

National Bank of the Republic of Macedonia
Research Department



Monthly Information
04/2010

May, 2011

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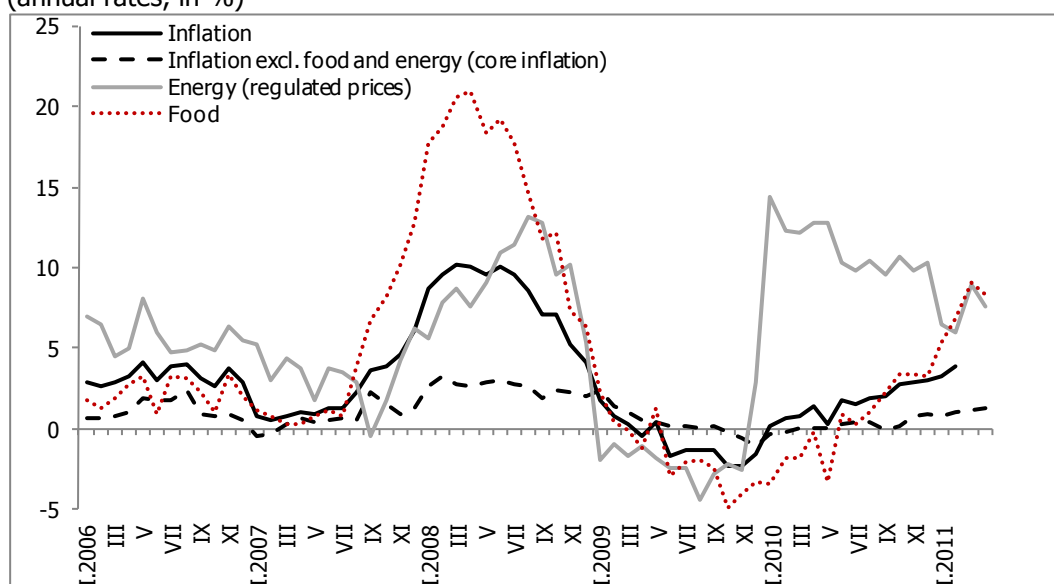
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1. PRICES

The growth in the **domestic prices** slowed down in April 2011. Therefore, **relative to the previous month**, the prices in April rose by only **0.3%**, which is mainly due to higher prices of fresh vegetables, passenger transport¹, education services and means of hygiene, with simultaneously lower prices of fats, non-alcoholic beverages and oil derivatives². **On annual basis**, the inflation in April 2011 amounts to **4.8%** (5.2% in March), with slower annual rise in the prices of food and oil derivatives. **The average inflation rate** amounts to **4.3%** in the first four months of 2011, and it can be explained by the higher prices of food, fuels, electricity and central heating.

In April 2011, the monthly core inflation rate (inflation without food and energy) registered minimal intensification and it amounts to **0.2%**. **On annual level**, the core inflation in April amounts to **1.3%**, and the minimal intensification relative to the March level (1.2%) was due to the higher prices of the means of hygiene³ and the effect from the increase in the prices of the taxi transport. However, **the average core inflation** maintained the level of 1%.

Total and core inflation
(annual rates, in %)



Source: State Statistical Office of the Republic of Macedonia and NBRM.

¹ On March 14, 2011, The City of Skopje Council adopted a decision on increasing in the starting price in the taxi transport of passengers from Denar 20 to Denar 40.

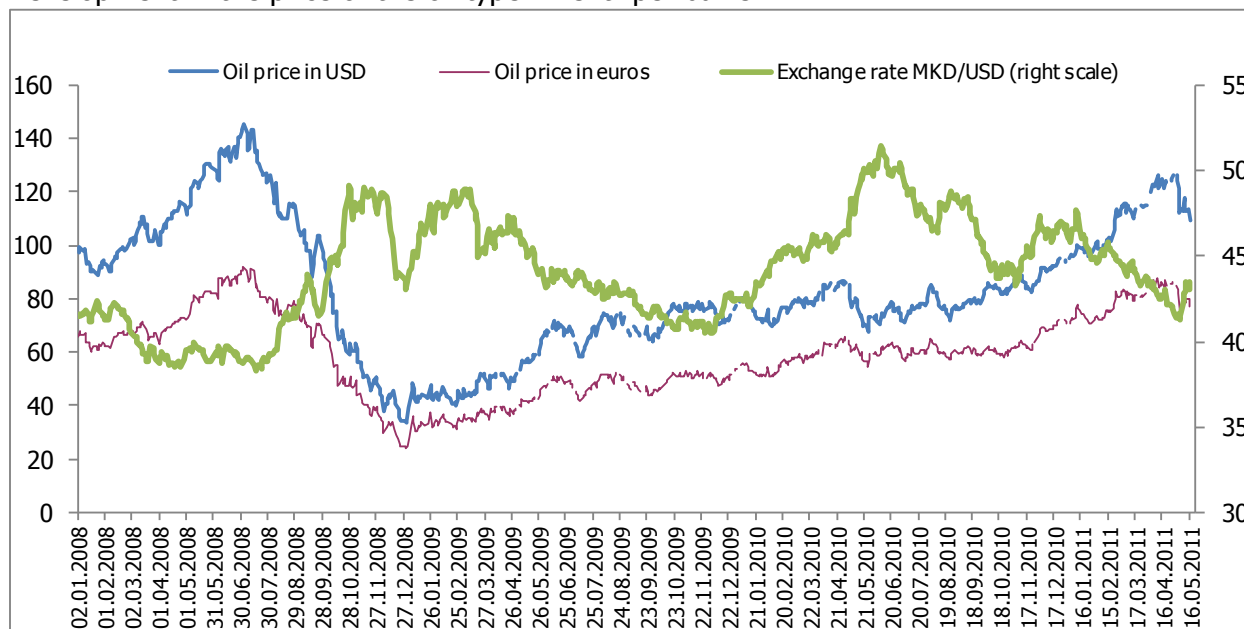
² On April 14, 2011 temporary measure was adopted for decreasing the excise on the petrols and diesel fuel (by Denar 4 and by Denar 2, respectively), as well as for reducing the compensation for oil reserve requirements (by Denar 0.5 and by Denar 0.2, respectively), with validity of four months (until the middle of August). This measure became effective with the REC decision dated April 15, 2011.

³ The higher level of these prices resulted from the base effect, i.e. last year in April they registered more intensive decline.

The realized inflation rate in April is within the last projections of NBRM for the second quarter of 2011, when average inflation rate ranging between 5.0 and 5.5% is expected.

The oil price continued to grow with slower intensity in April 2011 as well, reaching up the average level of USA Dollar 123.1 per barrel, which compared to the level in the previous month (USA Dollar 114.4 per barrel) represented growth of 7.6%. The increase in the price of the crude oil was mostly caused by the investors fear from the social riots in North Africa and Middle East, from further weakening of the USA Dollar, from the larger than the anticipated consumption growth in USA in March, as well as from the announcement of the US Department of Energy for fall in the reserves of crude oil in USA, opposite to the expectations for their growth. In accordance with the higher price of oil and oil derivatives on the international stock exchanges, which was more intensive than the Denar appreciation relative to the USA Dollar, on April 26, 2011, the Regulatory Energy Committee (REC) adopted a decision on increasing the refinery and retail prices of oil derivatives by 1.36% and 0.93%, on average, respectively.⁴

Development in the price of the oil type "Brent" per barrel



Source: The Energy Information Administration - Statistical Agency of the U.S. Department of Energy.

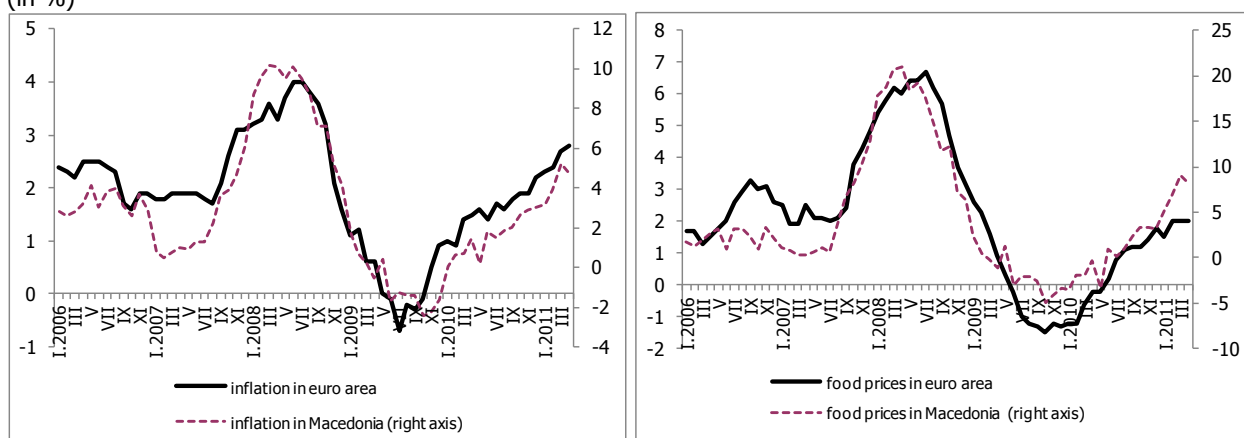
The upward trend of the oil prices continued in the first week after April 26, 2011 as well, but then the prices started to fall, and therefore the average price of the crude oil in the period 27.04.-08.05.2011 registered fall relative to the previous two-week period and it amounted to USA Dollar 121.3 per barrel. With simultaneous Denar appreciation against the USA Dollar, on May 9, 2011, the Regulatory Energy Committee adopted a decision for decreasing the refinery and retail prices of oil derivatives by 2.59% and 2.31%, on average, respectively. In the period from May 9, 2011, to May 17, 2011 the price of the crude oil continued to fall, and the average level amounts to USA Dollar 113.7 per barrel. The fall in the

⁴ In the meanwhile, on April 15, 2011, the REC adopted extraordinary decision on increasing the refinery and retail prices of oil derivatives by 0.04% and 3.38%, on average, respectively, as a result of the decision of the Macedonian Government dated April 14, 2011 for decreasing the excise on petrols and diesel fuel and reduction of the compensation for oil reserve requirements.

prices of the crude oil on the international stock exchanges was mainly due to the data that put in question the revival of the USA economy (in April fall in the new construction licenses was registered, as well as fall in the housing construction, opposite to the expectations for growth, as well as fall in the manufacturing industry), and the growth in the oil reserves. Considering the more intensive fall in the oil price (6.6%) compared to the Denar depreciation against the USA Dollar (3.1%), on May 23, 2011, the REC adopted a decision on decreasing the refinery and retail prices of oil derivatives by 4.06% and 3.21%, on average, respectively.

In April 2011, **the prices in the Euro area** registered an increase by 0.6% on monthly basis, which mostly resulted from the higher prices of wearing apparel, transport fuels and air transport. On annual basis, the inflation in the Euro area registered further intensification reaching up to 2.8% (2.7% in March), which represented the highest level in the last 30 months. Simultaneously, with the realization in April, the inflation is maintained over the inflation target of 2% of the European Central Bank for five months in a row. The strengthening of the inflation pressures in the Euro area is determined by the higher prices of energy (transport fuels, heating oil, electricity and gas).

Annual inflation rates and food prices in the Euro area and in Macedonia
(in %)



Source: EUROSTAT and SSO.

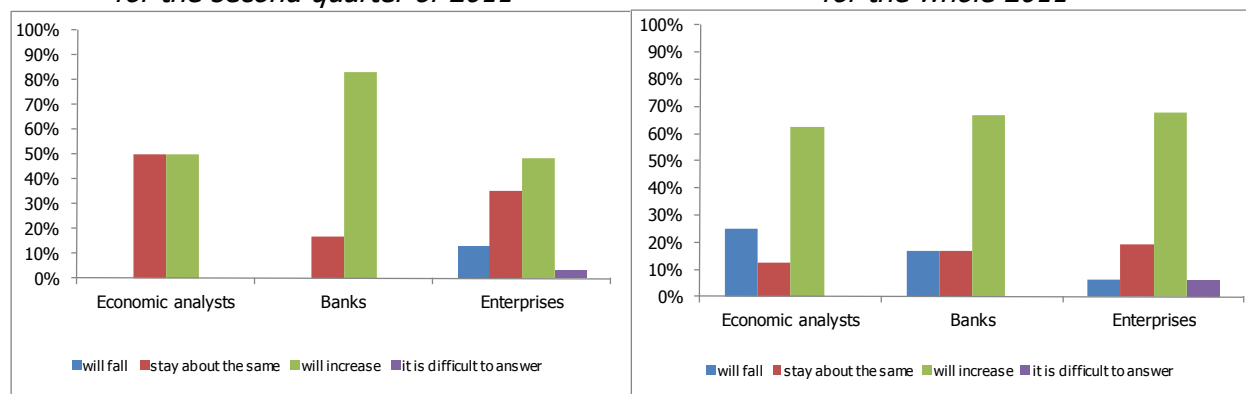
1.1. Inflation Expectations Survey

According to the Inflation Expectations Survey conducted in April 2011⁵, most of the respondents (53.3%) expect for the annual inflation rate to increase at the end of the **second quarter of 2011** relative to the level realized in March 2011 of 5.2%. Slightly more than one third of the respondents (35.6%) consider that the inflation will remain unchanged, and small share (8.9%) anticipated its drop. With respect to expectations by certain groups of respondents, the answers of the **analysts** are equally distributed between the alternatives for higher and unaltered inflation relative to March 2011. Larger part of the **enterprises** expect increase in the inflation (48.4%), slightly more than one third (35.5%) expect stable inflation,

⁵ The survey was responded by 61.6%, i.e. 45 out of 73 respondents. Observed by groups of respondents, the responsiveness with banks was 85.7%, followed by the economic analysts with 61.5%, while the enterprises showed the smallest responsiveness (58.5%).

and approximately 13% anticipate lower inflation. Unlike analysts and enterprises, the largest share of the surveyed **banks** (83.3%) anticipate inflation growth, and the rest of them have stable inflation expectations. *The economic entities anticipate the annual inflation rate to amount to approximately 5.4% in June 2011.*

