



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
Macroeconomic Policy Department

SHORT-TERM ECONOMIC TRENDS

December 2013



Skopje, February 2014

SUMMARY

OF THE MOST IMPORTANT SHORT-TERM ECONOMIC TRENDS

December 2013

- Industrial production in December 2013 surged by 9.5% compared to December 2012;
- Inflation rate amounted to 1.4% on annual basis and it grew by 0.3% on monthly basis; Average inflation rate in 2013 amounted to 2.8%;
- Annual drop of physical output of export of 13.0% in 2013 and increase in value by 3.2% and decline of imported quantities of goods by 9.8% and drop in value by 1.8%, resulting in reduction of the trade deficit by 9.8% compared to 2012;
- Better performance of total budget revenues by 1.6% and increase of total expenditures by 2.4% in the period January-December 2013 compared to the same period last year; state budget deficit amounted to Denar 19,253 million (3.9% of GDP), while central budget deficit amounted to Denar 18,131 million (3.7% of GDP);
- Increase of both total credits to private sector by 6.4% and total deposit potential of banks by 6.1% on annual basis;

1. Real Sector

Industrial Production

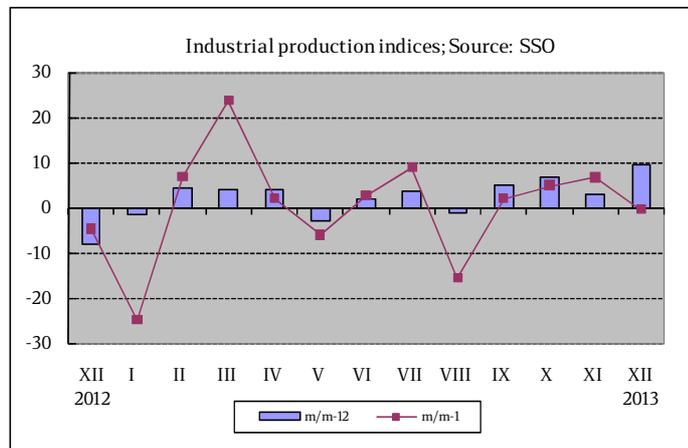
Industrial production in December 2013 surged by 9.5% compared to December 2012. Analyzed by sectors, processing industry sector experienced 13.1% production growth. Mining and quarrying sector experienced a drop of 4.2% as a result of the decline in the following branches mining of coal and lignite (17.4%) and mining of metal ore (6.5%), while other mining and quarrying branch grew by 37.8%. Electricity, gas, steam and air-conditioning supply sector experienced 1.9% growth.

As for the processing industry, annual positive growth was registered at 14 out of 23 branches, comprising 42.7% of

the industrial production. As regards the branches with two-digit share in the structure of industrial production, high growth of 10.5% was registered at production of clothing, while decline of 1.4% was recorded at production of food products. High growth was seen at the following branches: production of machines and devices, not mentioned elsewhere – 73.4%, production of beverages – 51.6%, production of textile – 48.6%, production of electrical equipment – 37.8%, production of chemicals and chemical products – 34.3%, production of other non-metal mineral products – 17.2%, printing and production of recorded media – 16.4%, production of leather and leather products – 15.4% and production of other transportation equipment – 13.8%. Production of machines and devices, not mentioned elsewhere (3.6 p.p.) contributed the most to the annual change of industrial production in December 2013, while production of fabricated metal products, except machines and equipment had the highest negative contribution (-0.8 p.p.).

| | m/m-1 | m/m-12 | I-XII 2013 |
|-----------------------------------|-------|--------|------------|
| | | | I-XII 2012 |
| Total | 9.5 | -0.5 | 3.2 |
| Ore and stone extraction | -4.2 | -1.0 | 3.4 |
| Processing industry | 13.1 | -3.3 | 2.8 |
| Electricity, gas and water supply | 1.9 | 21.8 | 5.3 |

Source: SSO



Industrial production in December 2013 compared to November 2013 decreased by 0.5%. Sector analysis points out to an increase in the electricity, gas, steam and air-conditioning supply sector of 21.8%, while the sector mining and quarrying and processing industry declined by 1% and 3.3% respectively. Decline in the mining and quarrying sector was a result of the decline in the branches mining of coal and lignite of 3.5% and other mining and quarrying of 5.2%, while the branch mining of metal ore experienced a 2.5% growth.

On cumulative basis, in the period January – December 2013, industrial production grew by 3.2%, compared to the same period in 2012. Electricity, gas, steam and air-

conditioning supply sector experienced 5.3% growth, mining and quarrying sector grew by 3.4% and 2.8% growth was registered in the processing industry sector.

Data on industrial production by target groups in December 2013, compared to December 2012, showed that there was an increase in the production at the following groups: capital goods – 43.8%, consumer non-durables – 14.2%, intermediary goods, except energy – 4.8% and consumer durables – 4.3%. A drop of 7.1% was registered only at the energy group.

On monthly basis, data on the industrial production by target groups in December 2013 showed that there was an increase in the production at the following groups: capital goods – 37.7% and energy – 15.5%, while a decline was registered at the following groups: consumer durables – 10.5%, intermediary goods, except energy – 10.3%, and consumer non-durables – 3.9%.

On cumulative basis, in the period January - December 2013, compared to the same period in 2012, growth was registered in the following groups: capital goods – 9.0%, consumer non-durables – 6.3%, consumer durables – 6.2% and energy – 0.4%. Intermediary goods, except energy, dropped by 0.8%.

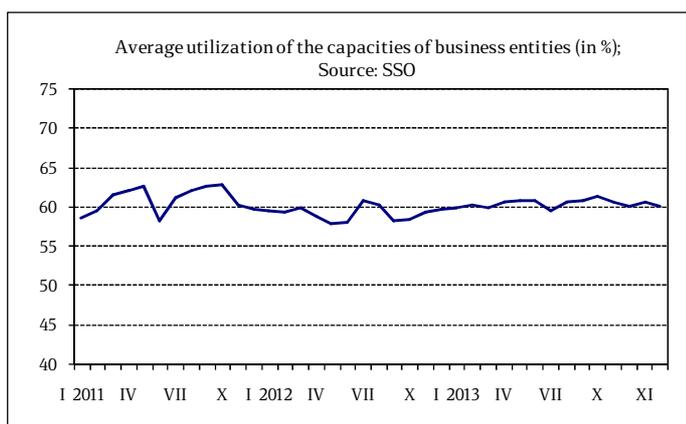
Business Tendencies in the Processing Industry

According to the assessments, current economic trends of business entities in December 2013 was less favourable compared to the previous month, and more favourable compared to December 2012.

