

Republic of Macedonia
Ministry of Finance

QUARTERLY ECONOMIC REPORT

Q4/2010

Summary

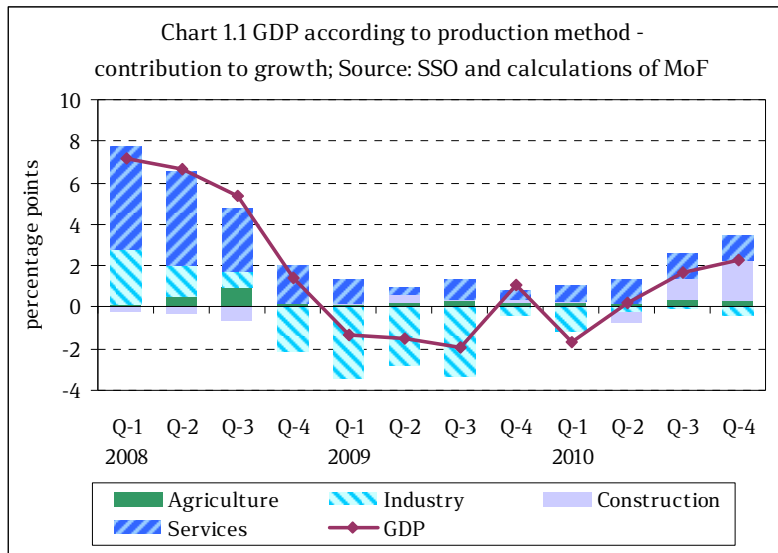
- In Q4 2010, **GDP realized real growth** of 2.3% compared to the same quarter of 2009, thus the average growth for 2010 amounted to 0.7%. Except for transport, storage and communications sector and industry, all other sectors registered growth in Q4 2010, construction sector out of which experienced the most significant increase by 38.2%;
- **Number of employed persons in Q4 2010**, according to Labour Force Survey increased by 5.9% compared to Q4 2009, while number of unemployed reduced by 1.2%. Unemployment rate in Q4 2010 reduced to 30.9%, decreasing by 1.5 percentage points compared to Q4 2009;
- **Inflation rate**, measured according to CPI in Q4 2010 was 2.9% (Q/Q-4).
- **Net salary** increased by 3.5% in nominal terms, while real growth was 0.7%;
- **Total budget revenues** experienced higher performance by 1.6% (29.0% of GDP in Q4), and total expenditures increased by 0.9% (32.4% of GDP) in Q4 2010 compared to the same quarter in 2009;
- **Deposits** in Q4 2010 continued to grow, achieving growth rate of 13.7% compared to the end of Q4 2010. **Credits to private sector** showed upward trend, increasing by 7.1% compared to the end of Q4 2009 and 1.2% on quarterly basis.
- **Macedonian Stock Exchange Index** MSEI-10 in December 2010 dropped by 17.2% compared to December 2009. Total turnover realized on the Macedonian Stock Exchange in Q4 2010 decreased by 17.3% compared to the same period in 2009;
- **In Q4 2010 on annual level (Q/Q-4)**, significant increase of both export by 42.5%, and import by 21.4% was noticed, whereby total foreign trade, expressed in euros increased significantly by 28.4%;
- **Trade openness of the Republic of Macedonia** in Q4 2010 was 103.6%, pointing out that the level from the previous quarter increased.

1. Macroeconomic Trends and Real Sector

Real GDP growth in Q4 2010 amounted to 2.3%, compared to the same quarter in 2009, being certain acceleration of the growth, following the drop of 1.6% in Q3 2010. Thus, average real GDP growth in 2010 accounted for 0.7%. Real GDP growth in Q4 2010, compared to the previous quarter, amounted to 8.3%. Such growth was to a certain extent a result of seasonal factors, and the seasonally adjusted GDP growth in Q4 2010 amounted to 2.2%.

Nominal GDP growth in Q4 2010 accounted for 7.4% compared to the same quarter last year, implying that GDP deflator amounted to 5%. Average nominal GDP growth in 2010 accounted for 3.6%, while GDP deflator was estimated at 2.9%.

According to the **production side of GDP**, the highest annual real growth rate in Q4 2010 was registered in the construction sector with high 38.2%. Thus, average growth in the construction sector in 2010 was 14.9%. Financial intermediation sector continued its stable positive moderate growth in Q4 2010 estimated at 2.2%, similar as the growth in the previous quarter. Trade sector growth retained relatively high level of 6.4%, following the growth of 7.2% in the third quarter. Such tendency was a result of acceleration of the activity in retail trade at the end of the year and the two-digit nominal growth in wholesale trade in the period November-December. Hotels and restaurants sector in Q4 2010 experienced upward trend in its activity, surging by 0.9%, following a period of subsequent drop of the activity in the previous seven quarters. Positive growth rates were also realized in the sectors agriculture (2.7%) and public administration (1.1%).



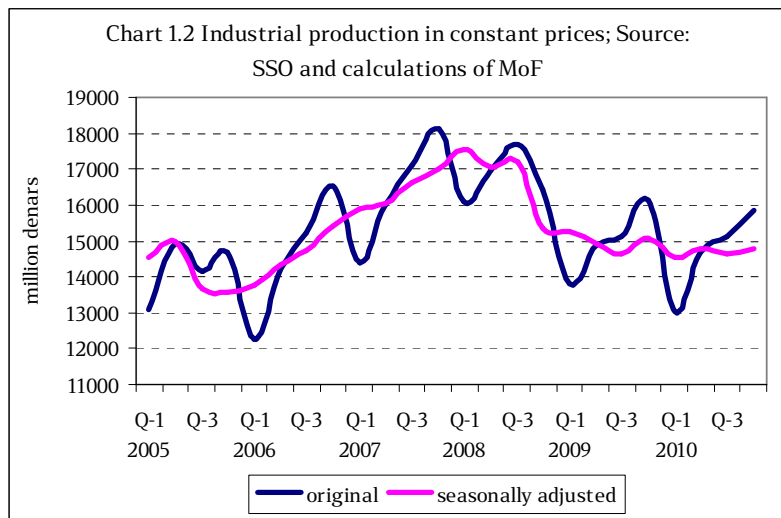
Industrial production in Q4 2010 dropped by 1.9%. Trends in the industry partially reflected on the transport, storage and communications sector as well, where the growth was estimated at -1%.

