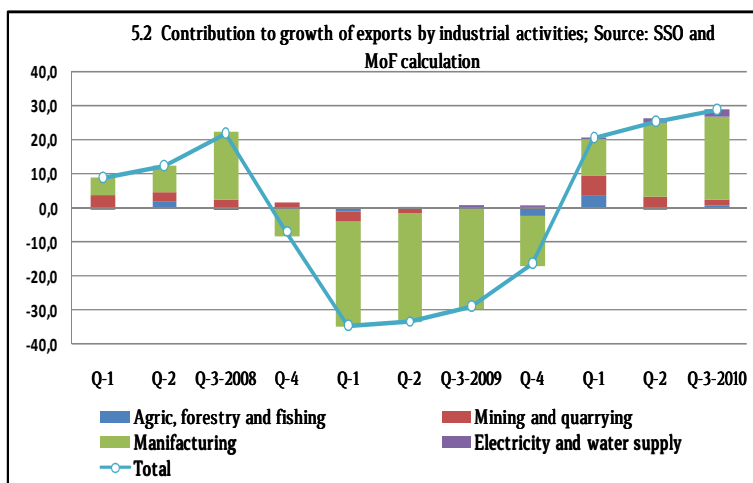
5. External Sector and Balance of Payments

According to statistical data expressed in euros (f.o.b. basis), quarterly increase of **export of goods** started in Q2 2010 also continued in the third quarter, while import was almost at the same level with only 0.4% drop compared to the previous quarter. Effects from the gradual recovery of foreign demand and the improvement of prices of metals on the world stock exchanges contributed for export of goods to experience significant positive shift, having 11% growth rate in relation to the previous quarter. Such tendency points out that foreign trade trends stabilize, returning back to pre-crisis level.



Analyzed on annual basis (Q/Q-4), within significant increase of export by 28.5% and simultaneous increase of import by 20.4%, total foreign trade, expressed in euros, increased significantly by 23.6%, mainly due to the economic activity intensification.

Analyzed by SITC sectors (Standard International Trade Classification), positive trends in the export in the third quarter of 2010 were registered at the following: Products classified according to the material by EUR 49 million or 31.7%, contributing with 9.3 percentage points (p.p.) to the growth, being due to the increased export of iron and steel by 46%, chemical products by 2.3 times or EUR 38 million, contributing with 7.3 p.p. to the growth. (high export growth of chemical materials and metal products); raw materials except fuel by 43%, contributing with 2.8 p.p. to the growth, and metal ore

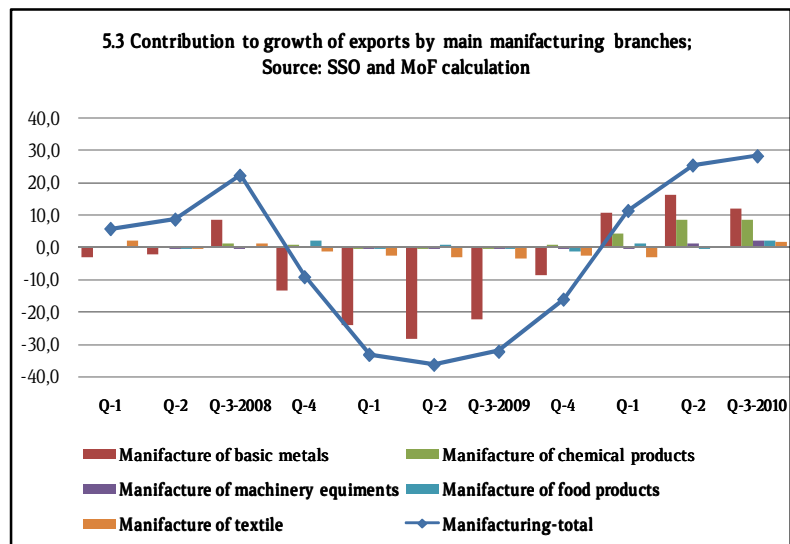


and metal scrap increased by 40%: mineral oils and lubricants by 31.3% (oil and oil products by 9.3%) food products by 29.3%, while as a result of the reduced export of tobacco and tobacco processed goods, beverages and tobacco sector dropped by 6.7%, compared to the same quarter of 2009.