Assessment of current state of delivery-to-production was less favourable compared to the previous month, while compared to December 2012, it was more favourable. In December 2013, assessment of the production volume in the past three months was less favourable compared to November 2013, as well as compared to December 2012. In December 2013, expectations for the production volume in the next three months were more favourable compared to both the previous month and December 2012.

As regards the number of employees, expectations in December 2013 for the next three months were less favourable compared to the previous month, while compared to December 2012, they were more favourable.

Average utilization of the capacities in December 2013 accounted for 60.1%, being a decrease compared to the previous month, when it accounted for 60.7%. Compared to December 2012, utilization of capacities was higher by 0.4 p.p..



In December 2013, 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. Assessment for the current stocks of ready-made products

was less favourable compared to the previous month, while compared to December 2012, it was more favourable. In the next 3-month period, according to the assessment of managers, average purchase prices of inputs are expected to increase, while selling prices of ready-made products are expected to decrease.

According to the assessment, following factors limited the most the production volume in December 2013: insufficient foreign demand – 25.8%, insufficient domestic demand – 18.9%, shortage of skilled labour – 12.0%, uncertainty of economic environment – 10.1%, financial problems – 9.6%, competitive import – 8.5%, shortage of raw materials – 2.3%, unclear economic laws – 2.2%, and lack of equipment – 1.8%.

Less of the business entities indicated the following as a limiting factor in December 2013, compared to November 2013: insufficient foreign demand, lack of equipment, insufficient domestic demand, competitive import, shortage of raw materials, and shortage of energy, while more of the business entities indicated the following: financial problems and unclear economic laws. As regards other factors, there were no significant changes.

Number of Industrial Workers

Number of workers in the industry in December 2013, compared to December 2012, increased by 2.5%.

Sector analysis points out to increase in the number of workers in the processing industry sector by 3.0%, reduction of the number of workers in the mining and quarrying sector by 0.2%, while no changes were registered in the electricity, gas, steam and air-conditioning supply sector in this regard. Mining and quarrying sector experienced a decline in the number of workers by 0.2%, as a result of the decline in the number of workers in the following branches: mining of coal and lignite – 1.9%, other mining and quarrying – 1.4%, while mining of metal ores experienced 1.9% increase.

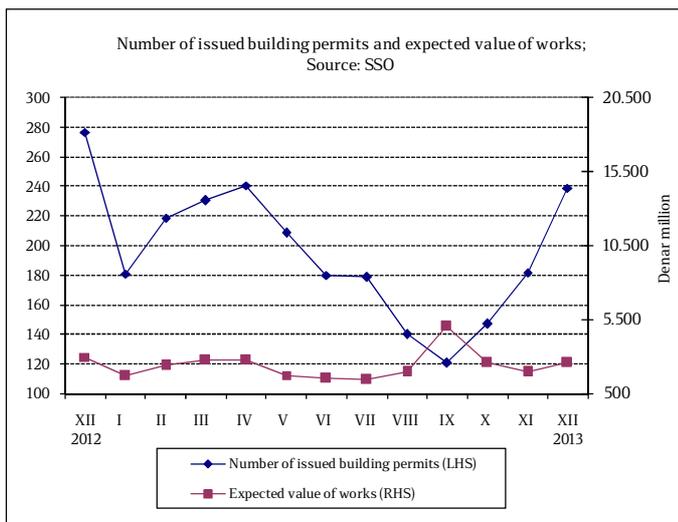
Data on the number of workers in the industry by target groups in December 2013, compared to December 2012, showed an increase in the number of workers at the following groups: consumer durables – 7.2%, consumer non-durables – 3.1% and intermediary goods, except energy – 2.7%, while decrease was registered at the energy group – 0.9%. As for the capital goods group, number of workers remained at the same level.

Number of Issued Building Permits and Envisaged Value of Facilities

In December 2013, 239 building permits were issued, dropping by 13.7% compared to the same month in 2012. Total number of issued building permits compared to November 2013, when 182 permits were issued, increased by 31.3%.

Envisaged value of the facilities, according to the issued building permits in December, amounted to Denar 2,548 million, being by 14.1% less compared to December 2012. Compared to the previous month in 2013, value of facilities surged by 30.1%.

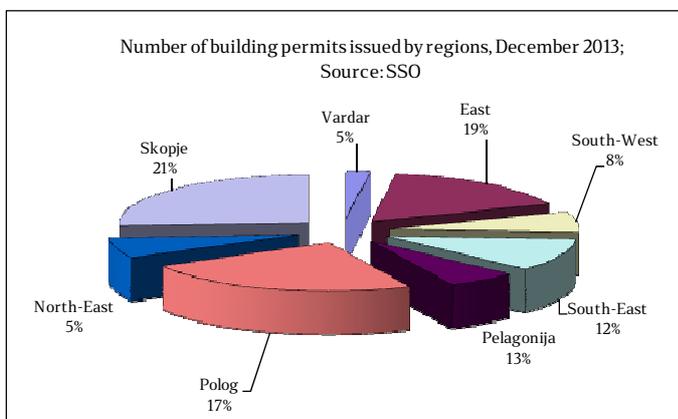
Analyzed by types of facilities, out of the total number of issued building permits, 195 (or 81.6%) were intended for buildings, 21 (or 8.8%) for civil engineering structures and 23 (or 9.6%) for reconstruction facilities.



Analyzed by types of investors, out of total 239 issued building permits, natural persons were investors in 185 facilities (or 77.4%), while business entities were investors in 54 facilities (or 22.6%).

In December 2013, construction of 336 flats was envisaged, with total usable area of 33,017 m². Number of envisaged flats for construction declined by 42.8% compared to the same month in 2012, and by 18.8% compared to November 2013.

Analyzed by regions, in December 2013, most building permits were issued in the Skopje region, 50 in total, 39 permits out of which were issued to natural persons as investors, while 11 permits were issued to business entities as investors. Least building permits were issued in the Southwestern region, 11 permits in total, all of which were issued to natural persons as investors.