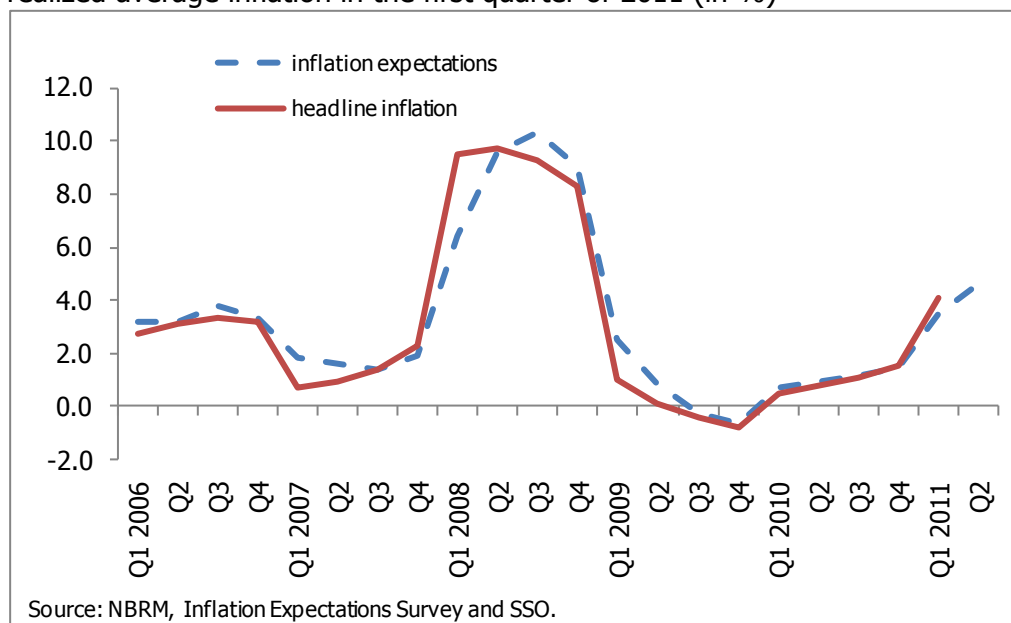
Distribution of answers for the inflation expectations by groups of surveyed
for the second quarter of 2011 for the whole 2011



Source: NBRM, Inflation Expectations Survey.

Relative to the expectations for the **whole 2011**, 66.7% of the respondents anticipate inflation intensification relative to the average inflation in the first quarter of the year, smaller share (17.8%) expected its stabilization, and 11.1% of the respondents anticipate lower inflation. Two thirds of the surveyed **banks** expect intensification in the average inflation until the end of 2011. The rest of the surveyed banks are equally distributed between the alternatives for lower and unchanged inflation until the end of the year. Also, larger share of the **analysts** (62.5%) have positive inflation expectations until the end of 2011, one fourth of them expect lower inflation, whereas the rest of them expect for the inflation to maintain the current level. Simultaneously, approximately 67.7% of the **enterprises** expect higher inflation rate, 19.4% have stable expectations, whereas 6.5% expect its fall. *The average inflation rate in 2011, on the basis of the expectations of the economic entities, amounts to approximately 4.6%, which represents intensification relative to the inflation expectations of approximately 3.5% in the previous survey, conducted in February 2011.*

Expectations for the average inflation rate at the end of the second quarter of 2011 and the realized average inflation in the first quarter of 2011 (in %)



Source: NBRM, Inflation Expectations Survey и SSO.

Mostly emphasized factors which influenced the economic entities in direction of higher inflation expectations are the following: global geopolitical situation, i.e. the spreading of the riots from North Africa to the Middle East, which resulted in expectations for further growth in the energy prices; expectations for rise in the food prices on the international stock exchanges; assumptions that the transmission effect from the increase in the prices of oil and electricity on the other prices is not fully exhausted; expectations for new increase in the prices of electricity and possible upward pressure on the prices from the upcoming parliamentary elections.

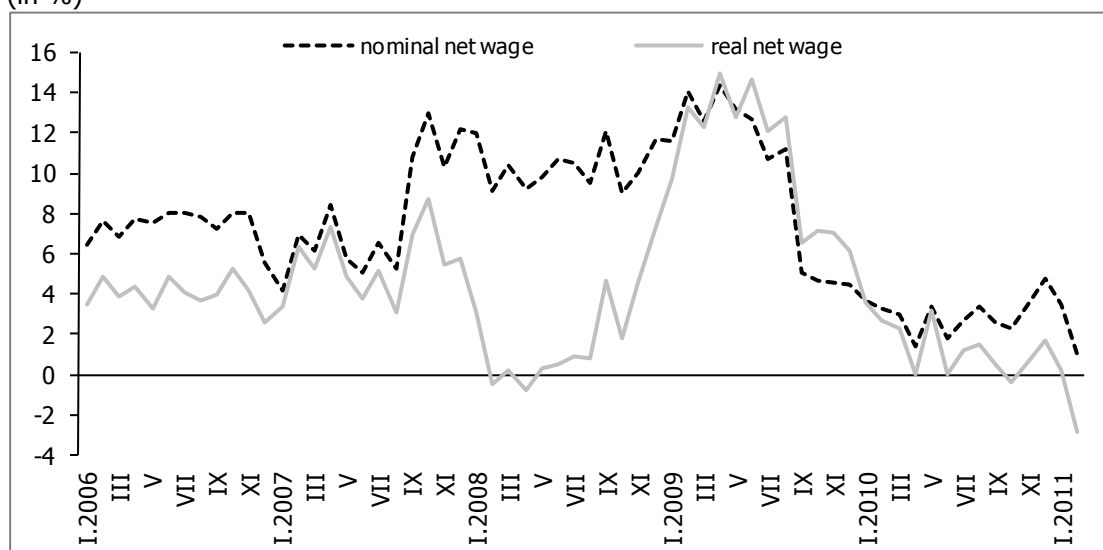
2. WAGES AND EMPLOYMENT

In February 2011, the nominal **net and gross wages registered nominal monthly fall of 2.8%** (real fall of 3.7%), which represented intensified negative wage dynamics both in nominal and in real indicators. Excluding the industry which registered minimal rise, the net wage in the other sectors registers fall (by 3.6% in the agriculture and by 2.9% in the services). At the level of branches⁶, largest monthly fall in the net wage is registered with the "financial activities and insurance activities"⁷ (16.5%), "electricity, gas, steam supply and air conditioning" (8.6%), as well as with the "administrative and support service activities" (4.1%). More considerable monthly growth in the net wage is registered with the activity "mining and queering" (17.2%).

⁶ In January 2011, the State Statistical Office applied the new National Classification of Activities (NCA Rev. 2) for collecting and processing of data for the average monthly paid net and gross wage.

⁷ The fall resulted from the higher base effect in January when bonuses are paid in this activity.

Nominal and real annual growth rates of the net wages* (in %)

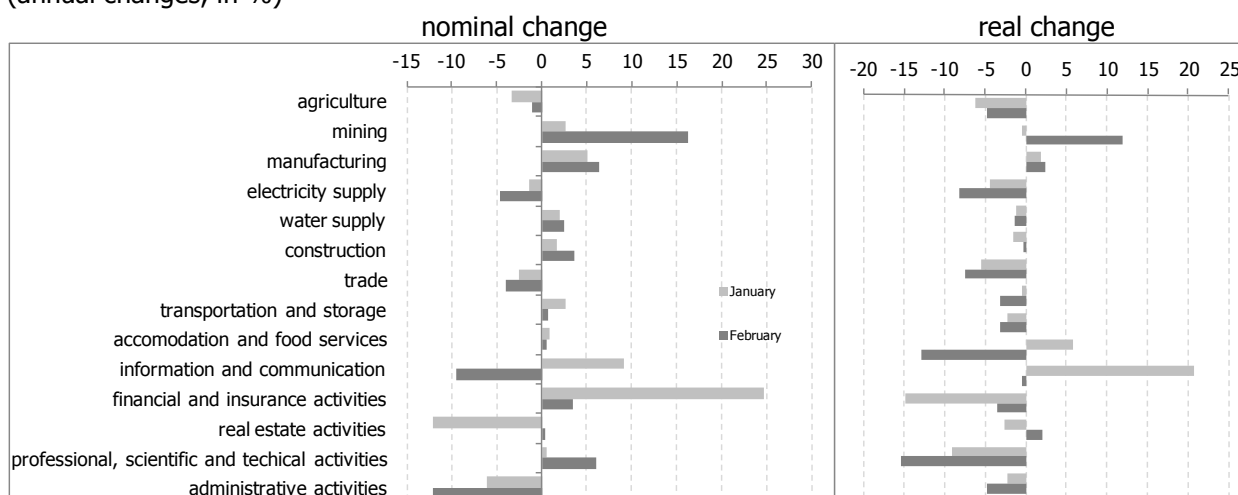


* For 2009, the corrected growth rates are shown.

Source: State Statistical Office of the Republic of Macedonia and NBRM calculations.

On annual level the nominal net and gross wage registered rise of 1% and 0.9%, respectively (real fall of 2.8%, equally), in conditions of more considerable slowing down in the annual nominal rate of wage growth and further inflation intensification. **Cumulatively, in the first two months of the year**, the net and the gross wages rose by 0.7%, i.e. 0.6%, nominally (real fall of 2.8% и 2.9%, respectively).

Average net wage by sectors (annual changes, in %)

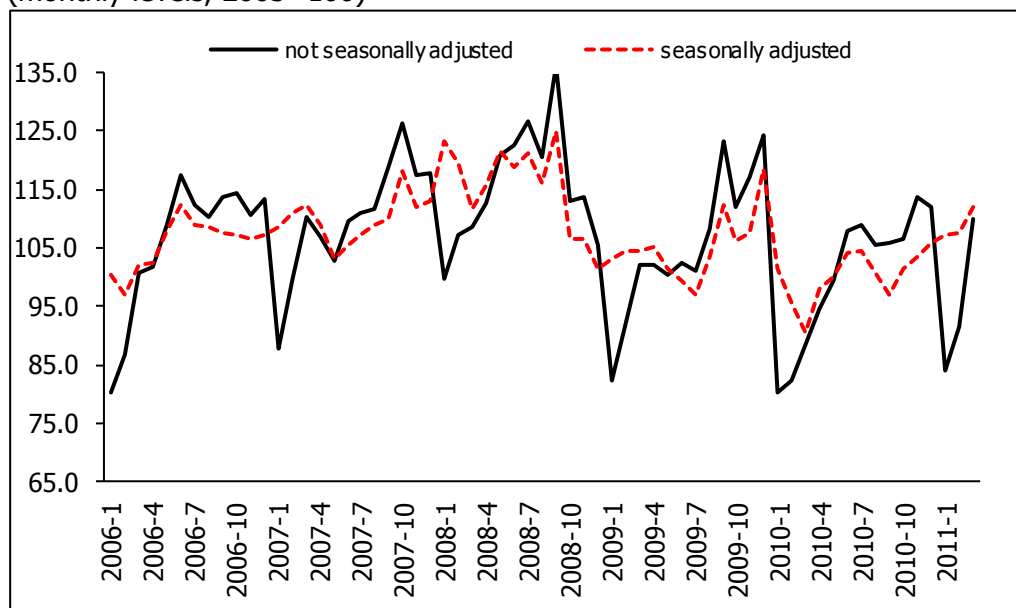


Source: State Statistical Office of the Republic of Macedonia and NBRM calculations.

3. ECONOMIC ACTIVITY

The positive developments with the industrial output continued in March 2011 as well, with larger intensity and scope. The monthly growth rate reached up to 20.5% (7.1% according to the seasonally adjusted data), so the output rose with 21 out of total 27 industrial branches, or 90.5% of the total index. The largest positive contribution came from the production of metal and metal products, electrical equipment, food products and construction materials (non-metal mineral products).

Industrial output index
(monthly levels, 2005=100)



Source: State Statistical Office and NBRM calculations.

The growth in the industrial output intensified on annual basis as well, and the rate reached up to 24.5% (10.9% in February 2011). Larger output is registered with two thirds of the branches, which constitute almost 74% of the index. The output in the metal industry is still the key generator of the growth on annual basis, supplemented by considerable contribution by the increased production of electrical equipment, oil derivatives⁸, wearing apparel, other transport equipment, metal products, tobacco and electricity. In accordance with such developments, **in the first quarter of 2011, the industrial output realized annual rise of 13.8%.**

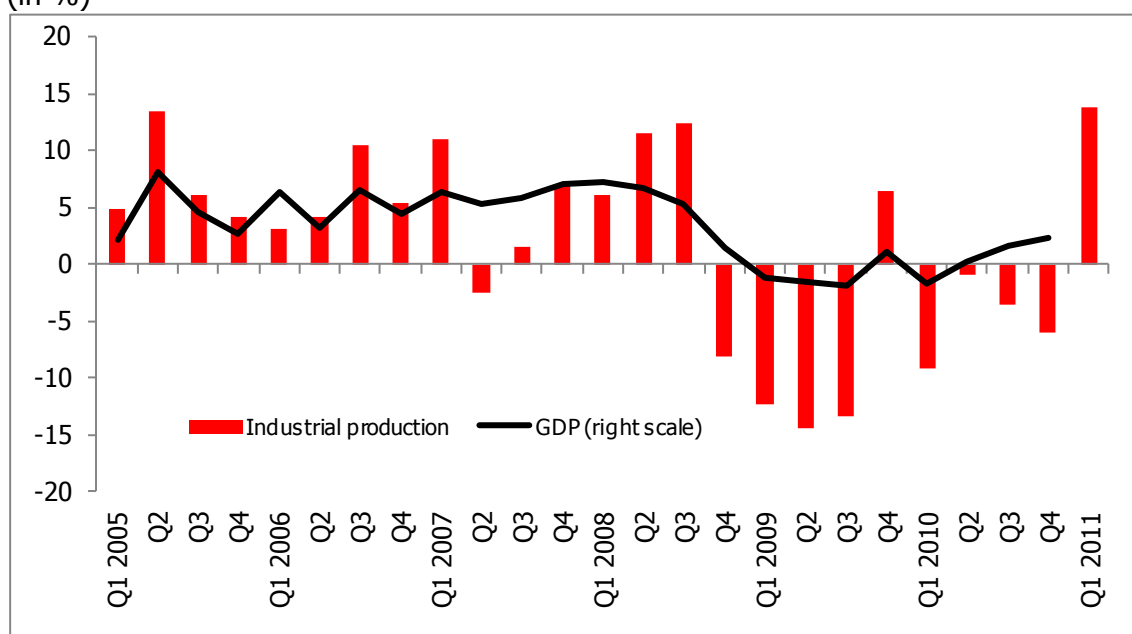
In March 2011, **the assessments of the managers in the manufacturing industry⁹** were considerably more favorable compared to the previous month, which is in accordance with the performances in the industrial output. Therefore, in conditions of more

⁸ The production of oil derivatives in March 2011 rose by 7.4 times relative to March 2010, when the output dropped as a result of the regular overhaul in the existing facilities.

