



REPUBLIC OF MACEDONIA  
MINISTRY OF FINANCE  
Macroeconomic Policy Department

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# SHORT-TERM ECONOMIC TRENDS

May 2011

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July 2011, Skopje

## SUMMARY

### OF THE MOST IMPORTANT SHORT-TERM ECONOMIC DEVELOPMENTS

May 2011

- High industrial production growth of 6.9% in May 2011, compared to May 2010, being continuation of the growth trend at the beginning of this year;
- Inflation dropped by 0.2% on monthly basis, and it was 5.2% on annual basis.
- Annual increase in the physical output of export in the first five months in 2011 of 6.5%, with high nominal valuable growth of 41.2%; increase in imported quantities of goods of 11%, with valuable nominal growth of 36.2%;
- Increase of both total budget revenues by 10.9% and total budget expenditures by 11.2% in the first five months in 2011, compared to the same period last year; state budget deficit in the amount of Denar 6,451 million (1.4% of GDP) and central budget deficit in the amount of Denar 5,404 million (1.2% of GDP);
- Increase of total credits to private sector by 8.4% on annual basis, with simultaneous increase of total deposit potential of banks by 8.8%.
- Reduction of the number of unemployed by 3,803 persons in May 2011, i.e. by 1.2% compared to the previous month.

# 1. Real Sector

## Industrial production

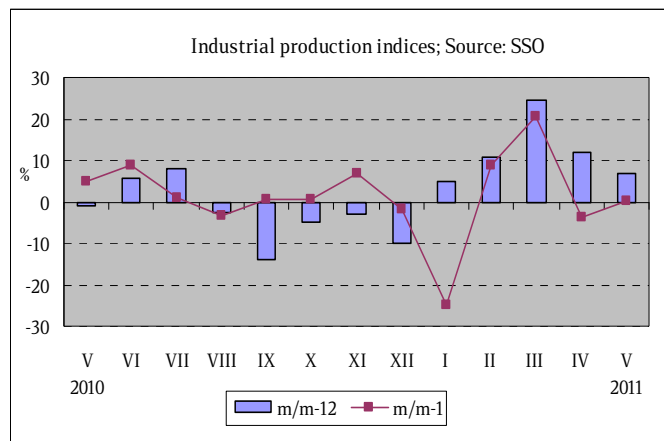
Industrial production in May 2011 surged by 6.9% compared to May 2010, being continuation of its growth trend at the beginning of this year.

Analyzed by sectors on annual basis, highest growth was recorded in the mining and quarrying sector – 27.3%, followed by the processing industry sector, experiencing growth of 11.9%, constituting around 84% of the industrial production. Electricity, gas, steam and air-conditioning supply sector experienced 24.4% decline.

	m/m-12	m/m-1	I-V 2011
			I-V 2010
Total	6.9	0.2	11.8
Ore and stone extraction	27.3	5.1	14.2
Processing industry	11.9	1.5	16.1
Electricity, gas and water supply	-24.4	-11.3	-7.9

Source: SSO

As for processing industry, positive annual growth was seen at 13 out of the 23 branches, accounting for 54% of the industrial production, whereby significant growth was evidenced in two driving branches with two-digit share in the industrial production. Thus, production of clothing experienced high growth of 28% and metal production grew by 25.6%, evidencing the continuous trend of high growth rates at these branches, whereby production of food products experienced decline of 3.2%.



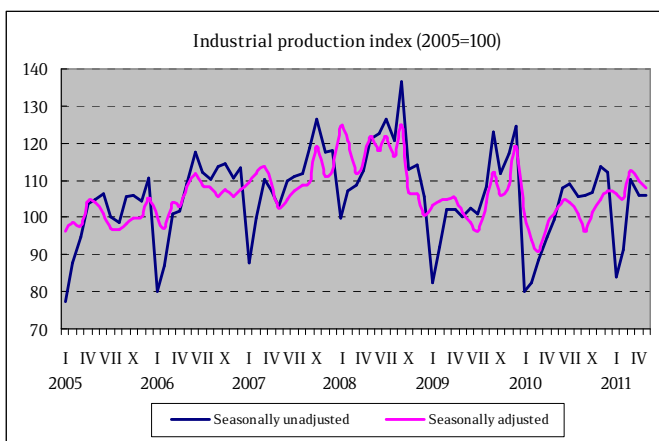
High industrial production growth was also registered at production of electrical equipment – 204.3%, production of furniture – 150.6%, production of tobacco products – 51.7% and production of machines and devices – 49.5%. Production of electrical equipment (8.5 p.p.) contributed the most to the annual growth of industrial production in May, as well as in the past months, while production of coke and refined oil products had the highest negative contribution (-3.1 p.p.).

Industrial production grew by 0.2% in May compared to April 2011. Sectoral analysis shows that growth was highest at the mining and quarrying sector – 5.1%, followed by the processing industry sector – 1.5%. Electricity, gas, steam and air-conditioning supply sector experienced 11.3% decline.

As for the processing industry, monthly growth was registered at 13 out of 23 branches, as follows: production of clothing – 3.4% and production of metals – 0.9%, while production of food products experienced a decline of 1.7%. De-seasoned

monthly growth of industrial production in May 2011 was -1.8%, pointing out to positive seasonal effects in the industry.

On cumulative basis, industrial production grew by 11.8% in the period January-May 2011 compared to the same period in 2010. Processing industry sector experienced high growth of 16.1%, mining and quarrying sector increased by 14.2%, while electricity, gas, steam and air-conditioning supply sector decreased by 7.9%.



Data on the industrial production by target groups in May 2011, compared to May 2010, show that there was increase in the production at the following groups: intermediary goods, except energy – 12.2%, capital goods - 87%, consumer durables – 103.9% and consumer non-durables – 10.2%. Energy sector experienced annual decline of 30.1%.