Drop of **industrial production**¹ of 1.9% in Q4 2010 was mainly a result of the realized negative rates at: production of fabricated metal products, except machines and equipment (62.5%), repair and installation of machines and equipment (52.2%), production of chemicals and chemical products (20.7%), printing and production of recorded media (14.5%), production of beverages (14.2%), mining and quarrying (12.5%), production of furniture (11.4%), production of other non-metal products (7.8%),

¹ Calculated on the basis of monthly releases of Industrial Production Index

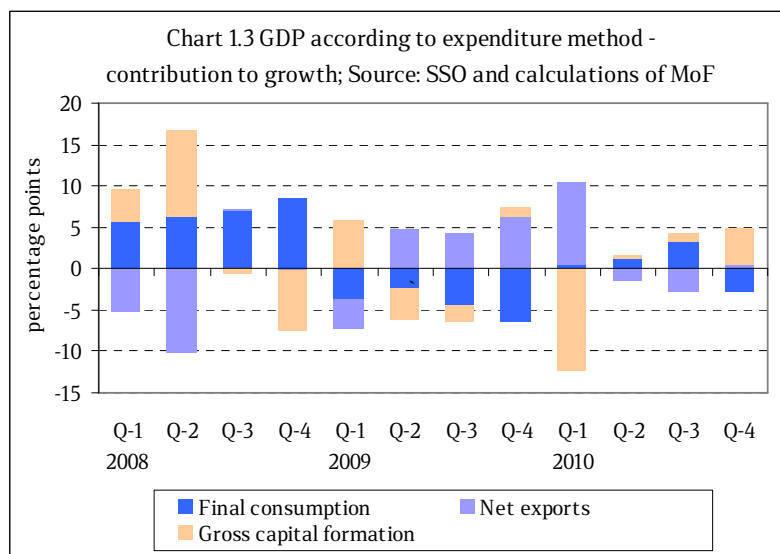
production of basic pharmaceutical products and pharmaceutical preparations (4.7%), production of clothing (3.8%), supply of electricity (3.8%) and production of rubber products (1.5%).

On the other hand, growth was recorded at tobacco products (66.4%), production of textile (31.7%), production of leather (23.3%), production of wood (98.8%), production of metals (30%), production of machines and devices mentioned elsewhere (13.5%), production of other transportation equipment (93.8%) and other production industry (98.7%), production of paper (7.1%), production of coke (14.5%) and production of food products (0.5%).



Analyzed according to the **expenditure side of GDP**, positive real growth was recorded at export (40%) and import (22.1%) of goods and services and gross investments (14.8%), while personal and public consumption dropped by 3.1%, i.e. 3.3% respectively.

GDP growth in Q4 2010, analyzed according to the expenditure side, was featured with positive contribution to domestic and foreign demand. Domestic demand was driven by Gross investments, continuing to experience accelerated growth in Q4 as well, reaching 14.8%. Gross investments in Q4 2010 accounted for 32.5% of GDP, increasing by 4.5 p.p. compared to Q4 2009.



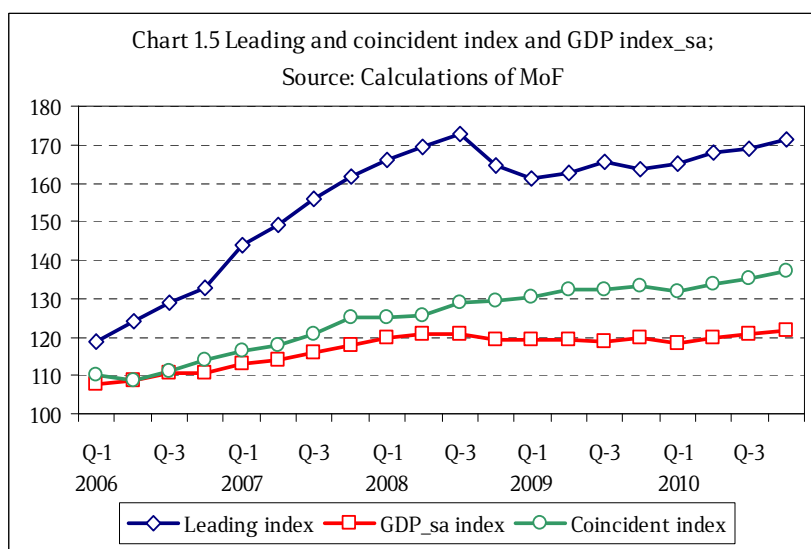
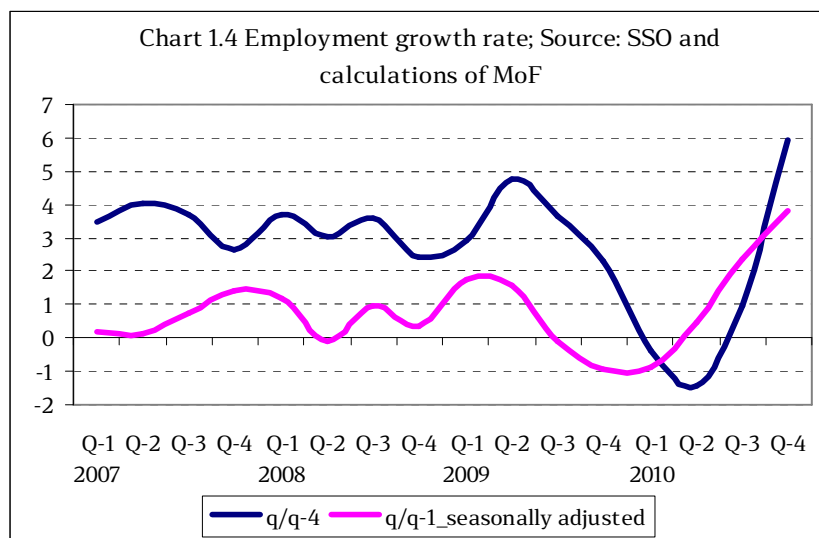
What was indicative for the growth of gross investments in Q4 2010 was the positive performance in the field of construction, increase of production of capital goods by 4.8% in real terms, while import of investment goods dropped by 2.6% in nominal terms.