⁹ From the Business Tendencies Survey in the manufacturing industry of SSO, March, 2011.

positive assessments for the current economic situation in March 2011, larger average facility exploitation was assessed. With respect to the limiting factors, the influence of the insufficient foreign demand and the competitive import decreased, but the shortage of raw materials and equipment increased. The expectations of the managers on the volume of output in the second quarter of 2011, were considerably more favorable compared to their expectations for the previous quarter and they are at the level of the expectations present in the period before the beginning of the crisis. In the same time, the managers expect growth in the employment in the industry and higher selling prices for the next quarter.

Annual change rates in the industrial output and GDP
(in %)

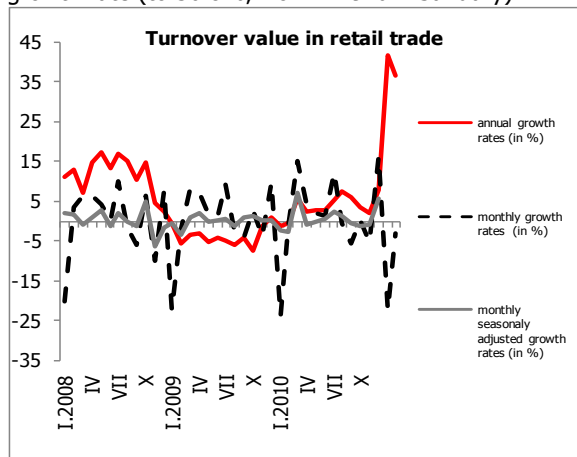


Source: State Statistical Office and NBRM calculations.

3.1. Other highly frequent data and indicators

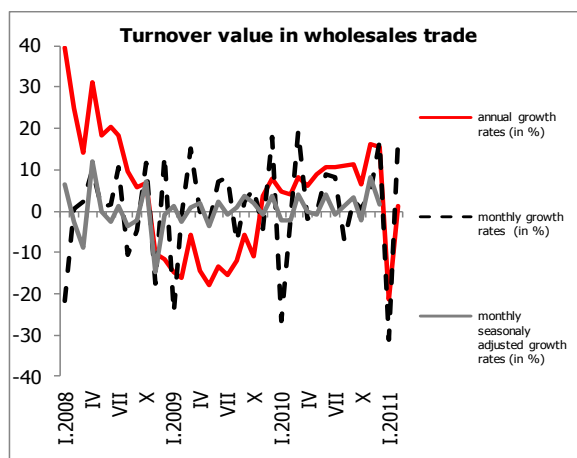
With respect to the other economy sectors, the developments in February 2011 showed intensification in the already high annual growth in the construction, and return in the zone of the positive growth rates in the wholesales, opposite to the more intensive slowing down in the annual growth in the retail trade and telecommunications.

Monthly fall in the turnover in **the retail trade**¹⁰ in February of 2.9% and slowing down in the annual growth rate (to 36.8%, from 41.9% in January)...



Source: State Statistical Office and NBRM calculations.

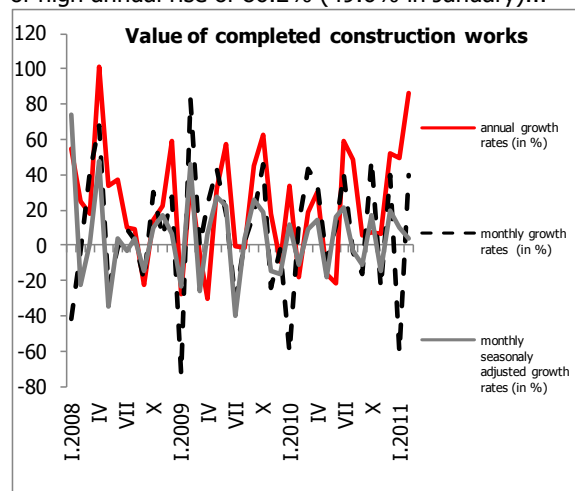
...with monthly rise in the **turnover in the wholesales** of 17.1% and small annual rise being registered (of 1.2%, opposite to the fall of 21.4% in January).



Source: State Statistical Office and NBRM calculations.

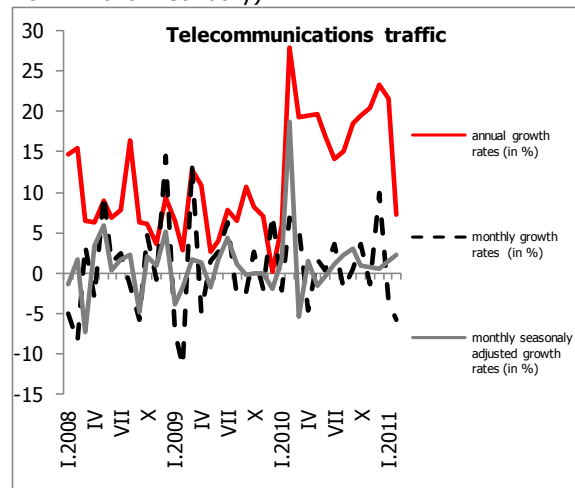
¹⁰ Since January 2011, methodological change in the collecting of data for trade was made. The time frame for collecting data is changed and the sample is broadened, but it includes only the companies registered for trade as a prevailing activity.

Monthly growth in the value of the performed activities in the **construction** in February of 3.6% (seasonally adjusted) and intensification in the trend of high annual rise of 86.2% (49.6% in January)...



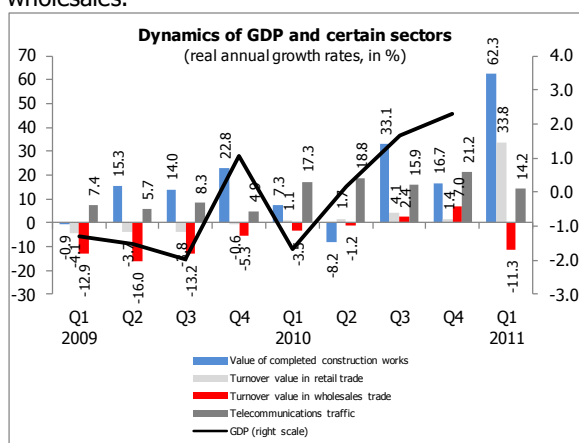
Source: State Statistical Office and NBRM calculations.

...with monthly rise in the **telecommunications** of 2.2% (seasonally adjusted) and considerable slowing down in the annual rise being registered (to 7.2%, from 21.6% in January).



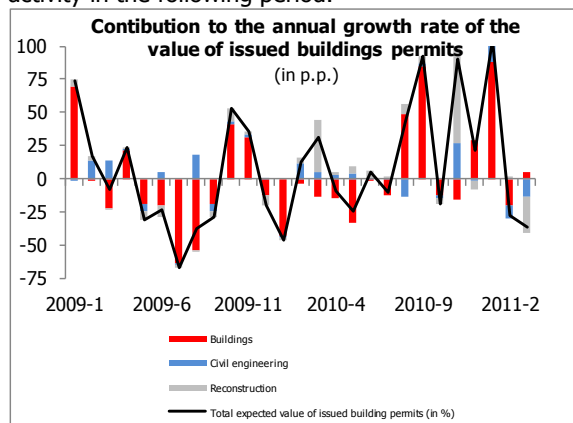
Source: State Statistical Office and NBRM calculations.

The performances on annual basis in the first two months of 2011 are in direction of high growth in construction and the retail trade, slowing down in the growth in telecommunications and fall in the wholesales.



Source: State Statistical Office and NBRM calculations.

The value of the **issued construction licenses** in March 2011 went down by 35.9% on annual basis (high base effect). However, the licenses in the building construction, as the largest item, register annual rise, as a positive signal for the construction activity in the following period.



Source: State Statistical Office and NBRM calculations.

Dynamics of the available data on the indicative categories for the demand implies further rise in the economic activity in the first quarter of 2011, which is in accordance with the projection in April. The development of the indicative categories for the personal consumption in the first quarter of 2011 indicates growth in the **private consumption**, in accordance with the expectations. Namely, despite the real annual fall in the wages and pensions, all other indicative categories registered growth.

Indicative categories for private consumption (real annual rates, in %)									
Period	Private Consumption	Consumer credits	Average net wage	Private transfers	Pensions	Retail trade	VAT revenues	Imports of consumption	Domestic production of consumption goods
Q1 2010	0,6	-0,2	2,8	112,9	2,5	27,7	-0,1	2,4	-5,8
Q2 2010	3,4	1,4	1,1	33,8	2,1	1,5	23,1	16,2	-7,5
Q3 2010	4,1	2,3	1,1	4,7	0,0	4,4	6,0	20,3	2,5
Q4 2010	-3,1	2,3	0,7	1,3	0,0	39,6	-4,2	2,3	2,7
Q1 2011	/	2,5	-1,8*	1,2*	-0,9	33,8*	15,1	1,3	8,2

Source: State Statistical Office and NBRM calculations.

* The data pertain to January-February 2011.

In the first quarter of 2011, all indicators of the **investment activity** register real annual rise, which implies intensification in the annual dynamics of the investments in the first quarter, as it was envisaged with the April projection. Namely, the positive performances with

the foreign direct investments¹¹ and construction activities continued, with more intensive credit support to the enterprises and stimulus through the government investments. The larger investment activity is supported by the annual real import growth and the more intensive rise in the production of capital goods.

Indicative categories for gross investments (real annual rates, in %)								
Period	Gross investments	Long term credits to	FDI	Government investments	Imports of capital goods	Completed construction works	Domestic production of	Final product inventories
Q1 2010	-43,8	4,5	-62,8	24,0	-35,5	7,1	-27,7	-3,3
Q2	0,2	7,8	-82,5	-26,4	-12,4	-8,4	-5,9	-16,5
Q3	4,4	8,8	26,1	73,8	1,7	33,5	-12,7	-3,2
Q4	13,5	9,1	4,8 пъти	-1,5	-9,6	17,0	5,1	-0,9
Q1 2	/	10,3	77,3*	18,9	7,7	62,3*	64,5	-5,8

Source: State Statistical Office and NBRM calculations.

* The data pertain to January-February 2011.

The lower costs for wages and for goods and services are in favor of the expectations for small negative contribution of the **public consumption** to the rise in the economic activity in the first quarter of 2011 as well.

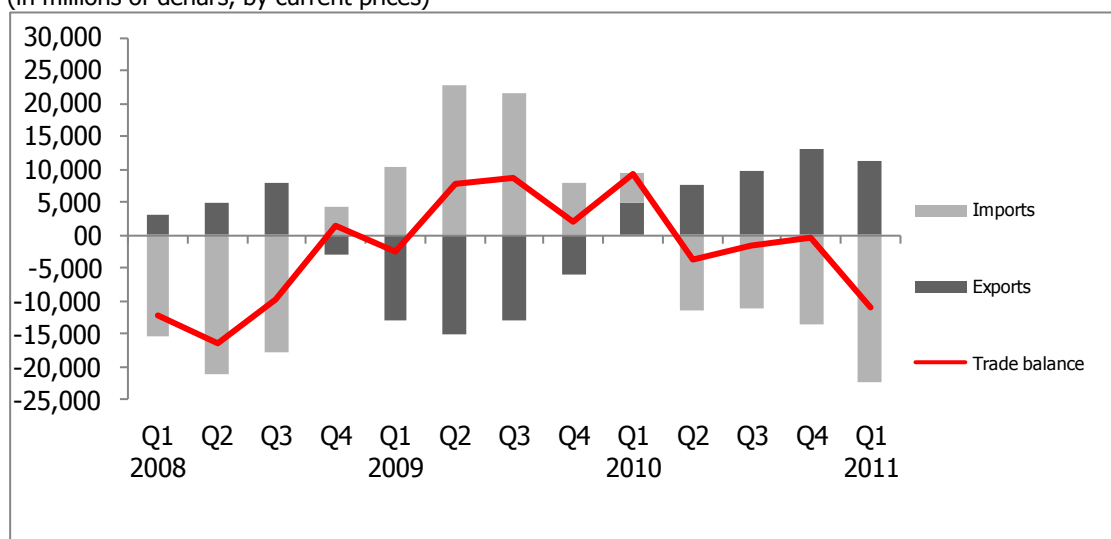
Indicative categories for government consumption (real annual rates, in %)					
Period	Government consumption	Wages	Goods and services	Health fund	Other
Q1 2010	-0,5	2,9	-1,1	-4,1	-12,2
Q2 2010	-7,7	-3,5	-29,7	-2,6	15,6
Q3 2010	-0,4	-3,0	2,3	8,6	-7,8
Q4 2010	-3,3	-3,4	-10,8	4,9	7,5
Q1 2011	/	-4,0	-9,5	0,5	8,3

Source: Ministry of Finance and NBRM calculations.

¹¹ Pertains to the FDI in form of equity.

The performances in the **net export**, on the basis of data from the foreign trade for the first quarter of 2011, indicated its negative contribution to the economic growth, with more considerable broadening of the trade deficit (by 55%, nominally), in conditions of larger annual rise in the import compared to the export.