On monthly basis, data on the industrial production by target groups in May 2011 show that there was increase in the production at the following groups: intermediary goods, except energy – 3.8%, capital good - 27% and consumer non-durables – 8.9%. Production decline was registered at the following: energy – 23.4% and consumer durables – 24.8%.

On cumulative basis, in the period January-May 2011, compared to the same period last year, analyzed by target groups, following growth rates were registered: energy – 0.1%, intermediary goods, except energy – 14.3%, capital goods – 65.1%, consumer durables – 81.4% and consumer non-durables – 6%.

## Business Trends in the Processing Industry

According to the assessments of managers, current economic trends of business entities in May 2011 showed sound improvement in relation to the previous month and a continuous upward trend in the last seven months.

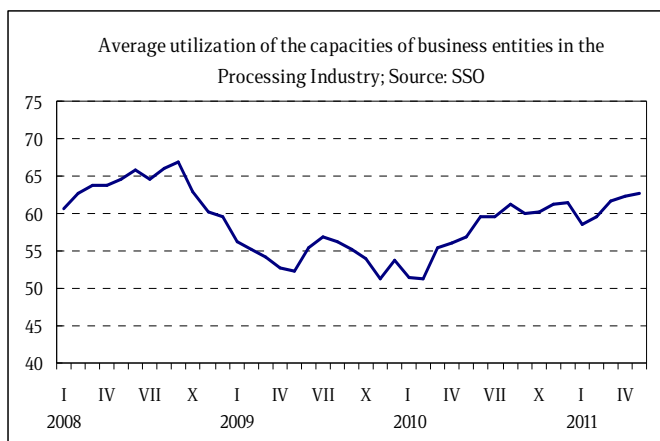
Assessment of current state of delivery-to-production remained at the same level compared to the previous month, being much more favourable compared to May 2010, whereby such improvement was due to both domestic and foreign orders.

In May 2011, assessment of the volume of production in the past three months showed downward trend compared to April 2011, however, much more favourable in relation to May 2010. Expectations for the production volume in coming three months are more favourable compared to the previous month and May 2010, pointing out to further positive performance in the processing industry. As regards the number of employees, expectations in May 2011 for the next three months shown slight downward trends compared to the previous month, while in relation to May 2010, the expectations are more favourable.

Average utilization of the capacities of business entities in May 2011 was 62.7%, being an increase compared to last month, when it accounted for 62.2%. Compared to May 2010 (56.9%), utilization of capacities increased by 5.3 p.p., showing significant improvement.

In May 2011, stocks of raw materials and intermediate goods, as well as on-going procurement of raw materials and intermediate goods, were below and around the average. Stock of finished goods in May 2011 surged compared to the previous

0month. According to the assessment of managers, average purchase prices of inputs, as well as selling prices of finished goods will increase in the period to come. Following factors limited the most the production volume in May 2011: insufficient foreign demand – 19.5%, insufficient domestic demand – 18.4%, financial problems – 13.2% and lack of qualified labour force – 10.0%, uncertain economic environment – 9.7%, competitive import – 6.0% and shortage of raw materials – 5.8%.



In May 2011, less business entities (decline by 1.9 p.p. compared to April) pointed out the insufficient foreign demand as limiting factor in relation to April 2010, while more business entities (increase by 2.8 p.p. in relation to April) pointed out the uncertain economic environment as limiting factor for production increase. In addition, share of entities being involved in the survey in May, which said that there were no limiting factors to production increase (increase by 0.8 p.p.), increased, showing a positive development.

### Number of Workers in the Industry

Number of workers in the industry in May 2011, compared to May 2010, increased by 3.3%. Sector analysis points out to increase of the number of workers on annual basis in all sectors. Number of workers increased in mining and quarrying sector by 2.8% as a result of the high growth of 7.0% in the extraction of coal and lignite sector, increase of 6.4% in the number of workers was registered in other mining and quarrying sector, while mining of metal ore experienced 1.8% decline as regards number of workers. Processing industry sector experienced 3.2 growth%. As for the processing industry, high increase in the number of workers on annual basis was registered at the following branches: production of tobacco products – 26.8%, production of machines and devices – 24.1%, production of metals – 15.4%, production of leather – 5.8% and production of fabricated metal products – 5.7%. Electricity, gas, steam and air-conditioning supply sector experienced 4.1% increase in the number of workers.

On cumulative basis, in the period January–May 2011, compared to the same period in 2010, number of workers in the industry increased by 1.9%. Thereby, number of workers in the mining and quarrying sector increased by 3.5%, in the processing industry sector by 1.6% and in the electricity, gas, steam and air-conditioning supply sector by 3.6%.

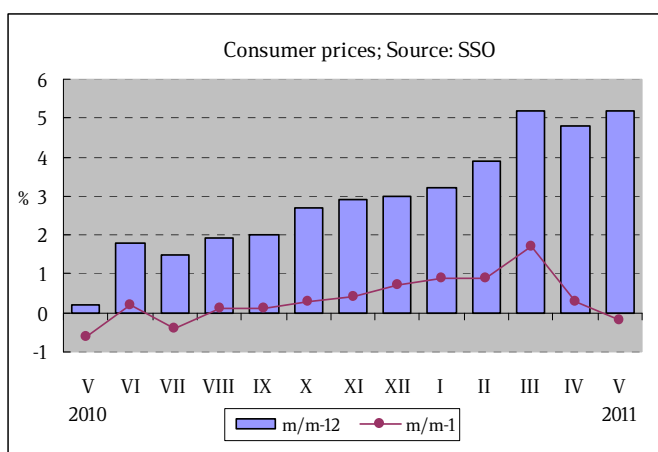
Data on the number of workers in the industry by target groups in May 2011, compared to May 2010, show that the highest increase in the number of workers was seen at the following groups: capital goods (5.7%), consumer non-durables (3.9%), energy (3.1%) and intermediary goods, except energy (2.4%), while 3.2% drop was registered only at consumer durables.