Personal consumption in Q4 2010 dropped by 3.1% in real terms, following the positive performance in the previous three quarters. Such performance was a result of the reduction of gross salaries in Q4 by 1.2% in real terms. Drop of personal consumption is in line with the VAT collection, where nominal annual drop of revenues of 1.5% was

recorded in Q4 2010. Public consumption dropped by 3.3%, reflecting the reduction of expenditures for goods and salaries in Q4 2010 by 8.3% and expenditures related to wages and salaries and allowances by around 1%.

Number of employees in Q4 2010, according to the Labour Force Survey, increased by 5.9% in relation to the same quarter in 2009, accompanied by relatively high drop of non-active population, decreasing by 3.3% on annual basis. Growth of employment also absorbed certain reduction of the number of unemployed persons, reducing by 1.2% in Q4 2010 on annual basis. Such trends on the labour market caused for the activity rate in Q4 2010 to increase by 1.7 percentage points compared to the same quarter of 2009, accounting for 57.8%. Employment rate increased to 39.9%, increasing by 2 p.p. compared to the same quarter of 2009, while unemployment rate reduced to 30.9% from 32.4% in Q4 2009. In fact, on net basis, increase of the number of employed persons in Q4 2010 was a result of the increase of working positions in the private sector, where the number of employees increased by 9.4% on annual basis, while employment in the other parts of the economy decreased by 3.3%. Number of employed persons excluding the seasonal effects increased by 3.8% in Q4 2010, compared to the increase by 2.4% in the previous quarter.

Leading Composite Index² in Q4 2010 increased by 2.3 index points compared to the



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..

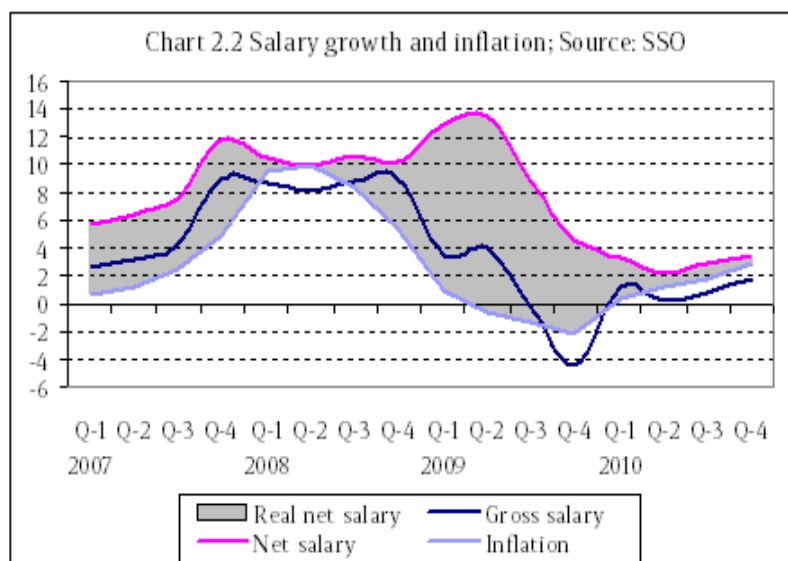
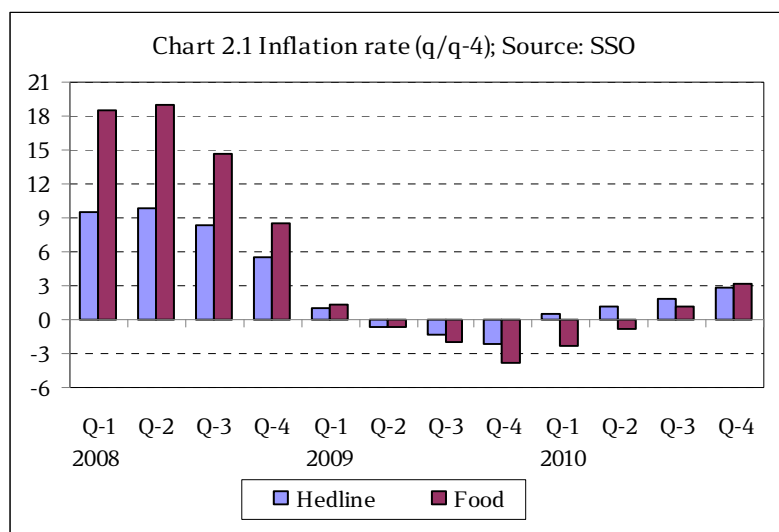
previous quarter. Compared to the same quarter in 2009, leading composite index was higher by 8 index points. Such trends of the index points out that the positive growth of economic activity is expected to continue at the beginning of 2011 as well, having prospects for accelerated growth and continuation of the upward trend of economic growth in the next quarter as well.

Leading diffusion index³ in Q4 2010 registered positive trends at 56.3% of the components of the leading composite index, being higher/lower performance compared to the same quarter of 2009/ the previous quarter by 6.3 p.p..

2. Prices, Costs and Productivity

Inflation rate, measured according to the CPI index, amounted to 2.9% in Q4 2010 compared to the same quarter of 2009 (1.8% in Q3 2010). Highest price increase was recorded at housing category by 5.7% being to a great extent a result of the increase of prices for heating and lighting (increase by 8.9%) and prices for electricity (increase by 9.9%), and high growth was also recorded at categories food (3.3%) and means of transport and services (3.1%), being driven by the increase of prices of liquid fuels and oils (by 14.4%). Price increase was also registered at clothing and footwear (1.6%), hotels and restaurants (1.6%), tobacco and beverages (0.8%) and hygiene and health (0.7%). On the other hand, reduction of prices was seen at the category culture and entertainment (-0.8%) and other services (-6.2%).