Net export, annual nominal changes
(in millions of denars, by current prices)

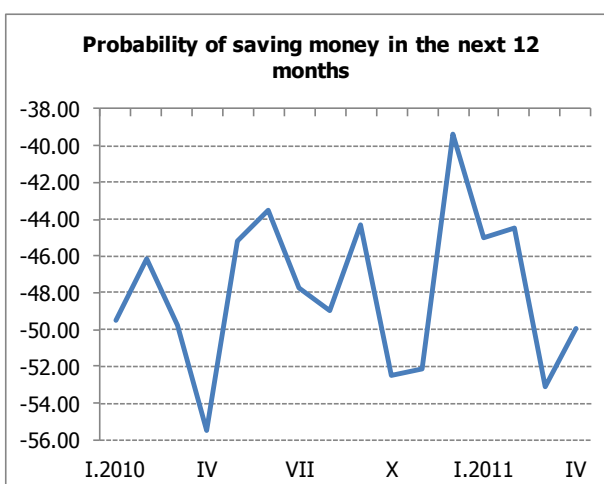
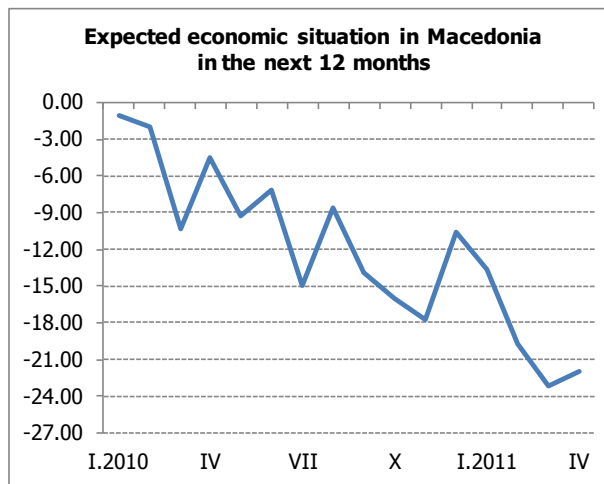
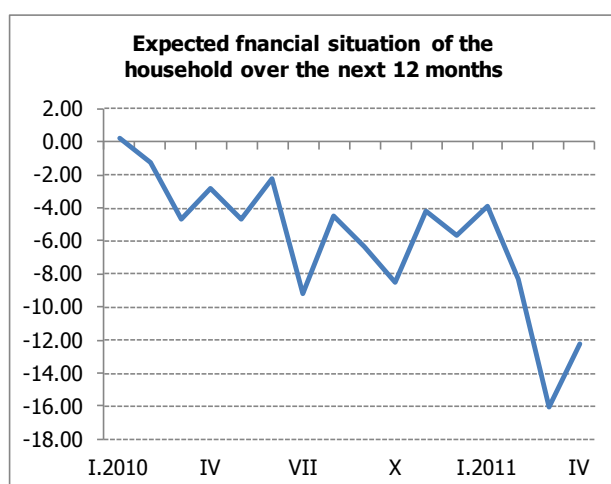
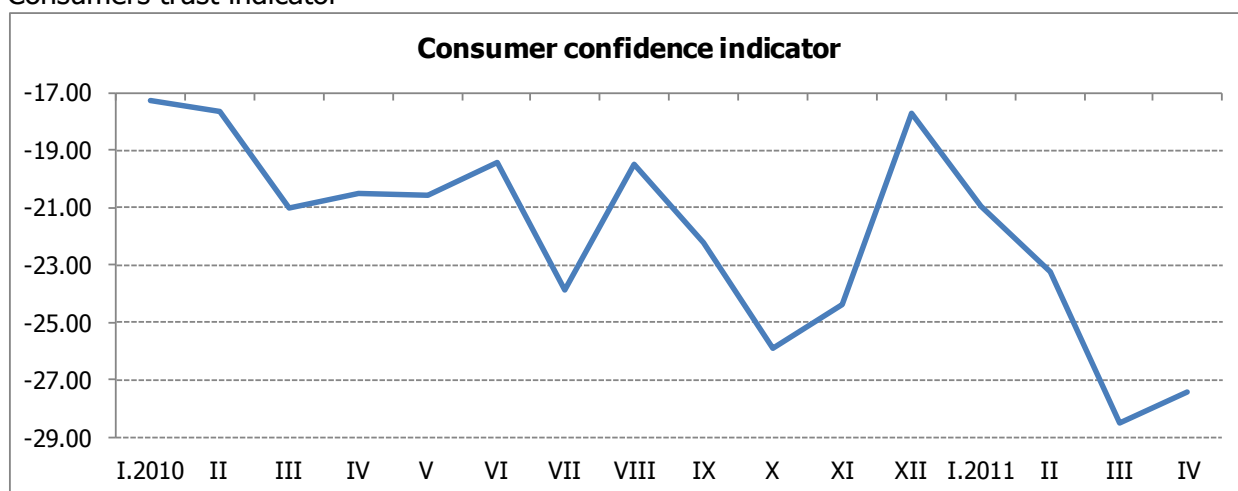


Source: State Statistical Office and NBRM calculations.

In April 2011, **the trust indicator**¹² rose by 1.1 percentage point relative to March, when the indicator went down to the lowest level since the beginning of 2010. Such results came from the more positive expectations for the financial and economic standing and the saving of the households in the next twelve months.

¹² From the Consumer Opinion Survey of SSO, April, 2011.

Consumers trust indicator¹³

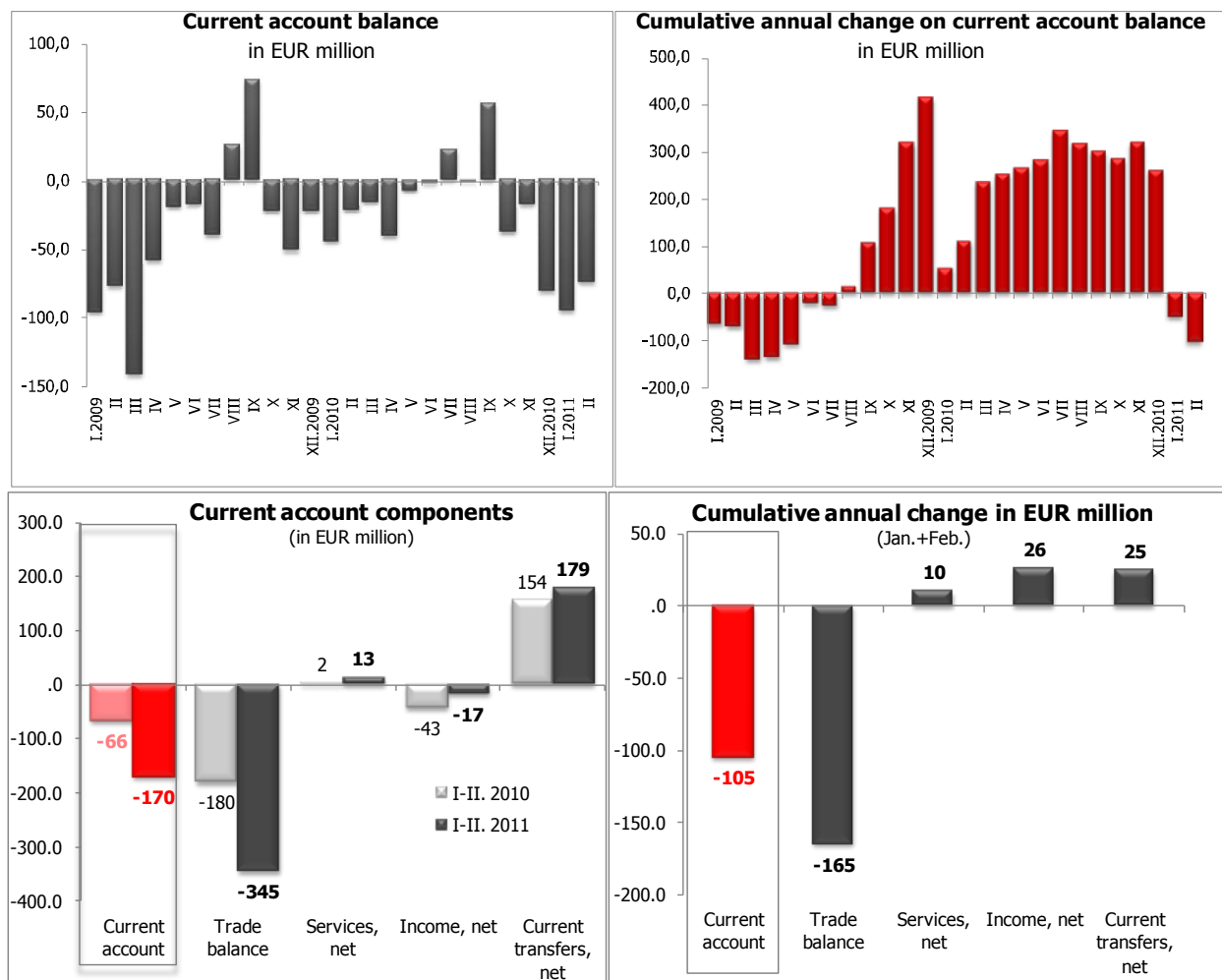


Source: State Statistical Office.

¹³ The trust indicator in the Consumer Opinion Survey is calculated as an arithmetical mean of the balances (in percentage points) of answers to the questions on the financial standing of the households, general economic situation in the country, the expectations on the unemployment and the saving in the next 12 months.

4. BALANCE OF PAYMENTS

In the first two months of 2011, the deficit on the current account of the balance of payments amounted to Euro 170.4 million, or 2.3% of the GDP. Relative to the same period of 2010 the deficit was higher by Euro 104.7 million (or by 1.3 p.p. of the GDP). The key factor for deficit broadening was the larger negative balance in the trade of goods, amid improved balance in the services. With the income sub-balance lower deficit is registered compared to the same period of previous year, whereas the net inflows from current transfers registered improvement, which resulted mostly from the higher official transfers.



Source: NBRM.

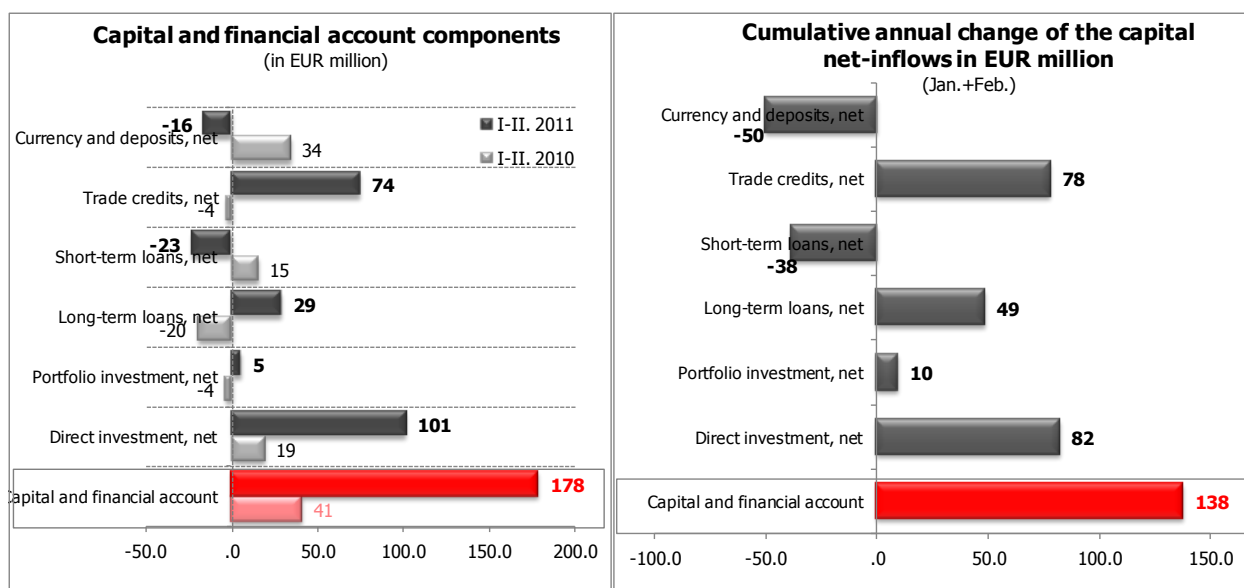
Compared to the projection of the balance of payments in April 2011, the current account deficit realized in the period January - February amounts to 73.1% of the planned amount for the first quarter of the year. It should be emphasized that the data on the first quarter for the foreign trade of goods and the net purchase on the currency exchange market (which represents an assessment for the net cash currency) were already incorporated in the April projection. The other categories on the current account register positive deviations from the projection. Thus, in the period January and February, registered net inflows in the trade of services are larger than the assessed ones, and the current transfers

deviate positively as well, which was due to the higher official transfers relative to the planned ones. Simultaneously, the realized deficit with the income is lower than the one envisaged with the April projection (see Table 2).

The current account deficit in the period January - February 2011, was fully covered by the net inflows on the capital and financial account (without the changes in the official reserves), which amounted to Euro 181.2 million, or 2,4% of the GDP. According to the analytical presentation of the balance of payments¹⁴, the capital net inflows were insignificantly lower at the level of Euro 178.2 million. Most of the net inflows came from the foreign direct investments (approximately 60% of the intercompany indebtedness, and the rest of the new investments in equity and the reinvested gain), whereas considerable part of the import was covered by the trade credits as well (Euro 74.4 million). Within the financial borrowings, net disbursements were realized with the long-term borrowings, whereas with the short-term borrowings net repayments were realized. Insignificant net inflows were realized on the basis of portfolio investments, whereas the currencies and deposits realized net outflows. **The net inflows in the capital and financial account (without changes in the official reserves) in the analyzed period were higher by almost 3 times than in the last year, whereas according to the analytical presentation¹⁵, they registered even more considerable rise of approximately 4.4 times.** Such dynamics resulted from the annual increase in most financing components, excluding the currencies and deposits and short-term borrowings (which registered net outflows, as opposed to the net inflows in the same period of 2010). **Compared to April projection, the capital net inflows represent 82.7% of the projected amount for the first three months of 2011.** Namely, the realized net inflows based on foreign direct investments and long-term borrowings already exceed the projected amounts, and upward deviations from the projection are registered also with the trade credits, as well as with the portfolio investments (net inflows, instead of the anticipated net outflows). Simultaneously, more considerable deviation in opposite direction is registered with the short-term indebtedness, within which net outflows are realized so far, as opposed to the projected net inflows for the quarter (see Table 2).