On cumulative basis, in the period January–May 2011, compared to the same period in 2010, data on the number of workers in the industry by target groups show an increased at the following groups: capital goods (5.0%), intermediary goods, except energy (4.2%), energy (2.6%) and consumer non-durables (0.3%), while 1.3% drop was registered only at consumer durables.

## Inflation

In May 2011, inflation (CPI) amounted to 5.2% compared to the same month in the previous year, while compared to the previous month, inflation declined by 0.2%. Inflation rate in the period January-May 2011 accounted for 4.5%.

Price increase on annual basis was the highest in the food category by 9.6%, mainly as a result of the higher prices of wheat, fresh vegetables and vegetable oil products. In 2011, food category participated with 38% in the Consumer Price Index structure. Price



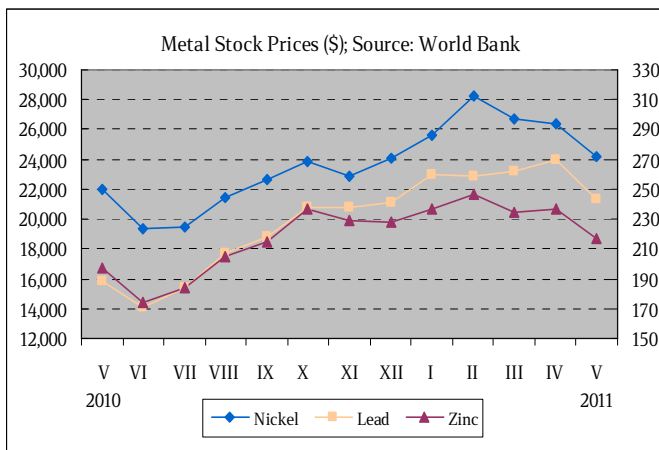
increase was also registered at the following categories: housing – 4.3%, hygiene and health – 3.4%, transportation means and services – 2.9%, administrative and financial services - 2.3%, restaurants and hotels and clothing and footwear – 1.6% each and tobacco and beverages – 1.1%. Drop was seen at prices in culture and entertainment category – 2.8%.

Retail prices in May 2011 were higher by 4.7% compared to May 2010.

In May 2011, oil price on world stock markets dropped by 7.0%, compared to the previous month, reaching the price of US\$ 114.5 per barrel. Compared to May 2010, oil price surged by 50.1%. Price of natural gas in May experienced slight decline compared to the previous month.

As regards metal products, nickel, as product with high share in Macedonian export, was traded at an average price of US\$ 24.237 for a metric ton (\$/mt) on the global stock markets in May, being a monthly drop of the price by 8.2%. Compared

to May 2010, nickel price surged by 10.1%. In fact, as a result of the slowed down demand and tighter policy of China, general decline of prices of metals and minerals of 4.6% on monthly level was registered. An exception was the price of gold, which continued to surge in May as well (2.2%), while steel products experienced slight price decline (0.4%).



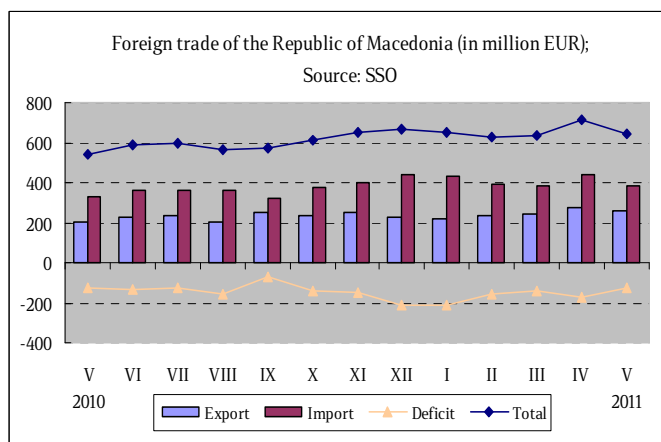
Price of wheat in May surged by 5.7% compared to April, reflecting the persistent drought in some parts in Europe, causing fear of lower yields.

## 2. Foreign Trade

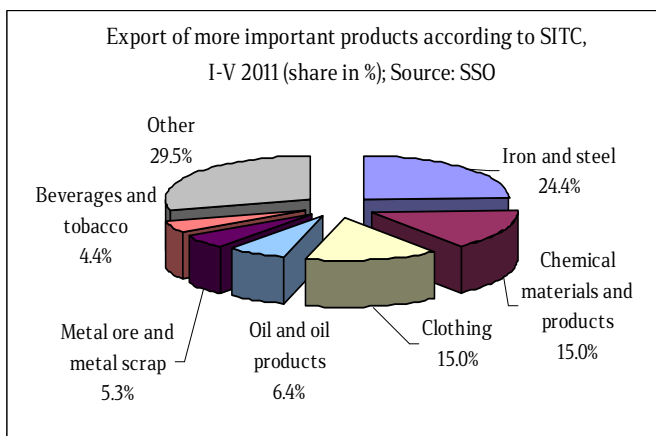
Total foreign trade in the first five months in 2011 experienced high growth of 38%, compared to the same period in the previous year, as a result of simultaneous increase of export and import of goods.

### Export

Analyzed on annual basis, in the first five months in 2011, physical output of export surged by 6.5%, and its value reached EUR 1,232.7 million, being high increase by 41.2% compared to the same period last year.