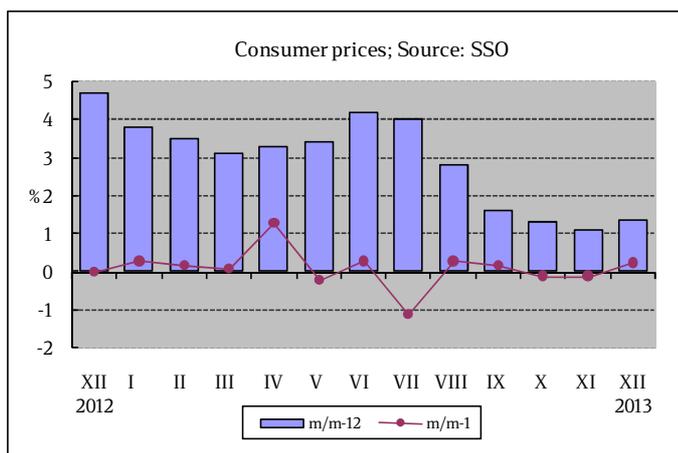
Analyzed on cumulative basis, in the period January - December 2013, most building permits were issued in the Skopje region, 614 in total, 440 permits out of which were issued to natural persons as investors, while 174 permits were issued to business entities as investors. Least building permits were issued in the Southwestern region, 136 permits in total, 115 permits out of which were issued to natural persons as investors, while 21 permits were issued to business entities as investors.

Inflation

Annual inflation rate in December 2013, measured according to the CPI index, amounted to 1.4%. Average inflation rate in the period January - December 2013 increased by 2.8% (2.9% increase in the first eleven months of the year).

On annual basis, food category, accounting for the most in the CPI index, experienced 1.8% increase. Highest annual increase of prices in December was seen at the hygiene and health category by 5.1%. Increase of prices was registered in the following categories: tobacco and beverages – 3.8%, restaurants and hotels – 2.7%, clothing and footwear – 2.5% and administrative and financial services – 0.6%. Prices in housing category reduced by 1.9%, as a result of the drop in prices in the sub-category heating and lighting by 3.3%. Decline of prices was also registered in the means of transport and services – 0.4%, while prices in the culture and entertainment category remained unchanged.

Inflation rate in December, compared to the previous month, grew by 0.3%. Prices in the food category increased by 0.6%, mainly as a result of the higher prices of vegetables. Monthly increase of prices in the means of transport and services was 0.3%, mainly as a result of the increased prices of liquid fuels and oils. Increase of prices of 0.1% was



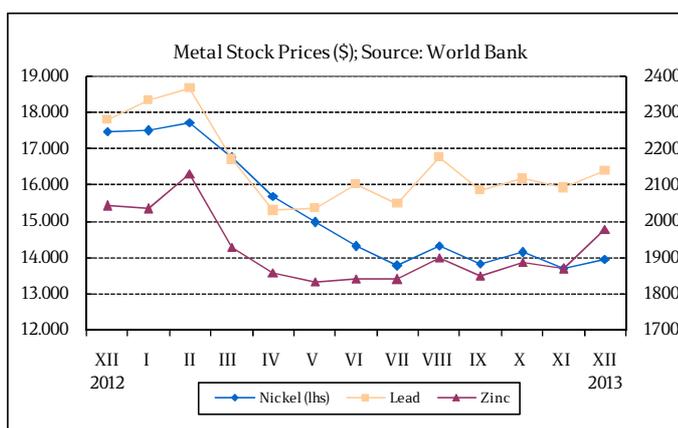
registered in the clothing and footwear category, hygiene and health category and culture and entertainment category. Prices remained unchanged in the following categories: housing and administrative and financial services. Decline of prices on monthly basis was registered at the following categories: restaurants and hotels and tobacco and beverages by 0.4% and 0.2% respectively.

Retail prices in December 2013, compared to December 2012, were higher by 0.7%. Compared to the previous month, retail prices were higher by 0.4%. Average increase of retail prices amounted to 1.3% in the period January - December 2013.

Stock Market Prices

In December 2013, (Brent) crude oil price on the global stock markets grew by 2.4%, compared to the previous month, reached the price of US\$ 110.7 per barrel. Compared to December 2012, oil price was lower by 0.9%. Price of natural gas in December increased by 7.7% compared to the previous month.

As regards metal products, nickel, as product with high share in the Macedonian export, was traded at an average price of US\$ 13,925 for a metric ton (\$/mt) in December, being a monthly price increase by 1.8%. Compared to December 2012, nickel price was lower by around 20%. As regards base



metals, in December, there was monthly price increase at zinc by 5.8%, lead by 2.3% and copper by 2%, while monthly decrease of price was seen at aluminum and tin by 0.5% and 0.3% respectively. Price of iron ore in December experienced monthly decline of 0.4%. Monthly decline of prices was also observed at precious metals. Hence, price of gold dropped by 4.3%, price of platinum and silver declined by 4.5% and by 5.2% respectively.

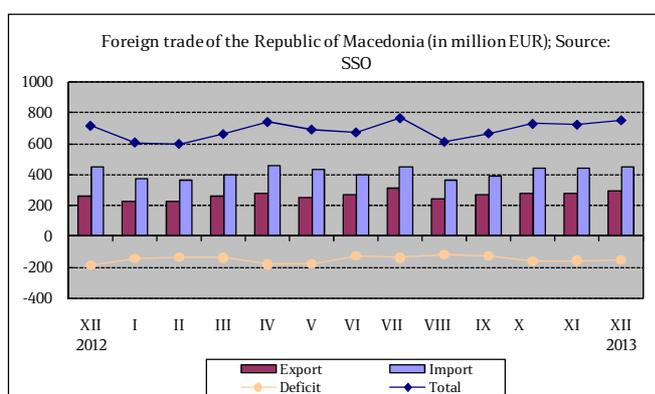
In December 2013, compared to November 2013, price of wheat on the global stock markets dropped by 5%, while price of corn experienced 0.9% decline. Price of lamb's meat registered monthly growth of 1.7% in December.

2. Foreign Trade

Total foreign trade in 2013, compared to 2012, grew by 0.1%.

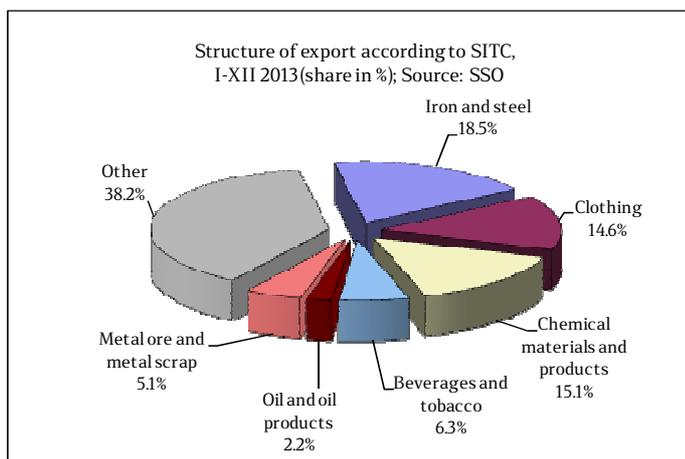
Export

In 2013, physical output of export dropped by 13.0% compared to 2012, while value of exported goods amounted to EUR 3,211.8 million, surging by 3.2% (EUR 98.3 million) compared to 2012.