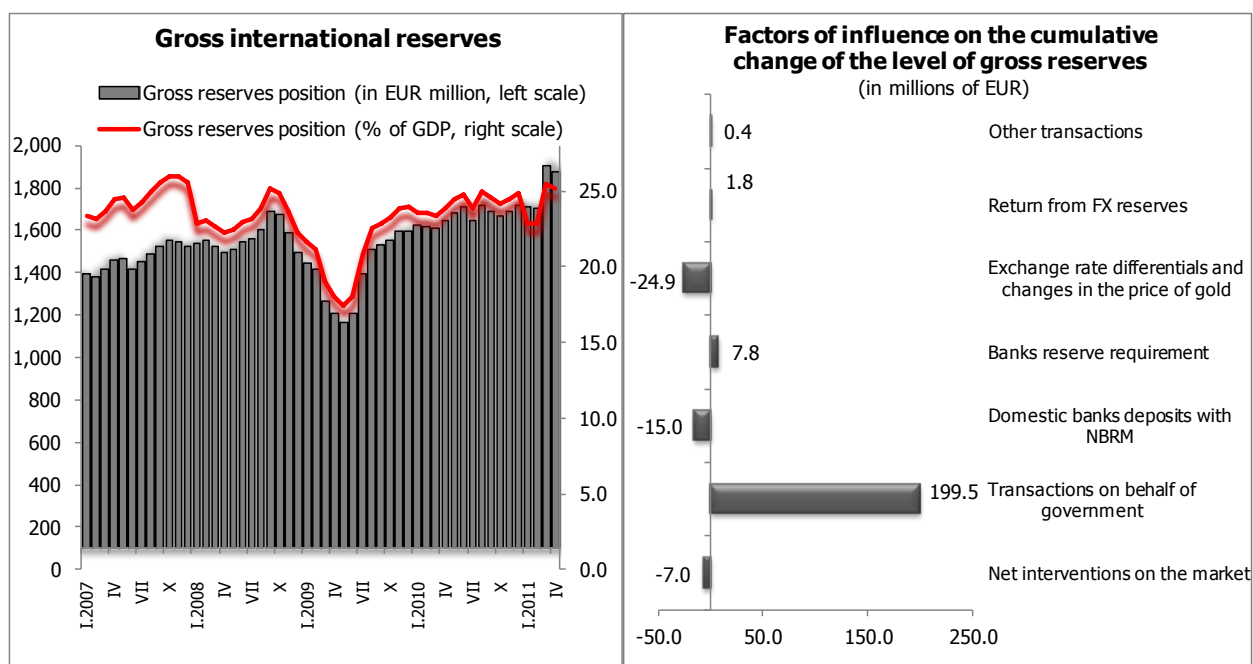
¹⁴ According to the analytical presentation of the balance of payments, the category "overdue liabilities" (OL), "currencies and deposits of the monetary authority" and "use and repayments of borrowings from IMF" are below the line in the financing and they are not part of the capital and financial account.

¹⁵ The difference in the growth intensity was due to the category of OL, which in the analytical presentation are below the line.

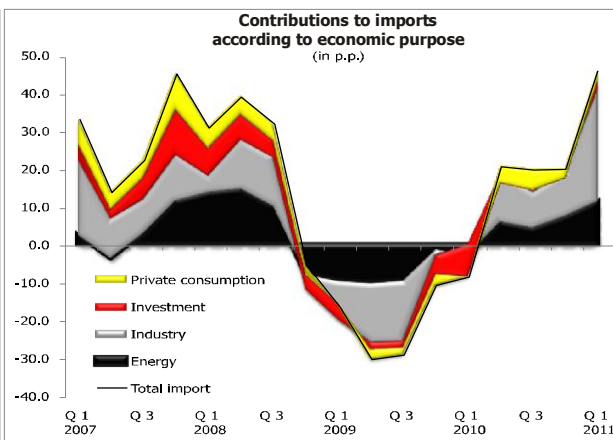
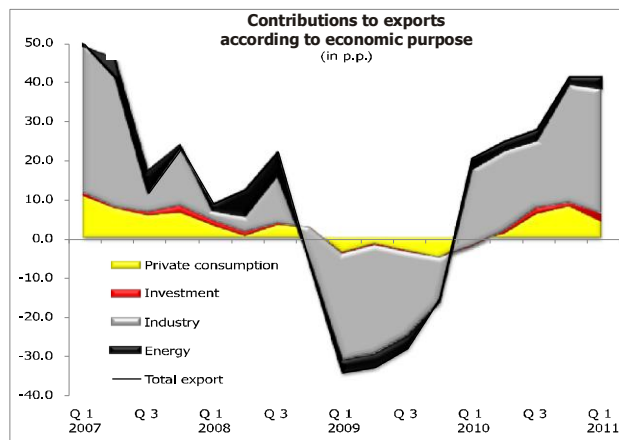
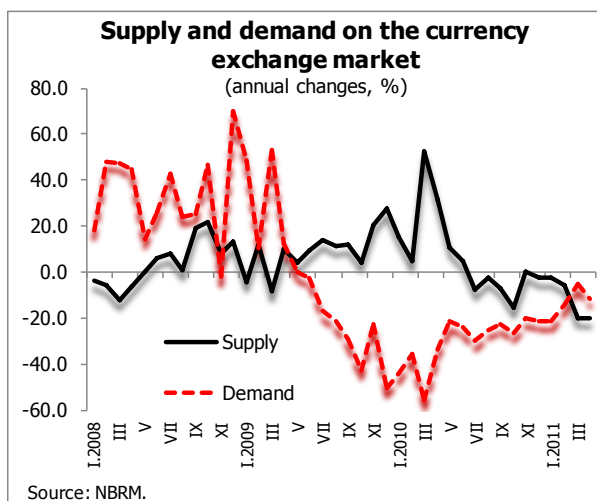


Source: NBRM.

As of April 30, 2011, the current stock of the gross foreign reserves amounts to Euro 1.877,2 million, which relative to the end of 2010 represents an increase by Euro 162.7 million. Such positive change in the foreign reserves resulted mainly from the transactions for the account of the Government (i.e. withdrawn assets from the IMF's precautionary credit line), and to a smaller extent from the rise in the foreign currency reserve requirements of banks, income from investments of the foreign reserves and other transactions. The negative currency changes and the change in the gold price, foreign exchange deposits of banks with NBRM and NBRM interventions on the foreign exchange market contributed to depletion of the reserves.



According to the latest data from the currency exchange market, in April 2011, the realized net purchase of foreign currency amounts to Euro 70.7 million, which represented a drop of 22.3% on annual basis. The supply of foreign currency is the key factor for the fall, and it still registers a decline on annual basis (by 19.5%), whereas the demand for foreign currency maintained the trend of annual fall in April as well (by 11.2%, which started in June 2009), thus having positive contribution to the net purchase of foreign currency. Cumulatively, in the period January - April 2011, the net purchase on the currency exchange market amounts to Euro 236 million, which represents an annual drop of 13.1%.



Source: SSO and NBRM

The data on the foreign trade for the first quarter of 2011 indicate intensification in the annual rise in the import of goods (of 45.9%, as opposed to 20.1% in the previous quarter) and stabilization of the export growth (rise of 41.2%, as opposed to 41.1% in the previous quarter).¹⁶ In accordance with the developments in the import and the export, the negative balance in the trade of goods broadened by 53% on annual basis. **Analyzed with respect to the balances by SITC, more than half of the broadening in the trade deficit (58%) was due to the enlarged deficit in the trade of non-ferrous metals,** caused by the operating of the new greenfield investment in the free economic zone, as well as by the broadened deficit in the trade of oil and petroleum products (contribution of 30%, in conditions of transmitted external shock from the growth in the oil price on the international stock exchanges and larger import of quantities). Analyzed with respect to the **economic purpose**, the import of industrial raw materials gave the largest contribution to the annual rise in **the imports**, with historically highest level of import of raw

¹⁶ In the first quarter of 2011, the quarterly levels of the realized exports and imports, exceeded the average quarterly levels of exports and imports in 2008, when the highest ever foreign trade was realized. In the first quarter, the annual import growth exceeded the export growth, which registered more intensive annual recovery rates in 2010.

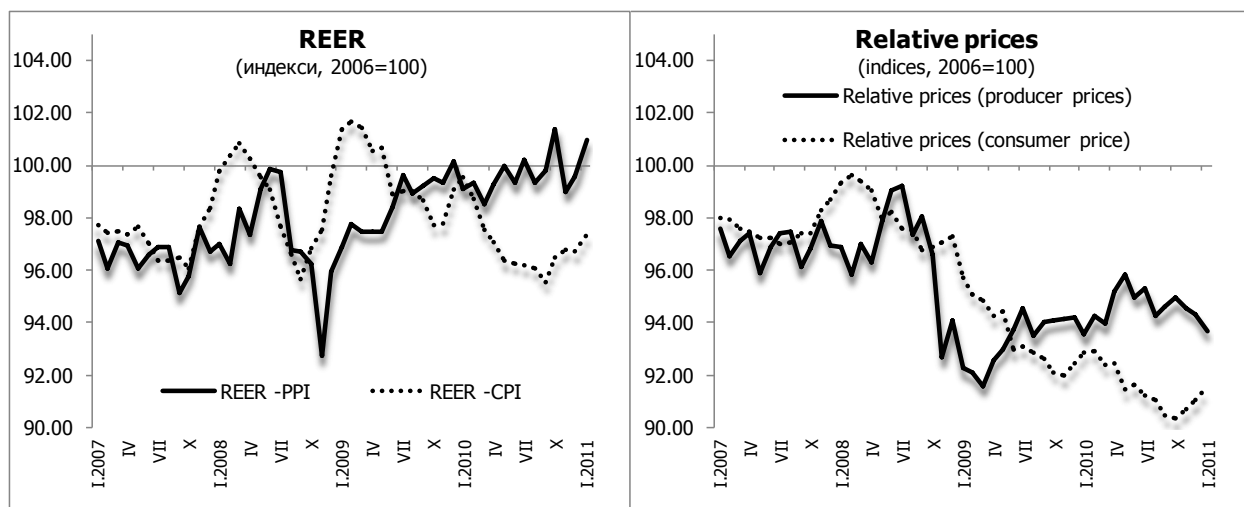
materials being registered. The import of energy (oil and petroleum products and electricity) gave smaller contribution to the import growth, while the import of personal consumption goods (food) and investment products (machines and transport equipment) gave the lowest and almost identical contribution. With respect to the factors which determined the annual **exports dynamics**, the export of raw materials and intermediary products from the domestic industry (chemical materials and products of iron and steel) is the most significant, while the export of personal consumption goods (wearing apparel and food), energy (oil and petroleum products and electricity) and investment products (machines and transport equipment) registered moderate growth.

The analysis of the trade of the Republic of Macedonia by groups of trade partners for the first quarter of 2011 indicates broadening in the deficit in the trade of goods with EU by Euro 98.3 million, or by 83% on annual basis. The largest contribution for the broadening came from the growth in the import from Great Britain, whereas the broadening in the trade deficit with Bulgaria and Greece gave lower contribution. Opposite to this, out of total twenty seven EU member states, the Republic of Macedonia realized improvement in the trade balances (on annual basis) with total of sixteen EU member states, with nine of which surplus was realized (most significant is that with Germany). Opposite to this, the trade surplus from the trade with the countries of Western Balkans registered fall, which was due to the broadening in the trade deficit with Serbia and the fall in the trade surplus in the trade with Bosnia and Herzegovina.

External Trade by trading partners	Q 1.2010	Q 1.2011	y-o-y change		contributions	
	in millions of EUR		in millions of EUR	%	percentage points	%
Total	-326.2	-499.2	-173.0	53.0	53.0	100.0
European Union	-118.2	-216.5	-98.3	83.1	30.1	56.8
Germany	12.3	86.9	74.6	7 times	-22.9	-43.1
Greece	-20.4	-41.4	-21.0	103.1	6.4	12.1
Spain	-1.6	3.9	5.5	-341.2	-1.7	-3.2
Italy	-15.5	-11.4	4.1	-26.6	-1.3	-2.4
Slovenia	-20.8	-12.7	8.1	-38.9	-2.5	-4.7
Bulgaria	9.2	-16.9	-26.1	-283.6	8.0	15.1
Belgium	13.3	6.4	-6.9	-51.9	2.1	4.0
United Kingdom	-24.1	-158.6	-134.5	6.6 times	41.2	77.7
Other developed countries*	-37.6	-26.3	11.3	-30.1	-3.5	-6.5
EFTA	-12.6	-25.2	-12.6	99.7	3.9	7.3
Western Balkans	53.3	42.7	-10.6	-19.9	3.3	6.1
Developing countries**	-203.7	-263.7	-60.0	29.5	18.4	34.7
Low income countries	-7.4	-10.2	-2.8	38.4	0.9	1.6

* USA, Japan, other developed countries ** Russia, Ukraine, Turkey, other developing countries

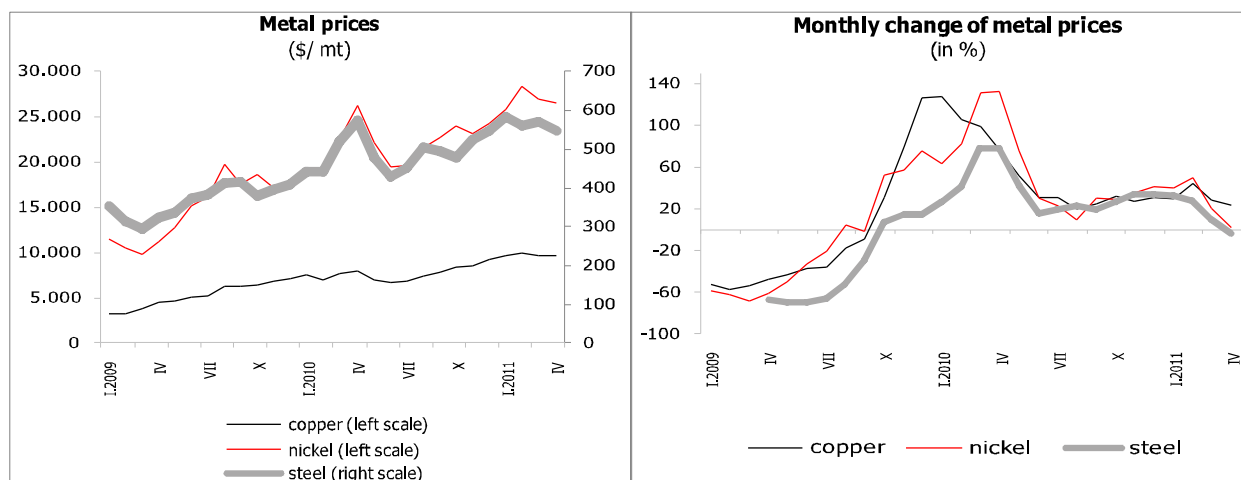
In the first quarter of 2011, the real effective exchange rate of the Denar calculated by the consumer price index (REER-CP) appreciated by 0.9% on quarterly basis, which in conditions of depreciation of the nominal effective exchange rate (NEER) of 0.6%, was due to the larger growth in the domestic than in foreign inflation. On annual basis, this index continues to depreciate, but with lower dynamics (by 1.1%). **REER measured by the producer prices (REER-PP) registered quarterly appreciation of 1.6%**, caused by the relative prices, i.e. by the more intensive growth in the domestic producer prices than the growth in the foreign producer prices. On annual basis, this index of REER registered appreciation intensification (of 2.6%).