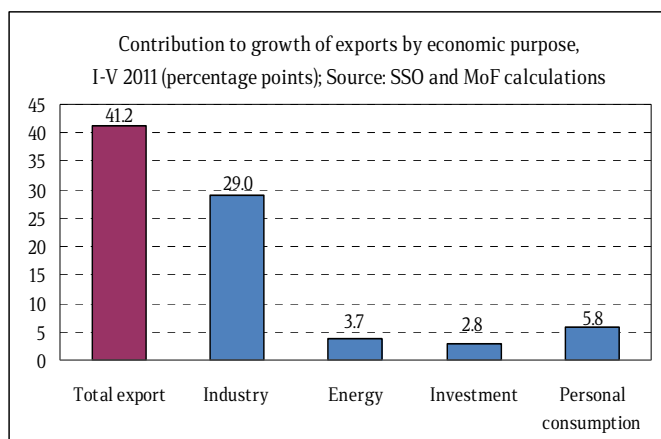
Analyzed on monthly basis, in May 2011, export declined by 5%, compared to the previous month. Seasonally adjusted trends of the export in May experienced monthly decline of 9.7%, showing the positive effects of the seasonal factor (4.6 p.p.) over the export in this month.



In line with the changed structure, the following products were most exported: catalysts with precious metals or precious metal compounds, ferronickel, petroleum oils and oil obtained from

bituminous minerals, followed by iron and steel products (hot rolled and cold rolled products), clothing, ferrosilicon mangan, ferrosilicium, etc.

Main groups of goods (according to SITC) having the biggest share in export in the first five months in 2011 were the following: iron and steel – 24.4%, chemical materials and products – 15%, clothing - 15%, oil and oil products – 6.4%, metal ore and metal scrap – 5.3% and beverages and tobacco – 4.4%. These six groups of products comprised 70.5% of the total export of the country.



Analyzed by economic purpose, in the first five months in 2011, significant increase of the export was registered at the industrial products (raw materials and intermediary goods from our industry) by 58.3% (EUR 253.2 million), compared to the same period last year. Export of personal consumption goods and energy products moderately increased by EUR 50 million and EUR 32 million respectively.

Export of oil and oil products*)				
	I-V 2010	I-V 2011	Balance 2011-2010	% rate
.000 T	119.8	126.3	6.5	5.4
EUR mil.	58.3	79.1	20.8	35.7
\$ mil.	78.4	111.2	32.8	41.8

\*)Previous data

Import of oil and oil products*)				
	I-V 2010	I-V 2011	Balance 2011-2010	% rate
.000 T	426.7	487.8	61.1	14.3
EUR mil.	183.0	283.9	100.9	55.1
\$ mil.	247.5	397.8	150.3	60.7

\*)Previous data

## Import

Imported quantities of goods in the first five months in 2011 increased by 11% and their value amounted to EUR 2,036.8 million, i.e. being a high increase by 36.2% in relation to January-May last year.

In May 2011 alone, goods in the amount of EUR 385.6 were imported, being an increase by 16.2% compared to the same month last year. Analyzed on monthly basis, in May 2011, import dropped by 12.7% in relation to the previous month, mainly as a result of the decline in the import of oil and oil products and non-ferrous metals. Seasonally adjusted trends of the import in May experienced monthly decline of 6.8%, showing the negative effects of the seasonal factor (-5.9 p.p.) over the import in this month.

Export of chemical products*)				
	I-V 2010	I-V 2011	Салдо 2011-2010	Стапки во%
.000 T	73.7	78.8	5.1	6.9
Мил. ЕУР	78.2	237.6	159.4	203.8
Мил.\$	104.7	421.6	316.9	302.7

\*)Previous data

Import of chemical products*)				
	I-V 2010	I-V 2011	Салдо 2011-2010	Стапки во%
.000 T	121.6	127.9	6.3	5.2
Мил. ЕУР	196.0	274.9	78.9	40.3
Мил.\$	264.0	380.5	116.5	44.1

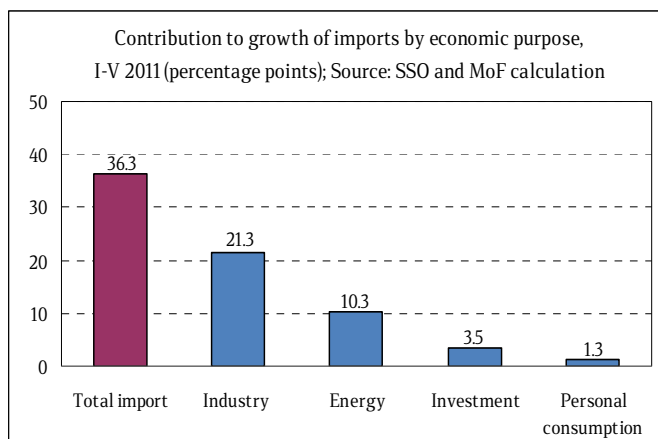
\*)Previous data

Crude oil, platinum and platinum alloys unwrought or in powder form, hot rolled flat products in reels, colloidal precious metals and their inorganic or organic



compounds, electricity, motor vehicles for transportation of persons, etc. were the most imported products.

Following participated the most in the import of goods, (according to SITC), in the first five months in 2011: oil and oil products (EUR 283.9 million, 14%), non-ferrous metals (EUR 176 million, 8.6%), textile yarns and similar (EUR 137 million, 6.7%), iron and steel (EUR 128 million, 6.4%), road vehicles (EUR 101.2 million, 5%), electrical machines - devices and spare parts (EUR 76.9 million, 3.8%), electricity (EUR 66.5 million, 3.3%), etc.