Analyzed on monthly basis, in December 2013, compared to the previous month, export increased by 6.3%.

Seasonally adjusted trend of export in December 2013 increased by 4.3% on monthly basis, pointing out to positive effects of the seasonal factor (2.0 p.p.) on the export in December.



Main groups of goods (according to SITC) having the biggest share in export in 2013 were the following: iron and steel

-18.5%, chemical materials and products - 15.1%, clothing - 14.6%, beverages and tobacco - 6.3%, metal ore and metal scrap - 5.1% and oil and oil products - 2.2%. These six groups of products comprised 61.8% of the total export of the country.

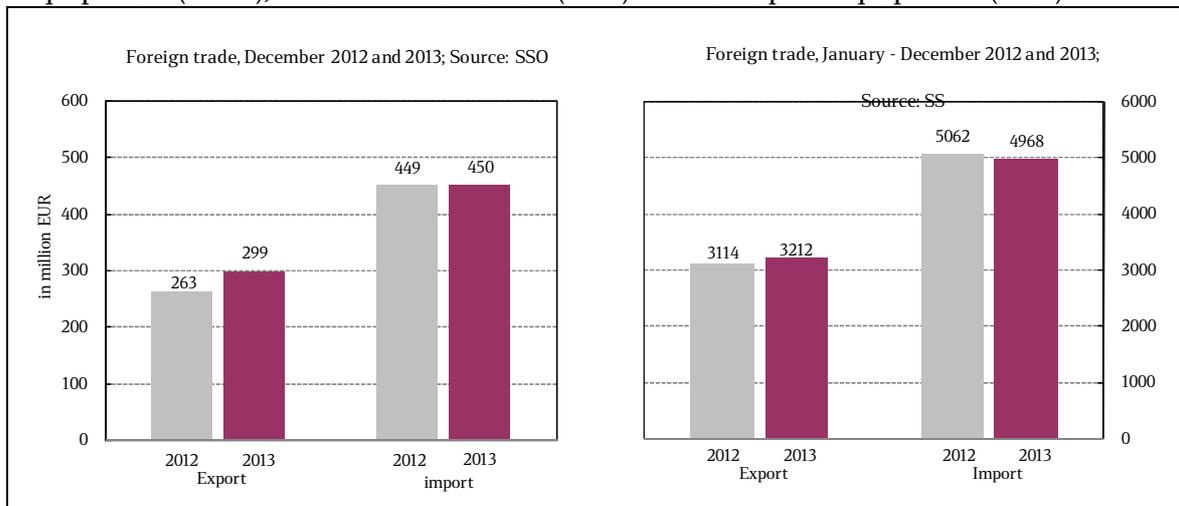
| Export of iron and steel*) | | | | |
|----------------------------|------------|------------|-------------------|--------|
| | I-XII 2012 | I-XII 2013 | Balance 2013-2012 | % rate |
| 000 T | 638.8 | 594.1 | -44.7 | -7.0 |
| EUR mil. | 649.1 | 593.2 | -55.9 | -8.6 |
| \$ mil. | 834.2 | 787.7 | -46.5 | -5.6 |

*)Previous data

| Import of iron and steel*) | | | | |
|----------------------------|------------|------------|-------------------|--------|
| | I-XII 2012 | I-XII 2013 | Balance 2013-2012 | % rate |
| 000 T | 551.0 | 557.0 | 5.9 | 1.1 |
| EUR mil. | 288.1 | 274.6 | -13.5 | -4.7 |
| \$ mil. | 370.0 | 364.6 | -5.4 | -1.5 |

*)Previous data

In 2013, observed by economic purpose, following products were the most exported: goods for industrial procurement (52.3%), followed by consumer goods (22.1%), food and beverages (10.9%), products for investments without transport equipment (10.3%), fuels and lubricants (2.2%) and transport equipment (2.2%).



Analyzed by tariffs, following products were the most exported: catalysts with precious metals or precious metal compounds as active substance; ferronickel; filtering or purifying machinery and apparatus for other gases by a catalytic process; unmanufactured tobacco; men's shirts of cotton; ferosilicium; boards, plates, stands, tables, cabinets and others; hot rolled flat products of iron or non-alloyed steel of width of 600 mm or more; lead ore and concentrates; cooper ore and concentrates; pharmaceuticals put up in measured doses; and others.

Import

Imported quantities of goods in 2013 dropped by 9.8%, compared to the previous year, while their value amounted to EUR 4,968.4 million, decreasing by 1.8% (EUR 93.3 million) compared to 2012.

Analyzed on monthly basis, in December 2013, import increased by 2.5%, compared to the previous month.

| Export of oil and oil products*) | | | | |
|----------------------------------|------------|------------|-------------------|--------|
| | I-XII 2012 | I-XII 2013 | Balance 2013-2012 | % rate |
| 000 T | 228.8 | 142.6 | -86.2 | -37.7 |
| EUR mil. | 160.5 | 71.5 | -89.0 | -55.5 |
| \$ mil. | 206.8 | 94.7 | -112.1 | -54.2 |

*)Previous data

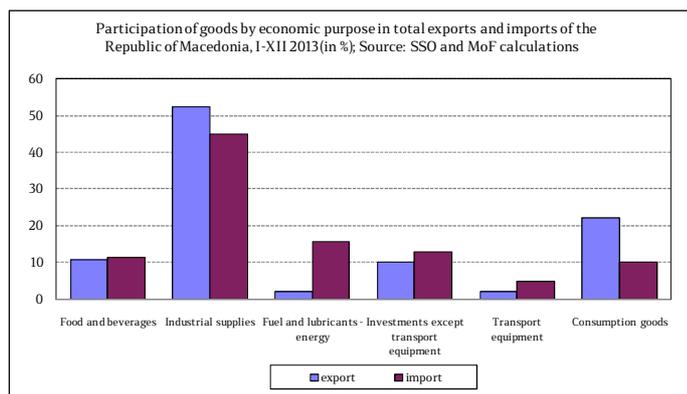
| Import of oil and oil products*) | | | | |
|----------------------------------|------------|------------|-------------------|--------|
| | I-XII 2012 | I-XII 2013 | Balance 2013-2012 | % rate |
| .000 T | 1,124.3 | 913.4 | -210.9 | -18.8 |
| EUR mil. | 753.2 | 561.2 | -192.0 | -25.5 |
| \$ mil. | 969.2 | 745.0 | -224.2 | -23.1 |

*)Previous data

Seasonally adjusted trend of import in December 2013 surged by 0.6% on monthly basis, pointing out to positive effects of the seasonal factor (1.9 p.p.) on the import in December.