Core inflation (excluding the effect of food and energy) in the fourth quarter was 0.7%, compared to the previous quarter, when it amounted to



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

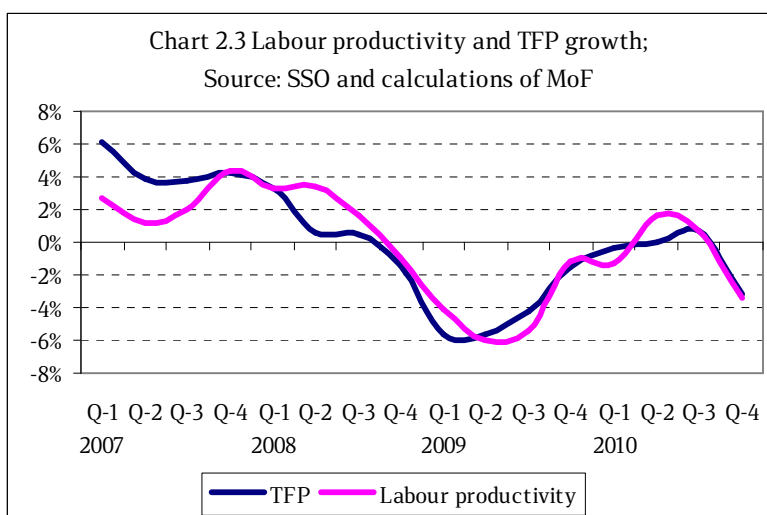
0.3%.

Retail prices in Q4 2010 increased by 3.5% compared to the same quarter of 2009. Prices of industrial products (increase by 5%) contributed the most to the increase of the retail price index with 2.8 p.p., among which industrial non-food products, increasing by 6.3%, contributing with 2.3 p.p.. Agricultural products category increased by 4.3%, while prices of services were higher by 1.1%.

Value of the consumer basket of food and beverages for a four-member household, calculated on the basis of retail prices, was higher by 2.3% compared to the previous month, while it was higher by 3.3% compared to Q4 2009. Value of the consumer basket in Q4 2010 was 58.5% of the average net salary.

Average **net salary** in Q4 2010 was higher than the same quarter of 2009 by 3.5% in nominal terms, while average **gross salary** experienced slower nominal growth compared to net salary (1.7%), 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 0.7% in real terms, while for gross salary to drop by 1.2%. (shaded field in Chart 2.2).

Labour productivity in Q4 2010 reduced by 3.4% on annual basis, following the subsequent increase in the previous two quarters. Drop of labour productivity in Q4 2010 was due to the higher increase of the number of employees than the increase of the production in the same quarter. In parallel to the high increase in the number of employees, physical capital also experienced high increase by 4.7% in Q4 2010. Such tendencies of growth factors caused for total factor productivity (TFP) to decrease by 3.1% in Q4 2010, compared to the increase by 0.7% in the previous quarter.



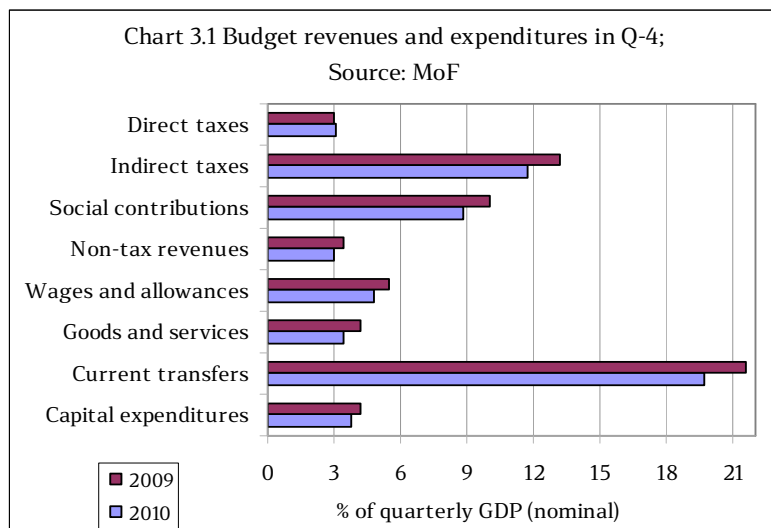
3. Fiscal Sector

Higher performance of **budget revenues** compared to Q4 2009, accompanied by relatively higher budget expenditures, led to central government budget deficit in the amount of Denar 3,957 million in Q4 2010 or 3.4% of realized GDP for this quarter.

Anti-cyclical fiscal policy continued to be conducted in the fourth 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 were higher by 1.6% compared to the same quarter of 2009, mainly due to the higher performance of tax revenues by 1.3%, while social contributions were lower by 0.9%, and non-tax revenues were higher by 0.8%. Thereby, higher collection was recorded at direct taxes; profit tax and personal tax, while VAT experienced lower collection. VAT revenues, accounting for 51.2% of the total tax revenues, were lower by 1.5% in Q4 2010 compared to the same quarter of 2009. Regarding the structure of gross VAT revenues, there was minimum increase in VAT collection on the basis



of trading in the country, in line with the trade sales, realized VAT revenues on the basis of import increased and the dynamics of VAT refund was also intensified. Excise revenues were higher by 4.9% compared to the same quarter of 2009, while collection of customs duties reduced by 21.1%. As for direct taxes, profit tax increased by 25.0%, whereby performance in December amounted to Denar 564 million, accounting for 54.6% of the quarterly performance, (one should take 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 higher by 9.3%. Collection of social contributions was lower by 0.9%, whereby collection of pension insurance contributions decreased by 0.8%, as for employment contributions, it reduced by 12.6%. Health insurance contributions experienced slight increase by 0.7%. Non-tax revenues, accounting for 10.4% of total budget revenues, were higher by 0.8% in Q4 2010 compared to the same period in 2009.

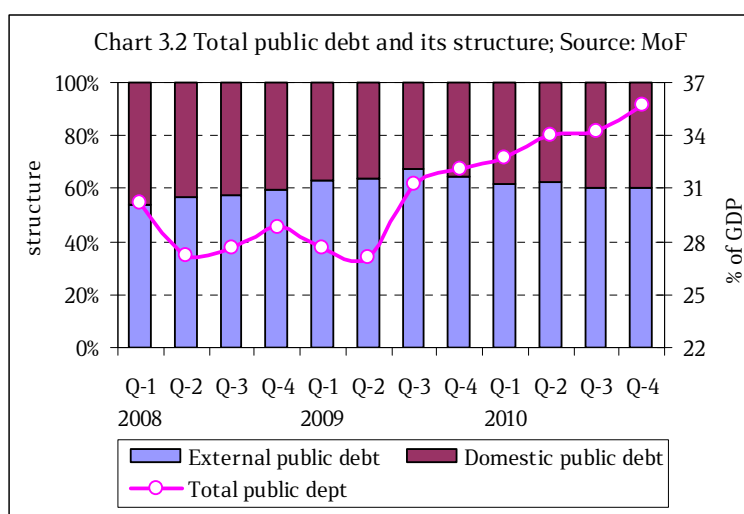
Capital revenues in Q4 2010 were higher by 3.7% on annual basis, mainly on the basis of lease of construction land, as well as sale of flats. Revenues on the basis of donations were higher by 33.2%.