In the first five months in 2011, observed by economic purpose, significant increase of import was seen at industrial raw materials (products intended for industrial production) by 53.4% or EUR 317.8 million, compared to the same period last year. Value of imported energy products amounted to EUR 341.6 million, increasing by EUR 152 million in relation to the first five months in 2010.

Export of iron and steel*)				
	I-V 2010	I-V 2011	Balance 2011-2010	% rate
.000 T	283.0	341.6	58.6	20.7
EUR mil.	203.2	300.7	97.5	48.0
\$ mil.	272.5	331.8	59.3	21.8

\*)Previous data

Import of iron and steel*)				
	I-V 2010	I-V 2011	Balance 2011-2010	% rate
.000 T	273.6	248.8	-24.8	-9.1
EUR mil.	115.0	129.4	14.4	12.5
\$ mil.	154.0	180.5	26.5	17.2

\*)Previous data

## Trade Balance

Trade balance in the first five months in 2011 amounted to EUR 804.2 million, increasing by EUR 182 million compared to the same period last year. Disaggregated, increase of negative trade balance was a result of combined effect from the widened negative balance in the trade in non-ferrous metals, oil and oil products, products for colouring and tanning, electricity, as well as the realized negative balance of the trade in metal ore and metal scrap, compared to the positive balance last year. Increased positive balance in the trade in chemical materials and products, iron and steel, clothing, fruit and vegetable, as well as narrowing of negative balance in the trade in road vehicles, IT office supplies, etc., had opposite effect. Such trends in the first five months in 2011 contributed for the level of import coverage by export, amounting to 60.5%, to increase by 2 p.p. compared to the same period in the previous year.

Analyzed according to the economic groups of countries, in the first five months, export in the EU, EFTA, Western Balkans and the developing countries, continued to increase, except in the undeveloped countries, while import from all groups of countries increased.

In the first five months in 2011, in conditions of significant increase of trade with the European Union (EU 27), in relation to January-May last year, by 47%, share of trade with EU in the total foreign trade increased by 1.5 percentage point, accounting for 57.5%, whereby export of goods participated with 62.6% and import of goods accounted for 54.4%.

As a result of the structural changes in trade with abroad, in the first five months in 2011, 56% of the trade deficit of the country was a result of the trade with Great Britain and Russia, followed by Greece, Turkey, China, Serbia, Switzerland, Bulgaria, etc. Trade surplus was realized with Germany, Kosovo, Albania, Croatia, Montenegro, etc.

## Currency Structure

Observed by currency structure, 68.9% of the foreign trade in the first five months in 2011 was realized in euros, and compared to the same period in 2010, it dropped by 5 percentage points. On export and import side, the euro accounted for 78.2% and 63.4%, respectively, whereby share of the euro in export registered slight increase of 1.1 p.p., while share of the euro in import dropped by 8 p.p. compared to the first five months in 2010. Decline of euro share in the import was due to the increased import from the Great Britain, expressed in GBP, participating with 11% in the currency structure of the import.

Foreign trade of the Republic of Macedonia (by currency ); calculations: MoF												
import	I-V 2010					I-V 2011					absolute change in currency value	relative change in currency value (in %)
currency	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar	structure in %	.000 T	import in currency	average Denar exch. Rate in relation to currencies	import in Denar	structure in %		
EUR	1,173	1,066,084,462	61.5	65,528,800,409	71.7	1,170	1,297,043,516	61.5	79,806,698,426	63.4	230,959,054	21.7
USD	846	472,778,581	45.6	21,549,436,833	23.6	1,074	698,828,502	42.8	29,928,448,724	23.8	226,049,921	47.8
GBP	1	54,276,209	69.9	3,795,111,965	4.2	1	198,415,238	70.0	13,897,598,544	11.0	144,139,029	265.6
EUR+USD+GBP	2,020			90,873,349,207	95.2	2,245			123,632,745,694	98.2		
tot. import	2,027			91,437,315,810	100.0	2,248			125,954,353,782	100.0		37.7

Source: SSO and NBRM

## 3. Fiscal Sector

### Budget Revenues

In the first five months in 2011, total budget revenues amounted to Denar 56,878 million, i.e. 12.5% of GDP, which was higher performance by 10.9% compared to 2010.

Tax revenues in this period were realized in the amount of Denar 31,321 million, being higher by 10.1% in relation to the same period in 2010.

Value added tax was realized in the amount of Denar 16,653 million, whereby share of VAT in total tax revenues in 2011 was dominant, amounting to 53.2%. Excises were realized in the amount of Denar 5,929 million (participating with 18.9% in the tax revenues). Hence, revenues realized on the basis of these two taxes amounted to Denar 22,582 million, i.e. almost 3/4 of the total tax revenues (5.0% of GDP). Thereby, VAT collection amounted to Denar 24,829 million on gross basis, Denar 8,177 million out of which was refunded to taxpayers.

Structure of sales in the country shows that sales of goods and services, taxed with the general tax rate of 18% surged by 13.6%, while sales taxed with preferential tax rate of 5% increased by 11.0%.

Observed by certain categories of taxes, revenues on the basis of personal income tax were realized in the amount of Denar 3,812 million, increasing by 8.2% on annual basis. Compared to 2010, revenues on the basis of profit tax experienced record growth of 74.0%, being mainly a result of the increase of additional payments on the basis of annual tax balances, as well as increase of tax collected on the basis of paid dividend and other distribution of profit (it is worth mentioning that profit tax revenues were higher by 49.5% compared to the projections. VAT revenues experienced growth of 10.6%, while excises experienced higher performance by 10.2%.

