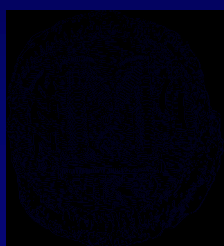


**National Bank
of the Republic of Macedonia**

**Quarterly
Report**

I / 2004



May 2004

CONTENTS

Macroeconomic Developments in the Republic of Macedonia in the first quarter of 2004	3
Important economic events and amendments to the legal regulations in the first quarter of 2004	4
I. Economic Developments in the Republic of Macedonia	5
1.1. Prices	6
1.2. Economic activity	7
1.3. Other macroeconomic developments	11
II. Monetary developments in the Republic of Macedonia	14
2.1. Monetary regulation	15
2.2. Monetary aggregates	19
2.3. Banks' placements and interest rates	23
III. Foreign Trade and Foreign Exchange Developments in the Republic of Macedonia	26
3.1. Foreign trade	27
3.2. Foreign exchange developments	29
3.3. External debt	33
Statistical appendix	35



Macroeconomic Developments in the Republic of Macedonia in the first quarter of 2004

The first quarter of 2004 was characterized with the slow recovery of the economic activity, low inflation rate, further increase in the banks' deposit potential and their credit activity.

The positive monthly growth rates of the industrial output in February (10.5%) and March (17.5%), as a positive signal for acceleration of the economic activity, only partially compensated the fall in the output activity in January (monthly decline of 42%). Such monthly pace caused an average fall in the industrial output in the first quarter of 26.1%. The developments in the foreign trade in the first quarter fully correspond with the monthly pace of the industrial output (monthly fall in the trade in January and increment in February and March, 2004). Thus positive structural movements were registered in the trade aimed at relatively faster increase in the export (of 22.1%) relative to the import of goods (of 13.8%) and consequently, higher import export coverage (59.3%).

In the first quarter of 2004, the National Bank of the Republic of Macedonia successfully maintained the stability of the intermediary target (the exchange rate of the Denar against the Euro), and consequently, the ultimate monetary goal – the price stability. Thus the exchange rate of the Denar against the Euro was preserved at a level of Denar 61.3 per one Euro, while the average inflation rate (measured through the consumer price index) equalled 1.6%. The higher consumer prices in the first quarter of 2004 primarily reflect the increase in the prices caused by non-monetary factors (such as the effect of the changes in the value added tax in April 2003).

In the January - March 2004 period, the monetary policy was conducted in environment of refrained fiscal policy (in accordance with the expected outflows in the next quarter) and higher demand for foreign exchange funds on the foreign exchange market in the first half of the quarter. The expectations for higher degree of expansiveness of the fiscal policy in the second quarter and the need for stabilizing the movements on the foreign exchange market resulted in change in the design of the monetary policy instruments in mid-February 2004. Thus on February 18, 2004, the NBRM reintroduced "volume tender" auctions and 8% fixed interest rate on the CB bills with maturity of 28 days. Also, CB bills with maturity of 7 days were introduced with an interest rate of 5%. The effects of the change in the NBRM interest rate policy were particularly evident in March, when a considerable amount of additional liquid funds was withdrawn through the CB bills auctions. The change in the design of the monetary policy contributed towards stabilizing the developments on the foreign exchange market, which resulted in cumulative net-purchase of foreign exchange by the NBRM.

In the first quarter of 2004, the movements of the monetary aggregates were under the influence of the usual normalization of the demand for currency in circulation and the increase in the total deposit potential of the banking system (by 2.5%). Thus given the drop in the currency in circulation (of 8.6%) and the transaction deposits (by 5.6%), the money supply M1 registered quarterly decrease of 7.2%. The decline in the money supply M1 was reflected on the broader monetary aggregates M2 and M4. Notwithstanding the higher level of short-term deposits, the money supply M2 went down by 1.2%, while the more intensive increase in the long-term potential of the banks led to more moderate fall of the money supply M4 (of 0.7%).

The upward trend in the total placements (which started in May, 2003) continued in the first quarter of 2004 (quarterly increase of 4.8%). The foreign exchange placements registered more intensive increment relative to the Denar placements (growth of 8.7% and 4.8%, respectively). The further increase in the lending to private sector is partially due also to the lower credit price. Thus the average weighted lending interest rate (on short-term Denar credits) declined by 2.1 percentage points in the first quarter of 2004, and reduced to 12.5%, with inconsiderable change being registered in the average banks' deposit interest rate. The asymmetrical changes in the average lending and the average deposit interest rate resulted in narrowing of the interest rate margin by 1.9 percentage points (with the interest rate margin being reduced to 6 percentage points).



Important economic events and amendments to the legal regulations in the first quarter of 2004

- ❖ *At the beginning of January 2004, the application of the new provisions for trade liberalization started, which derive from the commitments arising from the accession of the Republic of Macedonia to the World Trade Organization (WTO) and in line with the application of the Interim Agreement with the EU. The issue is the abolishment of the excise and reduction of the customs duties for import of goods originating from the EU (passenger vehicles, spirits, coffee, exotic fruits, furniture, fish, etc. – about 3,000 products in total).*
- ❖ *On January 20, the first treasury bills auction (Government short-term securities with maturity of 3 months) was carried out, with the NBRM having a role of an agent for issuing the treasury bills. An amount of Denar 100 million was offered at the auction, with an average interest rate on the treasury bills of 7.53% being reached, where the demand exceeded the offered amount.*
- ❖ *On January 27, the retail prices of oil derivatives went up by 3.17% - average increase in the prices of all types of oil derivatives – ("Official Gazette of the Republic of Macedonia" no. 3/2004).*
- ❖ *On February 10, the retail prices of oil derivatives reduced by 2.46% (by 1 Denar per litre for all types of oil derivatives, on average), and the production prices dropped by 4.47% ("Official Gazette of the Republic of Macedonia" no. 5/2004).*
- ❖ *In February, the NBRM changed the layout of the CB bills auctions. Thus the "volume tender" auction has been used since February 18 (with unrestricted amount and fixed interest rate), where CB bills with 7 days of maturity were introduced. The interest rate on CB bills with 7 and 28 days of maturity equalled 5% and 8%, respectively.*
- ❖ *In the second ten-day period of March 2004, the price of crude oil per barrel on the New York Stock Exchange reached its maximum in the last 13 years. The concern about the effect of the planned decline in the production of crude oil in the OPEC member states on the crude oil delivery to the US oil refineries led to upward trend of the prices. Thus on March 17, the price of 1 barrel of crude oil (delivered in April) reached US Dollar 38.18 per barrel.*
- ❖ *On March 8, the Government Program for Supporting Entrepreneurship and Creating Competitiveness in the Small Businesses in the Republic of Macedonia for 2004 entered into force. This program sets forth the use of a portion of the funds for supporting small-size and medium-size enterprises in the amount of Denar 40 million, provided from the Budget of the Republic of Macedonia.*
- ❖ *The Government of the Republic of Macedonia adopted a Decision on increasing the prices of oil derivatives, which started to be applied on March 9 (in accordance with the increase in the price of the crude oil on the international markets). The prices of oil derivatives of the refineries are higher by 8.85% on average, while the retail prices went up by 4.5%.*
- ❖ *On March 22, the application of the Republic of Macedonia for EU membership was formally submitted in Dublin.*
- ❖ *The Government of the Republic of Macedonia adopted a Decision on increasing retail prices of oil derivatives, which are higher by 2.24% on average. The Decision started to be applied on March 23, 2004.*



I. Economic Developments in the Republic of Macedonia

Basic indicators for the economic developments

		Amount	Month /	Month / same	Period / same
			previous month	month of the	period of the
		in %			
Costs of living	III.2004	-	-0.1	1.4	1.6
Retail prices	III.2004	-	0.0	1.5	1.7
Prices of producers of industrial products	III.2004	-	-0.1	-1.8	-1.8
Industrial output	III.2004	-	17.5	-32.9	-26.1
Total trade turnover	II.2004*		11.3	22.1	19.9
Completed construction works	II.2004*		-28.1	43.2	5.3
		in denars			
Nominal average net paid wage	II.2004*	12,102	2.0	6.1	3.5
Real average net paid wage	II.2004*	-	2.9	4.6	1.8
Total number of employed	II.2004*		0.0	-3.9	-3.8
		in Denar million			
Budget revenues	III.2004	5,538	36.5	16.5	10.3
Budget expenditures	III.2004	4,741	12.6	12.8	5.2

Source: State Statistical Office of the Republic of Macedonia and Ministry of Finance

* Last available data from State Statistical Office of the Republic of Macedonia



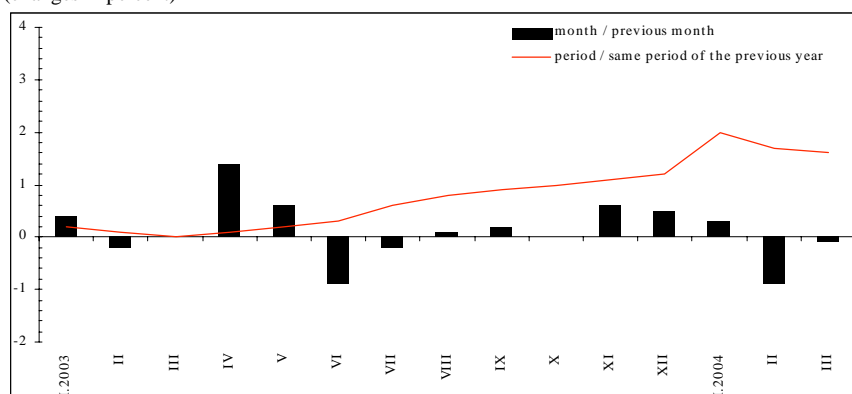
1.1.

Prices

In the first quarter of 2004, the average rate of inflation equaled 1.6%...

In the first quarter of 2004, the average rate of inflation measured through the consumer price index equaled 1.6%. Almost all categories comprising the structure of the consumer prices registered increased costs. Thus significant increase of 4.5% was registered in the costs of housing, within which a remarkable increase accounted for the costs of fuel and lighting (of 5.6%), which reflect the increase in the price of thermal energy and electricity¹. An increase is also registered in the costs of hygiene and health (6.4%), which is mainly due to the increased retail prices of hygiene products and medicines². On the other hand, a decrease was registered only in the costs of food of 0.2%, given the lower prices of industrial food products. Observed by the structure, in the first quarter of 2004, the main cause for the increase in the consumer prices were the costs of services, which registered a remarkable increase (4.9%), contrary to the moderate increase in the costs of goods (1.0%). The monthly analysis of the consumer prices indicates movements of deflation in February and March 2004 (of 0.9% and 0.1%, respectively), while in January, rate of inflation of 0.3% was registered.

Chart 1
Costs of living
(changes in percent)



...given the average increase in the retail prices of 1.7%

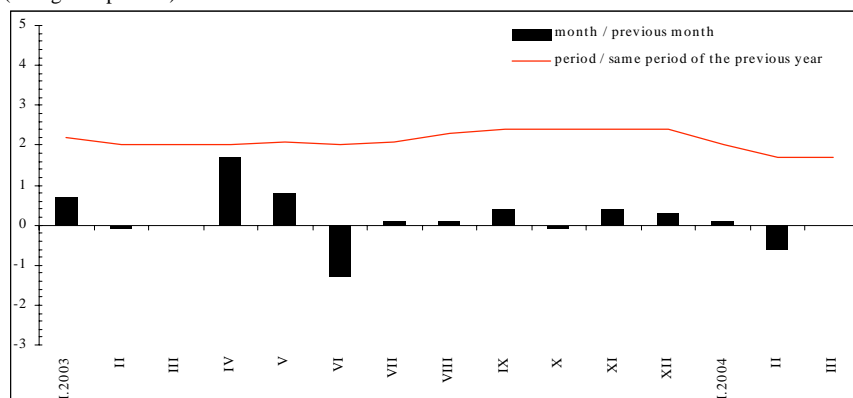
The consumer prices commonly follow the movement of the retail prices. Thus, in the first quarter of 2004, the retail prices registered an average increase of 1.7%, caused by the increased prices of agricultural products and non-food industrial products (by 2.6% and 1.1%, respectively). On the other hand, the industrial food products and beverages registered a decrease (of 2.1% and 0.5%, respectively). Structurally observed, the prices of services significantly increased in the first quarter of 2004 (by 4.3%), while the prices of goods registered moderate increase (of 0.4%). Observed from the aspect of the monthly dynamics, in January and in March 2004, the retail prices remained unchanged, while in February they dropped by 0.6% (as a result of the lower prices of agricultural products and beverages).

¹ Since July 2003, in compliance with the changes to the VAT, the price of electricity increased for the households, as well.

² It is mainly due to the changes in the structure of the value added tax in April 2003, since when the general rate of 19% decreased to 18% and certain categories of products and services have been taxed from the privileged rate of 5% with the general rate of 18%.



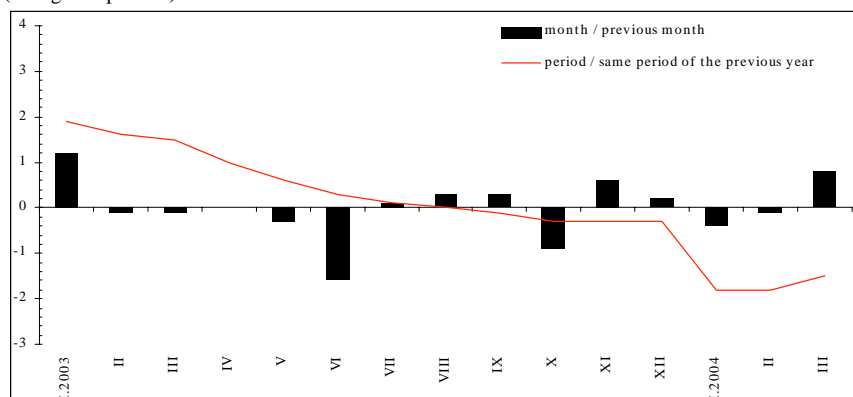
Chart 2
Retail prices
(changes in percent)



In the first quarter of 2004, the prices of the producers of industrial products decreased by 1.5%

In the first quarter of 2004, compared to the same period of 2003, the prices of the producers of industrial products were lower by 1.5%. Analyzed by the main groups of industrial products, the largest decrease (6.4%) was registered in the prices of the producers of energy, reflecting the decrease in the prices of the producers of oil derivatives. A decrease of 3.1% was registered in the prices of the producers of non-durable consumption goods, mainly as a result of the lower prices of the producers of food products and beverages. A decrease in the prices was also registered in the producers of capital products, while increase was recorded only in the prices of the producers of intermediary products (except energy). The prices of the producers of durable consumption goods remained unchanged. Observed by sectors, the prices of the producers in the processing industry dropped by 1.9%, while the prices in the sector "mining and quarrying" increased by 0.6%. The prices in the sector "electricity, gas and water supply" remained unchanged. From the aspect of the monthly dynamics, in January and February 2004, a decrease in the prices of the producers of industrial products (of 0.4% and 0.1%, respectively) was registered, while in March they increased by 0.8%.

Chart 3
Prices of producers of industrial products
(changes in percent)



1.2.