Total **budget expenditures** in Q4 2010 were higher by 0.9% compared to the same quarter of 2009. Current expenditures, accounting for 88.4% of the total expenditures, increased by 0.8% on annual basis. Capital expenditures participating with 11.6% in the total expenditures were higher by 1.4% compared to Q4 2009. Execution of capital expenditures, as of December 2010 inclusive had improved dynamics unlike the previous years, amounting to 86.7% of the total projected funds for 2010. As for current expenditures, expenditures for goods and services decreased by 8.3%, while expenditures related to salaries and allowances were lower by 0.6%. However, transfers

were higher by 2.8% on annual basis, and share of category “other transfers” was 29% (including transfers to the local government) in the total transfers. Transfers to the Pension and Disability Insurance Fund, accounting for 41.6% in the total transfers were higher by 3.2% compared to the same quarter of 2009. Interest-related expenditures increased by 4.2%, whereby domestic debt interest-related expenditures increased by 16.8%, and expenditures related to interest on foreign debt were almost identical (lower by 0.3%).

Fiscal burden, measured as participation of the budget revenues⁴ in relation to nominal GDP was 26.1% in Q4 2010, dropping by 1.6 p.p. in relation to Q3 2010. Total budget expenditures accounted for 32.4% of GDP, which was by 0.9 p.p. higher compared to Q4 2010.

Total **public debt** at the end of Q4 2010 was 35.7% of GDP, increasing by 1.0 p.p. compared to Q3 2010. Such increase was due to the increase of both domestic public debt by 2.4% and external public debt by 2.9% in relation to Q3 2010. Thus, share of domestic public debt dropped by 39.6% (Chart 3.2). Such trends point out that additional borrowing, which is inevitable for conducting



more expansive fiscal policy, 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.

General government debt, which does not include the debt of NBRM and the public enterprises, increased to 24.8% of GDP at the end of Q4 2010, i.e. by 0.8 p.p. in relation to Q3 2010. Such phenomenon was a result of the increase of the central government debt (by 3.6%). On the other hand, NBRM debt decreased by 1.8%, however, share of general government debt in the total public debt was 69.6% in Q4 2010, being higher by 0.6 p.p. than the share of the previous quarter.

4. Monetary and Financial Trends ⁵

In Q4 2010 **primary money**⁶ increased by 7.2% compared to the previous quarter, in conditions of increase of ready money in circulation and total liquidity of banks by 6.9%

⁴ It included tax revenues, social contributions and administrative fees and duties
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
⁶It includes 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 7.4%, respectively. Compared to the end of 2009, primary money were higher by 6.6% (compared to the increase by 9.5% in the previous quarter). **Monetary aggregate M1** increased by 6.7% compared to Q3 2010, while it was higher by 9.8% on annual basis. Broader monetary aggregates **M2 and M4** in Q4 2010 increased in relation to the previous quarter by 3.1% and 4.8% respectively, while they increased by 8.3% and 12.2% on annual basis respectively.

Total **deposit potential**⁷ of private sector continued to increase with high rates on annual basis, reaching 13.7%. As for quarterly dynamics, increase of deposits accelerated by 4.7% in relation to the previous quarter (compared to the increase by 1.2% in Q3 2010).

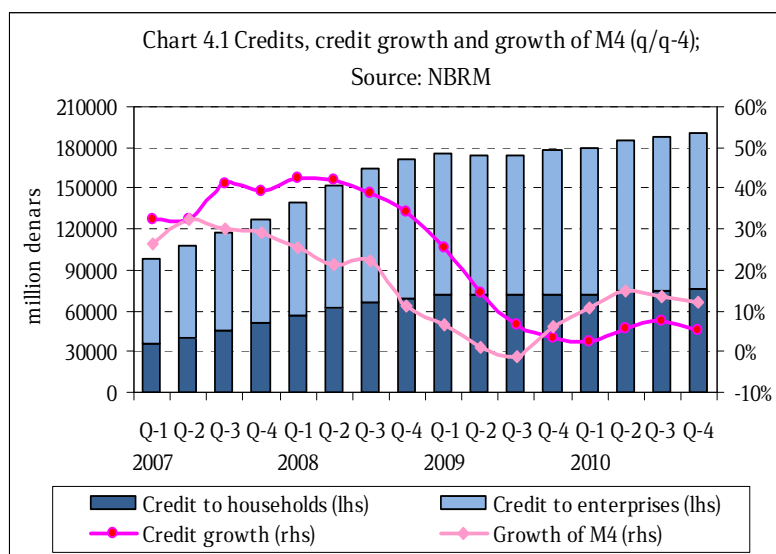
From the point of view of sector structure, increase of deposits was to a great extent a result of the increase of deposits of households, surging by 6.3% compared to Q3 2010. At the same time, deposits of private enterprises, in relation to the drop of 2.6% in the previous quarter, increased by 2.9% on quarterly basis. On annual basis, deposits of households were higher by 17.4%, while deposits of private enterprises were higher by 6.4%.

From the point of view of currency, Denar deposits given their increase by 6.8% had dominant contribution to the quarterly growth of deposits (contributing with 67.7%). Therefore, the level of euroization, measured through the share of foreign currency deposits in the total deposit potential reduced by 51% (52% in Q3 2010) or measured through the share of foreign currency deposits of households in their total deposits, the level of euroization decreased from 61.1% in Q3 2010 to 59.1% in Q4 2010.

According to maturity, short-term deposits, accounting for 66.6% of the total deposits in Q4 2010, increased by 1.6% compared to the previous quarter, while deposit money increased by 6.9%. Long-term deposits were higher by 17%, thus increasing their share by 1.6 p.p. to 15.5% in total deposits. On annual basis, deposit money increased by 16.7%, while short-term and long-term deposits surged by 7.6% and 44.3% respectively.

Credits to non-government sector in Q4 2010 increased by 1.2% compared to the previous quarter. Analyzed on annual basis, growth of credits slowed down to 7.1% at the end of the fourth quarter (7.7% in Q3 2010).