<b>Total revenues and expenditures (Denar million)</b>		
	I-V 2010	I-V 2011
<b>Total revenues</b>	<b>51,286</b>	<b>56,878</b>
Taxes	28,456	31,321
Personal income tax	3,523	3,812
Profit tax	1,236	2,150
VAT	15,063	16,653
Excises	5,382	5,929
Customs duties	1,989	1,458
Other taxes	1,263	1,319
Non-tax revenues	5,719	5,683
Contributions	15,369	15,757
Other	1,742	4,117
<b>Total expenditures</b>	<b>56,960</b>	<b>63,328</b>
Current expenditures	51,915	55,900
Transfers	35,915	39,167
Goods and services	5,868	6,342
Salaries	9,509	9,600
Interest	622	791
Capital expenditures	5,045	7,428

Non-tax revenues declined by 0.6% in relation to the same period in 2010, i.e. they amounted to Denar 5,683 million (these revenues are revenues collected on the basis of administrative fees, road toll, etc.).

Capital revenues realized on the basis of sale of construction land and flats and dividends amounted to Denar 2,951 million, increasing by 5.8 times compared to the funds realized in the previous year. The main reason for such increase was the payment of Telecom dividend in April in the amount of Denar 2,303 million.

Collection of social contributions amounted to Denar 15,757 million, being higher by 2.5% compared to the same period in 2010, whereby collection of pension insurance contributions increased by 2.7%, the collection of health insurance contribution surged by 2.3%, while employment contributions rose by 0.9%.

### **Budget Expenditures**

In the period January-May 2011, total budget expenditures amounted to Denar 63,328 million, i.e. 14% of GDP, which was higher by 11.2% compared to 2010.

With respect to the structure of total realized expenditures, current expenditures in the amount of Denar 55,900 million accounted for 88.3% (12.3% of GDP) and they increased by 7.7% in relation to the same five months in 2010, while capital expenditures, amounting to Denar 7,428 million, participated with 11.7% in the total expenditures, increasing by 47.2% compared to the same period last year.

Transfers amounting to Denar 39,167 million accounted for the most in the current expenditure items, followed by salaries and allowances - Denar 9,600 million. With respect to total budget expenditures, expenditures related to wages and salaries

and allowances accounted for 15.2% and, in relation to 2010, they experienced slight increase of 1.0%.

Expenditures related to goods and services amounted to Denar 6,342 million, increasing by 8.1% compared to the same period in 2010.

Transfers increased by 9.1% compared to 2010, participating with 61.9% in the total expenditures. Category Other Transfers, which includes transfers to local government units, accounted for 17.8% in the total expenditures. Transfers to the Pension and Disability Insurance Fund amounted to Denar 16,059 million, accounting for 25.4% in the total expenditures.

Interest was collected in the amount of Denar 791 million, being by 27.1% more compared to the same period in 2010. Such increase was mainly due to the payment of due interest on the basis of domestic borrowing, as well as for the second Eurobond. Costs related to interest on the basis of domestic borrowing increased by 20.1%, while the ones on the basis of foreign borrowing surged by 34.9%.

### Budget Balance

In the period January-May 2011, state budget deficit reached the amount of Denar 6,451 million, being 1.4% of GDP, while central budget deficit amounted to Denar 5,404 million or 1.2% of GDP.

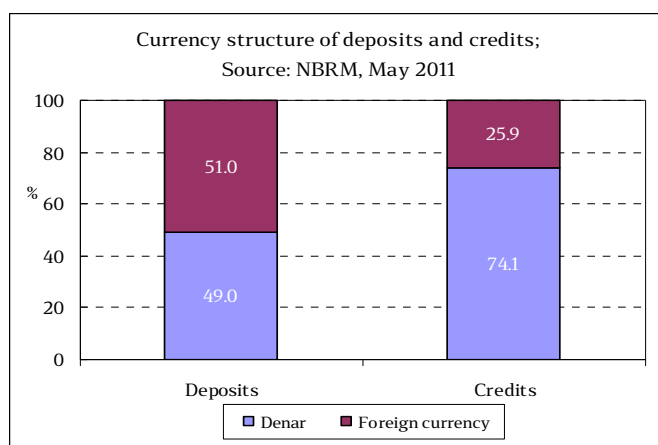
## 4. Monetary Sector

### Primary Money

In May 2011, primary money<sup>1</sup> increased by 10.2% on annual basis, in conditions of stronger growth of ready money in circulation<sup>2</sup> by 10.9% and increase of total liquid assets of banks by 9.7%.

On monthly basis, primary money experienced slower growth by 1%, compared to 5.4% growth in the previous month, as a result of the increase of ready money in circulation by 3.8%. Total liquidity of banks dropped by 0.8% on monthly basis.

In May 2011, National Bank of the Republic of Macedonia kept the level of interest rate on central bank bills unchanged, i.e. at 4.0%. In addition, interest rate on overnight credits was kept at the level of 5.5%.



<sup>1</sup> Primary money is calculated as a sum of ready money in circulation (including cash in hand), 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.

## Deposit Potential

Total deposit potential of banks<sup>3</sup> in May 2011 increased by 1.4% on monthly basis, in conditions of increase of deposits of households by 1% and deposits of private enterprises by 2.8%. From currency point of view, Denar deposits, as well as foreign currency deposits, experienced growth of 1.4%.