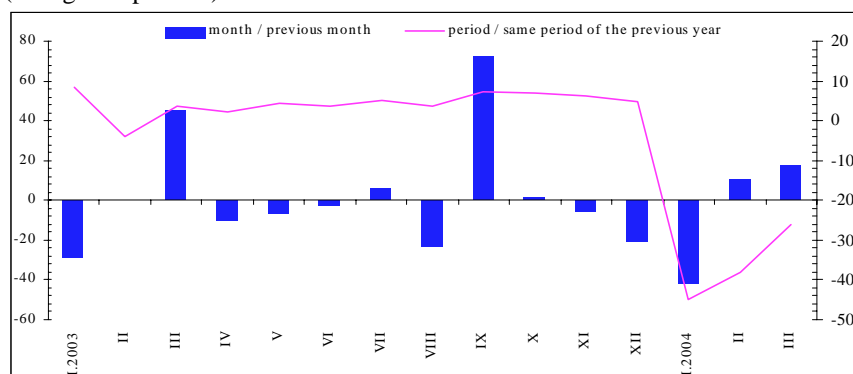
Economic activity

In the first quarter of 2004, the industrial output registered an average decline of 26.1%

In the first quarter of 2004, compared to the same period of 2003, the industrial output in the Republic of Macedonia registered a decrease of 26.1%. The reduced industrial output is registered in almost all main groups of industrial products, with the most significant decrease being registered in the production of durable consumption goods and capital products (of 55.8% and 50.1%,

respectively). Significant decline (47.9%) was registered in the production of intermediary products (except energy), which mainly reflects the reduced production in the sector "mining and quarrying", while the production of energy declined by 1.5%. On the other hand, an increase was registered only in the production of non-durable consumption goods (7.2%), as a result of the increase in the production of food products and beverages. Analyzed by sectors, a reduced production was recorded in all three sectors of industry. Thus the processing industry (the share of which in the total output equals 89.9%) registered a decrease of 27.1%, the sector "mining and quarrying" registered a decrease of 62.4%, while the decrease in the sector "supply of electricity, gas and water" equals 3.9%. In the processing industry, 16 out of 20 branches registered reduced production, with the most significant decrease being registered in the production of basic metals (66.5%). From the aspect of the monthly dynamics, in January 2004, reduced production by 42% was registered, while identical movements were recorded in February and March (increase of 10.5% and 17.5%, respectively). In March, the production in all three sectors increased, with the most intensive increase being recorded in the sector "mining and quarrying" (60.9%).

Chart 4
Industrial output
(changes in percent)



Business tendencies in the processing industry

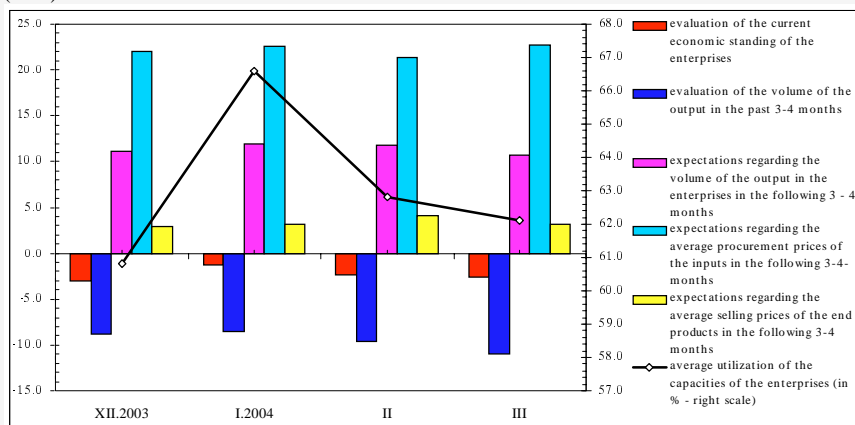
In April 2001, the State Statistical Office of the Republic of Macedonia commenced with conducting of a monthly statistical survey on the business tendencies. The survey is made on a sample of 200 enterprises from the processing industry, with the qualitative data about the main economic indicators in the enterprises and the expectations being provided by the managers of the enterprises. The results of the survey carried out in March 2004, are the following:

- The monthly estimation of the economic situation of the enterprises in the first three months of 2004 is gradually deteriorating. However, in March 2004 compared to the end of 2003, an insignificant improvement in the total economic situation is registered;
- The estimation of the volume of the output in the last three to four months is unfavourable (since the beginning of 2004, it has been deteriorating in each following month). Also, the expectations for increasing the volume of the output in the following three to four months are also unfavourable (in March 2004, they were lower than expected in December 2003);
- More important factors that are limiting the output in the first three months of 2004 are: the insufficient foreign and domestic demand, the financial problems the enterprises are facing with, the uncertain economic environment, as well as the lack of raw materials for the output;



- In the following period, the selected enterprises, subject to survey expect an increase in the average prices of the inputs, while the average selling prices of the finished products shall decline;
- The average utilisation of the enterprises' capacity in March 2004 is 61.2%, which represents a moderate increase in comparison with December 2003.

Estimations and expectations of the selected enterprises, subject to survey
(in %)



*Source: State Statistical Office of the Republic of Macedonia

In the first two months of 2004, an average decrease in the total value of sold agricultural products of 26.8% was registered...

In the first two months of 2004³, the total value of the sold agricultural products from the agricultural enterprises' and collectives' own production equaled Denar 349 million, which is a decrease of 26.8%, compared to the same period of 2003. The largest decrease was registered in the sale of leather and wool, industrial plants, poultry and eggs, cattle and alcoholic beverages. On the other hand, high monthly increase was registered in the sale of garden plants and cereals. Relative to the monthly dynamics, higher value of sold agricultural products was registered in January 2004, while monthly decrease of 28.3% was registered in February.

...while the value of the purchased agricultural products from the individual agricultural enterprises increased by 4.2%

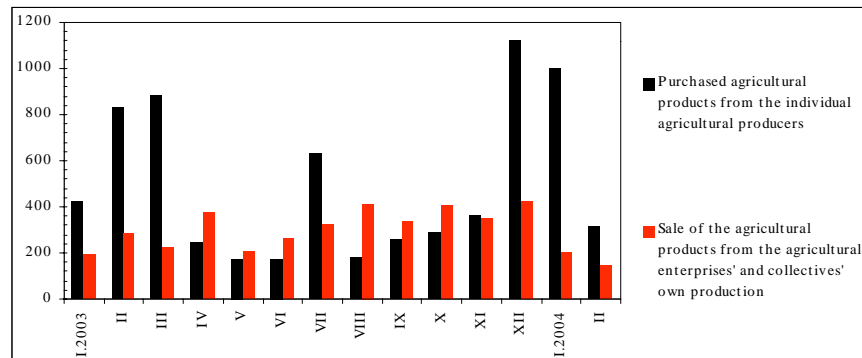
In the first two months of 2004⁴, the total value of the purchased agricultural products from the individual agricultural producers equaled Denar 1,315 million which is an increase of 4.2% compared to the same period in 2003. The increase was registered in the purchase of leather and wool, garden plants and industrial plants, while the purchase of fruits and grapes, cattle and cereals registered a decrease. Analyzed on a monthly basis, in January 2004, high amount of purchased agricultural products is registered, while in February, the purchase is significantly reduced (decline of 68.7% on a monthly basis is registered).

³ Last available data of the State Statistical Office

⁴ Last available data of the State Statistical Office



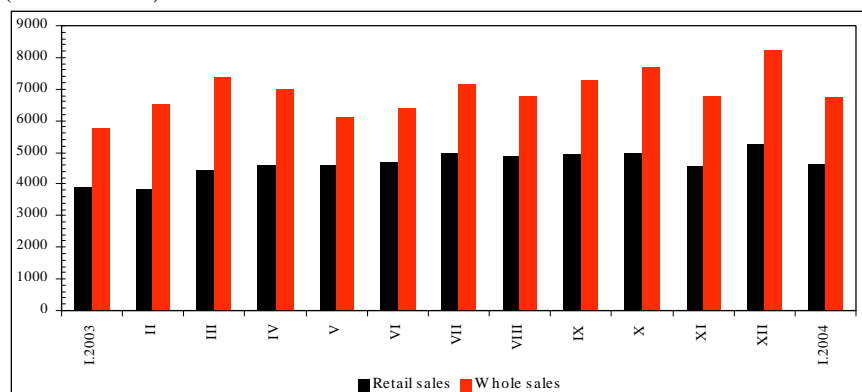
Chart 5
Sale and purchase of agricultural products
(in Denar million)



In the first two months of 2004, a remarkable average increase in the total trade turnover of 19.9% was registered

In the first two months of 2004⁵, the total trade turnover reached Denar 24.027 million, which is a monthly increase of 19.9%. The increase was registered in both components (registered average increase in the retail sale and wholesale of 20.7% and 19.4%, respectively). Observed from the aspect of monthly dynamics, in January 2004, the total trade turnover declined (given the registered drop in the retail sale and wholesale turnover). In February, the total trade turnover increased (11.3%), mainly as a result of the increased wholesale turnover (17.4%), given the moderate increase in the retail sale turnover (2.5%).

Chart 6
Trade turnover
(in Denar million)



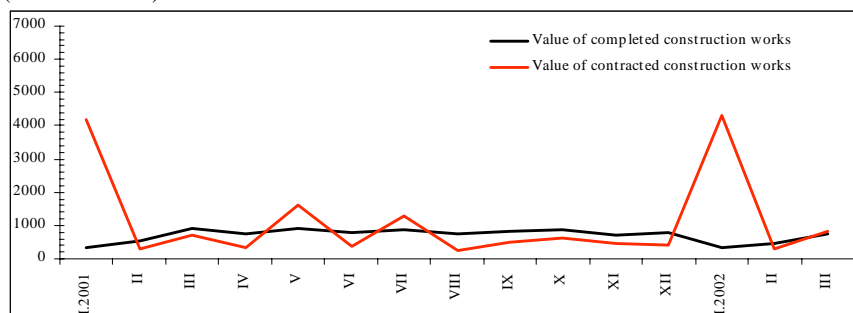
In the first two months of 2004, an average increase in the value of the completed construction works was registered

In the first two months of 2004, the total value of the contracted construction works equaled Denar 4,717 million, which is a decline of 17.2% compared to the same period of 2003. In January 2004 (which is common for this month), high amount of contracted construction works was registered. The high comparison base resulted in a monthly drop in the value of the contracted construction works in February. On the other hand, the value of the completed construction works in the first two months of 2004 increased by 5.3% compared to the same period of the previous year, and reached Denar 767 million. From the aspect of the monthly dynamics, in the first month of 2004, reduced construction activity is registered, while in February, the value of the completed construction works registered a significant increase (registered monthly increase of 75%).

⁵ Last available data of the State Statistical Office



Chart 7
Contracted and completed construction works
(in Denar million)



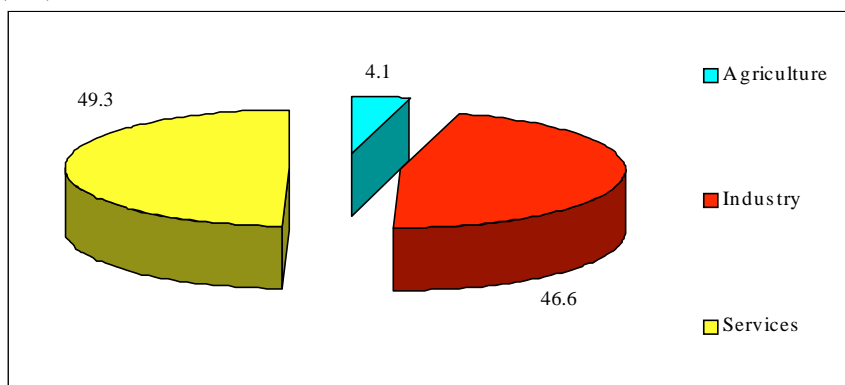
1.3.

Other macroeconomic developments

Reduced number of employed persons in the first two months of 2004 was registered...

In the first two months of 2004⁶, the average number of employed persons equaled 266.932 persons, which is lower by 3.8% compared to the same period of 2003. A decrease in the number of employed persons is registered in all three sectors of the economy, with the largest fall being recorded in "agriculture" (7.5%). The employment in "industry" (which employs 124,418 persons, or 46.6% of the total number of employed persons) is lower by 5.7%. The number of employed persons in the processing industry (with a dominant share in the total number of employed persons of 31.3%) decreased by 5.1%. In the sector "services" (comprising the largest percentage of the employment of 49.3%) the number of employed persons dropped by 1.6%.

Chart 8
Employment by sectors
(in %)



...given the registered increase in the average wage

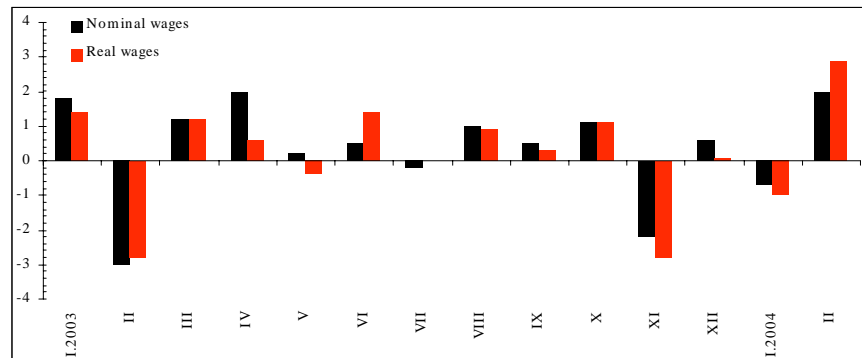
In the first two months of 2004⁷, the average net paid wage per worker in the Republic of Macedonia equaled Denar 11,983 which is an increase in nominal and real terms (of 3.5% and 1.8%, respectively), with the highest average increase being registered in agriculture (9.1%). The average wage in industry increased by 3.3% (the highest increase in the wages was registered in the processing industry). The average increase in the wages in the sector "services" equaled 2.6%.

⁶ Last available data of the State Statistical Office

⁷ Last available data of the State Statistical Office

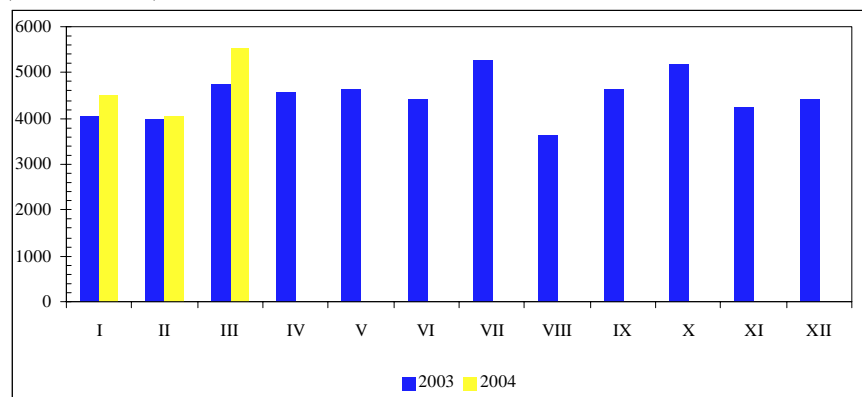


Chart 9
Average net wage per worker
(changes in percent, on previous month)



The positive trend of decreasing the portion of the employees that did not receive wages for the respective month started in December 2003. In February 2004, the number of employees that did not receive wage represents 22.5% of the total number of employed persons (which is by 2.2 percentage points less compared to the end of the previous year).