In addition to oil, non-ferrous metals, yarn, fabrics and textile products, iron and steel, electrical machines, devices and spare parts, road vehicles, industrial machines and spare parts, etc., accounted for most of the import of goods (according to groups of SITC) in 2013.

Observed by economic purpose, the following products were the most imported in 2013: goods for industrial procurement (44.9%), followed by fuels and lubricants (15.8%), products for investments without transport equipment (12.9%), food and beverages (11.4%), consumer goods (10.1%) and transport equipment (4.8%).



Most imported products by tariffs were the following: gas oils for other purpose with a sulphur content up to 0.001% by weight; platinum, unwrought or in powder form; electricity; palladium: unwrought or in powder form; nickel ore and concentrates; motor gasoline with Octane number (RON) of 98 or more, but less than 98; hot rolled products with thickness less than 3 mm; coating means (colours and varnishes); heating oils; pharmaceuticals put up in measured doses; and similar.

| Export of chemical products*) | | | | |
|-------------------------------|------------|------------|-------------------|--------|
| | I-XII 2012 | I-XII 2013 | Balance 2013-2012 | % rate |
| .000 T | 20.9 | 7.6 | -13.3 | -63.7 |
| EUR mil. | 388.1 | 484.0 | 95.9 | 24.7 |
| \$ mil. | 500.1 | 643.5 | 143.5 | 28.7 |

*)Previous data

| Import of chemical products*) | | | | |
|-------------------------------|------------|------------|-------------------|--------|
| | I-XII 2012 | I-XII 2013 | Balance 2013-2012 | % rate |
| .000 T | 33.2 | 31.6 | -1.6 | -4.7 |
| EUR mil. | 68.5 | 71.6 | 3.1 | 4.5 |
| \$ mil. | 88.3 | 94.8 | 6.5 | 7.4 |

*)Previous data

Trade Balance

In 2013, trade deficit narrowed by EUR 191.6 million or by 9.8% compared to last year.

If we analyze the balance of export and import of goods by economic purpose, the deficit narrowing is a result of combined effect from: narrowing of negative balance in the trade of fuels and lubricants, food and beverages, transport equipment, investments without transport equipment and consumer goods, while the widened negative balance in the trade of goods for industrial procurement acted in opposite direction.

It is worth mentioning that starting January 2013, revised economic grouping of countries is applied, prepared according to the Geonomenclature of EU - Nomenclature of countries and territories for the external trade statistics of the Union and statistics of trade between Member States.

Analyzed according to economic groups of countries, in 2013, compared to 2012, export surged at the following groups: EU 28, EFTA and Community of Independent States, while drop was recorded at the following groups: Organization of countries-exporters of oil and oil derivatives, Western Balkans, North American Free Trade Zone and Asia-Pacific Economic Cooperation Organization. Export to the EU surged by 18.7% on annual basis, while as for Western Balkan countries, it declined by 14.5%.

In 2013, foreign trade of the Republic of with the European Union (EU 28), in relation to the previous year, increased by 10.8%, whereby share of trade with EU in the total foreign trade increased by 4.4 p.p., accounting for 66.6%. Export of goods to the European Union (EU 28) accounted for 72.6% in the total export of the Republic of Macedonia, while import of goods participated with 62.6%.

In 2013, 81.6% of the trade deficit of the country was realized in the trade with Great Britain, Greece, China, Serbia and Turkey, followed by: Russia, Italy, Slovenia, Austria, Switzerland and others. Surplus was realized in the trade with Germany, Kosovo and Bosnia and Herzegovina.

Currency Structure

Observed by currency structure, 74.1% of the trade in 2013 was realized in euros, and compared to 2012, it surged by 3.5 percentage points. On export and import side, euro accounted for 84.0% and 67.7%, respectively, whereby share of the euro in export was higher by 4.6 p.p., while share of the euro in import increased by 2.5 p.p. compared to 2012.

| Foreign trade of the Republic of Macedonia (by currency); calculations: MoF | | | | | | | | | | | | |
|---|------------|--------------------|--|-----------------|----------------|------------|--------------------|--|-----------------|----------------|-----------------------------------|--|
| import | I-XII 2012 | | | | | I-XII 2013 | | | | | 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 | 2,921.7 | 3,299,222,827 | 61.5013 | 202,906,492,877 | 65.2 | 3,024.6 | 3,361,194,539 | 61.6131 | 207,093,615,241 | 67.7 | 61,971,711 | 1.9 |
| USD | 3,175.9 | 1,691,448,200 | 46.9413 | 79,398,777,399 | 25.5 | 2,469.6 | 1,387,673,457 | 44.9929 | 62,435,453,073 | 20.4 | -303,774,743 | -18.0 |
| GBP | 2.8 | 331,303,277 | 75.7020 | 25,080,320,659 | 8.1 | 4.0 | 436,145,180 | 73.6574 | 32,125,320,007 | 10.5 | 104,841,904 | 31.6 |
| EUR+USD+GBP | 6,100.5 | | | 307,385,590,935 | 90.7 | 5,498.2 | | | 301,654,388,321 | 98.6 | | |
| tot. import | 6,110.4 | | | 311,315,757,859 | 100.0 | 5,509.1 | | | 306,067,472,311 | 100.0 | | -1.7 |

Source: SSO and NBRM

3. Fiscal Sector

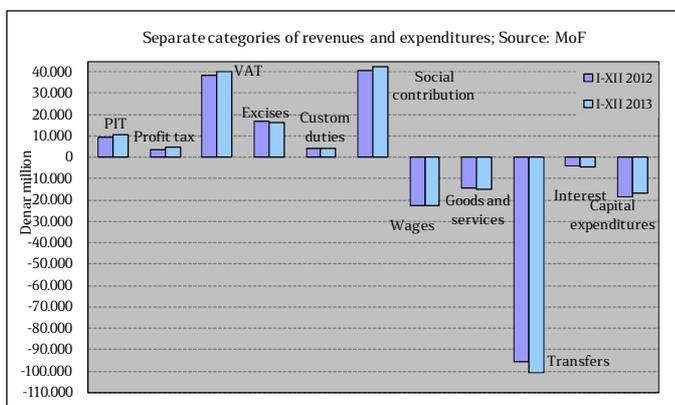
Budget Revenues

In the period January - December 2013, total budget revenues reached an amount of Denar 140,267 million, i.e. 28.4% of GDP, which was by 1.6% higher in relation to the same period in 2012.