Source: NBRM, IFS, for May and SSO of the Republic of Macedonia. For those countries for which there are no IFS data, the information are from the web sites of the respective central banks, or EUROSTAT.

In April 2011, the price index of metals and minerals¹⁷ registered monthly growth, within which, besides in the prices of silver and iron ore, an increase was registered also in the prices of tin and aluminum (which was due to the limited supply). After the earthquake in Japan, when the March average steel price rose because of the expectations for intensified reconstructions and construction activities on middle term (and therefore, demand for metals), in April the steel price registered monthly fall of 3.7%. Key factors for the fall in the price are the growth in the reserves and the low import from China, in conditions of contractions in the Chinese monetary policy. In April, already second month in a row the nickel and copper prices registered monthly fall (of 0.4% and 1.8%, respectively, after their considerably high levels in February). **At the beginning of May, the metal prices registered fall, which was due to the concern about the dynamics of the demand and the inflation.**

¹⁷ The analysis is based on Comodity Market Review, April and May 2011, World Bank.



Source: Bloomberg.

5. MONETARY AGGREGATES

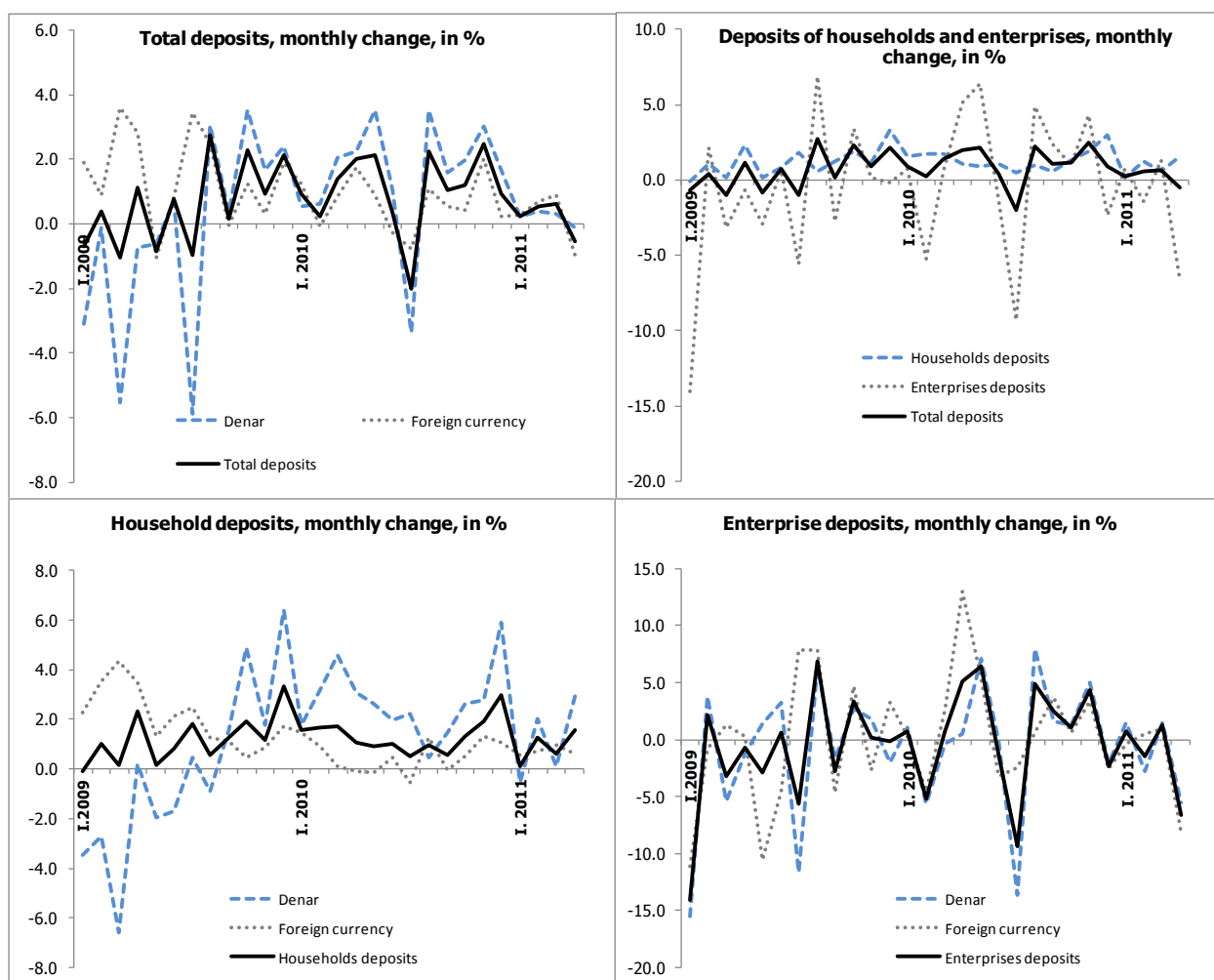
In April 2011, the reserve money¹⁸ registered annual rise of 10.2% (7.6% in March 2011), with simultaneous growth in both components. Therefore, the total liquid assets of banks in April rose by 9.9% on annual basis (10% in the previous month), whereas the annual rise in the currency in circulation amounted to 10.7% (as opposed to 4.2% in March). On monthly basis, the reserve money rose by 5.4%, which was due to the simultaneous rise in the total liquid assets of banks (by 5.1%) and the currency in circulation (by 5.9%). The net foreign assets of NBRM dropped by Denar 883 million on monthly basis, while the net domestic assets rose by Denar 3.428 million.

Analyzed with respect to the flows of creating and withdrawing of reserve money, in April, autonomous factors acted toward liquidity withdrawal (of Denar 1,759 million) with the increased Government Denar deposits having the largest contribution (of Denar 2.765 million). The foreign exchange transactions of NBRM contributed to creating liquidity, so this is solely due to the realized net sale of foreign currency by the Government to NBRM (of Denar 3.167 million). In the transactions with the market makers, NBRM realized net sale of foreign currency of Denar 926 million. The analysis of instruments showed that the CB bills contributed to creation of liquidity (of Denar 3.940 million), whereas the bill for six month deposit with NBRM resulted in a liquidity withdrawal of Denar 940 million.

On cumulative basis, within the period January-April 2011, the foreign transactions of NBRM represented a flow of creating reserve money, which was solely due to the realized net purchase of NBRM by the Government (of Denar 829 million). In the transactions with the market makers, NBRM realized net sale of foreign currencies in the amount of Denar 434 million on cumulative basis. On the other hand, the Government Denar deposits contributed to withdrawal of liquidity (of Denar 695 million). With respect to the instruments, the CB bills represented a flow of creating reserve money in the amount of Denar 10.017 million, while the six month deposit bill with NBRM resulted in a liquidity withdrawal of Denar 9.530 million.

¹⁸ Includes the currency in circulation (including the cash in the vaults of banks), the reserve requirement in denars and in foreign currency and the excess liquid assets over the reserve requirement (in denars). Without the reserve requirement in foreign currency, in April 2011 the reserve money rose by 10.5%, on annual basis.

In April 2011, the total banks' deposit potential (with the demand deposits included)¹⁹ registered monthly fall of Denar 1.176 million, or 0.5%, (as opposed to the growth of 0.6%, in the previous month). The monthly fall in the total deposits resulted mainly from the decline in the foreign currency deposits of 1% (participation of 90.7% in the fall in the total deposits), with minimal decline in the Denar deposits of 0.1%. The negative monthly growth in the total banks' deposits reflects the influence of extraordinary factors, with single effect, considering the fact that this month a payment of dividend was performed by one larger company to the Government and the foreign investor. Subsequently, the deposits of the private enterprises registered large monthly fall of 6.6%, as opposed to the growth of 1.3% in the previous month. The households registered intensification in the monthly growth rate of 1.5% (as opposed to 0.6% in the previous month), and certain effect on this growth came from the payment of the regular installment of the bond for old saving. With respect to the maturity structure, the short-term deposits registered monthly fall of 2.6% (opposite to the rise of 0.4% in March), with slowed down monthly rise in the long-term deposits of 1.2% (as opposed to 2% in the previous month).



Source: National Bank of the Republic of Macedonia.

¹⁹ Since January 2009, the deposits include also the accrued interest.

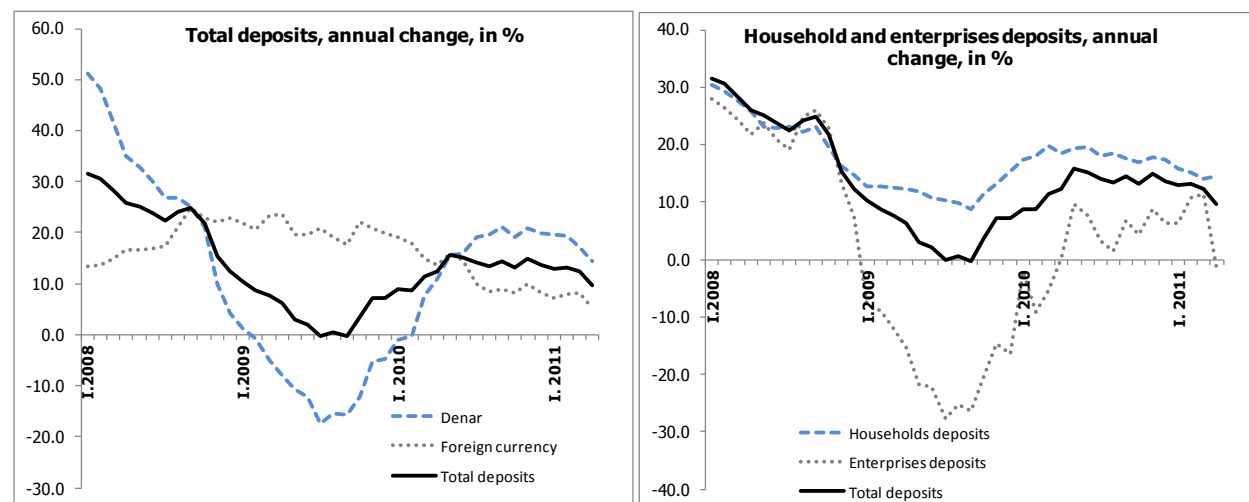
Total deposits

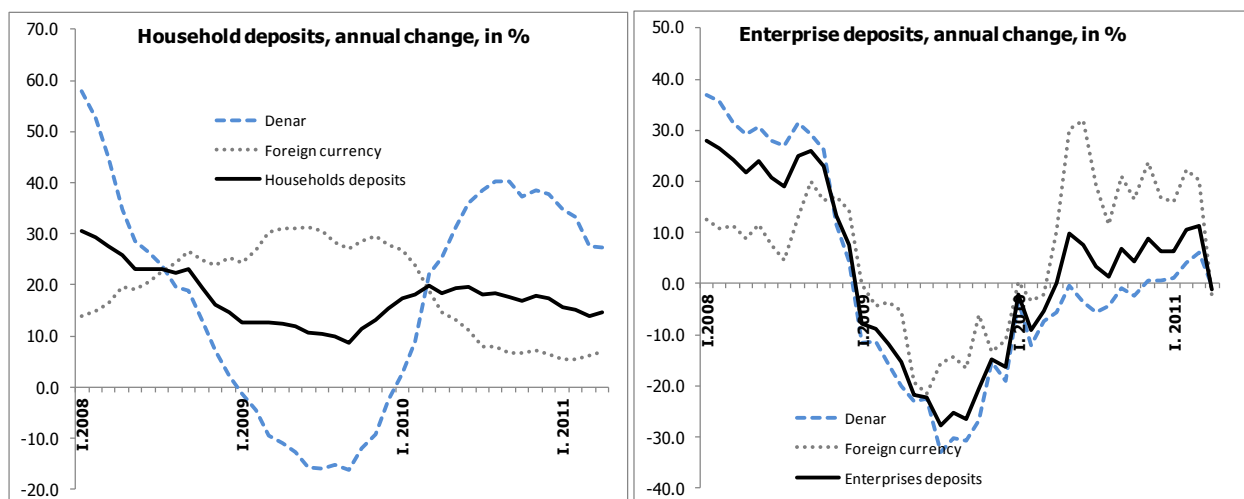
	31.03.2010	30.04.2010	Monthly change in april 2011	Annual change in march 2011	Annual change in april 2011	Contribution in monthly change of total deposits	Contribution in annual change in total deposits
			in %			april 2011	
Total deposits of the banks	216,220	215,044	-0.5	12.4	9.6	100%	100%
Denar*	105,381	105,271	-0.1	17.2	14.5	9.3	71.1
Foreign currency	110,839	109,773	-1.0	8.1	5.2	90.7	28.9
Household deposits	149,003	151,307	1.5	14.0	14.5	-195.9	102.4
Denar*	60,685	62,470	2.9	27.6	27.4	-151.7	71.6
Foreign currency	88,318	88,837	0.6	6.3	7.0	-44.2	30.8
Deposits of the private enterprises	52,591	49,112	-6.6	11.3	-1.1	295.8	-2.9
Denar*	31,698	29,936	-5.6	6.1	-0.3	149.8	-0.5
Foreign currency	20,893	19,176	-8.2	20.3	-2.3	146.0	-2.5

*Denar deposits include demand money

Source: National Bank of the Republic of Macedonia.