Chart 10
Total revenues of the central budget
(in Denar million)

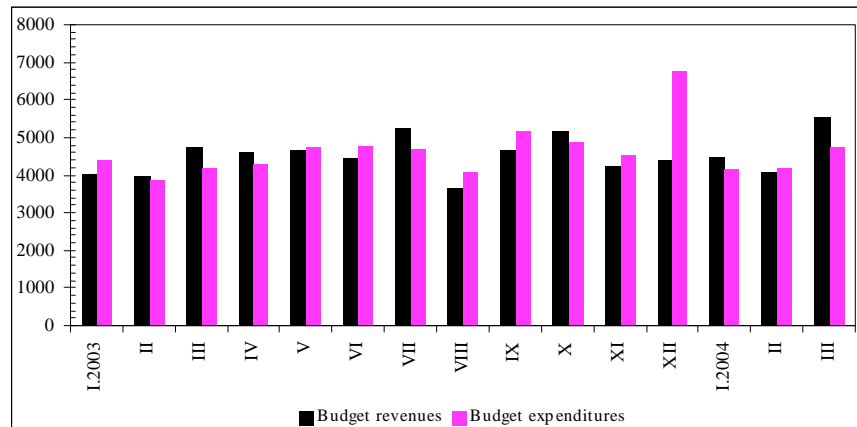


Cumulative increase in the budget revenues of 10.3% in the first quarter of 2004 was registered...

Analyzed on cumulative basis, in the first quarter of 2004 the public revenues reached Denar 21.208 million. The revenues of the central Government equaled Denar 14,102 million, which is an increase of 10.3% compared to the same period of 2003. An increase was registered in all revenue categories, with the most significant one being recorded in the non-tax revenues (as a result of the high inflow based on dividends). The tax revenues increased by 5.7%, as a result of the increase in the revenues originating from the personal income tax, the value-added tax, the excises, and other taxes. On the other hand, a cumulative decrease was registered in the revenues originating from the profit tax and customs.



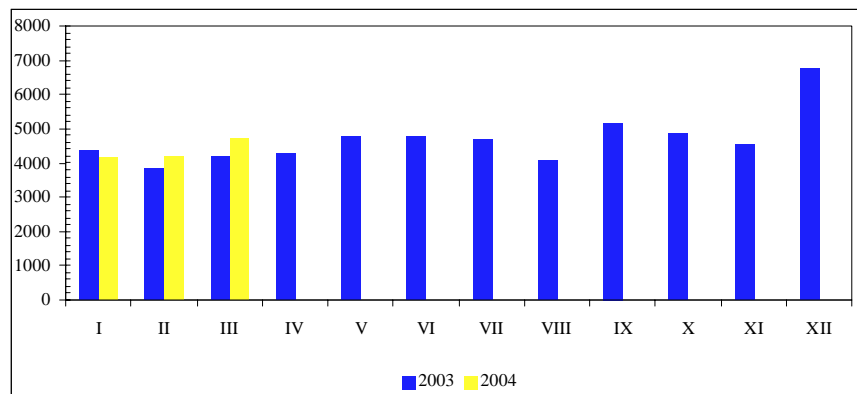
Chart 11
Total revenues and expenditures of the central budget
(in Denar million)



...while the budget expenditures increased by 5.2%

In the first quarter of 2004, the public expenditures equaled Denar 20,562 million, Denar 13,100 of which are expenditures of the Central Government (5.2% more in comparison with the first quarter of 2003, given the simultaneous increase in the current and capital expenditures).

Chart 11
Total expenditures of the central budget
(in Denar million)





II. Monetary developments in the Republic of Macedonia

Basic monetary indicators

	31.03.2004	Monthly changes		Annual changes	
	In Denar million	In Denar million	in %	In Denar million	in %
Reserve money	15,434	-2,818	-15.4	403	2.7
Currency in circulation	12,953	-1,224	-8.6	1,092	9.2
Demand deposits	12,360	-736	-5.6	1,727	16.2
Money supply M1	25,313	-1,960	-7.2	2,819	12.5
Money supply M2 - denar	40,486	-2,355	-5.5	6,308	18.5
Money supply M2	75,141	-887	-1.2	13,422	21.7
Money supply M4	80,207	-606	-0.7	13,620	20.5
Total deposits	54,894	1,354	2.5	10,801	24.5
Short - term	49,828	1,073	2.2	10,603	27.0
Long - term	5,066	281	5.9	198	4.1
In Denar	18,680	-385	-2.0	3,441	22.6
In foreign currency	36,214	1,739	5.0	7,360	25.5
Total banks' placements	53,004	2,562	5.1	9,129	20.8
In Denar	45,128	2,047	4.8	7,552	20.1
In foreign currency	7,876	629	8.7	1,577	25.0
In percentage points					
Average weighted interest rate on the CB bills auctions (on 28 days)	8.00%	1.85		-1.6	
Weighted average money market interest rate	6.52%	0.7		-5.67	
Weighted banks' lending interest rates	12.46%	-2.07		-4.8	
Weighted banks' deposit interest rates	6.48%	-0.21		-2.63	

Source: National Bank of the Republic of Macedonia

**2.1.****Monetary Regulation**

The design of the monetary regulation instruments and the active NBRM interventions on the foreign exchange market contributed to further maintaining of a stable exchange rate and successful maintenance of low and stable inflation rate. Thus in the first quarter, the average exchange rate of the Denar against the Euro remained at about Denar 61.3 per one Euro, and the average inflation rate equaled 1.6%.

The quarterly analysis (March 2004 / December 2003) of the factors that affect the liquidity¹ of the banking system indicates moderate creation of liquidity through the NBRM foreign exchange transactions, while the Denar Government deposits and the CB bills auctions acted towards liquidity withdrawal. In line with the stabilization of the demand for currency in circulation (after the seasonal growth at the end of the year), in the first quarter of 2004, the currency in circulation was directed towards liquidity creation.

Table 1
Reserve money creation and withdrawal

	31.12.2003	Monthly changes in Q1, 2004				31.03.2004
		January	February	March	Total	
Bank liquidity	4,075	-1,226	557	-925	-1,594	2,481
<i>Liquidity creation</i>					<i>1,260</i>	
1. Net foreign assets	42,501	-1,581	5	1,578	2	42,503
2. Currency in circulation	14,177	772	234	218	1,224	12,953
3. Other	78	32	19	-17	34	44
<i>Liquidity withdrawal</i>					<i>-2,854</i>	
1. Net domestic assets	-19,792	-322	24	-1,184	-1,482	-21,274
2. CB' Bills auctions	4,379	-127	275	-1,520	-1,372	5,751

*Lower average daily liquidity
of the banks*

In the first quarter of 2004, the average daily liquidity of the banking system equaled Denar 3,622 million, which is a decrease of Denar 194.9 million, or 5.4% compared to the previous quarter. Taking into account the interest, lower on average, in investing in CB bills and the lower average amount of Government Denar deposits, the negative quarterly dynamics of the average daily liquidity reflects the effect of the foreign exchange transactions, and the demand for currency in circulation which is higher, on average. Regarding the dynamics, the highest average daily amount of liquidity was registered in January 2004 (Denar 3,828.7 million), partially as a continuing effect of the preferences of the banks for cumulating liquidity at the end of the year. The accumulation of funds on the Government Denar account with the NBRM and the foreign exchange transactions resulted in lower average daily level of liquidity (Denar 3,381.7 million) in February. The average liquidity went up in March (Denar 3,655.7 million), solely due to the net-purchase of foreign exchange on the foreign exchange market by the NBRM. At the end of March 2004, the total banks' liquidity amounted to Denar 2,481 million, which is lower by Denar 1,594 million, or by 39.1%, compared to the end of the preceding quarter.

In the first quarter of 2004, the excess liquidity of the banks over the compulsory reserve requirement² (in Denars) equaled 19.2% on average (which is a decrease of 12.5 percentage points compared to the average excess liquidity in the preceding quarter). In this quarter, the percentage of fulfillment of the compulsory reserve requirement was exceptionally stable (19.3% in January and February and 18.9% in March 2004). The quarterly change in the excess liquidity shows positive changes in the area of liquidity management by the

¹ The liquidity of the banks includes the account of the banks with the NBRM and the cash in the vaults.

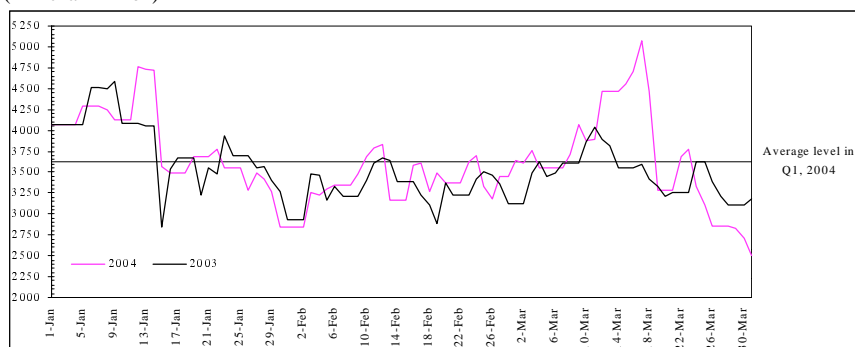
² The period for maintaining (fulfilling) the banks' compulsory reserve requirement covers the period from the 11th in the current month to the 10th in the following month.



banks (although it partially reflects the normalization of the excess liquidity after the seasonal increase at the end of the year).

Chart 13

Daily dynamics of the liquidity of the banks
(in Denar million)



The NBRM interventions on the foreign exchange market acted towards moderate liquidity creation

In line with the accepted exchange rate targeting strategy, in the first quarter of 2004, the NBRM again took an active participation in the foreign exchange market. The higher demand relative to the supply of foreign exchange in the first month of the year resulted in interventions directed towards net-sale of foreign exchange. The gradual stabilization of the demand for foreign exchange (as a partial effect of the changed design of the monetary policy) resulted in net purchase of foreign exchange in February and March. Cumulatively observed, the NBRM intervened with inconsiderable amount of net-purchase of foreign exchange, thus acting towards liquidity creation.

Introduction of short-term Government securities to the Macedonian financial market

The treasury bills are short-term securities issued by the Government, aimed at financing the current deficit in the budget (overcoming the temporary liquidity problems due to the time inconsistency between the public revenues and expenditures).

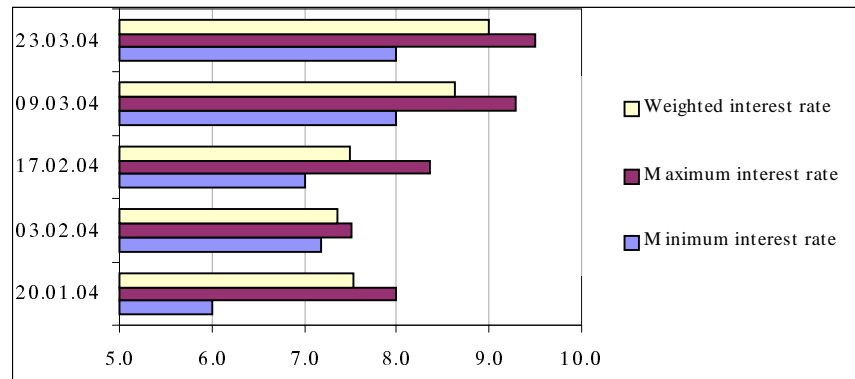
The first treasury bills were issued in the Republic of Macedonia in January 2004. The implementation of this project arises from the need for expanding the sources for budget deficit financing, inducing the development of the financial markets in the Republic of Macedonia, as well as diversifying the securities portfolio. The Government (Ministry of Finance) is the issuer, and the NBRM plays the role of a Government agent.

The treasury bills are issued in domestic currency, in non-material form, i.e. in form of E-bills with maturity of three months. They are issued and paid at a nominal value, and sold at a discounted value.

According to the previously announced calendar, five treasury bills auctions were conducted in the first quarter of 2004. At the first two auctions, the demand for treasury bills was higher relative to the supply (by 1.7 times on average), which resulted in proportional reduction in the interest rate. The permanently higher supply relative to the demand at the next three auctions (by 1.6 times on average) resulted in gradual continuing increase in the interest rate on the short-term Government securities (in the conduct of “interest rate tender” auctions).



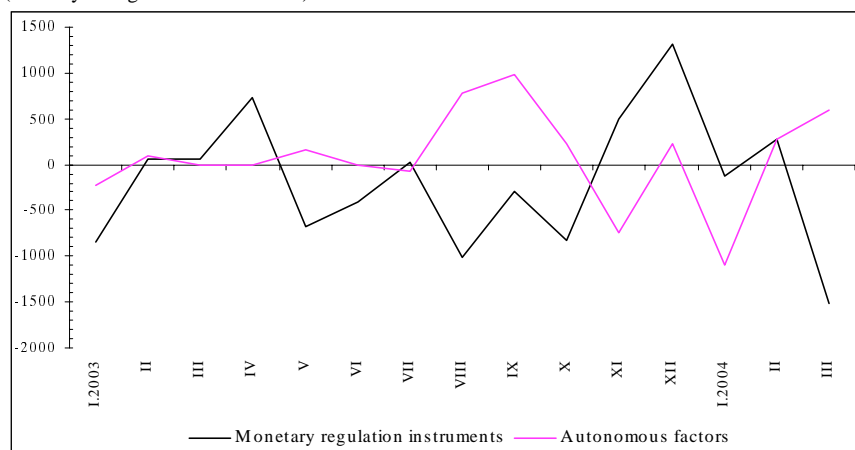
Chart 14
Interest rates on the short-term Government securities auctions
(in %)



Liquidity withdrawal through the Government Denar deposits with the NBRM in the first quarter...

At the end of March 2004 compared to the end of the preceding year, the Government Denar deposits with the NBRM rose by 2.1 times. The intensive quarterly growth partially reflects the low comparison base (considerable outflows from the Government account at the end of the preceding year). This quarter registered continuous cumulation of funds, which corresponds with the higher amount of outflows planned for the next quarter (particularly due to the payment of the regular instalment of a part of the Government bonds for the old foreign exchange savings). In this quarter, additional funds were attracted through the Government short-term securities (in the amount of Denar 534 million on cumulative basis, with the supply exceeding the demand by 12%, on average).

Chart 15
Monetary regulation instruments and autonomous factors of liquidity creation and withdrawal*
(monthly changes in Denar million)



*Positive change – liquidity creation, negative change – liquidity withdrawal

...as well as through the CB bills auctions

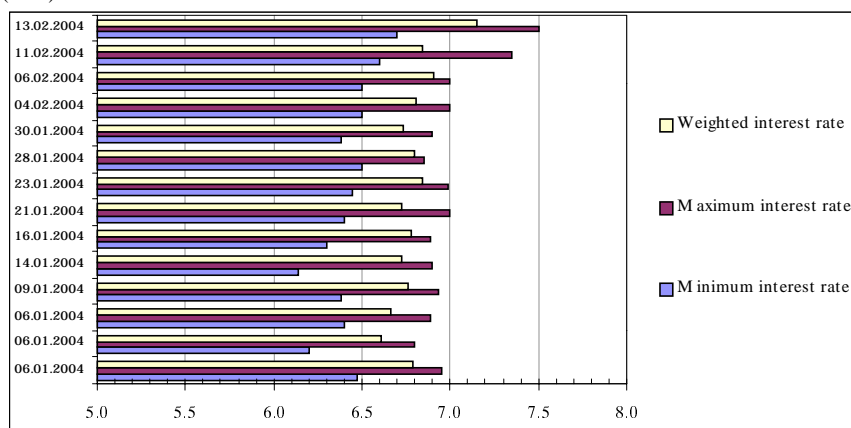
In the first quarter of 2004, the CB bills auctions acted towards withdrawal of liquidity, with the withdrawn liquidity equalling Denar 1,372 million on cumulative basis. The analysis of the dynamics indicates divergence from this trend only in February, when additional liquidity in the amount of Denar 275 million was created through the CB bills. The CB bills auctions layout was changed in this quarter. Thus the “interest rate tender” auctions were conducted by February 18, 2004. In the period of conduct of this type of tender, the CB bills supply was higher relative to the demand by 21.7% on average, which resulted in tendency of increase in the average weighted interest rate (from 6.8% at the beginning of the year to 7.2% at the last “interest rate tender” auction). “Volume tender” auctions and fixed interest rate were introduced in



mid-February. In addition to the CB bills with maturity of 28 days (with 8% interest rate), CB bills with maturity of 7 days (with 5% interest rate) were introduced. Given the changed design of the basic monetary regulation instrument, larger interest in investing in CB bills was registered (reflected through the significant amount of withdrawn liquid funds in March 2004).