From the point of view of sector structure, credits to private enterprises (contribution of 87%) had dominant contribution to growth of credits on quarterly basis, increasing by 1.7% compared to the previous quarter. Credits to



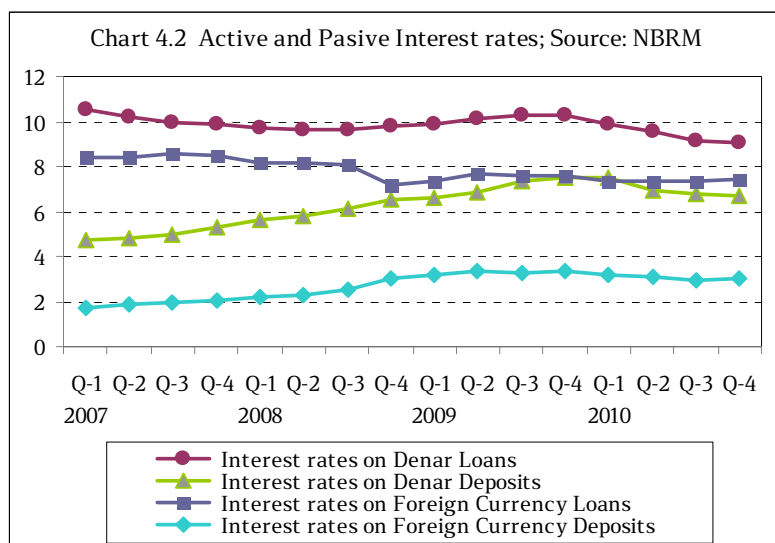
⁷ Deposits also include calculated interest

households increased by 0.4% on quarterly basis. On annual basis, growth of credits to private enterprises slowed down to 8.5% in December, while credits to households increased by 5.1%.

From currency point of view, Denar credits dropped by 1.5% compared to Q3 2010, while Denar credits increased by 2.3% on annual basis. Foreign currency credits in Q4 2010 were higher by 9.8% in relation to the previous quarter, while they highly increased by 24% on annual basis.

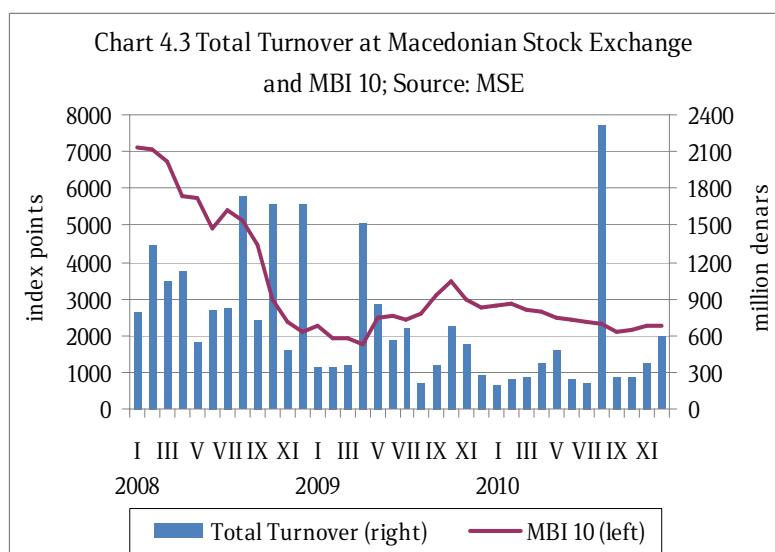
According to maturity, short-term credits dropped by 3% in relation to the end of Q3 2010, while long-term credits participating with 62.3% in the total credits increased by 5.7%. On annual basis, short-term credits were lower by 1%, while long-term ones were higher by 10.8%.

Since the beginning of 2010, NBRM, at several occasions, has reduced the reference interest rate, by 4.5 p.p. on cumulative basis. In December 2010, interest rate on CB bills reduced by 0.5 p.p., reaching the historically lowest level of 4.0%. European Central Bank, from May 2009 onwards, has not changed the reference interest rate, remaining at the level of 1% at the end of Q4 2010.



In the fourth 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% at the end of Q4 2010, being lower by 0.1 p.p. compared to the previous quarter. Comparison with December 2009 points out to more significant reduction by 1.2. p.p.. Interest rate on foreign currency credits increased by 0.1 p.p. in relation to the end of the third quarter, amounting to 7.4%. However, compared to the end of Q4 2009, it reduced by 0.1 p.p..

Average interest rate on



Denar deposits amounted to 6.7% at the end of Q4 2010, reducing by 0.1 p.p. compared to the previous quarter. In relation to the end of Q4 2010, it was lower by 0.8 p.p.. Interest rate on foreign currency deposits amounted to 3%, remaining the same in relation to the last quarter (reduction by 0.4 p.p. in relation to Q4 2009).