The annual growth rate in the total deposits with banks in April 2011 slowed down to 9.6%, as opposed to the growth of 12.4% in the previous month. Such dynamics on annual basis can be explained by the larger outflow of assets from banks for payment of dividend in April, as well as the higher base effect, considering the fact that in 2010 the payment of dividend was realized in July. With respect to the currency structure of the total deposits, the slowing down in the annual growth rates of the Denar deposits, which started at the end of 2010, continued and in April, they amounted to 14.5%, as opposed to 17.2% in the previous month. Also, the annual rise in the foreign currency deposits registered slowing down of 5.2%, as opposed to 8.1% in the previous month. With respect to the sectors, the deposits of the private companies registered annual fall of 1.1% (which resulted from the single effect - payment of dividend), as opposed to the growth of 11.3% in March. The household deposits registered intensification in the annual rise of 14.5%, as opposed to 14% in the previous month, which represents termination of the slowing down in the annual growth rates which started at the end of the previous year. The maturity components of the total deposits registered slowing down in the annual growth rates, with the short-term of 2.5%, and with the long-term deposits of 35.7%, as opposed to 7.6% and 39.1%, respectively in the previous month.



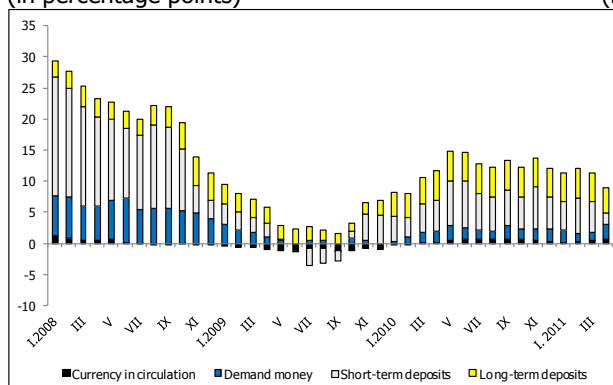


Source: National Bank of the Republic of Macedonia.

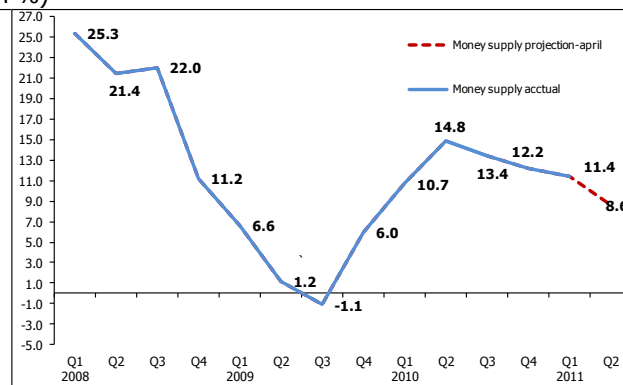
In April 2011, the annual growth rate of the broadest money supply M4²⁰ amounts to 9% (as opposed to 11.4% in the previous month), so it is expected that until the end of the second quarter (according to the April projection) the annual rise will amount to 8.6%.

Money supply M4

Contribution to the annual rise
(in percentage points)



Annual growth rates
(in %)



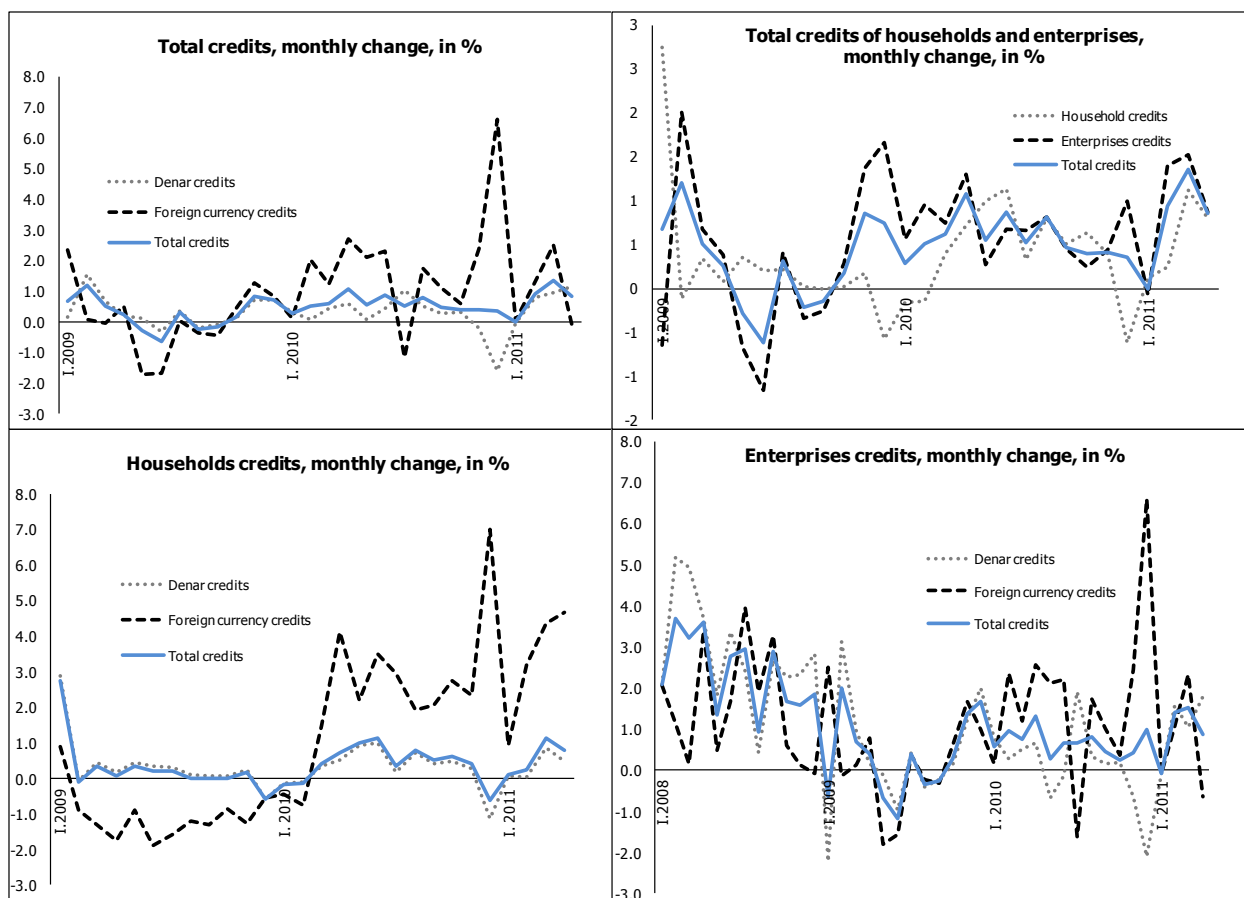
Source: National Bank of the Republic of Macedonia.

6. BANKS' CREDITS

In April, total banks' credits to the private sector registered increase of Denar 1.665 million, or by 0.9% on monthly basis, which represents slowing down relative to the monthly rise in the previous month which amounted to 1.4%. Monthly growth in the total credits resulted solely from the growth in the Denar credits (of 1.2%), with monthly fall in the foreign currency credits of 0.1% being registered. With respect to individual sectors, the new crediting in April was mostly intended for the corporate sector (with participation of

²⁰ The analysis pertains to the money supply M4 with included accrued interest on deposit liabilities.

61.8% in the total credits), the credits of which realized monthly rise of 0.9%, as opposed to 1.5% in the previous month. The household credits also registered slowing down in the monthly growth of 0.8%, as opposed to 1.1% in March. With respect to the maturity of the total credits, the short-term credits registered growth of 0.3%, as opposed to the fall of 1% in the previous month, whereas the monthly growth in the long-term credits slowed down to 1.1%, as opposed to the growth of 2.6% in March.



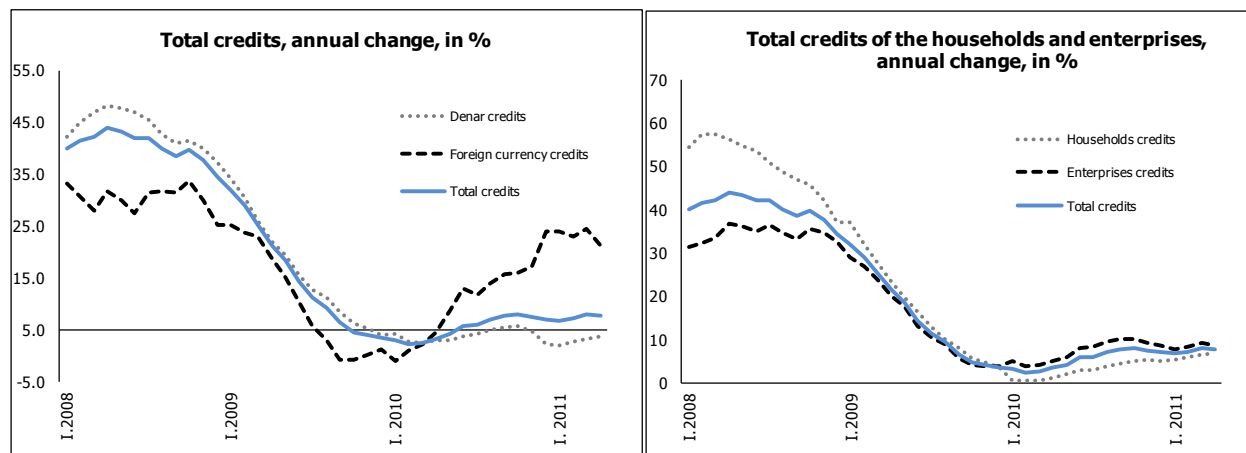
Source: National Bank of the Republic of Macedonia.

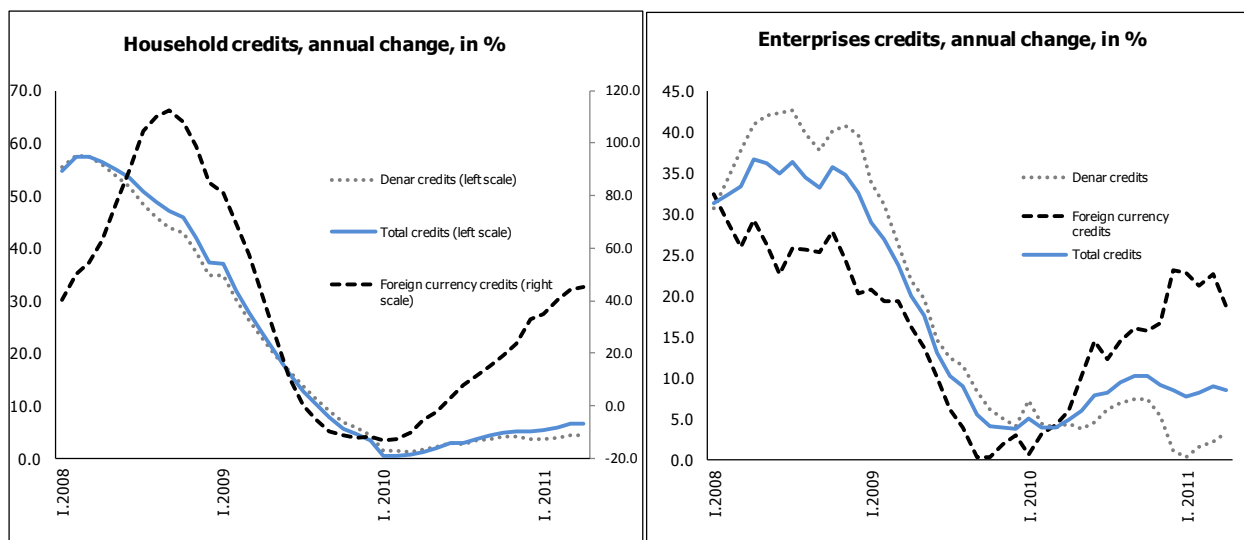
Total credits

	31.03.2010	30.04.2010	Monthly change (april 2011/march 2011)	Annual change (march 2011/march 2010)	Annual change (april 2011/april 2010)	Contribution in monthly change of total credits	Contribution in annual change of total credits
	in millions of denars	in millions of denars	in %	in %	in %	April 2011	
Total credits of the banks	195,209	196,875	0.9	8.0	7.8	100%	100%
Denar	144,952	146,645	1.2	3.2	3.8	101.7	38.0
Foreign currency	50,257	50,229	-0.1	24.6	21.3	-1.7	62.0
Households	76,647	77,256	0.8	6.6	6.6	36.5	33.8
Denar	71,133	71,484	0.5	4.4	4.4	21.1	21.2
Foreign currency	5,514	5,772	4.7	44.3	45.1	15.5	12.6
Enterprises	118,395	119,424	0.9	9.0	8.6	61.8	66.3
Denar	73,699	75,012	1.8	2.2	3.3	78.8	16.8
Foreign currency	44,697	44,412	-0.6	22.6	18.8	-17.1	49.4

Source: National Bank of the Republic of Macedonia.

On annual basis the credits to the private sector registered slower growth, which amounted to 7.8% in April, as opposed to 8% in the previous month. Such dynamics is registered with the annual growth in the corporate credits, which in April amounts to 8.6%, as opposed to 9% in the previous period. The credits to the households registered annual rise, same as in the previous period of 6.6%. With respect to the currency, the intensification in the annual growth rates of the Denar credits continued, so in April they amount to 3.8% (as opposed to 3.2% in the previous month), whereas the foreign currency credits registered slower annual growth of 21.3% (as opposed to 24.6% in March). With the maturity components of the total credits the annual fall in the short-term credits deepened, so in April it amounts to 2.8%, as opposed to the fall of 1.7% in March. With the long-term credits the upward trend of the annual growth continued (it started at the end of 2010) and in April it amounts to 14.1%, as opposed to 13.8% in the previous period.