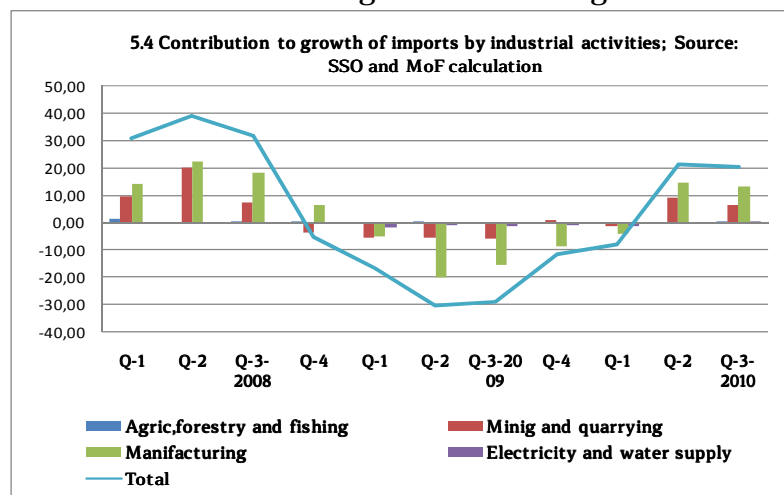
Analysis of the export of goods by industrial activities in the third quarter of 2010, compared to the same quarter of 2009, shows that processing industry is driving force of the high growth of export (28.5%) contributing with 23.6 p.p. to the growth. As for mining and quarrying, increase of export by EUR 5.9 million or 21.4% was due to the increase of mining of metal ore by EUR 4.7 million or 21.9% and other mining and quarrying by EUR 1.4 million or 22.9%.

As regards agriculture, agriculture, hunting and respective services experienced positive export trend on annual basis by 8.7% in the third quarter.

Positive trend of export in the third quarter at processing industry was primarily due to the growth in the following industrial branches: production of base metals by EUR 53 million, contributing with 11.8% to the growth, production of chemicals and chemical products by EUR 38.8 million or contributing with 8.5%, production of machines and devices by EUR 9 million, contributing with 2%, production of food products and beverages by EUR 8.8 million, contributing with 1.9% and production of clothing and fur by EUR 7.9 million, contributing with 1.8%.



Given the analysis of **import** by activities, it is concluded that the processing industry, contributing with 13.8 p.p. or EUR 119 million to the growth is driving force of the growth of import in the third quarter of 2010, in relation to the same period of 2009. Such trend was a result of the growth at: production of chemicals and chemical products by EUR 34.8 million or 36.9%, production of motor vehicles, trailers and semi-trailers by EUR 34.4 million or 74%, production of base metals by EUR 14.8



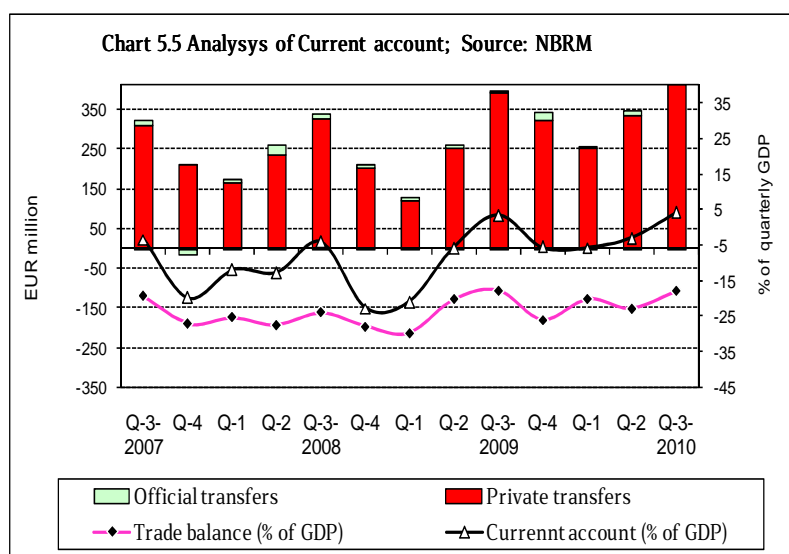
million or 19.6% and production of machines and devices by EUR 12.8 million or 21.6%.