Tax revenues in the past twelve months were realized in the amount of Denar 77,478 million, i.e. 15.7% of GDP, being higher by 2.5% in relation to the same period in 2012.

Revenues on the basis of value added tax were realized in the amount of Denar 39,835 million, whereby share of VAT in total tax revenues in this period continued to be dominant, amounting to 51.4%. Revenues on the basis of excises were realized in the amount of Denar 15,990 million (participating with 20.6% in the tax revenues). Hence, revenues realized on the basis of these two taxes amounted to Denar 55,825 million or 72.1% of total tax revenues (11.3% of GDP). Thereby, VAT collection amounted to Denar 58,055 million on gross basis, Denar 18,221 million out of which was refunded to taxpayers (gross collection was lower by 2.1%, while VAT refund was lower by 12.6% compared to the same period in 2012).

As for VAT structure, VAT share was the highest when importing, decreasing by 8.0%, while VAT on the basis of sales in the country increased by 10.5%, share of VAT grants was insignificant, observing higher performance by 74.0%. Observed by certain categories of taxes, revenues on the basis of personal income tax were realized in the amount of Denar 10,254 million, increasing by 7.3% on annual basis, whereby revenues on the basis of tax on salaries and other personal earnings accounted for 70.9% of the personal income tax, revenues on the basis of contractual agreement accounted for 8.3%, revenues on the basis of capital accounted for 6.4% and revenues on the basis of property and property rights accounted for 3.9%. Compared to the same period in 2012, profit tax revenues in the



amount of Denar 4,421 million surged by 21.1%, being mainly a result of the tax collected on the basis of paid dividends and other profit distribution and revenues collected on the basis of calculated interest on profit tax and revenues collected on the basis of additional payments on the basis of tax balance. At the same time, drop of revenues was observed at advanced payments. VAT revenues increased by 3.6% (being by 2.6 p.p. more compared to the increase in the previous eleven-month period), while excise revenues declined, i.e. they experienced lower performance by 3.7% (being less by 1.8 p.p. compared to the previous cumulative amount). Revenues on the basis of customs duties were realized in the amount of Denar 4,255 million, increasing by 4.6%. Revenues on the basis of other taxes amounted to Denar 2,723 million, declining by 17.0%.

Non-tax revenues amounted to Denar 11,867 million and, in relation to the same period in 2012, they dropped by 5.7% (these revenues are revenues on the basis of profit realized by the public institutions, revenues collected on the basis of administrative fees and fines, concessions, etc.).

Capital revenues realized on the basis of sale of construction land, flats and dividends reached Denar 3,382 million, showing a decline of 23.7% compared to the same period in the previous year.

Revenues collected on the basis of foreign donations from international multilateral and bilateral cooperation amounted to Denar 3,451 million, being by 13.3% more compared to the same period last year.

Collection of social contributions amounted to Denar 42,458 million (8.6% of GDP), being higher by 4.2% compared to the same period in 2012, whereby collection of health insurance contributions increased by 4.4%, collection of pension and disability insurance contributions surged by 4.1%, while collection of employment contributions rose by 3.2%.

Budget Expenditures

In the period January - December 2013, total budget expenditures amounted to Denar 159,520 million, i.e. 32.3% of GDP, which was higher by 2.4% compared to 2012.

As regards the structure of realized total expenditures, current expenditures increased by 4.3% in relation to the same period in 2012. Transfers amounting to Denar 100,836 million (20.4% of GDP) accounted for the most in the current expenditure items, followed by expenditure related to salaries and allowances - Denar 22,588 million. With respect to total budget expenditures, expenditures related to wages and salaries and allowances accounted for 14.2% and, compared to 2012, they decreased by 0.6%. Expenditures related to goods and services amounted to Denar 14,879 million, increasing by 1.6% compared to the same period in 2012.

Transfers increased by 5.6% compared to the same period in 2012, participating with 63.2% in the total expenditures. Social transfers amounted to Denar 74,242 million, increasing by 6.6% and participating with 46.5% in the total expenditures. Transfers towards the Pension and Disability Insurance Fund accounted for the most of the social transfers, amounting to Denar 44,945 million, increasing by 9.9% compared to the same period in 2012 and accounting for 28.2% of the total expenditures. Category other transfers, which includes transfers to local government units, accounted for 16.0% in the total expenditures, i.e. they surged by 3.8% compared to the same period in 2012. Block grants to local government units, amounting to Denar 14,094 million, were higher by 0.6% compared to the twelve months in the previous year. Subsidies and transfers were higher by 7.2%.

Interest was collected in the amount of Denar 4,606 million, being by 9.2% more compared to the same period in 2012. Such increase was mainly due to the payment of due interest on the basis of domestic borrowing. Costs related to interest on the basis of domestic borrowing increased by 52.7%, while costs related to interest on the basis of foreign borrowing dropped by 10.3%.

During the analyzed period, funds for capital expenditures were realized in the amount of Denar 16,611 million, participating with 10.4% in the structure of total expenditures, i.e. they accounted for 3.4% of GDP.

Budget Balance

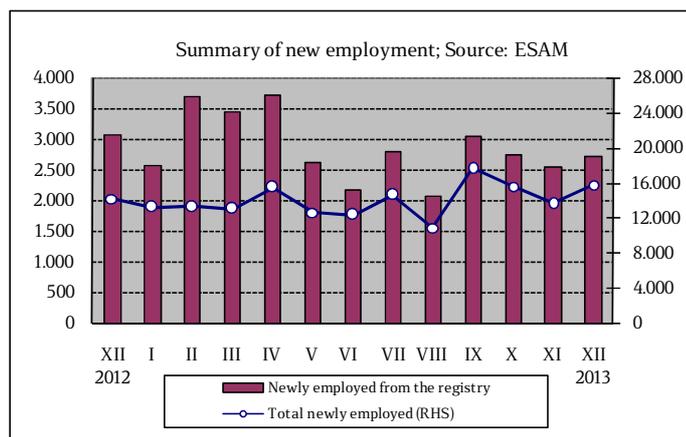
In the period January - December 2013, state budget deficit reached the amount of Denar 19,253 million, accounting for 3.9% of GDP, while central budget deficit amounted to Denar 18,131 million and accounted for 3.7% of GDP.