Chart 16

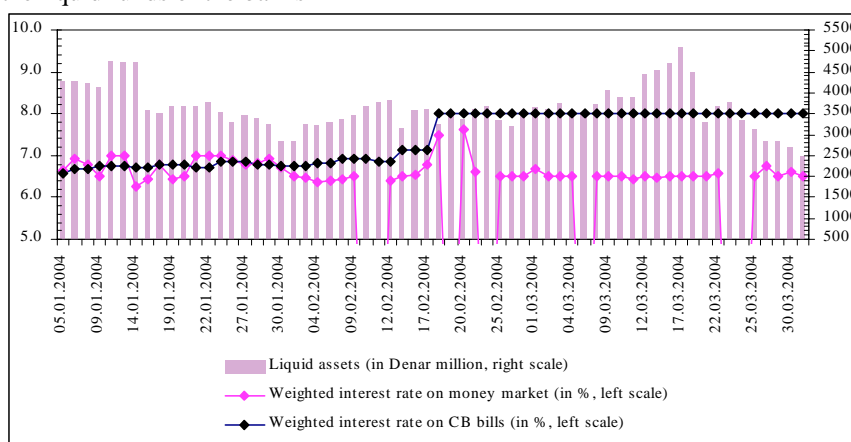
Interest rates on the CB bills auctions ("interest rate tender" auction)
(in %)



In the first quarter of 2004, the average turnover of liquid funds equalled Denar 944.4 million, which is an increase of 34.2% compared to the average of the preceding quarter (with the highest turnover registered in February). The supply of liquid funds was permanently exceeding the demand, thus being higher by 1.4 times, on average. Consequently, reduction was also registered in the average weighted interest rate on the Money Market, which in the first quarter equalled 6.6% on average, (registering fall of 0.4 percentage points compared to the previous quarter). With respect to the transactions maturity, the transactions with maturity of up to three days dominate (in the first quarter, their average share in the total turnover equalled 84%). In March 2004, the total turnover on the Money Market equalled Denar 674 million, which compared to the end of the preceding year is by 24.5% lower. In March 2004, the direct bilateral trading of the banks in liquid funds amounted to Denar 877.8 million (quarterly fall of 53.1%).

Chart 17

Movements of the interest rates on the Money Market, the CB bills auctions and the liquid funds of the banks*



*In some days of the month, the Money Market registers no transactions and interest rate.

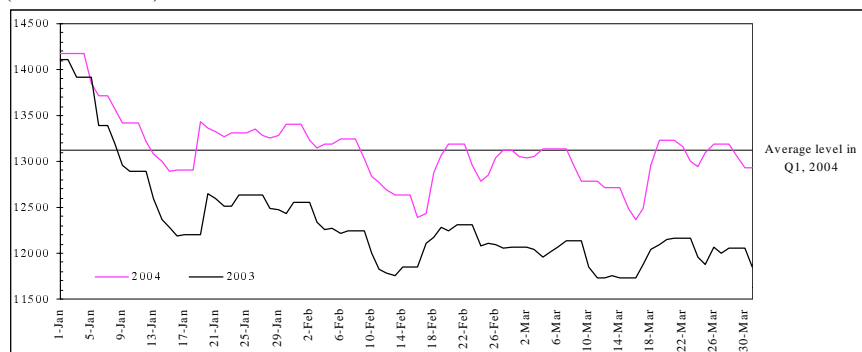
*Accelerated activity on the
institutionalized Money Market*



Stabilized demand for currency in circulation

The currency in circulation was by 8.6% lower on quarterly basis, reflecting the common stabilization of the demand for currency in circulation (after the intensive seasonal increase at the end of the year). In this quarter, the currency in circulation was continuously dropping. With respect to the average daily amount, the highest level was registered in January (Denar 13,422.6 million, which is in line with the existing seasonal effect), while in February and March, the average level was relatively stable (Denar 12,983.1 million and Denar 12,964.4 million, respectively). Apart from February, the daily dynamics of the currency in circulation was affected by the regular factors. The divergence in February is due to the changes in the amount and the dynamics of the payment of wages of a part of the employees in the education sector (due to the strike of a part of the employees in the education sector).

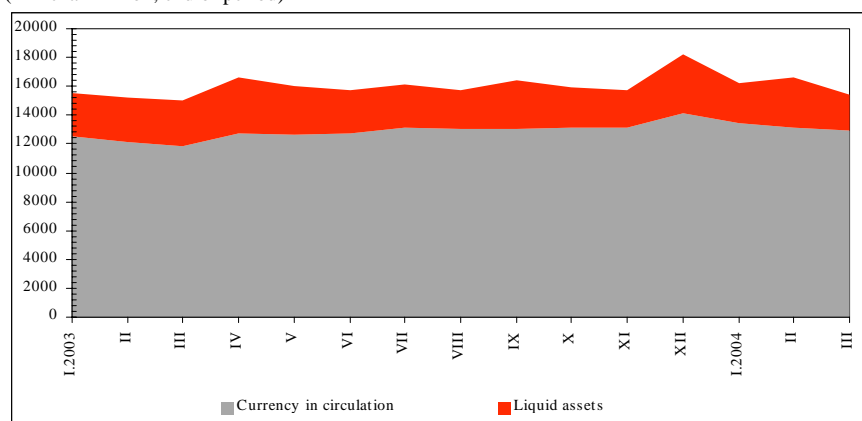
Chart 18
Daily dynamics of the currency in circulation
(in Denar million)



Quarterly decline in the reserve money

At the end of March 2004, compared to the end of the preceding year, the reserve money went down by 15.4%. The negative dynamics of the reserve money in the first quarter is due to the stabilization of the demand for currency in circulation and the lower level of liquidity (adjustment following their intensive seasonal increase at the end of the year). Compared to the same month of the preceding year, the reserve money went up by 2.7%.

Chart 19
Reserve Money
(in Denar million, end of period)



2.2.

Monetary aggregates

The movement of the monetary aggregates in the first quarter of 2004 was caused by the lower level of currency in circulation and transaction deposits given the increase in the total deposit potential of the banking system.

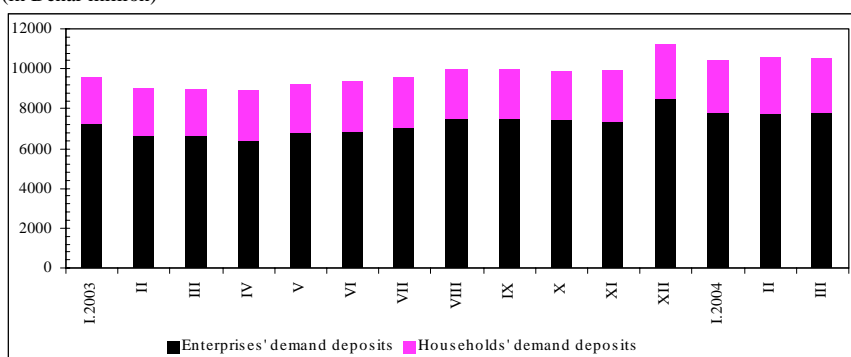


*Seasonal fall in the
currency in circulation and
the demand deposits*

In the first three months of 2004, the currency in circulation registered continuous fall, and dropped by 8.6% at the end of March compared to the end of the preceding year. Also, the transaction deposits of the non-government sector fell on quarterly basis (by 5.6%), fully as a result of the fall in the first month of the year. The intensive fall in the first month is a result of the seasonal decline in the enterprises' demand deposits (their level remained stable in the rest of the period), whereas the households' demand deposits at the end of March remained at the level of the end of the preceding year. The share of the demand deposits of the enterprises and the households in the total demand deposits equaled 63.2% and 22%, respectively. In accordance with the negative dynamics of the currency in circulation and the demand deposits, the money supply M1 declined by 7.2% at the end of the first quarter compared to the end of the preceding year. On annual basis, both the currency in circulation and the demand deposits went up by 9.2% and 16.2%, respectively. Consequently, the money supply M1 grew by 12.5% in March 2004 compared to the same month of the preceding year.

Chart 20

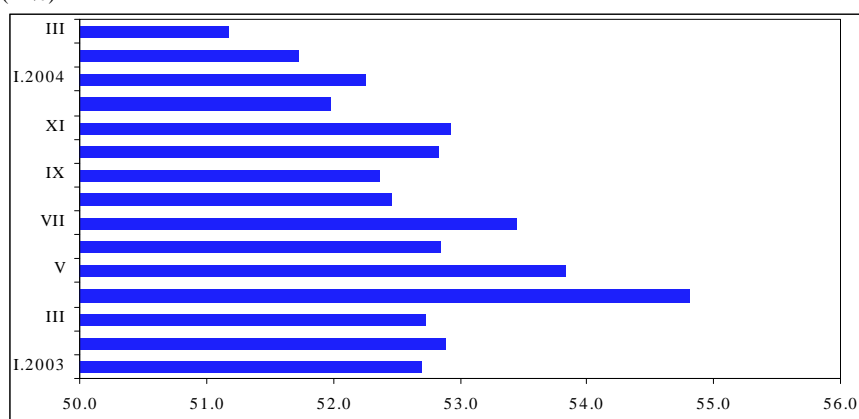
Demand deposits of enterprises and households
(in Denar million)



The more intensive fall in the demand for currency in circulation relative to the funds on the transaction accounts resulted in lower share of currency in circulation in the money supply M1 by 0.8 percentage points, thus reducing to 51.2%. Compared to the same month of the preceding year, the share of the currency in circulation was by 1.6 percentage points lower. Such movements of the currency in circulation resulted in strengthening of the money multiplication process. Thus in March 2004, the money multiplier of the money supply M1 equalled 1.64 compared to 1.49 at the end of the year and 1.5 in March 2003.

Chart 21

Share of currency in circulation (CC) in the money supply M1
(in %)



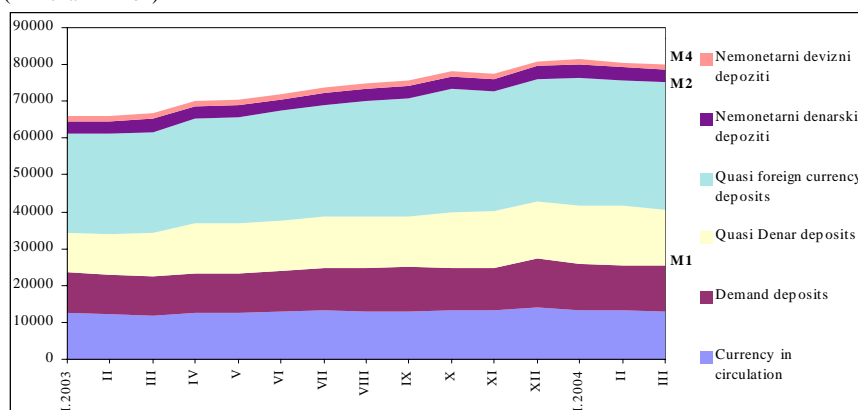


Decrease in the monetary aggregates M2 and M4 on quarterly basis

The quarterly decline in the money supply M1 led to a decrease in the monetary aggregates M2 and M4. Thus the money supply M2 fell by 1.2% (notwithstanding the higher level of short-term deposits). Given the higher long-term deposit potential of the banks, the quarterly fall in the money supply M4 was more moderate and equaled 0.7%. The increase in the banks' deposit potential, given the simultaneous decrease in the demand for currency in circulation resulted in higher money multipliers. The money multiplier of the money supply M2 equaled 4.87 compared to 4.17 in December 2003 and 4.11 in March 2003. The money multiplier of the money supply M4 reached 5.2 compared to 4.43 in March 2003 and December 2003. On annual basis, the money aggregates M2 and M4 rose by 21.7% and 20.5%, respectively, primarily due to the high increase in the short-term banks' deposit potential.

Chart 22

Monetary aggregates and their components
(in Denar million)



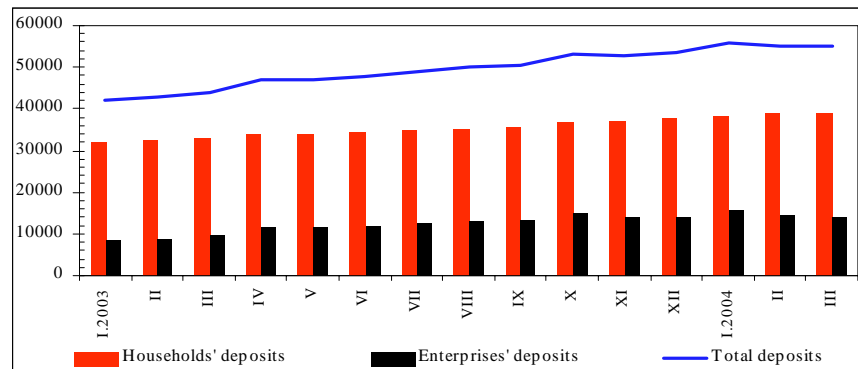
Quarterly growth in the total deposits in the banking system of 2.5%

In March 2004, the total deposit potential of the banking system³ grew by 2.5% on quarterly basis (given the increase in the total deposits of the non-government sector of 4.2% in January, while in February and March the deposit potential fell by 1.2% and 0.3%, respectively). An increase was registered in all types of deposits (analysing by maturity and currency of denomination), except in the Denar short-term deposits, with the most intensive change being registered in the long-term foreign exchange deposits. Analysing by sectors, the households' deposits went up by 4%, whereas the enterprises' deposits dropped by 0.9%. With respect to the structure, the short-term deposits (90.1%) and the foreign exchange deposits (66%) dominate in the total deposits. On annual basis, the total deposits of the non-government sector grew by 24.5%.

³ The total deposits of the non-government sector include short-term and long-term (Denar and foreign currency) deposits of the economic agents (excluding the demand deposits).



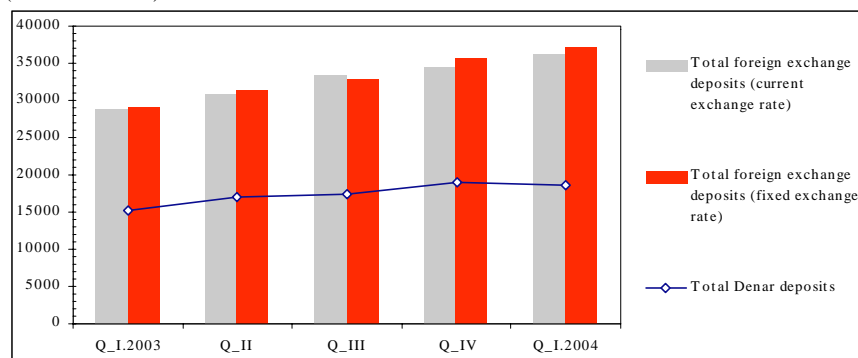
Chart 23
Deposit timeframes
(in Denar million)



Increase in the total households' deposits of 4% on quarterly basis...