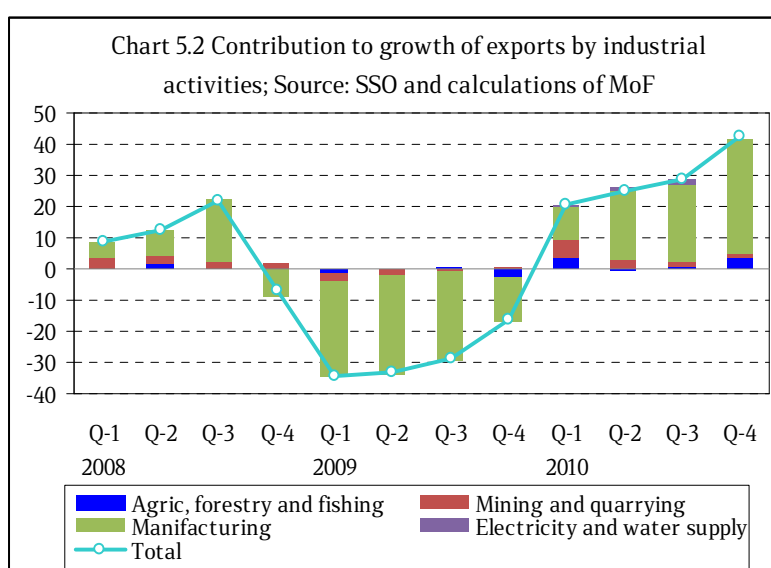
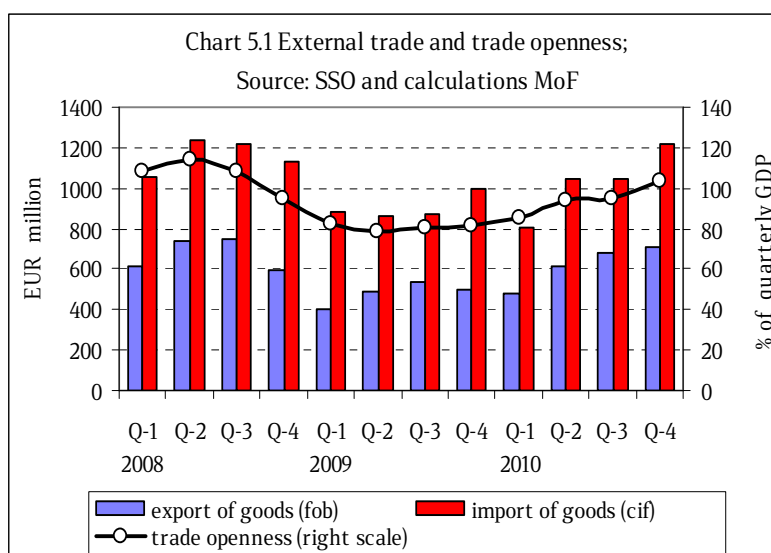
On the **capital market**, total turnover in the fourth quarter of the year dropped by 17.3% compared to the same period last year, in conditions of drop of traditional trading by 11.5%. Macedonian Stock Exchange Index MSEI-10, as aggregate indicator of stock exchange trends, increased by 9.4% compared to September 2010, while the drop was 17.2% in relation to the end 2009.

5. External Sector and Balance of Payments

According to the analyzed statistical data on annual basis (Q/Q-4; expressed in euros), in the last quarter of 2010 within significant increase of export by 42.5% and simultaneous increase of import by 21.4%, total foreign trade, expressed in euros, increased significantly by 28.4%, mainly due to the economic activity intensification.

Effect from the gradual recovery of domestic economy, increasing trend of foreign demand and increase of prices of metals on the global stock markets contributed for the quarterly increase of **export of goods** commenced in Q2 2010 to continue in the next two quarters as well. Thus, growth rate of export of goods in the fourth quarter amounted to 3.4% compared to the previous quarter. Such tendency points out that foreign trade trends stabilize, returning back to pre-crisis level.

Analyzed by **SITC sectors** (Standard International



Trade Classification), positive annual trends in the export (Q/Q4) in the fourth quarter of 2010 were registered at the following: chemical products by 3 times or by EUR 78 million; products classified according to the material by EUR 63 million or by 43%, being a result of the increased export of iron and steel by 60%; raw materials except fuel by 47%, thus metal ore and metal waste increased by 38%; mineral oils and lubricants by 47% (oil and oil products by 7.1%); food products by 18% and beverages and tobacco by 12%.

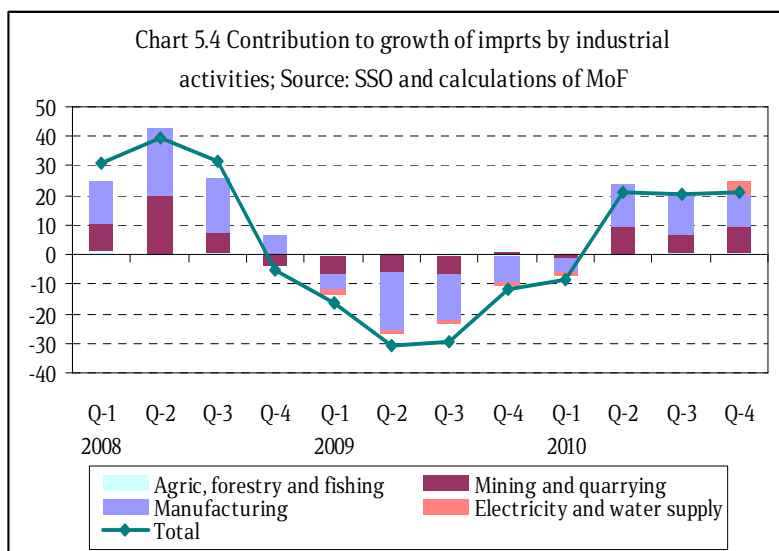
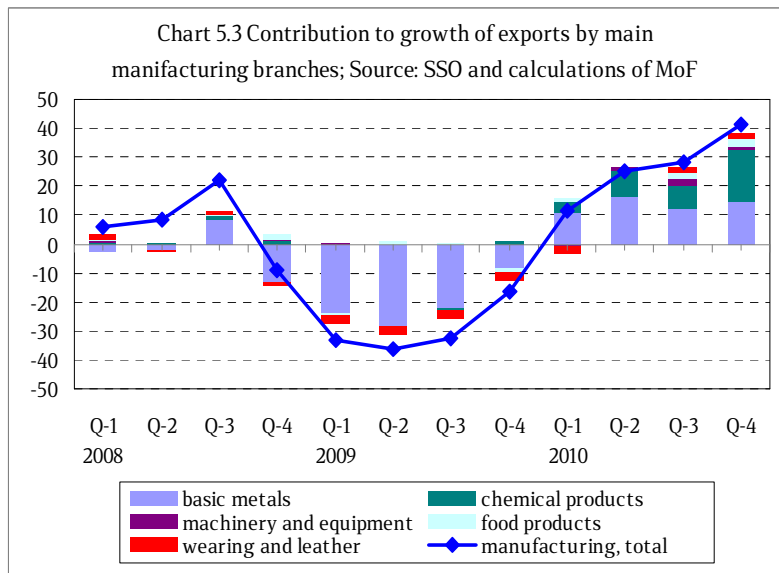
Analysis of **export of goods by industrial activities** in the fourth quarter of 2010, compared to the same quarter of 2009 shows that processing industry is driving force of the high growth of export, contributing with 37 p.p. to the growth, followed by agriculture, forestry and fishing, contributing with 4 p.p. to the growth.

Positive trend of export in the fourth quarter at processing industry was primarily due to the growth in the following industrial branches: production of chemicals and chemical products by EUR 78.9 million, production of base metals by EUR 66 million, production of food products and beverages by EUR 11.4 million, production of clothing and fur by EUR 8.6 million, etc.