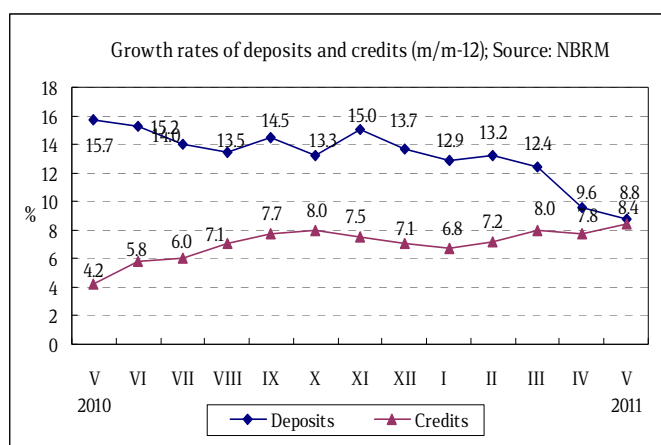
Further growth slowdown of deposits was registered on annual basis. In fact, total deposits in May 2011 increased by 8.8% on annual basis, compared to 9.6% in April 2011. From the point of view of sector structure, growth was driven by the growth of deposits of households by 14.7%, in conditions of reduction of deposits of private enterprises by 4.5% due to the comparative basis, taking into account that dividend from a larger company was paid in July, unlike in 2011, when it was paid in April.

Analyzed according to currency, Denar deposits continued to slow down, whereby their growth in May amounted to 12.2%, compared to 14.5% in the previous month, while foreign currency deposits surged by 5.7%, compared to the increase by 5.2% in April in 2011.

According to maturity, short-term deposits increased by 2.9% on annual basis, while long-term deposits experienced high growth of 34.2%.

## Bank Credits

In May 2011, total bank credits to private sector increased by 1.1% on monthly basis, compared to the monthly increase of 0.9% in the previous month. According to the currency structure, Denar credits increased by 0.7%, while foreign currency credits, following their 0.1% decline in April, surged by 2.6% in May 2011. According to the sector analysis, credits to private enterprises increased by 1% compared to the previous month, while credits to households were higher by 1.3%.



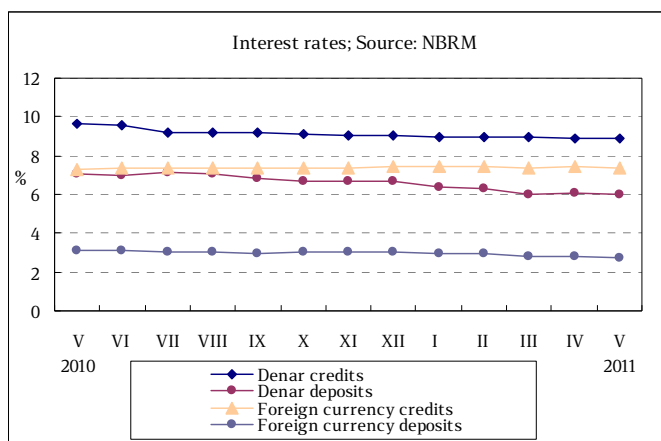
On annual basis, intensity of crediting by banks accelerated. In fact, growth rate of credits was 8.4%, compared to 7.8% in April 2011. From sector point of view, credits to private enterprises contributed the most to the growth of total credits with 68.1%, increasing by 9.6% on annual basis. Household credits increased by 6.9% in May.

From currency point of view, Denar credits experienced annual growth of 4.4%, while foreign currency credits registered high growth of 21.8%. At the same time, long-term credits increased by 15.1% on annual basis, while short-term credits were lower by 2.1%.

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

## Interest rates

In May 2011, no change was registered at interest on credit balance and interest on debit balance of banks compared to the previous month. Interest on debit balance of Denar credits, including interest rates on Denar credits without foreign currency clause and Denar credits with foreign currency clause, was 8.9%, which, compared to May 2010, dropped by 0.7 p.p. Interest on credit balance, including interest rates on Denar deposits without foreign currency clause and Denar credits with foreign currency clause, was 6%, which, compared to May 2010, dropped by 1.1 p.p.



Interest rate on foreign currency credits was 7.4%, being higher by 0.1 p.p. compared to May 2010. Interest rate on foreign currency deposits amounted to 2.8%, decreasing by 0.3 p.p. compared to May 2010.

Interest rate on newly approved Denar credits increased by 0.1 p.p. in May, compared to the previous month, amounting to 8.2%, while interest rate on newly approved foreign currency credits amounted to 7.1%, dropping by 0.2 p.p. Interest rate on new Denar deposits increased by 0.1 p.p., reaching 3%, compared to interest rate on new foreign currency deposits, which remained unchanged – 0.8%.

## Foreign Currency Reserves

Gross foreign currency reserves at the end of May 2011 amounted to EUR 1,882.8 million and, compared to April 2011, they were higher by EUR 5.6 million, while compared to May 2010, foreign currency reserves increased by EUR 200.2 million.

## 5. Social Sector

### Number of newly employed and registered unemployed persons in EARM

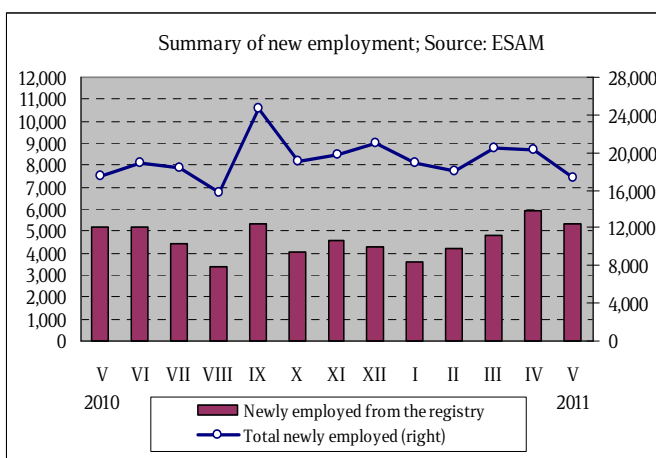
In the period January-May 2011, Employment Agency of the Republic of Macedonia registered total of 95,110 new employments. 37.6% out of the total number of newly employed was on the basis of full-time employment, while the rest of the employed were on the basis of temporary employment and seasonal workers. Compared to the same period in 2010, number of newly employed persons was almost identical.