In the first quarter of 2004, the households' deposits registered an increase of Denar 1,520 million, or 4%. The increase is a result of the higher short-term foreign exchange deposits, as well as the short-term time Denar deposits. The households' savings on a long run (accounting for 7.6% of the total households' deposits) increased by 2.8%, due to the higher foreign exchange time deposits. The annual growth rate of the households' deposits equalled 19.5%, with (excluding the long-term Denar deposits) an increase being registered in all categories from the aspect of the maturity and the currency of denomination.

Chart 24
Quarterly dynamics of the Denar and the foreign exchange deposits
(in Denar million)



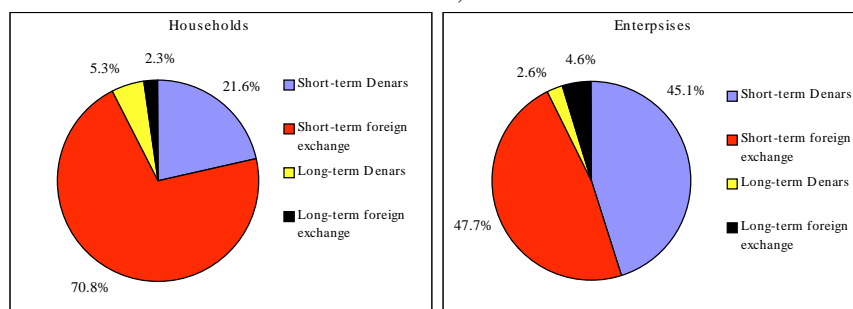
...with decrease being registered in the enterprises' deposits

In the first quarter of 2004, the enterprises' deposits were by 0.9% lower compared to the end of the preceding year. The monthly analysis indicates significant increase in the short-term foreign exchange deposits and the short-term Denar deposits (with up to three months of maturity) in the first month of the year, which corresponds with the lower level of funds on the transaction accounts in this period. In the following two months, the enterprises' deposits went down, except for the long-term restricted deposits intended for foreign exchange remittances. With respect to maturity, the short-term deposits dominate (92.8%) in the total enterprises' deposits. With respect to the currency of denomination, the share of the foreign exchange deposits equals 52.3%, registering quarterly increase of 4.5 percentage points. The annual growth rate of the enterprises' deposits equals 45.4%, with an increase being registered in all deposit categories.



Chart 25
Structure of deposits by sectors

March 31, 2004



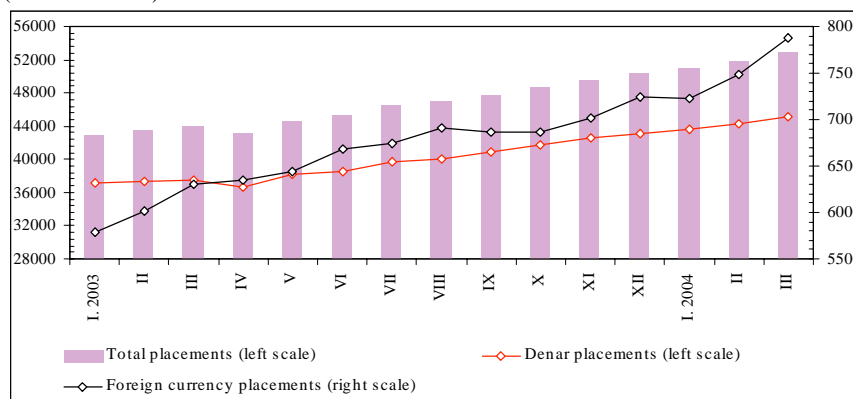
2.3.

Banks' placements and interest rates

Quarterly increase in the total banks' placements

As of March 31, 2004, the total banks' placements amounted to Denar 53,004 million, which is by Denar 2,676 million (or by 5.3%) higher compared to the end of the preceding year. Thus more intensive growth was registered in the foreign exchange placements (8.7%), and the increase in the Denar placements equaled 4.8%. Analyzing by maturity, the increment in the Denar placements was generated from the simultaneous increase in both the short-term and the long-term placements. The higher foreign exchange placements are a result of the increase in the placements extended on a long run, whereas the short-term foreign exchange placements registered minimum fall. The annual analysis indicates an increase in the banks' total placements of 20.8%.

Chart 26
Banks' placements
(in Denar million)



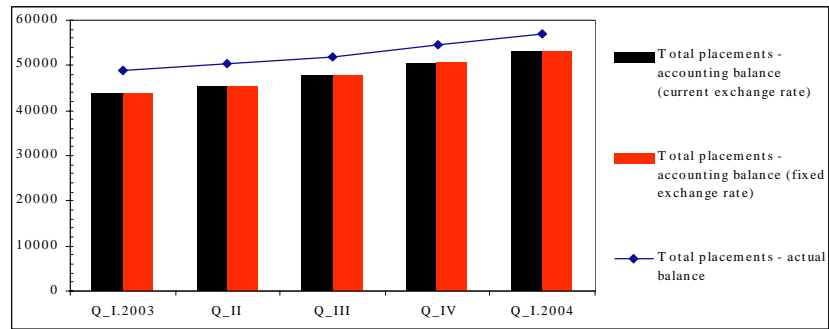
Further upward trend in the Denar placements...

The upward trend in the total Denar placements continued in March 2004, with the quarterly growth equalling 4.8%. With respect to maturity, the long-term Denar placements picked up more intensively due to the higher long-term lending to both the enterprises and the households. Thus the placements extended on a long run increased their share by 0.7 percentage points and equaled 37.6% of the total Denar placements. The faster increase in the Denar placements to the households resulted in higher structural share of this sector, with further dominant share being registered in the placements to enterprises (74.5%). On annual basis, the Denar placements are by 20.1% higher, with considerably more intensive increase being registered in the long-term placements.



Charter 27

Quarterly dynamics of the total placements
(in Denar million)

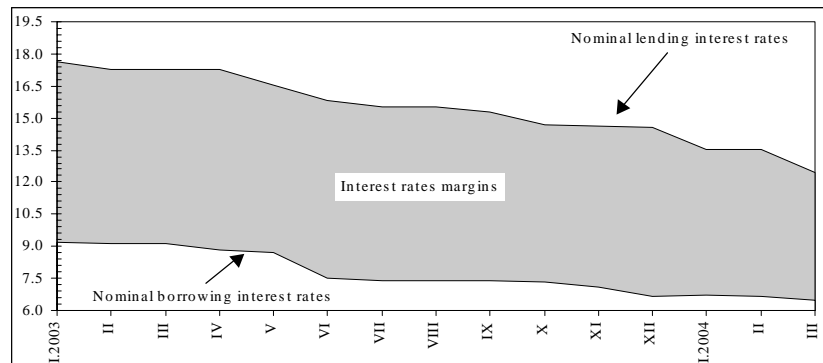


...with simultaneous increase
being registered in the foreign
exchange placements

The increase in the banks' foreign exchange placements of 8.7% in the first quarter was generated from the higher level of long-term credits extended to the enterprises, as well as the higher amount of overdue claims. Thus the structural share of the long-term placements increased to 57.5%. The sector structure registered no considerable changes, i.e. the credits extended to enterprises remained dominant (96.9%). The annual change in the foreign exchange placements equaled 25%⁴ in March 2004.

Chart 28

Banks' weighted interest rates and margins*
(in %)



* Pertain to Denar credits and deposits.

Lower banks' interest rate
margin

In the first three months of the year, the lending interest rates registered positive downward trend. Thus the average weighted lending interest rate on the banks' short-term Denar placements reduced to 12.5% (compared to 14.5% at the end of the previous year), while the average weighted deposit interest rate (on a three-month Denar deposit) dropped by 0.2 percentage points and equaled 6.5%. The more intensive fall in the lending interest rates resulted in positive change in the interest rate margins, i.e. it went down by 1.9 percentage points (under 6 percentage points). In March, compared to December 2003, the average weighted interest rate on short-term foreign exchange credits slightly increased and equaled 7.9%. In March 2004, the interest rates on three-month deposits in Euro ranged from 1.4% to 3.5%, while the interest rates on three-month US Dollar deposits ranged from 0.7% to 2.3%.

Review of the Stock Exchange activity in the first quarter of 2004

In the first quarter of 2004, the Macedonian Stock Exchange registered total turnover (excluding block transactions and government segment) of Denar

⁴ The changes in the foreign exchange placements partially reflect the changes in the exchange rate. Thus the annual change in the foreign exchange placements, valued at a constant exchange rate, is more intensive and equals 27.1%.

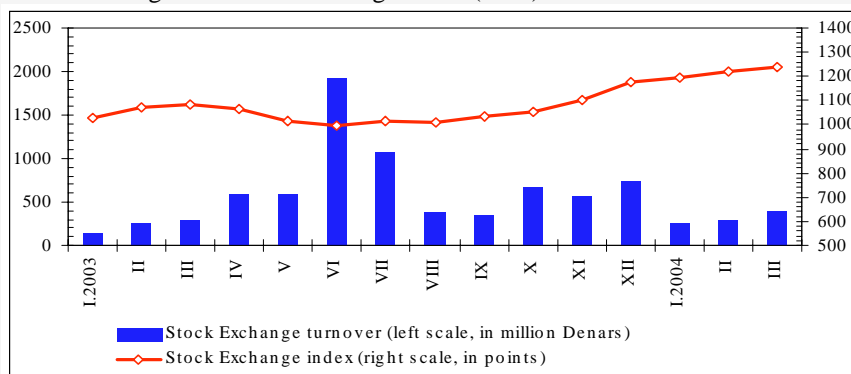


552.3 million, which is by 26.3% lower compared to the Stock Exchange turnover registered in the fourth quarter of 2003. The volume of trading on the official and the unofficial market segment went down by 10.9% and 41.3%, respectively, on quarterly comparison base. The turnover on the official market making up 92.7% of the total Stock Exchange turnover realized by conventional trading equaled Denar 511.7 million, while shares in the amount of Denar 37.6 million or 6.8% of the conventional Stock Exchange trading were traded on the unofficial market. The official market registered a quarterly rise of 5.5% in the trade in shares of the listed companies on the Macedonian Stock Exchange. Thus 92 companies were listed on the official market, the total market capitalization of which equals Denar 17,625 million. Simultaneously, as of March 1, 2004, the trade in the third issue of denationalization bonds issued by the Republic of Macedonia commenced on the official market of the Macedonian Stock Exchange. The total amount of the issue equals Euro 47 million, with an interest rate of 2% p.a. The principal and the interest shall be repaid in 10-year installments, starting from June 1, 2005.

On the unofficial market, considerable quarterly decrease was registered in the trade in convertible certificates issued by the Government for indemnification of the savers of the collapsed savings houses constituting 0.5% of the Stock Exchange turnover. In the first quarter of 2004, the value of the transactions executed on the government segment reached Denar 67.7 million, which is a decrease of 82.8% compared to the fourth quarter of 2003 (trade in shares, parts and claims in state ownership was registered only in January). The share of the block transactions* (institutional trade between larger institutional investors) in the total turnover on the Stock Exchange equaled 33.3% (42.8% in the fourth quarter of 2003).

The total Stock Exchange turnover (including block transactions and government segment) in the January – March 2004 period made up Denar 929.1 million (decrease of 53.4% compared to the fourth quarter of the preceding year).

Stock Exchange and Stock Exchange Index (MBI)



In March 2004, the Macedonian Stock Exchange Index (MBI) as non-weighted index, which includes the five most liquid common shares of the companies listed on the official market and the bond for the old foreign exchange savings RM01 equaled 1,238.2 points, which is a pickup of 5.1% compared to the level of December 2003.

* Stock Exchange transactions in which at least 10% of the value of the company (basic capital) were traded, or turnover in the amount of over Denar 5,000,000 was realized.

Source: Macedonian Stock Exchange.



III. Foreign Trade and Foreign Exchange Developments in the Republic of Macedonia

Basic indicators for the foreign trade and foreign exchange developments

	month	(in US Dollar million)	Monthly changes in %	I-III.2004 (in US Dollar million)	Changes in %
					compared to the same period of the previous year
Foreign trade	III.2004	356.9	8.5	963.6	16.7
Export	III.2004	126.3	-3.5	358.6	22.1
Import	III.2004	230.6	16.5	604.9	13.8
Balance	III.2004	-104.3	55.7	-246.3	3.4
					compared to the end of the previous year
Foreign debt	III.2004	1,737.0	-1.0		-1.9
Exchange rate on foreign exchange market	III.2004				
					compared to the same period of the previous year
(Denars per unit foreign currency)					
MKD / USD		50.30	2.1		-11.9
MKD / EURO		61.30	0.0		0.1

Source: State Statistical Office of the Republic of Macedonia and National Bank of the Republic of Macedonia

**3.1.****Foreign trade⁵**

*In the first quarter of 2004,
increased foreign trade was
registered...*

In the first quarter of 2004, compared to the same period of the previous year, the volume of the foreign trade increased by 16.7% and equaled US Dollar 963.6 million. In the first quarter of 2004 an increased volume of foreign trade was registered having in mind the simultaneous increase in both the exports and the imports. Positive structural movements towards a relatively more intensive increase in the export (of 22.1%) compared to the import of goods (of 13.8%) was registered. Analyzed from the aspect of the dynamics, the movements in the foreign trade registered in the first quarter, completely correspond to the monthly dynamics of the economic activity (in January, the industrial output registered a monthly drop, while in February and March 2004, it registered an increase). Namely, in January 2004, as a result of the seasonal factors (reduced number of working days) and consequently reduced export and import of goods, usual decrease in the foreign trade (drop of 21.2% on a monthly basis) was registered. The highest monthly increase in the foreign trade of 18.3% was registered in February, given the increase in both the import and the export of goods, while in March, despite the slower dynamics, (mainly as a result of the slight decrease in the exports), the trend of increase in the trade continued (an increase of 8.5%).

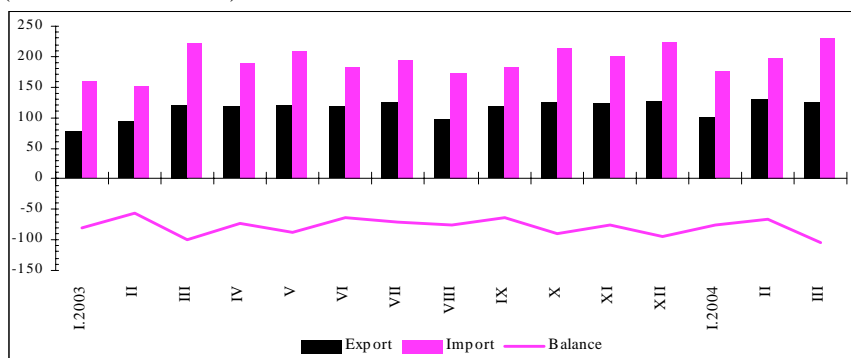
*...given the simultaneous
increase in the export and
import of goods*

From the aspect of the trade components, in the first quarter of 2004 the export of goods equaled US Dollar 358.6 million, which is an increase of US Dollar 65 million compared to the same period of 2003. The increased export is primarily a result of the increased export of tobacco and products made of tobacco, which increased by almost 2.5 times. The renewed contracts in the textile industry, as well as the favorable environment on the international markets for placement of steel, resulted in an increased placement of textile products and placement of iron and steel (by 29.1% and 14.8%, respectively compared to the same period of the previous year). In the first quarter of 2004, the import of goods equaled US Dollar 604.9 million, i.e. it increased by US Dollar 73.2 million. As more important categories that influenced the increase in the import are the categories "cereals" and "vehicles". Namely, having in mind the lack of wheat, wheat in the amount of US Dollar 17.8 million was imported in February and March, with which this category increased by almost 2.5 times, compared to the same period of the previous year. An increase of 31.8% was also registered in the category "vehicles", mainly caused by the reduced customs duties (since January 1, 2004). Such movements in the export and the import of goods resulted in broadening of the foreign trade deficit of the Republic of Macedonia in the first quarter of 2004, which compared to the same period of 2003 increased by 3.4% and equaled US Dollar 246.3 million.