4. Social Sector

Number of Newly Employed and Registered Unemployed Persons in EARM¹

In the period January - December 2013, Employment Agency of the Republic of Macedonia registered total of 167,575 new employments. 46.1% 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 2012, number of newly employed persons dropped by 14.0%.

During December, 15,726 new employments were registered, 17.2% out of which were from the unemployed records. Outflow of persons from the Registry of the Employment Agency Registry of the Republic of Macedonia amounted to 4,566 persons in December, 57.4% out of which were new



employments. In December 2013, 5,487 persons were registered as inflow to the Agency, 50.7% out of which were persons whose employment was terminated. Thus, in December 2013, 96,200 persons were registered as unemployed, while number of other unemployed persons accounted for 121,658.

Major percentage of the unemployed, i.e. 72.9%, came from urban areas (cities), whereby 56.6% were men. Analyzed by education structure, major part, i.e. 43.8% of unemployed persons were without education, primary education or incomplete secondary education, 35.3% was with complete secondary education, while only 20.9% completed community college or higher education level. Observed by age, majority of the unemployed persons or 53.1% fall in the category of 25-49 years of age. According to the time they waited for a job, 43.4% of the unemployed persons wait for employment from 1 to 7 years, while 16.7% wait for employment for 8 years and more.

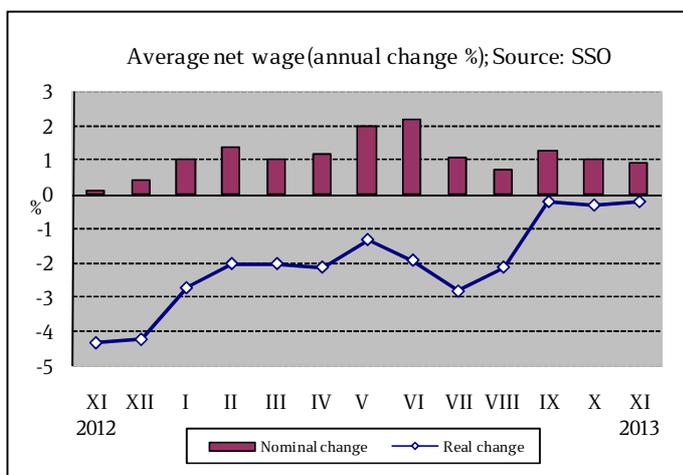
Salaries

According to the published data of the State Statistical Office, average monthly paid gross salary per employee in November 2013 amounted to Denar 30,902, while average monthly paid net salary amounted to Denar 21,054.

¹ Modifications and amendments to the Law on Employment and Unemployment Insurance ("Official Gazette of the Republic of Macedonia", no. 114/2012) referred to changes as regards records on unemployed persons. This Law sets the basis for establishing and keeping two records: records on unemployed persons and records on other persons applying to the Employment Agency.

On monthly basis, in November 2013, average gross salary decreased by 1.0% in nominal terms, being lower by 0.9% in real terms. Average net salary in the same period dropped by 0.9% in nominal terms, decreasing by 0.8% in real terms.

In November 2013, compared to November 2012, average gross salary increased by 1.0% in nominal terms, while it was lower by 0.1% in real terms. Average net salary was higher by 0.9% in nominal terms, decreasing by 0.2% in real terms.

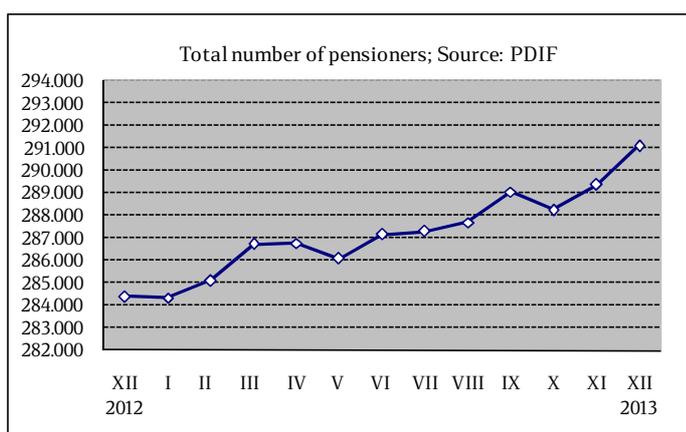


On cumulative basis, in the period January - November 2013, compared to the same period in 2012, average gross salary and net salary grew by 1.3% in nominal terms, while they were lower by 1.6% in real terms.

The highest increase of average monthly gross and net salary per employee in November 2013, compared to November 2012, was recorded in the following sectors: electricity, gas, steam and air-conditioning supply (6.3% gross salary and 6.2% net salary), transport and storage (6.1% gross salary and 5.3% net salary) and activities related to health and social protection (3.6% gross salary and 3.6% net salary).

Reduction of average monthly paid gross salary per employee, compared to the previous month, was registered in the following sectors: mining and quarrying (9.6% gross salary and 8.8% net salary), water supply, sewerage, waste management and remediation activities (6.4% gross salary and 6.3% net salary) and construction (4.5% gross salary and 4.2% net salary).

Employees who did not receive salary in November 2013 accounted for 2.0%, being lower by 0.2 p.p. compared to the same month in the previous year, while compared to October 2013, percentage of employees who did not receive salary was higher by 0.7 p.p..



Pensioners

In December 2013, 291,118 pensioners were registered at the Pension and Disability Insurance Fund, being an increase by 2.4% compared to the same month in 2012. Number of pension beneficiaries increased by 1,754 persons in relation to

November 2013. 58.2% out of the total number of pensioners are beneficiaries of old-age pension, 26.5% of survival pension and 15.3% of disability pension.

In December 2013, Denar 3,343.94 million was spent for payment of pensions, accounting for 52.4% of the total social transfers².

Average pension in December 2013 amounted to Denar 11,819, increasing by 8.1% on annual basis. Ratio between the average pension and the average paid salary in November 2013 (the most recent available data) was 56.1%.