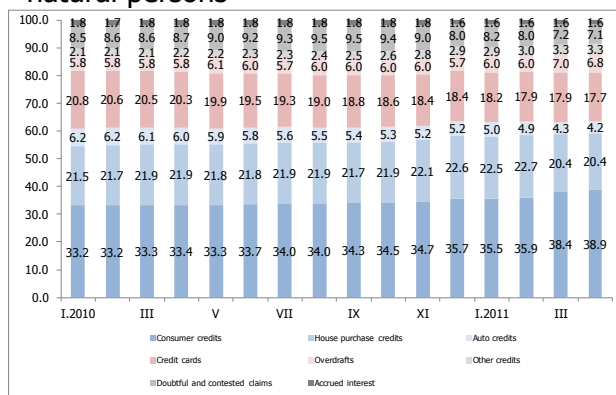




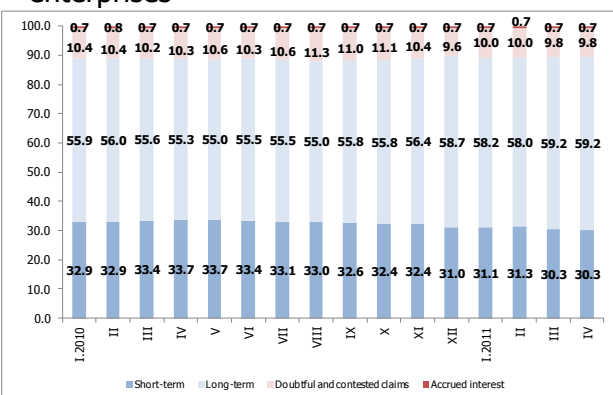
Source: National Bank of the Republic of Macedonia.

Structure of the credit portfolio, in %

- natural persons



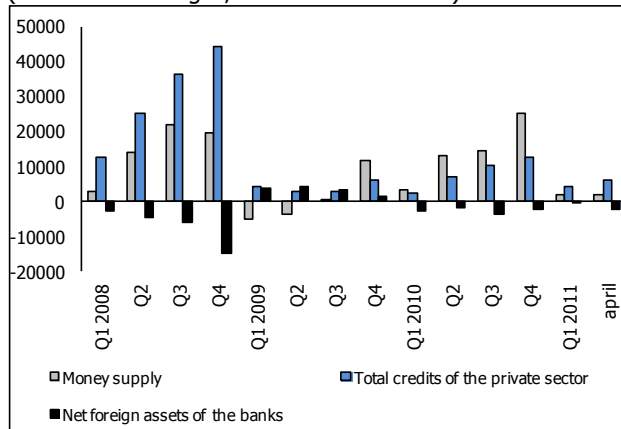
- enterprises



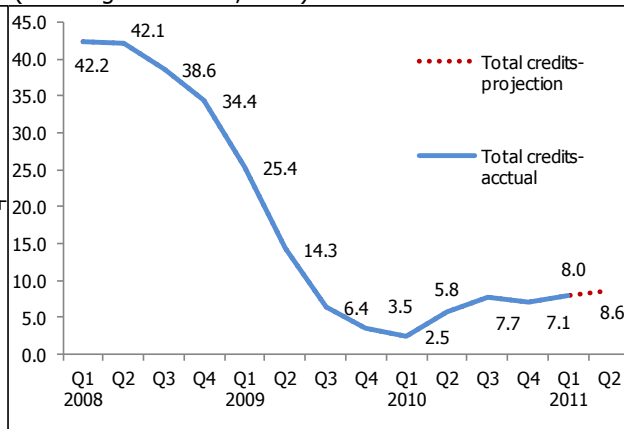
Source: National Bank of the Republic of Macedonia.

In accordance with the April projection, until the end of the second quarter, the credits to the private sector are expected to continue to grow, so at the end of June, the annual growth rate would amount to 8.6%.

Sources of financing
(cumulative changes, in millions of denars)



Credits to the private sector
(annual growth rates, in %)



Source: National Bank of the Republic of Macedonia.

7. INTEREST RATES

In the first half of May 2011, the key interest rate of NBRM remained unchanged, with fall in all interest rates on the interbank deposit market.

Realized developments on the primary market of CB bills and Treasury bills and on the interbank deposit market

Auctions of CB bills

Auction date	Due amount	Supply	Demand	Realization	Net change	Interest rate
04.05.2011	4.520	5.979	5.979	5.979	1.459	4,0%
11.05.2011	4.194	5.455	5.455	5.455	1.261	4,0%
18.05.2011	4.375	4.263	4.263	4.263	-112	4,0%

Auction of Treasury bills

Auction date	Type of Treasury bills	Supply	Demand	Realization	Interest rate
03.05.2011	6 months with FX clause	1.000	893.2	893.2	4,10%
03.05.2011	3 months, in denars	2.100	2.006,3	2.006,3	4,20%

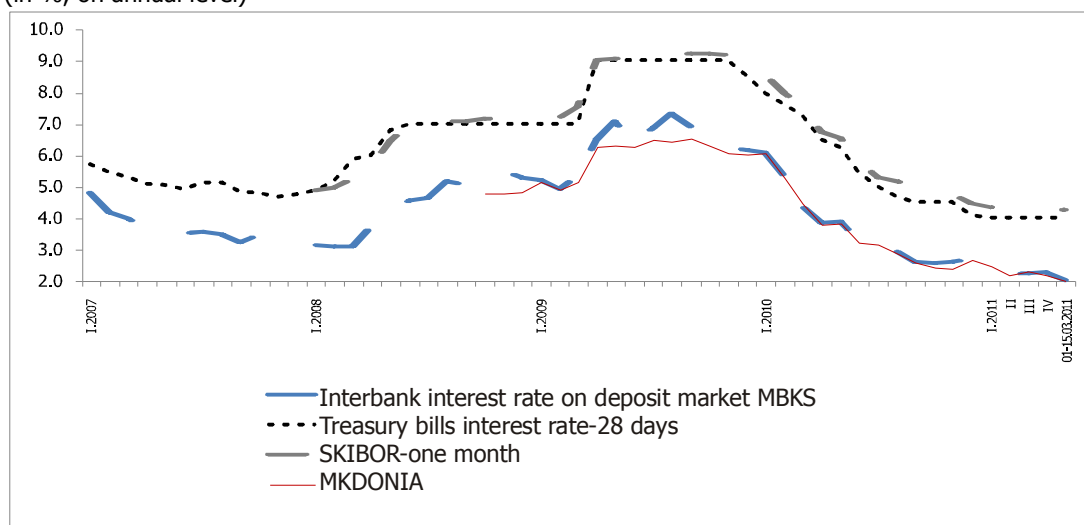
Interest rates on the interbank deposit market

Period	MKDONIA	MKBS	SKIBOR over night	SKIBOR 1 week	SKIBOR 1 month	SKIBOR 3 months
Dec.2010	2,69%	2,69%	2,92%	3,81%	4,48%	5,39%
Jan.2011	2,47%	2,49%	2,75%	3,62%	4,35%	5,32%
Feb.2011	2,17%	2,24%	2,63%	3,54%	4,29%	5,27%
March 2011	2,29%	2,23%	2,51%	3,43%	4,25%	5,15%
April 2011	2,19%	2,28%	2,46%	3,45%	4,25%	5,14%
01-17.05.2011	2,03%	2,02%	2,42%	3,44%	4,24%	5,09%

With the auctions of CB bills and Treasury bills, the due amount, supply, demand, realization and the net changes are in millions of denars.

Source: National Bank of the Republic of Macedonia и Ministry of Finance.

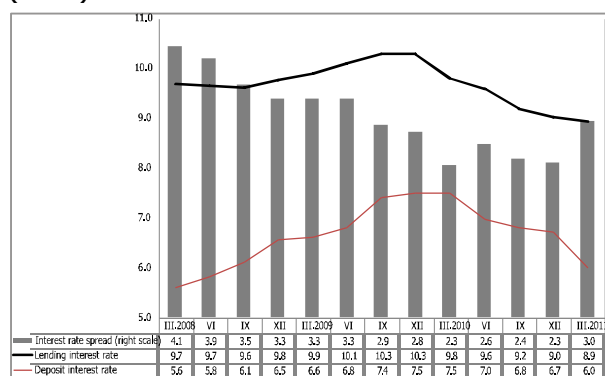
Figure 26
Interest rates
(in %, on annual level)



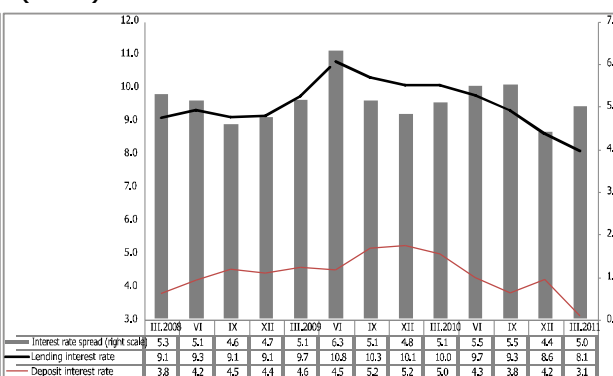
Source: National Bank of the Republic of Macedonia.

With the bank interest rates, **the interest rate on the total Denar credits** registered decrease (from 9% in February, to 8.9% in March), whereas the **interest rate on the total foreign currency deposits** remained at the same level as in the previous months of 7.4%. Regarding the **price of the newly extended Denar and foreign currency credits**²¹, fall in the interest rate is registered with the newly extended Denar and foreign currency credits, so in March they amount to 8.1% and 6.8%, respectively (as opposed to 8.4% and 7% in the previous month). On the other hand, **the interest on the total Denar and foreign currency deposits** amount to 6% and 2.8%, respectively, as opposed to 6.3% and 2.9%, respectively in February. **The interest rates on the newly received Denar and foreign currency deposits** in March amount to 3.1% and 1%, respectively, opposite to 3.6% and 0.9%, respectively in the previous month.

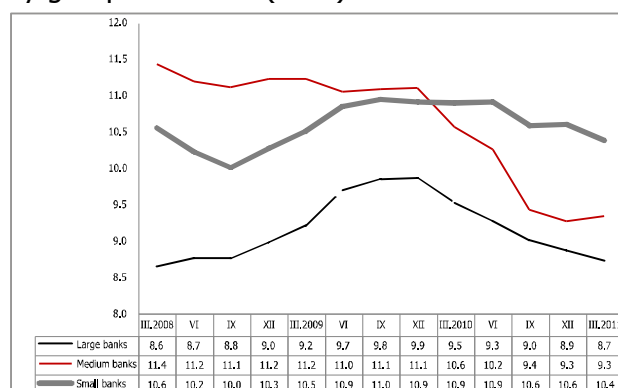
Interest rate on the total Denar credits and deposits and interest rate spread (in %)



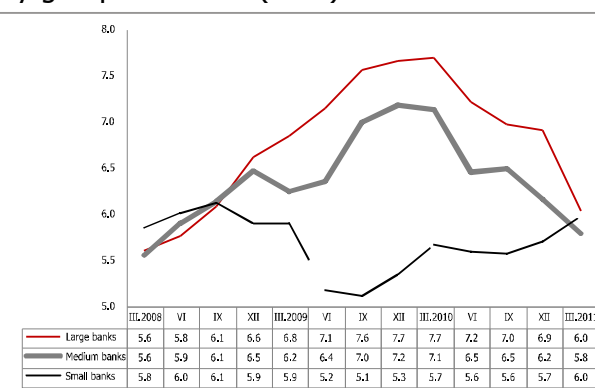
Interest rate on the new Denar credits and deposits and interest rate spread (in %)



Interest rate on the Denar credits by groups of banks (in %)

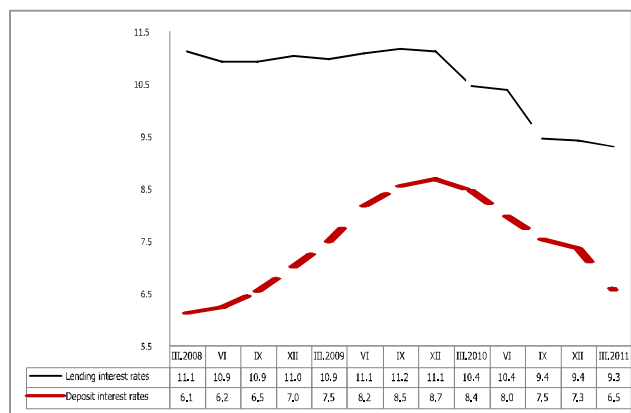


Interest rate on the Denar deposits by groups of banks (in %)

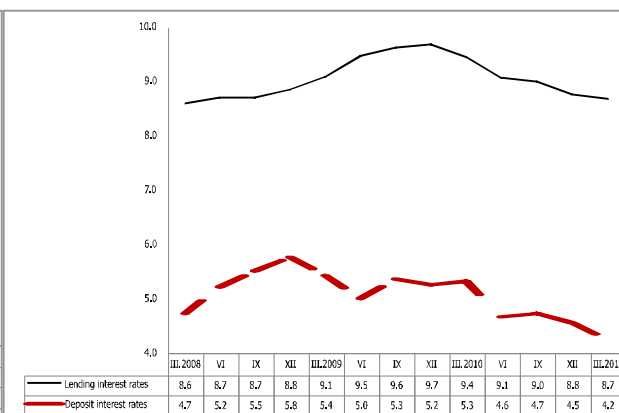


²¹ The changes in the interest rates of the newly extended credits and newly received deposits were more intensive, as a result of the influence by the type of credits or deposits which dominated in the respective month, and they can differ considerably from the previous structure of credits and deposits.

Interest rate on the Denar credits
and deposits of households (in %)



Interest rate on the Denar credits
and deposits of enterprises (in %)



Source: National Bank of the Republic of Macedonia.