⁵ Preliminary data of the Statistical Office of the Republic of Macedonia. The export of goods is presented on f.o.b. basis, while the import of goods is presented on c.i.f. basis



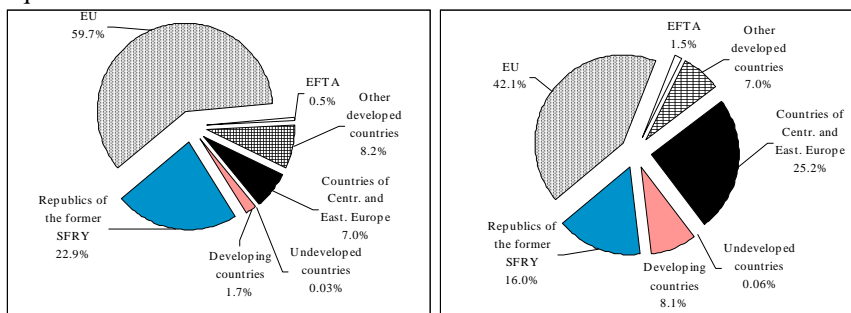
Chart 29
Exports, imports and balance of foreign trade
(in US Dollar million)



The largest share in the total exports and imports of the Republic of Macedonia accounts for the European Union

Analyzed by the groups of countries, the dominant share in the foreign trade still accounts for the European Union. In the first quarter of 2004, compared to the same period of 2003, the European Union strengthened its position as the most important trading partner of the Republic of Macedonia, increasing its share in the total exports (by 2.7 percentage points) and decreasing its share in the imports (by 4 percentage points). Thus, this group of countries traditionally has the largest share in the total export and import of the Republic of Macedonia (59.7% and 42.1%, respectively). In the January - March 2004 period, no significant changes in the trade with the former republics of SFRY were registered, while the increased import of iron and steel caused an increase in the import from the Central and Eastern European countries by 4.6 percentage points, given the increase in the share of the exports by 2.7 percentage points.

Chart 30
Foreign trade of the Republic of Macedonia according
to groups of countries
I quarter of 2004



The analysis of the foreign trade of the Republic of Macedonia from the aspect of separate countries indicates a constant structure of the trade participants. Namely, in the first quarter of 2004, Germany, Greece and Serbia and Montenegro still dominate in the total trade, comprising 39.8% of the total foreign trade of the Republic of Macedonia. The largest share of the exports and imports accounts for these countries. Among other countries, the highest share in the imports accounts for Russia (given the registered increase of 6 percentage points compared to the same period of the previous year), which is due to the import of oil.

Increase in the export - import coverage ratio

In the first quarter of 2004, the relatively higher increase in the export compared the import of goods, resulted in a higher export - import coverage ratio. Thus, the coverage ratio equaled 59.3%, which is an increase of 4.1 percentage points compared to the same period of the previous year. Within the group of the ten most important trading partners, a positive balance was



registered only in the trade with three countries: Croatia (33.9%), France (20%) and Serbia and Montenegro (16.4%).

3.2.

Foreign exchange developments

In the first quarter of 2004, a decreased turnover on the foreign exchange market by 2.5% compared to the fourth quarter of the previous year was registered...

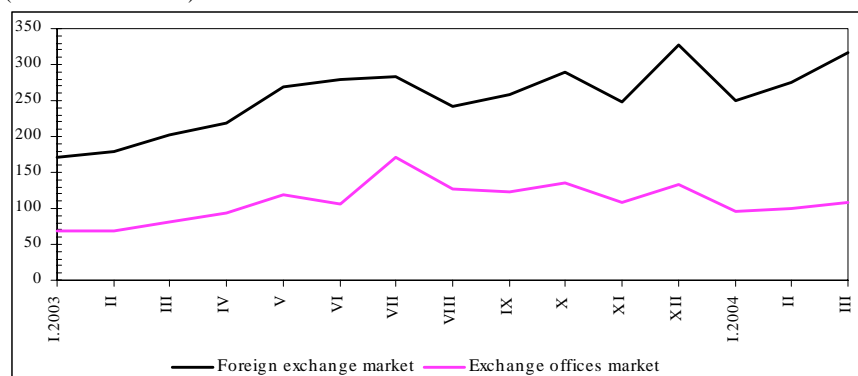
...given the unchanged Denar exchange rate against the Euro...

...and depreciation of the Denar against the US Dollar

In the January - March 2004 period compared to the fourth quarter of 2003, the turnover on the foreign exchange market registered a decrease of 2.5%, with the total value of the realized purchase and sale transactions in the first quarter reaching US Dollar 841.4 million. The transactions between banks and enterprises comprise 80.9% of the total turnover on the foreign exchange market executed during the quarter. However, the quarterly analysis indicates constantly higher demand for than supply of foreign exchange by the enterprises, with this discrepancy being most evident in January. In order to maintain the stability of the exchange rate, in the first quarter of the year, the NBRM participated actively in the foreign exchange market. In the first month of the year, the NBRM intervened with a net sale of foreign assets on the foreign exchange market. The stabilization in the demand for foreign exchange, in combination with the measures of the monetary policy since mid-February, resulted in a net purchase of foreign exchange by the NBRM in February and March. On cumulative basis, the NBRM interventions were directed towards a net purchase of foreign assets on the foreign exchange market. At the end of March 2004, Denar 61.30 were traded per one Euro, which is almost the same exchange rate in comparison with December 31, 2003. On the other hand, the exchange rate of the Denar registered monthly depreciation of 2.1% relative to the US Dollar (on March 31, 2004, Denar 50.30 per one US Dollar were traded), while compared to the end of 2003, the Denar depreciated by 2.5%. Namely, the Denar - US Dollar correlation depends on the movements between the US Dollar and the Euro on the international stock exchanges. Thus, on March 26, 2004, the Euro registered its minimum value against the US Dollar during the year (below US Dollar 1.2056 per one Euro were traded on the international stock exchanges), which is mainly due to the increased confidence of the consumers and the personal consumption in the USA². However, in comparison with March 2003, the value of the Denar against the US Dollar increased by 11.9%.

Chart 31

Movements in the total turnover on the foreign exchange and exchange offices market
(in US Dollar million)



The turnover of foreign assets on the exchange offices market registered a decrease of 20% on a quarterly basis

In the first quarter of 2004, the turnover on the exchange offices market equaled US Dollar 303.1 million, which is a decrease of 20%, compared to the fourth quarter of 2003. The supply of and the demand for foreign exchange on the exchange offices market decreased on quarterly basis by 17% and 24.6%, respectively. Having in mind the higher amount of supply of than the demand for foreign assets, the exchange offices made net purchase of foreign assets in the

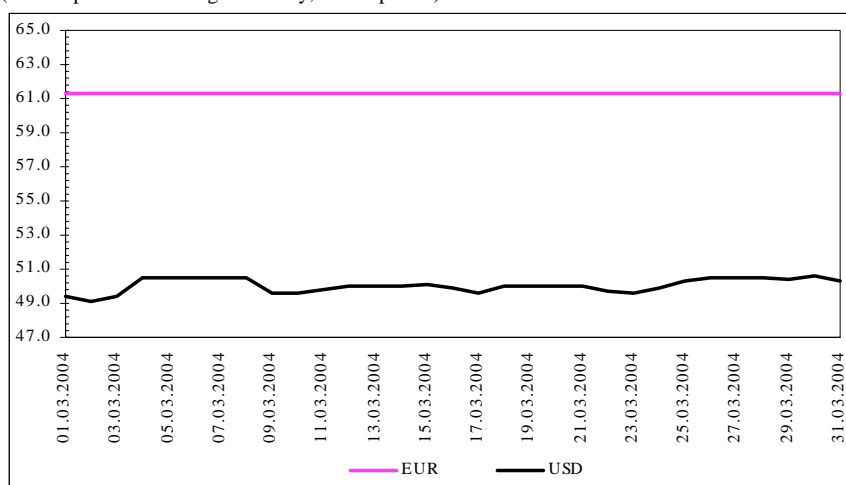
² Source: Raiffeisenbank Austria dd Zagreb



amount of US Dollar 78.8 million. Analyzed by months, the demand for foreign assets was relatively stable and it equaled US Dollar 37.4 million, on average. In March 2004, the average exchange rate of the Denar relative to the Euro on the exchange offices market equaled Denar 61.52 per one Euro (almost the same level which was registered in February), while against the US Dollar³ the Denar depreciated by 3% on a monthly basis (in March 2004, Denar 49.32 per one US Dollar were traded on average). The average monthly Denar exchange rate relative to the Euro on the exchange offices market remained almost unchanged compared to December 2003, while the Denar depreciated by 0.2% against the US Dollar.

Chart 32

Daily middle exchange rate of the Denar at the exchange offices
(Denars per unit of foreign currency, end of period)



*Lower level of the gross
foreign exchange reserves of
the NBRM...*

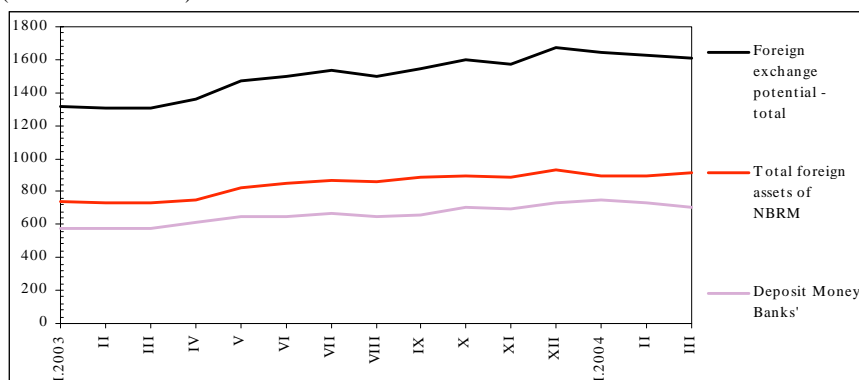
Having in mind the simultaneous decrease in the total foreign assets of the NBRM and the commercial banks, the total foreign exchange potential of the Republic of Macedonia compared to the end of the previous year, decreased by US Dollar 57.4 million, and reduced to US Dollar 1,611.3 million at the end of March 2004. As of March 31, 2004, the gross foreign exchange reserves of the NBRM equaled US Dollar 901.9 million, which is a decline of US Dollar 1.5 million compared to end of the previous year. Having in mind the net purchase of foreign assets of the commercial banks on the foreign exchange market by the NBRM, the decrease is due to the larger withdrawals (in accordance with the repayment of the external debt) from inflows on the account of the Government and to the recorded negative exchange rate differentials. On monthly basis, the gross foreign exchange reserves of the NBRM increased by US Dollar 18.3 million. The increase is mainly a result of the realized net purchase of foreign assets by the commercial banks, as well as of the inflows based on interest on the deposited foreign assets with foreign banks.

³ The US Dollar exchange rate is taken from the exchange rate list for the exchange offices operations of the NBRM



Chart 33

Foreign exchange potential of the Republic of Macedonia
(in US Dollar million)



...and the foreign assets with
the deposit money banks

Despite the additional foreign exchange inflows based on the increase in the foreign exchange deposits of the economic agents with the banks of US Dollar 16.8 million, in March 2004 compared to the end of the previous year, the foreign assets with the deposit money banks decreased by US Dollar 33.7 million. The negative dynamics of the foreign assets with the banks partially corresponds to the net purchase of foreign assets from the commercial banks by the NBRM.

The Exchange Rate Policy of the New Member States

The joining of the ten new member states in the European Union on May 1, 2004, implies a status of a "member state with a derogation", which means an obligation for membership in the European Monetary Union (EMU), after the terms for joining in are met (primarily "the Maastricht Criteria"). One of these criteria is also the criterion for the exchange rate stability, i.e. the participation in the so-called Exchange Rate Mechanism II (ERM II) for at least two years before they join in the EMU. By their joining the European Union, the central banks of the new member states became a part of the European Central Banks System (in which the European Central Bank (ECB) and the central banks of all EU member states participate) and they are obliged to treat their exchange rate policy as an issue of mutual interest.

1. Exchange rate mechanism II (ERM II)

With the introduction of the Euro in January 1999, the multilateral Exchange Rate Mechanism (ERM) that existed until then was replaced by a new bilateral Exchange Rate Mechanism II. The need of new exchange rate mechanism arose due to the fact that certain EU member states did not accept the Euro, as well as to the expected enlargement of the Union⁴. ERM II represents a mechanism for fixing the currencies of the member states with the Euro, within certain margins of fluctuation.

The main features of the ERM II are the following:

1. Central parity and margins of fluctuation of the currencies of certain countries against the Euro, which are established through joint procedure;
2. Standard margins of fluctuation of $\pm 15\%$, with the possibility for setting narrower margins not been excluded;

⁴ At the moment, the unique member of ERM II is Denmark, which keeps its exchange rate within the margin of $\pm 2,25\%$

3. Automatic intervention by the ECB and the national central bank (NCB), in case the exchange rate moves closer to the defined margins. If there is a need of interventions within the margins (intramarginal intervention), they can, but do not have to be, supported by the ECB ;
4. The ECB and the NCB are formally entitled to suspend the interventions, which can possibly jeopardise the price stability;
5. The change of the central parity can be made through a joint procedure, for the initiation of which both the ECB and the ERM II member state are entitled.

The main objectives of the ERM II are the following:

- to provide environment for smooth functioning of the EU market and stability of the Euro;
- to intensify the convergence between the Euro-zone and the external members;
- to provide smooth access of the external members to the EMU.

1.1. Advantages and disadvantages of the membership in the ERM II

The joining in the ERM II represents a transitory regime until the final introduction of the Euro as a single currency. It has a nature of a fixed exchange rate regime, meaning that it requires conducting of a consistent macroeconomic policy and maintenance of the overall macroeconomic stability. The effects from the ERM II can be classified in three groups:

1. **Stabilisation effects**, which should originate from the announcement of the central parity. Namely, this should have a signaling effect for the financial markets and should reduce the exchange rate oscillations. However, in practice, these effects can be limited because of the possibility of change of the central parity (which potentially jeopardises the credibility and the signaling role). Also, the wide margins of fluctuation of $\pm 15\%$ have a small capacity for signaling;
2. **Effects upon the consistency of the macroeconomic policy**, as a result of the disciplinary effect of the regime of fixed exchange rate upon the conduct of the macroeconomic policy. However, having in mind the high liberalisation of the capital flows, the need for maintaining the margins of fluctuation of the exchange rate may cause problems;
3. Effects **upon the stability of the inflation**, which having in mind the fixed exchange rate originate from the stability of the prices of the imports and the stabilised expectations pertaining to the inflation. However, this refers much more to the narrow margins of fluctuation, than to the allowed exchange rate fluctuations within $\pm 15\%$.