5. Monetary Sector

Primary Money

In December 2013, primary money³ showed annual decline of 4.4% on annual basis (decline of 1.2% in the past month), as a result of the drop of total liquid assets of banks by 11%. Ready money in circulation increased by 4.4%.

On monthly basis, primary money increased by 5.4%, as a result of the increase of ready money in circulation by 8.1% and of total liquid assets of banks by 3.1%.

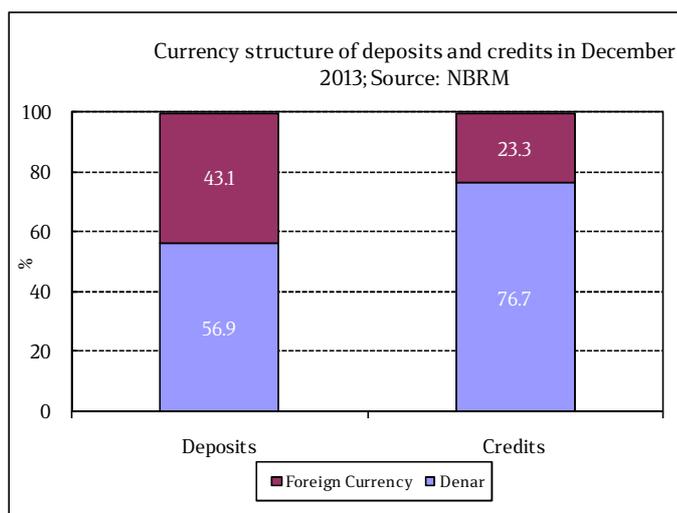
In December 2013, in conditions of stable strands, National Bank of the Republic of Macedonia decided to retain the interest rate on central bank bills at the level of 3.25%, taking into account the expected effects from the implemented monetary loosening in the past period.

Deposit Potential

Total deposit potential of banks⁴ increased by 1.2% in December 2013 on monthly basis, as a result of the increase of deposits of private companies by 1.8% and deposits of household by 1.6%.

From currency point of view, Denar deposits surged by 2.7%, while foreign currency deposits declined by 0.8%.

On annual basis, total deposits experienced growth of 6.1% in December 2013, compared to 6.2% growth in November 2013. From the point of view of sectors, deposits of households experienced an increase of 6.7%, while deposits of enterprises recorded intensified annual growth of 4.1%.



² Category social transfers includes pensions, unemployment benefit, social assistance and expenditures for health protection.

³ 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).

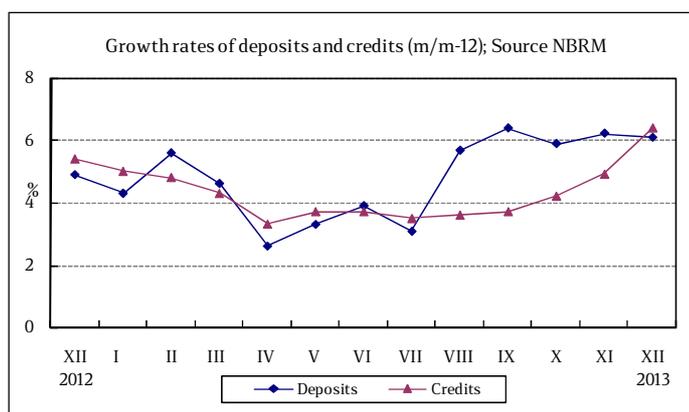
⁴ Starting January 2009, deposits include calculated interest.

From currency point of view, Denar deposits experienced an intensified growth of 10.7% in December 2013, while foreign currency deposits increased by 0.6%. According to maturity, long-term deposits increased by 27.8%, while short-term deposits declined by 2.7%.

Bank Credits

In December 2013, total credits of banks to the private sector registered an intensified growth of 1.7% on monthly basis (compared to 1% increase in November), in conditions of increase of both credits to households and private enterprises of 0.7% and 2.4% respectively. From the point of view of the currency structure, both Denar and foreign currency deposits grew by 1.7%.

On annual basis, intensified growth of 6.4% was registered at total credits in December (growth in November accounted for 4.9%). According to currency, new crediting was fully in domestic currency. In fact, Denar credits experienced an intensified growth of 8.6% (growth in November accounted for 6.6%), while foreign currency credits dropped by 0.2%. Analyzed according to the sector, credits to enterprises registered growth of 3.7%, while credits to households surged by 10.2%. As regards maturity, long-term credits increased by 6.3% on annual basis, while short-term credits were higher by 2.9%.

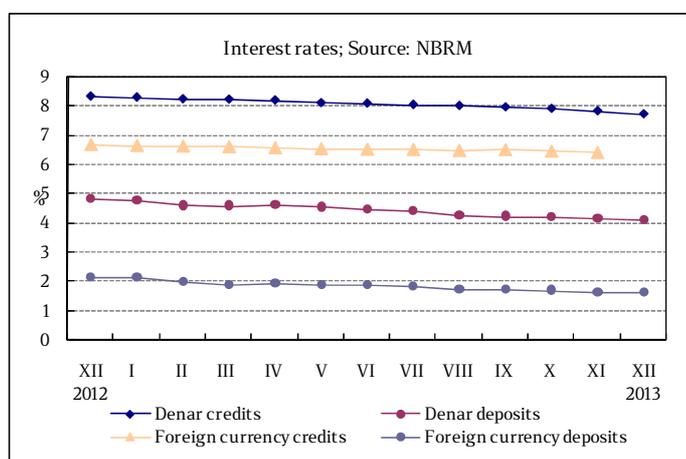


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Interest Rates of Deposit Banks

Total interest rate on credits was 7.5% in December 2013, being a decrease in relation to the previous month. However, it was lower by 0.5 p.p. compared to the same month 2012. Interest rate on Denar credits accounted for 7.7%, being by 0.1 p.p. lower in relation to the previous month, while interest rate on foreign currency credits decreased by 0.1 p.p., accounting for 6.4%.

Total interest rate on credits was 2.8%, remaining unchanged compared to the previous month. In relation to December 2012, interest rate was lower by 0.5 p.p.. Interest rates on Denar and foreign currency deposits remained unchanged on monthly basis, accounting for 4.1% and 1.6% respectively.



Foreign Currency

Reserves

Gross foreign currency reserves at the end of December 2013 amounted to EUR 1,993 million and, compared to the previous month, they were lower by EUR 27.5 million, while compared to December 2012, they were lower by EUR 200.3 million.

Ministry of Finance

Macroeconomic Policy Department

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