Import at mining and quarrying increased by 50.3% or by EUR 44.4 million, contributing with 5.1 p.p. to the total import increase, being due to the increase at the following branches: extraction of crude oil and natural gas by 21.8% or by EUR 57.7 million and mining of metal ore by twice or by EUR 35 million. Import at electricity, gas and water supply sector was higher by 33.4% or by EUR 4.7 million. Import at agriculture as a result of the intensified activities and preparations for the autumn sowing season, increased by 26.7% or by EUR 3.7 million.

As regards the import of goods, all groups of products under SITC registered positive growth rate in Q2 2010. Thereby, highest growth of import was registered at the following categories: mineral oils and lubricants by 29.3% or EUR 40.4 million, contributing with 4.7 p.p. to the growth. (import of oil and oil products contributes with 3.5% to the total growth); chemical products by 35.3% or EUR 35.8 million, contributing with 4.1 p.p. to the growth. (pitch and raw chemicals contributes with 3.4 p.p. to the total growth); machines and transport equipment 18.2% or EUR 35 million, contributing with 4.1 p.p. to the growth. (contribution of the import of road vehicles to the total growth amounted to 4 p.p.); raw materials by 67% or EUR 25 million, contributes with 2.9 p.p. to the growth. (metal ore and metal scrap contributed with 2.6 p.p. to the total growth); products classified according to the material 26% or EUR 24.3 million, contributing with 2.8 p.p.. (import of textile yarns and items from non-metal minerals contributed with 1.2 p.p. and 0.6 p.p. respectively to the total growth). Increase in the import of inputs used by export-oriented sectors, i.e. the part of the so-called import component of the export at metal and textile industry had positive effects on the recovery and the stabilization of their overall production.

Trading volume with the EU in Q3 2010 accounted for 55.9% of the total trade of the Republic of Macedonia, and in relation to Q3 2009, it increased by 1.4 p.p.. Export from and import to the European Union registered strong growth of 37.9% and 19.3% respectively, compared to the same period in 2009. In addition to Germany, most significant trading partners to the Republic of Macedonia are Serbia, Greece, Bulgaria, Russia and Kosovo, whereby trading volume in Q3 2010 with these countries accounted for 30% of the total trade. In Q3 2010, 58.9 of the Macedonian export was realized on the markets in Germany, Kosovo, Bulgaria, Serbia and Greece.

As a result of increase in export, in conditions of unchanged import of goods, in Q3 2010, trade balance **deficit** (EUR -391.1 million)



narrowed compared to the previous quarter, accounting for 17.6% of quarterly GDP.

Upward trend of net current transfers, which commenced in the second quarter of 2009, following the interruption in Q1 2010, again increased in Q2 and Q3 2010, whereby they amounted to EUR 419.6 million in Q3, being the highest quarterly amount realized in the last 7 years. Such trend was a result of the higher **private transfers** (by 23.5%, or EUR 78.6 million compared to the previous quarter), being dominant and driving component of current transfers.

Following the narrowing of **the current account deficit** in the first and second quarter of 2010, current account, after a year, again experienced positive balance in the amount of EUR 84.2 million in Q3 2010, accounting for 4.6% of quarterly GDP. In Q3 2010, positive changes of the current account, compared to the previous quarter, amounted to EUR 127 million, while in relation to the same quarter of 2009, it amounted to EUR 25.5 million.

Analyzed at quarterly level, **trade openness** of the Republic of Macedonia in Q3 2010 was 93.2%, retaining the level from the previous quarter. On annual basis (Q/Q-4) trade openness experienced positive changes, increasing by 13 p.p.. This was mainly due to the significant annual increase in the overall volume of the foreign trade (23.6%) in relation to the same quarter of 2009.

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