In May, 17,276 new employments were registered, whereby 30.8% of the new employments was from the unemployed records. Outflow of persons from the Employment Agency Registry amounted to 10,123 persons in May, 51.9% out of which were new employments. In May, 6,320 persons were registered as inflow to the Agency, 51.9% out of which were persons whose employment was terminated. As a result, unemployment reduced by 3,803 persons, i.e. by 1.2% compared to the

previous month. Thus, in May 2011, 315,472 persons were registered as unemployed. Compared to the same month in 2010, number of unemployed persons declined by 5.7%.

Major percentage of the unemployed, i.e. 65.7%, came from urban areas (cities),

whereby 57.5% were men. Analyzed by education structure, major part, i.e. 52.2% of unemployed persons were unskilled or semi-skilled, while only 8.2% was with community college or higher education level. Observed by age, majority of the unemployed persons or 57.2% fall in the category of 25-49 years of age. According to the time they

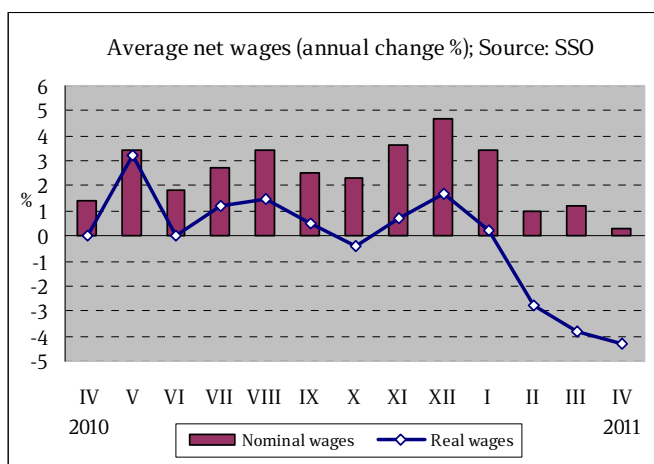


waited for a job, 49.8% of the unemployed persons sought job from 1 to 7 years, while 30% sought job for 8 years and more.

### Salaries

According to the data from the State Statistical Office, average monthly paid gross salary per employee in April 2011 (most recent available data) amounted to Denar 30,172, while average paid net salary in the same month amounted to Denar 20,519<sup>4</sup>.

Average net salary in April 2011, compared to March 2011, was lower by 0.3% in nominal terms, and it was lower by 0.6% in real terms. Average gross salary per employee, compared to March 2011, was lower by 0.1% in nominal terms, and it was lower by 0.4% in real terms.



In April 2011, compared to April in 2010, there was an increase of average monthly net and gross salary by 0.3% in nominal terms, while salaries were lower by 4.3% in real terms.

On cumulative basis, in the period January-April 2011, average net salary increased by 1.5% in nominal terms, while it was lower by 2.7% in real terms. In the same period, average gross salary increased by 1.3% in nominal terms, while it was lower by 2.8% in real terms.

<sup>4</sup> State Statistical Office, at the beginning of this year, applied the new National Classification of Activities (NCA Rev. 2) for collecting and processing data on average monthly paid gross and net salary.

Highest increase of average monthly gross and net salary per employee in April 2011, compared to April 2010, was registered at the following: other services (25.9% gross salary and 26.4% net salary), information and communications (15.9% gross salary and 16.2% net salary) and expert, scientific and technical activities (12.2% gross salary and 11.7% net salary).

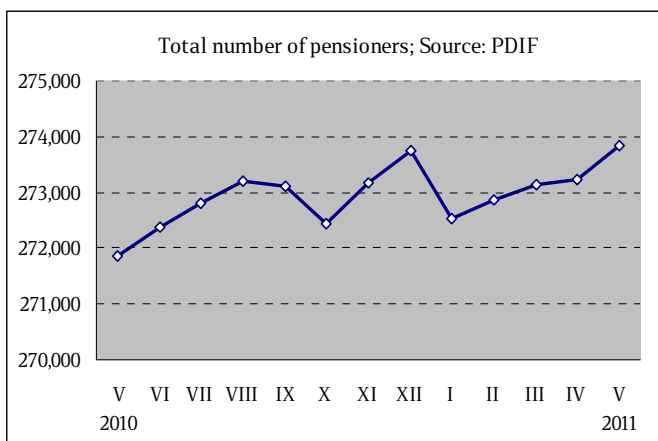
Highest decline of average monthly gross and net salary per employee in April 2011, compared to March 2010, was registered at the following: financial activities and insurance activities (2.6% gross salary and 2.9% net salary), processing industry (1.9% gross salary and 2.1% net salary) and retail and wholesale; repair of motor vehicles and motorcycles (1.6% gross salary and 2.4 net salary).

Employees who did not receive salary in April 2011 accounted for 2.0%, whereby, compared to April 2010, percentage of unpaid salaries reduced by 1.6 p.p., while compared to March, percentage of employees who did not receive salary was higher by 0.1 p.p..

### Pensions

In May 2011, Pension and Disability Insurance Fund registered 273,831 pensioners, being an increase by 0.7% compared to May 2010. Number of pension beneficiaries increased by 612 persons in relation to April 2011. 55.3% out of the total number of pensioners are beneficiaries of old-age pension, 27.5% of survival pension and 17.2% of disability pension.

In May 2011, Denar 2,868.6 million was spent for payment of pensions, accounting for 51.9% of the total social transfers<sup>5</sup>.



Average pension in May 2011 amounted to Denar 10,476, being an increase by 3.3% on annual level. Ratio between the average pension and the average paid salary in April 2011 (the most recent available data) amounted to 51%.

<sup>5</sup> Category social transfers includes pensions, unemployment benefit, social assistance and expenditures for health care.



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