2. Criterion for exchange rate stability

Being a member of the ERM II for minimum two years, does not mean full accomplishment of the Maastricht criterion for the exchange rate stability (as one of the criteria for joining the EMU). Namely, the accomplishment of this criterion means a membership in the ERM II and contemporaneous maintenance of stable exchange rate. The assessment of the exchange rate policy of the aspirant country for joining EMU, i.e. meeting the criterion for the exchange rate stability encompasses several elements:

1. Required membership in the ERM II, for at least two years before the appraisal of the accomplishment of the criteria for joining the EMU is made;
2. The central parity should not be corrected downwards within this two-year period (a correction upwards is implicitly allowed);



3. Implicitly, the maintenance of a stable exchange rate means maintaining the exchange rate fluctuations within the margins of $\pm 2.25\%$ ⁵ (much narrower than the margins allowed by the ERM II) against the central parity set with ERM II, without larger pressures and significant interventions on the foreign exchange market. It means that the maintenance of the exchange rate within the margins with excessive interventions and non-market instruments could be estimated as unsuccessful maintenance of the exchange rate stability. In this case, it would be necessary to estimate the duration of the deviation, the reasons and the manner of intervening (through the interest rates or interventions on the foreign exchange market).

3.3.

External debt⁶

In March 2004, a decrease in the external debt was registered...

At the end of March 2004, the external debt of the Republic of Macedonia based on long-term credits equaled US Dollar 1,737 million, which is a decrease of US Dollar 33.7 million compared to December 31, 2003. The decrease in the external debt is a result of the higher amount of repaid than used funds in the first quarter, as well as to the registered negative exchange rate differentials due to the slight appreciation of the US Dollar against the Euro.

...with the amount of US Dollar 44 million being withdrawn in the first quarter...

In the first quarter of 2004, funds in the amount of US Dollar 44 million were withdrawn on the basis of granted long-term credits. The withdrawals from the official creditors equaled US Dollar 36.1 million, while the remaining are funds withdrawn from the private creditors. Analyzed by months, the largest amount was withdrawn in January (US Dollar 24 million, primarily on the basis of granted credits by the World Bank and the International Development Agency). The withdrawals from the official creditors in February (mainly from the World Bank and the International Development Agency) equaled US Dollar 5.6 million, while a total amount of US Dollar 3.9 million was withdrawn from the private creditors. In March, the withdrawals from the official creditors reached US Dollar 7.8 million, the largest portion of which accounts for the credit from the European Investment Bank, while funds in the amount of US Dollar 2.7 million originate from the private creditors.

...while the total repayments equaled US Dollar 82.5 million

In the first quarter of 2004, the total amount of serviced liabilities on the basis of used foreign long-term credits equaled US Dollar 82.5 million (the repayments based on principal equal US Dollar 68.8 million, while funds in the amount of US Dollar 13.7 million account for the repaid interest).

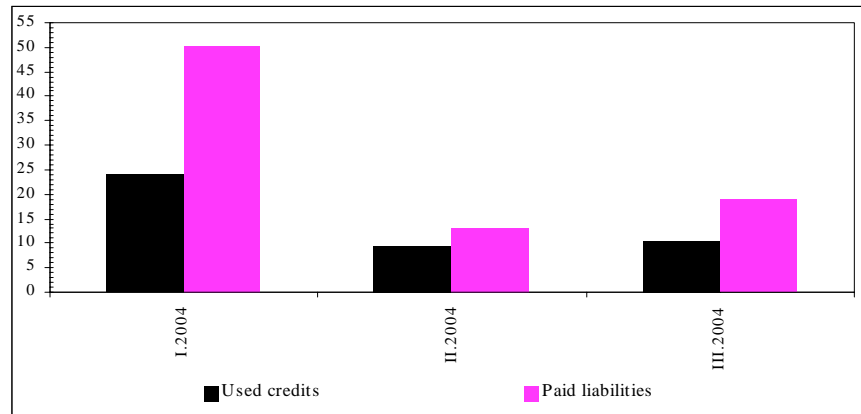
In the first quarter of 2004, the newly concluded credits with foreign creditors amounted to US Dollar 19.8 million. In January and March, new credits were concluded only with private creditors (mainly foreign banks and foreign financial institutions), while in February, almost all of the newly concluded credits originate from the official creditors (European Bank for Reconstruction and Development).

⁵ These are conclusions of the Czech Central Bank, as a result of the consultations with the representatives of the ECB (published in an announcement to the Czech government dating July 17, 2003).

⁶ Preliminary NBRM data. These data refer to the external debt of the Republic of Macedonia based on used medium-term and long-term credits



Chart 34
Used credits and serviced liabilities
(in US Dollar million)





Statistical appendix

Prices

Table 1

Costs of living and retail prices

	<u>III.2004</u> II.2004	<u>III.2004</u> III.2003	<u>I-III.2004</u> I-III.2003
	in %		
Costs of living	-0.1	1.4	1.6
Food	-0.3	-0.7	-0.2
Tobacco and beverages	-0.1	1.7	2.2
Clothing and footwear	-0.7	1.4	2.2
Housing	-0.4	4.3	4.5
Flat (rent, water, services)	-2.3	0.4	1.8
Fuel and lighting	0.1	5.6	5.6
Hygiene	-0.2	6.2	6.4
Culture and entertainment	1.0	3.0	2.5
Transport, communications, services	0.9	2.1	1.5
<i>Goods</i>	<i>-0.1</i>	<i>0.7</i>	<i>1.0</i>
<i>Services</i>	<i>-0.1</i>	<i>5.0</i>	<i>4.9</i>
Retail prices	0.0	1.5	1.7
Agricultural products	0.0	2.1	2.6
Non-food industrial products	0.5	1.3	1.1
Processed food products	-0.5	-2.9	-2.1
Beverages	-0.6	-3.1	-0.5
<i>Goods</i>	<i>0.2</i>	<i>0.2</i>	<i>0.4</i>
<i>Services</i>	<i>-0.2</i>	<i>4.3</i>	<i>4.3</i>

Source: State Statistical Office of the Republic of Macedonia



Table 2
Prices of producers of industrial products

	<u>III.2004</u> <u>II.2004</u>	<u>III.2004</u> <u>III.2003</u>	<u>I-III.2004</u> <u>I-III.2003</u>
	in %		
Prices of producers of industrial products	0.8	-0.9	-1.5
Energy	3.4	-4.7	-6.4
Intermediary goods (except Energy)	0.3	3.5	2.9
Capital goods	0.0	-1.8	-1.9
Durable consumer goods	0.0	0.0	0.0
Non durable consumer goods	-0.2	-3.4	-3.1
<i>Mining and quarrying</i>	<i>0.0</i>	<i>0.6</i>	<i>0.6</i>
<i>Manufacturing industry</i>	<i>1.0</i>	<i>-1.1</i>	<i>-1.9</i>
Manufacture of food products and beverages	-0.1	-3.6	-3.6
Manufacture of tobacco products	0.0	-0.2	-0.2
Manufacture of textiles	0.0	0.0	0.0
Manufacture of wearing apparel; dressing and dyeing of fur	0.0	0.0	0.0
Manufacture of coke, refined petroleum products and nuclear fuel	10.0	-32.1	-16.6
Manufacture of chemicals and chemical products	0.0	0.0	0.0
Manufacture of other non-metallic mineral products	0.0	0.1	-0.3
Manufacture of basic metals	0.0	2.4	2.5
Manufacture of electrical machinery and apparatus n.e.c.	0.8	13.3	11.0
<i>Electricity, gas and water supply</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>

Source: State Statistical Office of the Republic of Macedonia

Table 3
Consumers' basket for food and beverages*

	Amounts			Monthly changes			Annual changes		
	<u>I.2004</u>	<u>II.2004</u>	<u>III.2004</u>	<u>I.2004</u> <u>XII.2003</u>	<u>II.2004</u> <u>I.2004</u>	<u>III.2004</u> <u>II.2004</u>	<u>I.2004</u> <u>I.2003</u>	<u>II.2004</u> <u>II.2003</u>	<u>III.2004</u> <u>III.2003</u>
	in Denar			in %					
Total	10,440	10,279	10,233	0.7	-1.5	-0.4	1.7	0.4	0.1
Cereal and cereal products	1,988	1,986	1,971	1.0	-0.1	-0.8	-0.9	-0.9	-1.7
Vegetables, fresh and processed	1,581	1,551	1,491	4.9	-1.9	-3.9	18.3	13.0	7.4
Fruit, fresh and processed	729	700	715	-2.7	-4.0	2.1	-0.8	-4.9	-1.2
Meat, fresh and processed	2,354	2,315	2,314	0.1	-1.7	0.0	-1.4	-2.1	-1.6
Fats	402	396	395	-1.0	-1.5	-0.3	-2.0	-3.4	-3.4
Milk and dairy products	1,649	1,629	1,652	0.5	-1.2	1.4	-1.7	-0.7	1.2
Other food products	1,737	1,702	1,695	-0.6	-2.0	-0.4	1.7	-0.6	-1.1

* All products in "food and beverages" category, which compose the basket, are taken as average monthly needs of a four-member non-agricultural household, and that list of products is constant (same products – same quantities), during a one year period.

Source: State Statistical Office of the Republic of Macedonia



Economic activity

Table 4
Industrial output

	Structure in %	<u>III.2004</u> II.2004	<u>III.2004</u> III.2004 in %	<u>I-III.2004</u> I-III.2003
Total	100.0	17.5	-32.9	-26.1
Energy		20.2	-18.0	-1.5
Intermediary goods (except Energy)		10.2	-59.2	-47.9
Capital goods		17.9	-64.1	-50.1
Durable consumer goods		30.5	-65.5	-55.8
Non durable consumer goods		23.6	35.7	7.2
<i>Mining and quarrying</i>	<i>3.2</i>	<i>60.9</i>	<i>-49.0</i>	<i>-62.4</i>
<i>Manufacturing industry</i>	<i>89.9</i>	<i>17.4</i>	<i>-35.0</i>	<i>-27.1</i>
Manufacture of food products and beverages	24.9	3.8	34.2	6.1
Manufacture of tobacco products	5.0	45.2	-20.5	-15.0
Manufacture of textiles	4.3	1.0	-22.2	-35.1
Manufacture of wearing apparel; dressing and dyeing of fur	4.5	15.5	10.1	-3.1
Manufacture of coke, refined petroleum products and nuclear fuel	7.0	37.5	-42.3	-13.8
Manufacture of chemicals and chemical products	7.2	3.0	-40.9	-22.4
Manufacture of other non-metallic mineral products	4.6	76.8	-17.7	-24.9
Manufacture of basic metals	16.4	-2.1	-78.8	-66.5
Manufacture of electrical machinery and apparatus n.e.c.	4.0	-8.5	-66.4	-63.9
<i>Electricity, gas and water supply</i>	<i>6.9</i>	<i>13.3</i>	<i>0.4</i>	<i>-3.9</i>

Source: State Statistical Office of the Republic of Macedonia

Table 5
Trade turnover

	Amounts			Monthly changes		Annual changes		Average changes
	I.2004	II.2004	I-II.2004	<u>I.2004</u> XII.2003	<u>II.2004</u> I.2004	<u>I.2004</u> I.2003	<u>II.2004</u> II.2003	<u>I-II.2003</u> I-II.2002
	in Denar million			in %		in %		in %
Trade turnover - total	11,369	12,658	24,027	-16.0	11.3	17.6	22.1	19.9
Retail sales	4,627	4,743	9,370	-12.3	2.5	18.3	23.1	20.7
Whole sales	6,742	7,915	14,657	-18.3	17.4	17.1	21.5	19.4

Source: State Statistical Office of the Republic of Macedonia



Table 6

Contracted and completed construction works

	Amounts			Monthly changes		Annual changes		Average changes
	I.2004	II.2004	I-II.2004	I.2004 XII.2003	II.2004 I.2004	I.2004 I.2003	II.2004 II.2003	I-II.2004 I-II.2004
	in Denar million			in %		in %		in %
Value of contracted construction works	4,424	293	4,717	31.2 times	-93.4	-17.6	-10.8	-17.2
Value of completed construction works	279	488	767	-61.5	75	-28.1	43.2	5.3

Source: State Statistical Office of the Republic of Macedonia

Other macroeconomic movements

Table 7

Employment by activities and sectors

	I-II.2004	
	Average number of employed	Structure in %
Total	266,932	100.0
Agriculture	10,805	4.1
Agriculture, hunting and forestry	10,544	4.0
Fishing	261	0.1
Industry	124,418	46.6
Minerals and stone mining	4,919	1.8
Manufacturing	83,420	31.3
Electricity, gas and water supply	14,248	5.3
Construction	21,831	8.2
Services	131,710	49.3
Whole sale and retail	20,338	7.6
Hotels and restaurants	4,127	1.5
Transport, storage and communications	16,696	6.3
Financial intermediation	6,188	2.3
Real estate and business activities	6,444	2.4
Public administration and defence	13,733	5.1
Education	27,991	10.5
Health and social work	28,026	10.5
Other communal activities	8,166	3.1

Source: Ministry of Finance



Table 8
Average net wages

	II.2004	I-II.2004	II.2004 I.2004	II.2004 II.2003	I-II.2004 I-II.2003
	in denars		in %		
Nominal average net wage per worker	12,102	11,983	2.0	6.1	3.5
Costs of living			-0.9	1.4	1.7
Real average net wage per worker			2.9	4.6	1.8
Nominal average net wage by sectors					
Agriculture	9,075	9,372	-13.4	22.6	9.1
Industry	11,703	11,937	-4.1	4.6	3.3
Services	13,674	13,677	0.0	3.8	2.6

Source: State Statistical Office of the Republic of Macedonia

Table 9
Central Government Budget

	March 2004			January-March 2004		
	in Denar million	Monthly changes in %	Structure in %	in Denar million	Cumulative changes (2003/2002) in %	Structure in %
Total budget revenues	5,538	36.5	100.0	14,102	10.3	100.0
<i>Tax revenues:</i>	<i>4,569</i>	<i>18.1</i>	<i>82.5</i>	<i>12,556</i>	<i>5.7</i>	<i>89.0</i>
- personal income tax	657	14.1	11.9	1,738	3.6	12.3
- profit tax	518	72.7	9.4	958	-19.3	6.8
- value added tax	2,016	4.7	36.4	6,103	25.3	43.3
- excises	830	30.9	15.0	2,349	0.8	16.7
- custom duties	499	31.3	9.0	1,228	-25.8	8.7
- other	49	-7.5	0.9	180	13.2	1.3
<i>Non-tax revenues:</i>	<i>893</i>	<i>6.1 times</i>	<i>16.1</i>	<i>1,371</i>	<i>77.4</i>	<i>9.7</i>
- inflows from state property dividends	725	-	13.1	793	5.9 times	5.6
- administrative taxes and fees	137	11.4	2.5	358	15.1	2.5
- other administrative taxes	24	20.0	0.4	64	52.4	0.5
- other non-tax revenues	7	75.0	0.1	156	-45.3	1.1
<i>Capital revenues</i>	<i>76</i>	<i>81.0</i>	<i>1.4</i>	<i>175</i>	<i>27.7</i>	<i>1.2</i>
Total budget expenditures	4,741	12.6	100.0	13,100	5.2	100.0
<i>Current expenditures</i>	<i>4,311</i>	<i>6.1</i>	<i>90.9</i>	<i>12,415</i>	<i>5.7</i>	<i>94.8</i>
- wages and salaries	1,761	6.4	37.1	5,135	3.7	39.2
- goods and services	676	3.8	14.3	1,797	35.3	13.7
- transfers	1,740	6.5	36.7	4,924	10.9	37.6
- interest	134	42.6	2.8	531	-31.4	4.1
<i>Capital expenditures</i>	<i>430</i>	<i>3.0 times</i>	<i>9.1</i>	<i>685</i>	<i>52.2</i>	<i>5.2</i>
Budget balance	797					