Import of goods following the minimum drop in the third quarter, increased by 16.3% in the last quarter of 2010 compared to the previous quarter.

As regards import of goods, all groups of products under SITC registered positive growth rates in Q4 2010 compared to the same quarter of 2009. Thereby, highest growth of import was registered at the following

categories: Products classified according to the material (import of non-ferrous metals and textile yarns contributed with 6.7 p.p. and 1.4 p.p. to the total growth respectively); mineral oils and lubricants (import of oil and oil products contributed with 4.2 p.p. 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.

Given the analysis of **import** by activities on annual basis, it is concluded that processing industry, contributing with 11.8 p.p., i.e. EUR 119 million to the growth is driving force of the growth of import in the fourth quarter of 2010. Such trend was a result of the higher growth at: production of base metals - by EUR 82.6 million or two-fold increase, production of food products and beverages - by EUR 17.8 million or 16%, production of textile fabrics - by EUR 14.7 million or 18.3%, and chemicals and chemical products - by EUR 10 million or 10%.

IMPORT BY SECTORS ACCORDING TO SITC - IN EUR					
SECTORS BY SITC	Q-4-2009	Q-4-2010	difference	percentage change 2010/2009	contribution to growth (in p.p.)
food products	108.613.254	125.487.555	16.874.301	15,54	1,69
beverages and tobacco	11.201.530	11.255.612	54.082	0,48	0,01
crude materials, except fuels	43.505.885	74.645.686	31.139.801	71,58	3,11
mineral fuels, lubricants and related materials	164.167.679	239.521.969	75.354.290	45,90	7,53
animal and vegetable oils and fats	8.729.503	13.834.654	5.105.152	58,48	0,51
chemical products	112.459.525	123.837.472	11.377.947	10,12	1,14
manufactured goods classified mainly by material	239.198.956	330.353.552	91.154.596	38,11	9,10
machinery and transport equipmnt	236.837.073	209.888.647	-26.948.425	-11,38	-2,69
miscellaneous manufactured articles	76.378.187	86.329.732	9.951.546	13,03	0,99
special transactions and commodities n.e.s.	285.812	512.277	226.464	79,24	0,02
total	1.001.377.403	1.215.667.156	214.289.754	21,40	21,40

Import as regards mining and quarrying increased by 57% or EUR 69 million, contributing with 6.9 p.p. to the growth, being mainly a result of the growth of import of crude oil and natural gas by 21.8%, i.e. EUR 57.7 million. As a result of the increased needs of electricity in the last quarter of the year, import as regards electricity, gas and water supply increased by 3 times or EUR 21.6 million. Import in the field of agriculture increased by EUR 4.5 million.

Trading volume with the EU in Q4 2010 accounted for 57% of the total trade of the Republic of Macedonia, experienced positive trends (by 3.7 p.p.) on annual basis (Q/Q4). Export from and import to the European Union registered strong growth of 54.4% and 28.1%, respectively, compared to the same period in 2009. In addition to Germany, most significant trading partners to the Republic of Macedonia remain to be Greece, Serbia, Italy, Russia and Kosovo, whereby trading volume in Q4 2010 with these countries accounted for 43% of the total trade. In Q4 2010, 59.8% of the Macedonian export was realized on the markets in Germany, Kosovo, Greece, Serbia, Italy and Bulgaria.

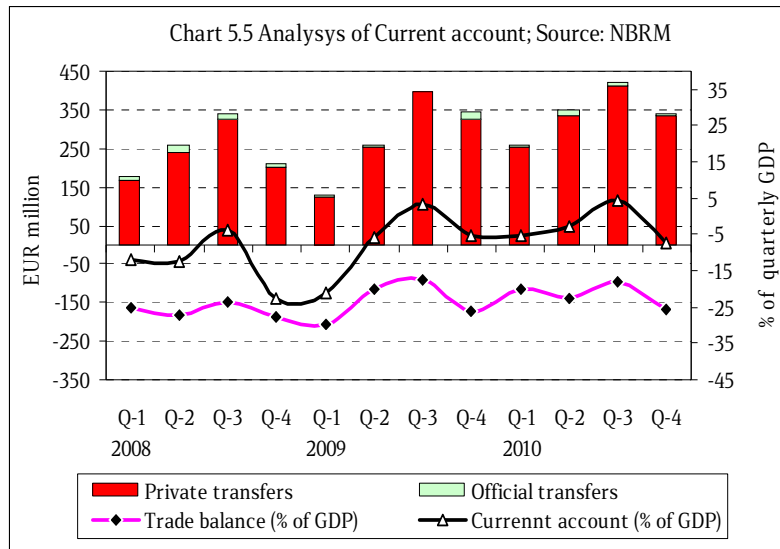
As a result of almost identical absolute growth of export and import of goods in Q4 2010, trade deficit (-EUR 505 million) was at almost the same level with the one realized in Q4 2009, accounting for 27.8% of quarterly GDP.

Analyzed at quarterly level, **trade openness** of the Republic of Macedonia in Q4 2010 accounted for 103.6%, experiencing positive changes on quarterly and annual basis (Q/Q4), increasing by 8.5 p.p. and 23 p.p. respectively. 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.

Following the narrowing of the **current account** deficit in the first and second quarter and the positive balance in Q3 2010, in the fourth quarter, under the influence of usual seasonal factors, the current account deficit widened on quarterly and annual basis by EUR 213.3 and EUR 40.3 million respectively. Widened trade deficit contributed the most to the deterioration of the current account balance on quarterly basis.

Upward trend of net current transfers realized in Q2 and Q3 2010 was interrupted in the last quarter, whereby they amounted to EUR 339.4 million in Q4. Such trends were a result of the slowed down dynamics of inflows on the basis of private transfers by 19.3% or EUR 80 million compared to the previous quarter. In relation to Q4 2010, private transfers increased by 2.6%, i.e. EUR 8.6 million.



Report is prepared by:

Ministry of Finance
Macroeconomic Policy Department

Anita Popovska MA
Aneta Acevska
Koprinka Sapunova
Nedjati Kurtishi
Sami Asani

Checked by:

Snezana Delevska

Approved by:

Jordan Trajkovski

Jordan.Trajkovski@finance.gov.mk

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