Source: Ministry of Finance



Table 10

Total revenues and expenditures of the budget funds
(in Denar million)

	March 2004				January-March 2004			
	Total revenues		Total expenditures		Total revenues		Total expenditures	
	Amount	monthly changes in %	Amount	monthly changes in %	Amount	cumulative changes in %	Amount	cumulative changes in %
Social Funds	4,460	10.2	4,471	7.8	12,077	7.1	12,373	11.2
- pension and disability insurance	2,474	7.2	2,581	8.6	6,847	2.0	7,128	8.3
- health insurance	1,385	22.7	1,273	9.6	3,455	11.4	3,449	12.7
- employment	601	-1.6	617	1.3	1,775	21.2	1,796	21.3
Road Fund	476	4.4 times	465	4.5 times	694	26.4	673	42.7

Source: Ministry of Finance

Table 11

Consolidated budget
(in Denar million)

	I.2004	II	III	I-III.2004	
				Amount	Structure in %
Total revenues	6,527	6,449	8,233	21,208	100.0
Tax and contributions:	5,984	6,088	7,059	19,131	90.2
<i>Tax:</i>	<i>4,178</i>	<i>3,911</i>	<i>4,619</i>	<i>12,708</i>	<i>59.9</i>
- personal income tax	505	576	657	1,738	8.2
- profit tax	140	300	518	958	4.5
- value added tax	2,161	1,926	2,016	6,103	28.8
- excises	945	676	880	2,501	11.8
- custom duties	349	380	499	1,228	5.8
- other	78	53	49	180	0.8
<i>Contributions</i>	<i>1,807</i>	<i>2,176</i>	<i>2,440</i>	<i>6,423</i>	<i>30.3</i>
Non-tax revenues:	486	319	1,098	1,903	9.0
- inflows from state property dividends	68	0	725	794	3.7
- administrative taxes and fees	98	123	137	358	1.7
- income from participation	35	61	57	154	0.7
- other administrative taxes	20	20	24	64	0.3
- other non-tax revenues	162	12	20	194	0.9
- remuneration for using a highway	103	102	135	340	1.6
Capital revenues	57	42	76	175	0.8
Total expenditures	6,351	6,696	7,515	20,562	100.0
Current expenditures	6,200	6,512	7,038	19,750	96.1
- wages and salaries	1,735	1,698	1,796	5,229	25.4
- goods and services	561	745	863	2,169	10.5
- transfers	3,600	3,948	4,237	11,785	57.3
- interest	303	94	141	538	2.6
Capital expenditures	151	183	477	812	3.9
Budget balance	176	-247	718	646	

Source: Ministry of Finance



Reserve money

Table 12

Reserve money

(in Denar million)	31.12.2003	Monthly changes				31.03.2004
		January	February	March	Total	
Reserve money	18,252	-1,998	323.0	-1,143	-2818.0	15,434
Currency in circulation	14,177	-772	-234.0	-218	-1224.0	12,953
Banks liquidity	4,075	-1,226	557.0	-925	-1594.0	2,481

Source: National Bank of the Republic of Macedonia

Monetary aggregates

Table 13

Money supply M1 and its components

(in Denar million)	31.12.2003	Monthly changes				31.03.2004
		January	February	March	Total	
Money supply M1	27,273	-1,620	-190.0	-150	-1,960.0	25,313
Currency in circulation	14,177	-772	-234.0	-218	-1,224.0	12,953
Demand deposits	13,096	-848	44.0	68	-736.0	12,360
- Demand deposits of households	2,712	-50	140.0	-83	7.0	2,719
- Demand deposits of enterprises	8,507	-723	-39.0	69	-693.0	7,814

Source: National Bank of the Republic of Macedonia

Table 14

Broader monetary aggregates and their components

(in Denar million)	31.12.2003	Monthly changes				31.03.2004
		January	February	March	Total	
Money supply M1	27,273	-1,620	-190.0	-150	-1,960.0	25,313
Denar short - term deposits	15,568	458	144.0	-997	-395.0	15,173
Monetary aggregate M2 - denar component	42,841	-1,162	-46.0	-1,147	-2,355.0	40,486
Foreign currency short - term deposits	33,187	1,655	-805.0	618	1,468.0	34,655
Monetary aggregate M2	76,028	493	-851.0	-529	-887.0	75,141
Non - monetary deposits	4,785	121	-28.0	188	281.0	5,066
- In Denar	3,497	-23	19.0	14	10.0	3,507
- In foreign currency	1,288	144	-47.0	174	271.0	1,559
Monetary aggregate M4	80,813	614	-879.0	-341	-606.0	80,207

Source: National Bank of the Republic of Macedonia



Table 15

Total deposits of the non-government sector

	31.12.2003	Monthly changes				31.03.2004
(in Denar million)		January	February	March	Total	
Total deposits	53,540	2,234	-689.0	-191	1,354.0	54,894
1. According to maturity						
- short-term	48,755	2,113	-661.0	-379	1,073.0	49,828
- long-term	4,785	121	-28.0	188	281.0	5,066
2. According to currency of denomination						
- In denar	19,065	435	163.0	-983	-385.0	18,680
- In foreign currency	34,475	1799	-852.0	792	1,739.0	36,214

Source: National Bank of the Republic of Macedonia

Table 16

Households and enterprises deposits

	31.12.2003	Monthly changes				31.03.2004
(in Denar million)		January	February	March	Total	
Total households deposits	37,645	689	536.0	295	1,520.0	39,165
1. According to maturity						
- short-term	34,748	665	490.0	283	1,438.0	36,186
- long-term	2,897	24	46.0	12	82.0	2,979
2. According to currency of denomination						
- In denar	10,157	160	185.0	18	363.0	10,520
- In foreign currency	27,488	529	351.0	277	1,157.0	28,645
Total enterprises deposits	14,277	1,551	-1,195.0	-480	-124.0	14,153
1. According to maturity						
- short-term	13,493	1,408	-1,113.0	-652	-357.0	13,136
- long-term	784	143	-82.0	172	233.0	1,017
2. According to currency of denomination						
- In denar	7,441	338	-14.0	-1,020	-696.0	6,745
- In foreign currency	6,836	1,213	-1,181.0	540	572.0	7,408

Source: National Bank of the Republic of Macedonia

Banks' placements

Table 17

Banks' placements and overdue claims

	31.12.2003	Monthly changes				31.03.2004
(in Denar million)		January	February	March	Total	
Total banks' placements	50,328	499	934.0	1,243	2676.0	53,004
<i>Denar placements</i>	43,081	525	663.0	859	2047.0	45,128
<i>Foreign currency placements</i>	7,247	-26	271.0	384	629.0	7,876

Source: National Bank of the Republic of Macedonia

**Table 18**

Maturity and sector structure of Denar and foreign currency placements

	Share on 31.03.2004 (in %)	Quarterly change (in percentage points)	Annual change (in percentage points)
Denar placements	100.0		
maturity structure			
- short-term	62.4	-0.7	-6.4
- long-term	37.6	0.7	6.4
structure by sectors			
- enterprises	74.5	-1.1	-6.3
- households	25.4	1.0	6.9
- other	0.1	0.0	-0.6
Foreign currency placements	100.0		
maturity structure			
- short-term	42.5	-2.1	-1.8
- long-term	57.5	2.1	1.8
structure by sectors		0.0	
- enterprises	96.9	-0.2	-0.7
- households	0.4	0.1	0.1
- other	2.6	0.1	0.6

Source: National Bank of the Republic of Macedonia



Financial Markets in the Republic of Macedonia

Table 19

Report on trading in March 2004

<i>Securities</i>	Number of transactions	Value (in Denars)	Number of traded securities	Days of trading
Official market				
Official market - ordinary shares				
Investbanka Skopje	1	19,995,000	7,500	1
Makedonija Turist Skopje	17	15,364,325	15,093	8
Teteks-Kreditna banka Skopje	1	12,997,248	5,984	1
Fusteralko Borec Bitola	20	11,383,356	8,453	8
Stopanska banka Bitola	10	10,297,300	3,528	5
Other	477	58,687,306	98,281	157
Official market - preferential shares				
Teteks-Kreditna banka Skopje	1	6,998,184	3,222	1
Komercijalna banka Skopje	12	520,979	656	8
Tetovska banka-Tetovo	2	1,980	3	2
Official market - bonds				
R. Macedonia - foreign currency deposits	323	25,942,444	587,402	16
R. Macedonia - denationalization 01	9	715,996	16,522	6
R. Macedonia - denationalization 02	62	6,608,144	157,149	14
R. Macedonia - denationalization 03	929	157,798,939	4,285,986	19
Total official market	1,864	327,311,201	5,189,779	
Unofficial market				
Unofficial market - ordinary shares				
Sokomak Bitola Bitola	1	35,899,732	14,641	1
Sniteks Sveti Nikole	1	5,978,000	1,960	1
Makedonska Stedilnica	1	4,650,000	1,500	1
Nova trgovija 2003 Stip	1	3,847,560	32,063	1
Other	37	11,227,245	36,711	
Total unofficial market	41	61,602,537	86,875	
Other securities				
Government-owned shares				
Convertible certificate for savings houses	19	1,344,963	7,949,911	9
Total other securities	19	1,344,963	7,949,911	
State market	0	0		
Total state market	0	0		
Total markets	1,924	390,258,701		

Source: Macedonian Stock Exchange



Foreign trade

Table 20

Foreign trade of the Republic of Macedonia
(in US Dollar million)

	III.2004	I-III.2004	III. 2004 II. 2004		III.2004 III. 2003		I-III. 2004 I-III. 2003	
	amount		amount	%	amount	%	amount	%
Foreign trade	356.9	963.6	28.1	8.5	15.9	4.7	138.2	16.7
Exports	126.3	358.6	-4.6	-3.5	5.9	4.9	64.9	22.1
Imports	230.6	604.9	32.7	16.5	10.0	4.5	73.1	13.7
<i>Balance</i>	<i>-104.3</i>	<i>-246.3</i>	<i>-37.3</i>	<i>55.7</i>	<i>-4.1</i>	<i>4.1</i>	<i>-8.2</i>	<i>3.4</i>

Source: State Statistical Office of the Republic of Macedonia

Table 21

Ten most important trading partners of the Republic of Macedonia, I quarter of 2004
(at current exchange rate)

	Foreign trade (in US Dollar million)	Share	Exports (in US Dollar million)	Share	Imports (in US Dollar million)	Share	Import-export coverage ratio
I-III.2004							
Republic of MACEDONIA	963.6	100.0	358.6	100.0	604.9	100.0	59.3
<i>out of which:</i>							
Germany	163.7	17.0	81.7	22.8	82.0	13.6	99.6
Greece	115.9	12.0	52.4	14.6	63.4	10.5	82.6
Serbia and Montenegro	104.1	10.8	56.0	15.6	48.1	8.0	116.4
Russia	70.2	7.3	3.8	1.1	66.4	11.0	5.8
Bulgaria	60.3	6.3	13.1	3.7	47.2	7.8	27.8
Italy	54.9	5.7	24.4	6.8	30.5	5.0	80.1
Slovenia	38.8	4.0	4.8	1.3	33.9	5.6	14.3
France	34.0	3.5	18.6	5.2	15.5	2.6	120.0
Turkey	30.2	3.1	12.5	3.5	17.7	2.9	70.8
Croatia	28.1	2.9	16.1	4.5	12.0	2.0	133.9
Total (10 largest trading partners)	700.2	72.7	283.5	79.0	416.7	68.9	68.0

Source: State Statistical Office of the Republic of Macedonia



Table 22

Foreign trade of the Republic of Macedonia with economic groups of countries, I quarter of 2004
(current exchange rate)

	Exports			Imports			Structure	
	US Dollar million		index	US Dollar million		index	exports	imports
	I-III.2003	I-III.2004	I-III.2004	I-III.2003	I-III.2004	I-III.2004	(%)	(%)
			I-III.2003			I-III.2003	I-III.2004	
TOTAL	293.7	358.6	122.1	531.8	604.9	113.8	100.0	100.0
Developed countries	198.5	245.4	123.6	297.9	306.7	103.0	68.4	50.7
EU	167.3	214.1	128.0	244.9	254.7	104.0	59.7	42.1
EFTA	6.6	1.8	27.3	7.1	9.3	131.7	0.5	1.5
Other developed countries	24.6	29.5	119.9	45.9	42.6	92.9	8.2	7.0
Countries of Centr. and East. Europe	12.6	25.0	198.5	109.2	152.2	139.4	7.0	25.2
Undeveloped countries	0.2	0.1	54.3	1.2	0.4	31.0	0.0	0.1
Developing countries	12.8	6.1	47.7	31.2	49.0	157.3	1.7	8.1
Republics of the former SFRY	69.5	82.1	118.0	92.3	96.6	104.6	22.9	16.0
Other countries	0.1	0.0	35.8	0.0	0.0	0.0	0.0	0.0

Source: State Statistical Office of the Republic of Macedonia

External debt

Table 23

External debt of the Republic of Macedonia
(in US Dollar million)

	External debt		Credits used		Debt payments	
	29.02.2004	31.03.2004	29.02.2004	31.03.2004	29.02.2004	31.03.2004
Official creditors	1,193.61	1,183.45	5.61	7.78	10.21	9.45
out of which:						
Multilateral	933.95	930.66	4.74	7.78	8.53	4.41
MMF	64.20	64.02	-	-	4.29	-
IBRD	192.62	191.45	2.50	0.92	2.49	-
IFC	16.90	16.50	-	-	0.55	0.53
IDA	367.76	366.80	1.08	0.09	0.44	0.02
EIB	115.12	117.77	0.51	6.18	-	2.32
EUROFIMA	7.58	7.45	-	-	-	-
Council of EDB	17.28	16.96	-	-	0.01	0.09
EBRD	31.81	30.97	0.11	0.44	0.56	1.13
EU	111.76	109.68	-	-	0.20	0.32
IFAD	7.51	7.66	0.54	0.17	-	0.00
European Agency for Reconstruction	1.41	1.39	-	-	-	-
Bilateral	259.65	252.80	0.87	-	1.68	5.04
Paris club (rescheduled 1995)	156.98	155.87	-	-	-	0.02
Paris club (rescheduled 2000)	17.91	13.30	-	-	-	4.71
New credits	75.33	74.38	0.87	-	1.68	0.30
Non-rescheduled debt	9.43	9.25	-	-	-	-
Private creditors	560.09	553.51	3.89	2.67	2.88	9.54
out of which:						
London Club of Creditors	238.07	238.07	-	-	-	-
Other private creditors	322.02	315.44	3.89	2.67	2.88	3.41
Banks and financial institutions	203.19	197.59	2.57	1.69	2.20	2.45
Enterprises	118.83	117.85	1.32	0.98	0.69	1.68
TOTAL	1,753.70	1,736.96	9.50	10.45	13.10	18.98

Source: National Bank of the Republic of Macedonia

**National Bank of the Republic of Macedonia Balance sheet****Table 24**

NBRM Balance sheet on March 31, 2004

(in million Denars)

Assets	Amount	Liabilities	Amount
Foreign assets	45,827	Reserve money	15,434
Claims on Government	3,799	NBRM instruments	5,751
Claims on banks and other financial institutions	78	Restricted deposits	134
Other assets	3,576	Foreign liabilities	3,324
		Government deposits	14,626
		Capital accounts	8,121
		Other liabilities	5,890
Total	53,280	Total	53,280

Source: National Bank of the Republic of Macedonia